

CA FINAL

Advanced Auditing

CHART NOTES

The Ultimate Audit Weapon - Visual, Powerful & Unbeatable

C. Professional Competence and Due Care

2

Professional Competence

Attainment and Maintenance of Professional Competence
Provide services with sound judgment, knowledge, skill.

Continuous awareness of technical, professional & business developments.

1

CA Prefix

Members can use "CA" prefix

Designation

3

Merchant Banker

Can apply as Category I Merchant Banker
act as advisor/agent to a company
name/address not published in any documents.

Partnerships, professional positions,
violation of Section 7.



AUDIT CHART NOTES

CA Final Audit Charts - Your Visual Route to Audit Mastery - 208 Pages

This Chart Book is the next evolution in the GOAT Notes series, designed specifically for rapid revision, visual clarity, and effortless recall.

Built on the trusted foundation of our concept-rich GOAT Notes.

CA Final Audit syllabus in just 208 pages, without compromising Terminology or exam relevance.

Whether you're revising a chapter, preparing for a mock test, or revisiting key concepts before the exam, these charts will cut your revision time substantially—while reinforcing every keyword and audit term that matters.

✓ Terminology-Backed. ✓ Exam-Oriented. ✓ Memory-Friendly.

Uncompromised Terminology - Every chart sticks to ICAI's language.

Built from GOAT Notes - The same clarity, the same Standard.

With this Chart Book in hand, Revision no longer feels like a burden. It's crafted to sharpen recall, boost confidence, and help you stay exam-ready anytime, anywhere.

Wishing all students clarity, confidence, and outstanding success in their journey!

⚠ Important Note

I always vote for ICAI Study Material — it's the Gold standard and forms the backbone of all content.

This Chart Book, built on the foundation of GOAT Notes, captures every concept in just 208 pages. Though concise, it retains 100% exam relevance and technical accuracy without diluting terminology.

No need to revisit ICAI SM — because we've already built from it, with respect and precision.

Dear Students,

We've worked really hard to make this book as accurate and error-free as possible. We even went through multiple rounds of proofreading to ensure everything is clear and correct. But, being human, there's always a chance that some small errors might have slipped through.

If you do come across any, let us know and help us improve future editions of the book!

Thank you for your trust and support and wishing you all clarity, confidence and success

Warm regards,



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1. QUALITY CONTROL

1. SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

A. Scope and Objective

- SQC 1 requires firms to **establish a system of quality control** to comply with professional standards, legal requirements and ensure appropriate reports are issued.
- Applies to all firms**, regardless of structure.
- Policies should be **documented and communicated**, encouraging feedback.

B. Elements of Quality Control System

- Leadership responsibilities** for quality.
- Ethical requirements.
- Acceptance and continuance** of client relationships and engagements.
- Human resources**.
- Engagement performance.
- Monitoring**.



C. Leadership Responsibilities for Quality

Culture

Firms must foster a culture where **quality is essential**.

Priority for QC

Business strategy must prioritize **Quality as Non-Negotiable**.

Ultimate Responsibility

CEO or Managing partners have **ultimate responsibility** for the **QC system**.

Expertise in QC

Individuals **responsible for QC** need adequate **experience, ability & authority**.

No Compromise

- Ensure management responsibilities **don't compromise quality**.
- Performance evaluations **emphasize quality** &
- Sufficient resources are **dedicated to QC policies**.

D. Ethical Requirements

Policies and Procedures

Establish **policies** to ensure **compliance** with ICAI's Code of Ethics.

Fundamental Principles

Emphasis via **leadership, training, monitoring, and addressing non-compliance**.

Requirement

Independence is a **key requirement** for all engagements.

Firm and personnel

Firm and personnel (including experts/network firms) must **maintain independence**.

Annual Confirmation

Annual Confirmation of Independence: Obtain **written confirmation** from personnel required to be **independent**.

Communication P & P

Policies should **enable communication of requirements**, **Identification/addressing of threats (safeguards, withdrawal)**.

Independence Monitoring Mechanism

Independence Monitoring Mechanism: Engagement partner report threats; Breaches reported for action.

Familiarity Threat

- Long-term use of senior personnel can impair performance.
- For listed entities, engagement partner must be **rotated after 7 years**;
- Mandatory peer review process.

Safeguards

Rotation of senior personnel or EQCR.



E. Acceptance and Continuance of Client Relationships and Specific Engagements

1

Obtain Information about client

Before accepting an engagement, evaluate:

a Integrity of the Client

- Reputation of owners / management,
- Nature of operations,
- Attitude towards Accounting Standards & IC's,
- Low fee seeking by client,
- Scope limitations,
- Potential money laundering / criminal activities,
- Reasons for appointment / replacement.

b Competence to Perform Engagement

- Personnel knowledge (industry, regulatory),
- Sufficient capabilities,
- Availability of experts,
- EQCR availability,
- Ability to meet deadlines.

c Compliance

Compliance with Ethical Requirements.

2

When the above information to be obtained

- Before accepting a new client.
- When deciding to continue an existing engagement.
- When considering a new engagement with an existing client.

3

Conflict of Interest

- Must be resolved before acceptance.
- If new information arises post-acceptance that would have led to decline, Consider professional/legal responsibilities (reporting) and withdrawal.

4

Policies for Withdrawal

Policies include:

- Discussions with client management / governance on actions,
- Discussing reasons for withdrawal,
- Considering reporting requirements and
- Documenting key issues & conclusions.



F. Human Resources

a

P & P For HR

Policies for sufficient personnel with capabilities, competence, and commitment to ethical principles.

b

Address HR issues

Recruitment, Compensation, Training, Career development, Performance Evaluation.

c

Responsibility

Assign responsibility to an engagement partner.

d

Engagement partner responsibilities

Clearly defined, communicated; partner must have capabilities, competence, authority and time.

e

Performance

Assess performance of partners and team members based on commitment to quality.

G. Engagement Performance

1 Consistency in Quality

Achieved through: Briefing teams on objectives, ensuring compliance with Engagement Standards, supervising / reviewing performance, and documenting work.

2 Consultation in Difficult Matters

- Discuss complex matters with specialized knowledge individuals (internal or external firms or personnels).
- All consultations and results must be documented.

3

Engagement Quality Control Review (EQC)

a Significant Judgments

Significant Judgments must be reviewed by an EQCR before report issuance.

b EQCR

EQCR does not reduce engagement partner's responsibilities.

c Mandatory for audits

- Mandatory for audits of listed entities;
- Firm establishes criteria for other entities.

d In case of Listed Entities

EQC includes:

- Team's independence evaluation, significant risks/responses, materiality judgments,
- Review of consultations/differences, Misstatements,
- Communications with management,
- Working papers review of significant judgments and appropriateness of report.



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4 Meaning of Engagement Quality Control Reviewer

- Suited qualified person (internal / external) who reviews engagement quality.
- Must remain objective and not participate in engagement decisions.
- Policies allow for replacing EQCR if objectivity compromised.

5 Difference of Opinion

- Must be resolved before report issuance.
- If reviewer's recommendations are not accepted by engagement partner and matter is unresolved, follow firm's procedures (e.g consulting another firm/professional).

6

Engagement Documentation

a Final engagement files completed within 60 days for audit engagements.

Ensure confidentiality, integrity, accessibility, and retrievability.

EQCR documentation: Procedures performed, review complete before report, no unresolved matters challenge judgments / conclusions.

d Documentation is firm property.

Retention period: typically 7 years.

H. Monitoring

- Objective: Ensures QC system is relevant, effective and compliant via periodic inspections.
- Monitoring involves: Evaluating design and implementation, ensuring compliance with updated standards, assigning responsibility to experienced individuals, addressing complaints and taking remedial actions.

2. SA 220 Quality Control for an Audit of Financial Statements

1. Responsibility of Eng. Partner & Team

- Engagement partner is responsible for **quality control procedures** for an audit.
- Engagement team **implements** applicable **QC procedures** and provides independence info.
- Teams may **rely on** the firm's system of **QC**.

2. Objective Of Auditor

Ensure QC procedures provide reasonable assurance that:

- Audit **complies with professional standards, legal & regulatory requirements**.
- Auditor's report is **appropriate in the circumstances**.

3. Elements

Leadership for Quality, Ethical Requirements, Client Relationships, Assignment of Teams, Engagement Performance, Monitoring.

4. Leadership Responsibilities for Quality

Engagement partner emphasizes: Importance of **Audit Quality** - Compliance with **standards & firm policies**, team's ability to raise concerns, **Issue appropriate reports** and that **Quality is essential**.

5. Ethical Requirements

Engagement partner must:

- Identify independence threats** and ensure safeguards.
- Report independence issues** to firm and **take appropriate actions** (withdrawal).

6. Acceptance And Continuance of Clients

Engagement partner must **assess** before accepting new client/continuing existing client:

- Integrity & Competence:** **Integrity** of owners, **competence** of team, resources, time.
- Ethical Compliance and evaluation** of significant matters from previous audits.

7. Assignment of Engagement Teams

Ensure team and experts have **competence** and **capabilities** to perform audit as per standards/laws.

9. Engagement Quality Control Review

For **listed entities and others**, engagement partner must:

a) **Appoint a reviewer.**

b) **Discuss significant audit matters with reviewer.**

c) **Do not date auditor's report until review completed.**

e)

For **Listed Entities**, additionally considers: Team's **independence evaluation**, **consultation on contentious matters**, **documentation work done**, **judgments made** & **conclusions reached**.

8. Engagement Performance

- Engagement partner must ensure: **Direction, supervision, performance** are per standards.
- Auditor's report is **appropriate**.
- Review audit documentation for adequate evidence supporting conclusions before report.
- Ensure appropriate **consultation** on difficult / complex matters.



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d)

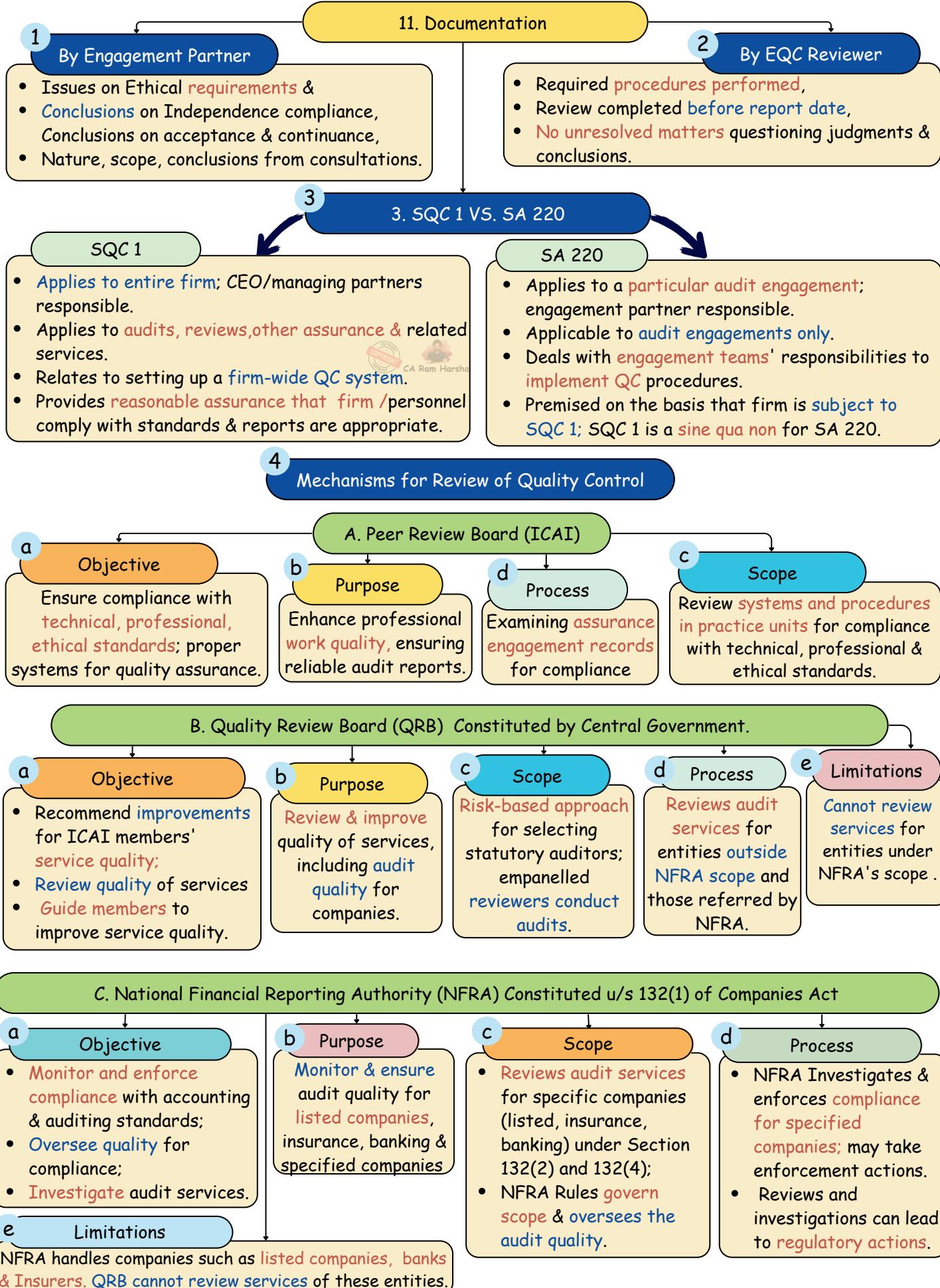
Reviewer's Evaluation: Evaluates significant judgments discussing significant matters, reviews financials / auditor's report, reviews audit documentation, evaluates audit report's appropriateness.

f)

Differences of Opinion: Must be resolved **before report issuance**. If reviewer's recommendations not accepted and unresolved, follow firm's procedures (e.g consulting another firm / professional).

10. Monitoring

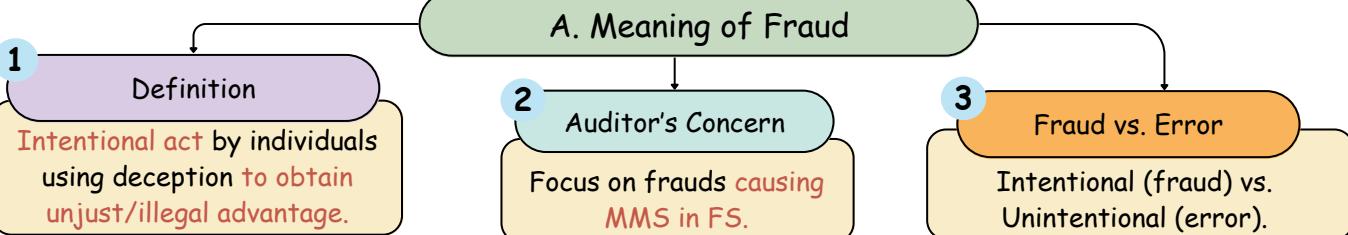
- QC system monitoring **ensures policies** & procedures are **relevant, adequate, effective**.
- Engagement partner must consider monitoring results and **whether deficiencies affect the audit engagement**.





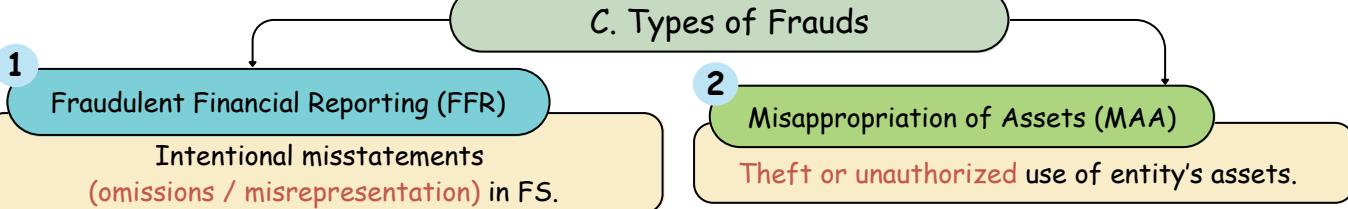
2. GAAP AND AUDITORS RESPONSIBILITIES

1. SA 240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements



B. Objectives of SA 240

- Identify & Assess risks of MMS in FS due to fraud.
- Obtain SAAE for assessed fraud risk & design responses.
- Respond appropriately to identified/suspected fraud.

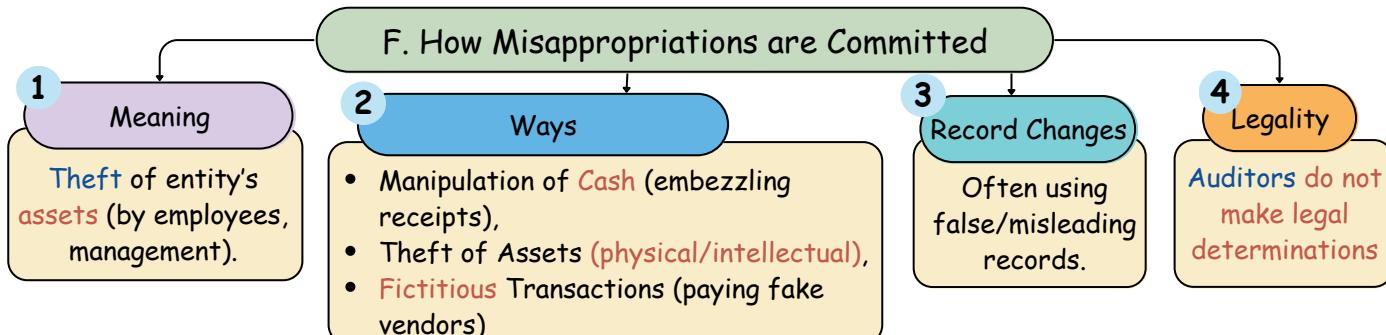


D. Why Fraudulent Financial Reporting

- Deceive users (e.g., Window Dressing, Small Adjustments Growing Bigger).
- Pressure and Incentives (e.g., market expectations, performance-based compensation).
- Secure Funding or Avoid Taxes.

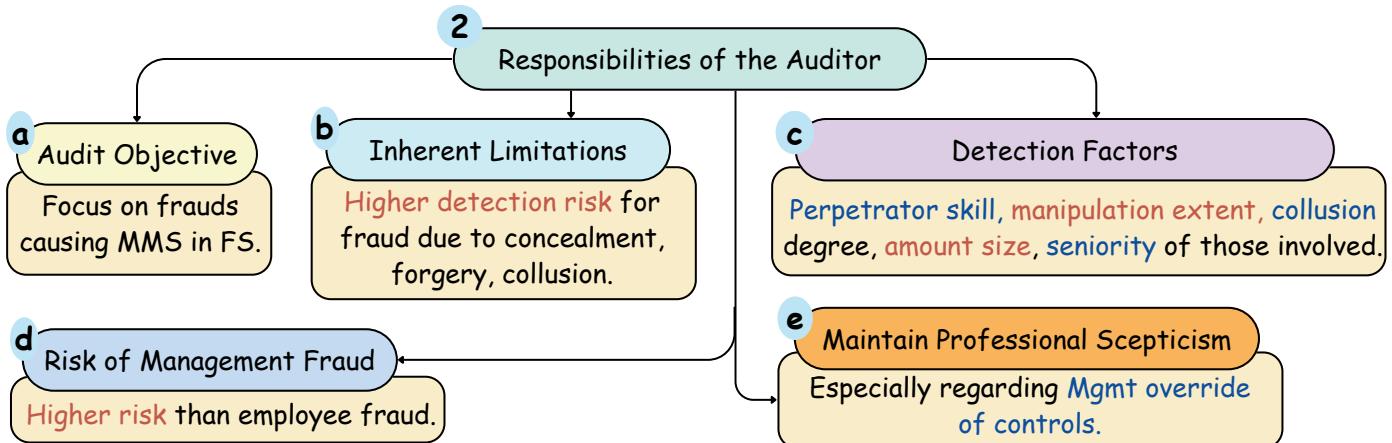
E. How Fraudulent Financial Reporting is Committed

- Falsifying/altering accounting records.
- Omitting/misrepresenting significant transactions.
- Misapplying accounting principles.
- Overriding IC (e.g. fictitious journal entries, inappropriate adjustments, omitting/delaying recognition, concealing information, complex transactions, altering records).

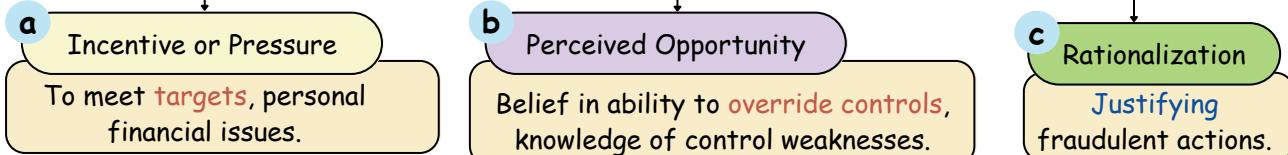


G. Primary Responsibility to Prevent and Detect Fraud

- 1 Primary Responsibility for Fraud Prevention**
Management and Those Charged With Governance (TCWG) (prevention, deterrence, strong culture of ethics).



H. Fraud Risk Factors Involves (The Fraud Triangle)



Fraudulent FR Examples

I. Incentives/ Pressure

- High competition, Declining margins, Vulnerability to change, Low customer demand,
- Losses threatening bankruptcy, Recurring Negative cash flows, Rapid growth, New regulations, external pressures (analysts, creditors),
- Management's personal financial situation (interests, compensation, personal guarantees, excessive pressure).

J. Opportunities

- Significant related party transactions, Industry dominance, Subjective estimates, Unusual/complex transactions near period-end, Cross-border operations
- Business intermediaries without justification, Tax-haven operations, ineffective monitoring of management, Complex / unstable organizational structure, High turnover of senior personnel,
- Deficient internal control components (inadequate monitoring, Ineffective controls, high turnover rates, Ineffective accounting, Ineffective systems, Significant deficiencies in IC)

K. Attitudes / Rationalizations

- Ineffective communication of ethics, Non-financial managers involved in accounting, History of legal violations, Excessive interest in stock price/earnings
- Unrealistic forecasts, Failure to address control weaknesses, Minimizing earnings for tax, low morale, No distinction between personal/business, shareholder conflicts,
- Justifying poor accounting based on materiality, Strained relationship with auditor (disputes, unreasonable demands, Restrictions, domineering behavior).



Misappropriation Examples

L. Incentives / Pressure

- Personal Financial Obligations. (Financial Pressure on employees/Mgmt)
- Adverse Employee Relationships (layoffs, compensation changes, unfulfilled expectations).

M. Opportunities for MAA

Nature of Assets:

- Large cash amounts,
- Small/valuable/in-demand inventory,
- Easily convertible assets (bearer bonds, diamonds),
- Marketable fixed assets without clear ownership.

Inadequate Internal Controls on:

- Segregation of duties, oversight of management expenditures / employees,
- employee screening,
- record keeping,

Continuation:

- Authorization/approval,
- Physical safeguards,
- Timely reconciliations, documentation,
- Mandatory vacations,
- IT controls understanding,
- Access controls.

N. Attitudes / Rationalizations for MAA

- Disregard for monitoring / reducing misappropriation risk,
- Disregarding/overriding internal controls,
- Failing to remedy known control deficiencies,

- Employee dissatisfaction,
- Sudden changes in behavior/lifestyle,
- Tolerance for petty theft.



O. Evaluation of Fraud Risk Factors

Evaluate whether fraud risk factors are present (signal risks of MMS, not always fraud).

Difficulty in Detecting Fraud: Often concealed, FRF hard to detect.

Maintain Professional Scepticism throughout the audit, investigate inconsistencies.

Requires professional judgment.

Discussion Among Engagement Team: How F/S susceptible to MMS due to fraud, even if management is honest.

P. Risk Assessment Procedures for Fraud Risk Identification

Inquiries of management and others about fraud risks.

Understanding governance oversight of fraud risk processes.

Review internal control and assess unexpected patterns in analytical procedures.

Evaluate fraud risk factors from information obtained.

Q. Response to Assessed Risk - At Financial Statement Level (Overall Responses)

Assign and supervise personnel based on risk.

Evaluate accounting policies for earnings management.

Incorporate unpredictability in audit procedures.

R. Response to Assessed Risk - At Assertion Level (Audit Procedures)

Design & perform audit procedures responsive to fraud risks (nature, timing, extent).

Change audit procedures for more reliable evidence.

Example (Sales Fraud Risk):

- Design External Confirmations (amounts, terms),
- Inquire with non-financial personnel.

S. Audit procedures Responsive to Management Override of Controls*

Significant risk in all entities when Mgmt override Controls.

Test Journal Entries and Adjustments.

Review Accounting Estimates for biases.

Evaluate Unusual Transactions.

Perform Additional Procedures as needed.

*Observation - Ways of Override of Controls is Different from this [Refer E Point in above]

T. Evaluation of Audit Evidence for Identified misstatement

Evaluate Analytical Procedures for unrecognized risks.

Assess if misstatement indicates fraud (implications on audit, reliability of management representations, rarely isolated).

Re-Evaluate Fraud Risk if fraud involves management.

Consider Possible Collusion when re-evaluating evidence reliability.

Evaluate Implications of Fraud if F/S are materially misstated.

U. Circumstances - Auditor is unable to Continue Engagement

- In **Exceptional circumstances** questioning audit continuation, Auditor shall:
 - Determine professional and legal responsibilities (reporting to appointers/regulators).
 - Consider **Withdrawal** (if legally permitted).

- If Auditor Withdraws:
 - Discuss withdrawal with management/TCWG,
 - Report withdrawal and
 - Reasons to the persons who appointed him &
 - To regulatory authorities.

V. Management Representation in Context of Fraud

Management **acknowledges responsibility for ICS** design, implementation, maintenance to prevent/detect fraud.

Management **disclosed risk assessment results** for F/S MMS due to fraud.

Management **disclosed knowledge of fraud or suspected fraud** (management, employees, others) affecting F/S.

Management **disclosed allegations of fraud** (employees, former employees, analysts, regulators, others).

W. Communication of Frauds Identified - To Management and TCWG

To Management: Timely communication of identified/suspected fraud to those responsible.

To TCWG: Timely communication if fraud involves management / others leading to MMS; discuss audit procedures needed.

Communicate **other fraud-related matters** relevant to TCWG responsibilities.

X. Communication of Frauds Identified - To Regulatory and Enforcement Authorities

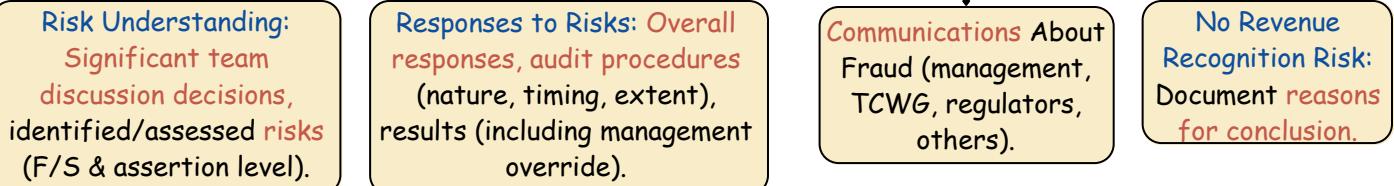
Report to External Party: Determine responsibility to report suspicion/occurrence.

Override of Confidentiality: Legal responsibilities may override confidentiality (e.g., banks to RBI).

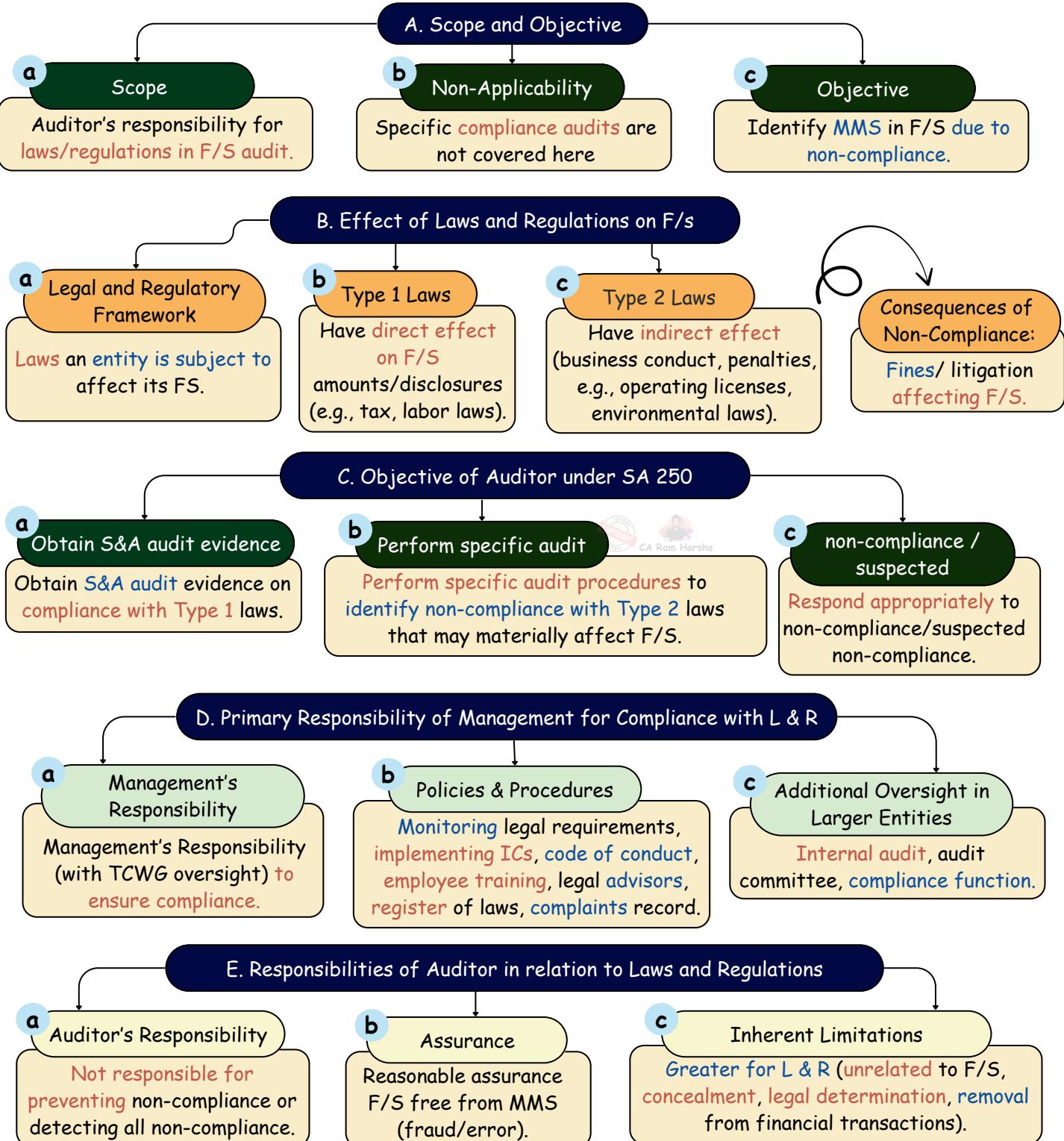
Report if Management Fails to Act.

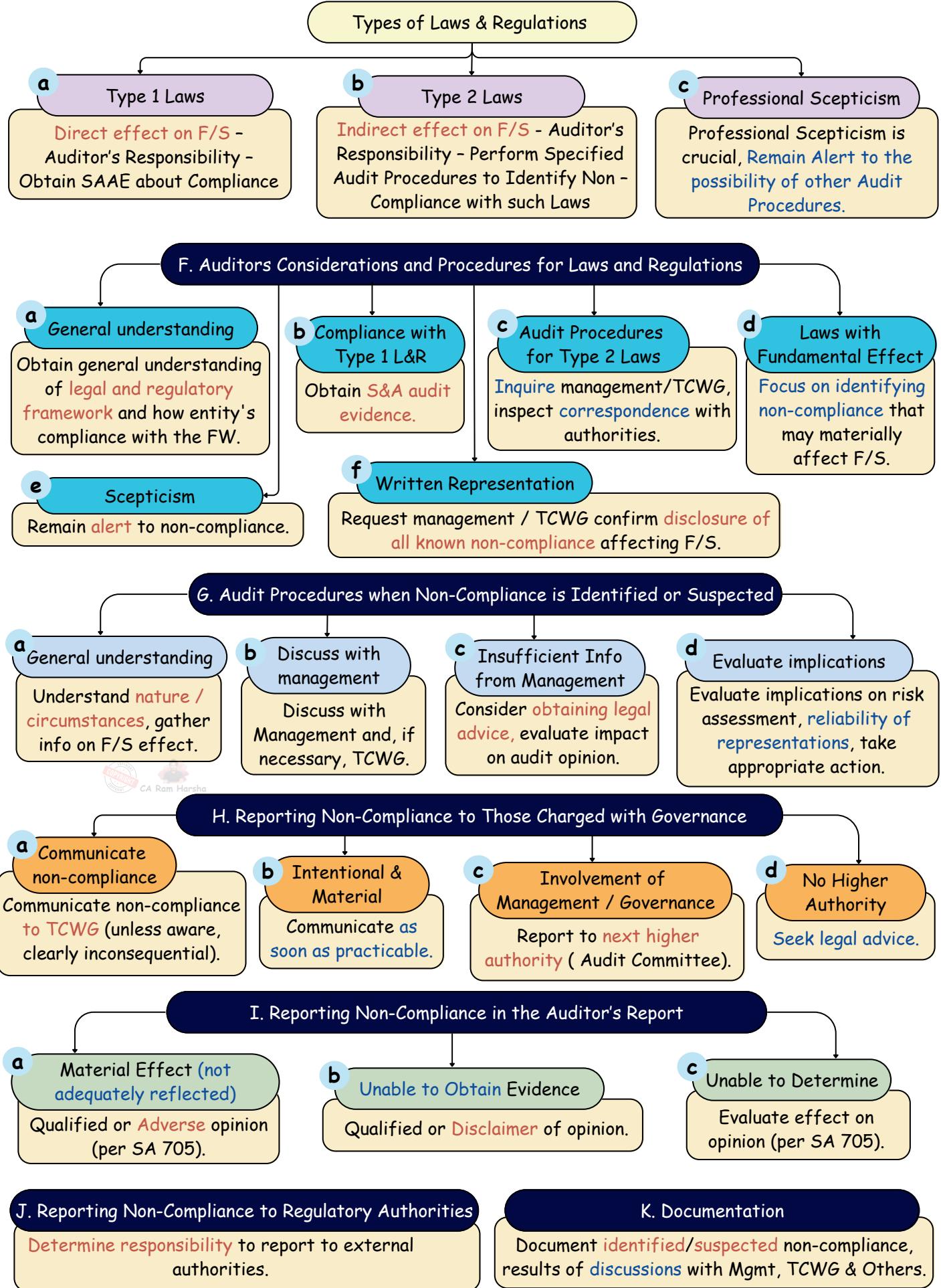
Specific reporting requirements in audit mandate/legislation may exist.

Y. Documentation under SA 240



2. SA 250 Consideration of Laws and Regulations in an Audit of FS





L. Indicators of Noncompliance's with Laws and Regulations

- Investigations by regulatory bodies,
- Fines / penalties,
- Payments for unspecified services,
- Abnormal prices,
- Unusual cash payments / bearer cheques,
- Excessive legal/retainership fees,
- Unusual tax-haven transactions,
- Unauthorized / unrecorded transactions,
- Negative media coverage.

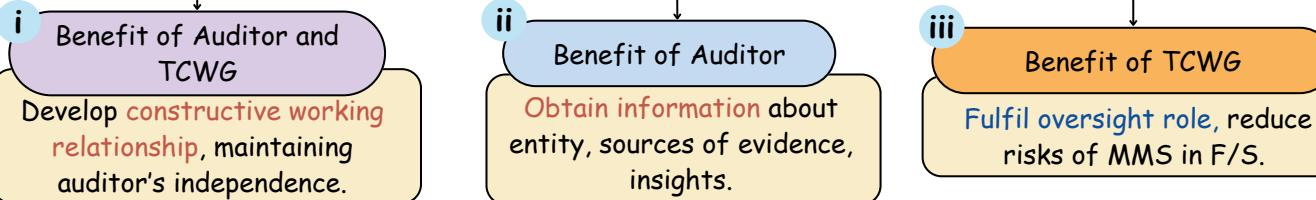
3. SA 260 Communication with Those Charged With Governance

A. Who are "Those Charged with Governance" [TCWG]

- Who: Person(s)/organization(s) responsible for overseeing strategic direction & accountability, including financial reporting.
- Can include management personnel (e.g., executive board members, owner-manager).
- Diverse structures: separate/single boards, legal positions, overlap of governance/management, collective responsibility (board of directors, partners), one person in smaller entities.
- Agree with Engaging Party: Auditor may need to agree with engaging party on relevant TCWG.
- Auditor's understanding of entity's governance helps identify appropriate persons.



B. Significance of Communication with TCWG (Effective 2-way communication)



C. Objectives of the Auditor under SA 260

- Communicate Auditor's Responsibilities and planned scope/timing.
- Obtain Relevant Information from TCWG.
- Provide Timely Significant Observations relevant to their oversight role.
- Promote Effective Two-Way Communication.

D. Matters to Be Communicated by the Auditor

1 The Auditor's Responsibilities

- Forming opinion on F/S (prepared by management with TCWG oversight), audit does not relieve management/TCWG responsibilities.
- Often in engagement letter.

2 Planned Scope and Timing of the Audit

- Helps TCWG understand scope,
- Helps auditor understand entity;
- Overview of planned scope / timing including significant risks [This helps TCWG to give special attention]
- Auditor maintains responsibility for strategy/plan.
- Care needed to avoid compromising audit effectiveness when discussing procedures.

D. Matters to Be Communicated by the Auditor

- 3** Significant Findings from the Audit
- Qualitative aspects of accounting practices (policies, estimates, disclosures).
 - Significant Difficulties Encountered (Delays, unreasonable brief timeline, unexpected effort, restrictions, management unwillingness to assess going concern).
 - Significant Matters Discussed with Management (Events, Business conditions, consultations, disagreements).
 - Written representations requested.
 - Auditor's report impact.
 - Other significant matters for financial reporting oversight.
- Note: This includes requesting further information from TCWG.

- 4** Auditor's Independence in Listed Entities
- Confirm compliance,
 - disclose relationships affecting independence,
 - total fees (audit / non-audit),
 - safeguards.
- 5** Terms of Audit Engagement
Documented in engagement letter.
- 6** Reporting as per SA 700 Series
 - Communication required if expecting to modify opinion, report material uncertainty about going concern. Include Key Audit Matters, Emphasis of Matter or Other Matter paragraphs.
 - May provide draft report.

E. Establish Communication Process and Documentation

- Communicate form, timing, and general content of communications.
- Written communication for significant findings if oral is insufficient.
- Written communications need not cover all matters.
- Evaluate adequacy of two-way communication: If inadequate, assess effect on MMS risks, obtaining S&A evidence, take appropriate action.
- Documentation:
 - Oral Communication - Document (what, when, to whom),
 - Written Communications - (retain copy).



4. SA 299 Joint Audit of Financial Statements [Discussed in Audit Reporting - Chapter 7]

5. SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

*Advisable to Read along with SAE 3402 in 11th Chapter

A. Important Definitions

- 1** Service Organization (S/O)
Third-party providing services relevant to user entity's financial reporting.
- 2** User Entity (U/E)
Entity using S/O services, whose F/S are audited.
- 3** Service Auditor (S/A)
Auditor providing assurance report (Type 1 or Type 2) on S/O controls.
- 4** User Auditor (U/A)
Auditor auditing U/E F/S.

B. Services provided by S/O are relevant to User Entity Financial Statements

- 1** Relevance
Services affect U/E's information system & related business processes for financial reporting (includes safeguarding assets).
- 2** Services Affect Audit if Impact
Transaction classes, procedures (IT/manual), accounting records, event capture, financial reporting process (estimates, disclosures), controls over journal entries.
- 3** U/A Work
Depends on significance of S/O services.

C. Objectives of User Auditor

- Understand Nature & significance of S/O services & their impact on U/E's internal control; to identify / assess risks of MMS.
- Design and perform responsive audit procedures.

D. Types of Service Auditors Report

1 Type 1 Report

- S/O management description of system, control objectives, controls (as of a specified date).
- S/A opinion on description, control objectives, and suitability of design.

2 Type 2 Report

- S/O management description of system, control objectives, controls (as of date/period), and operating effectiveness.
- S/A opinion on description, suitability of design, and operating effectiveness, plus S/A's tests of controls and results.

E. Understanding of The Services Provided by S/O

i Nature/significance

Nature/significance of services & effect on U/E internal control (from manuals, contracts, reports).

ii Materiality

Materiality of transactions/accounts affected.

iii Degree of Interaction

Degree of Interaction between U/E and S/O (U/E control over processing).

iv Relationship

Relationship between U/E and S/O, including contractual terms.

F. Obtaining an Understanding of Internal Control Relevant to the Audit

i Evaluate design & implementation

Evaluate design & implementation of relevant controls at U/E related to S/O services.

ii Understand Service Org & Control Impact

U/A must have sufficient understanding of S/O services & their effect on U/E internal control for risk assessment.

iii Unable to Obtain Understanding from U/E

- Obtain Type 1 or Type 2 Report,
- Contact Service Organisation (through U/E),
- Visit the Service Organisation, or
- Use Another Auditor.

G. Using of Type 1 or Type 2 Reports by U/A of U/E

i Ensure S/A Competence

Ensure S/A's professional competence & independence, and adequacy of standards.

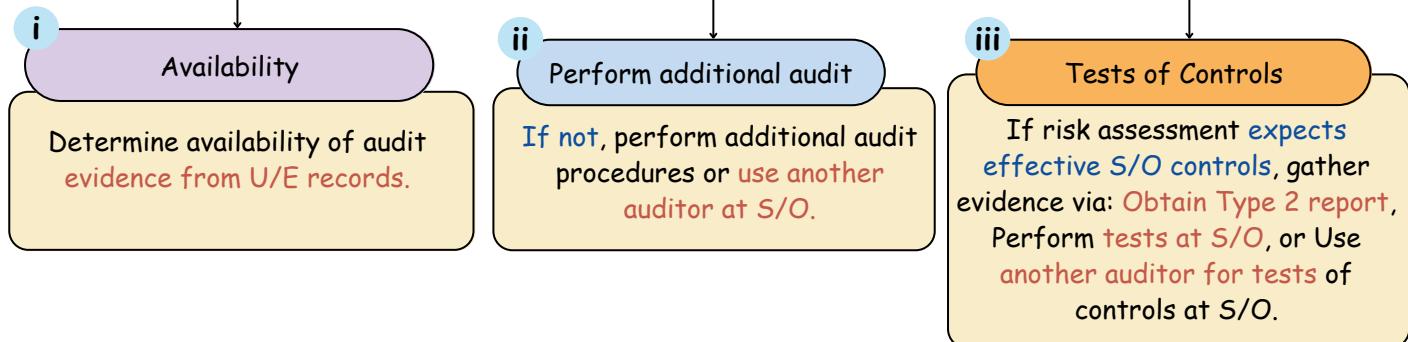
ii If using report as evidence

- Evaluate description/design for date/period appropriateness,
- SAAE of report provided.

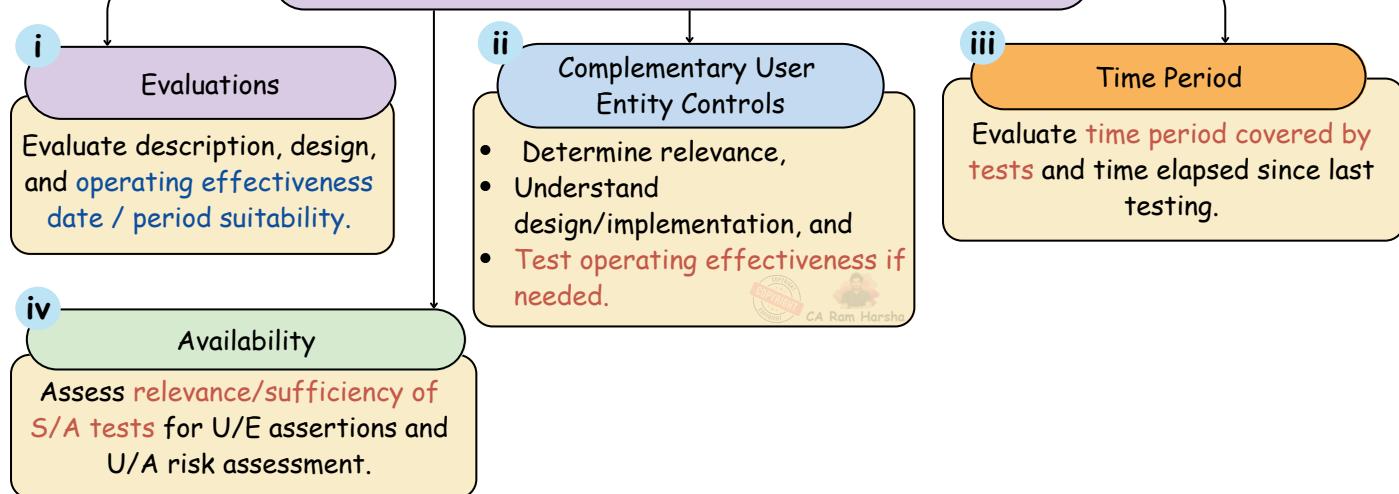
iii Complementary User Entity Controls (CUEC)

- Determine relevance,
- Understand if U/E designed & implemented them.
- CUEC: Controls S/O assumes & U/E will implement to achieve control objectives.

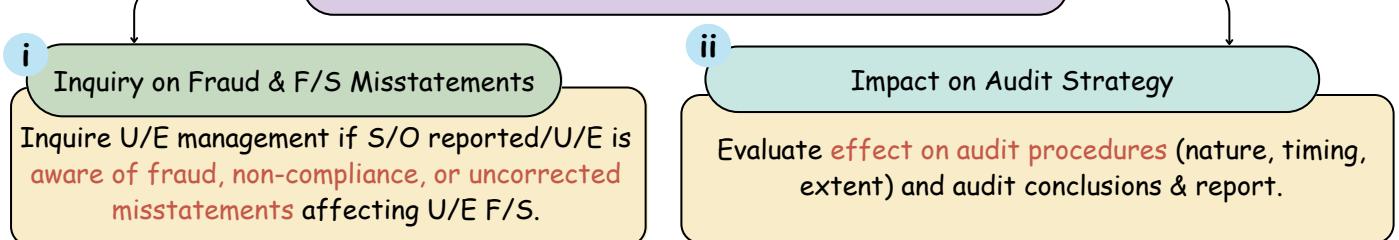
H. Responding to the Assessed Risks of MMS in Relation to Services Provided By S/O



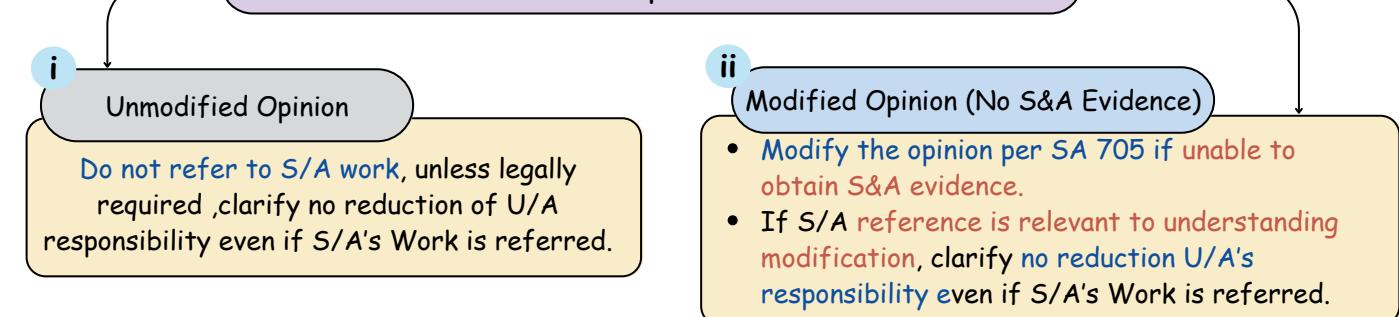
I. Using a Type 2 Report as Audit Evidence



J. MMS in F/S Related to S/O Services



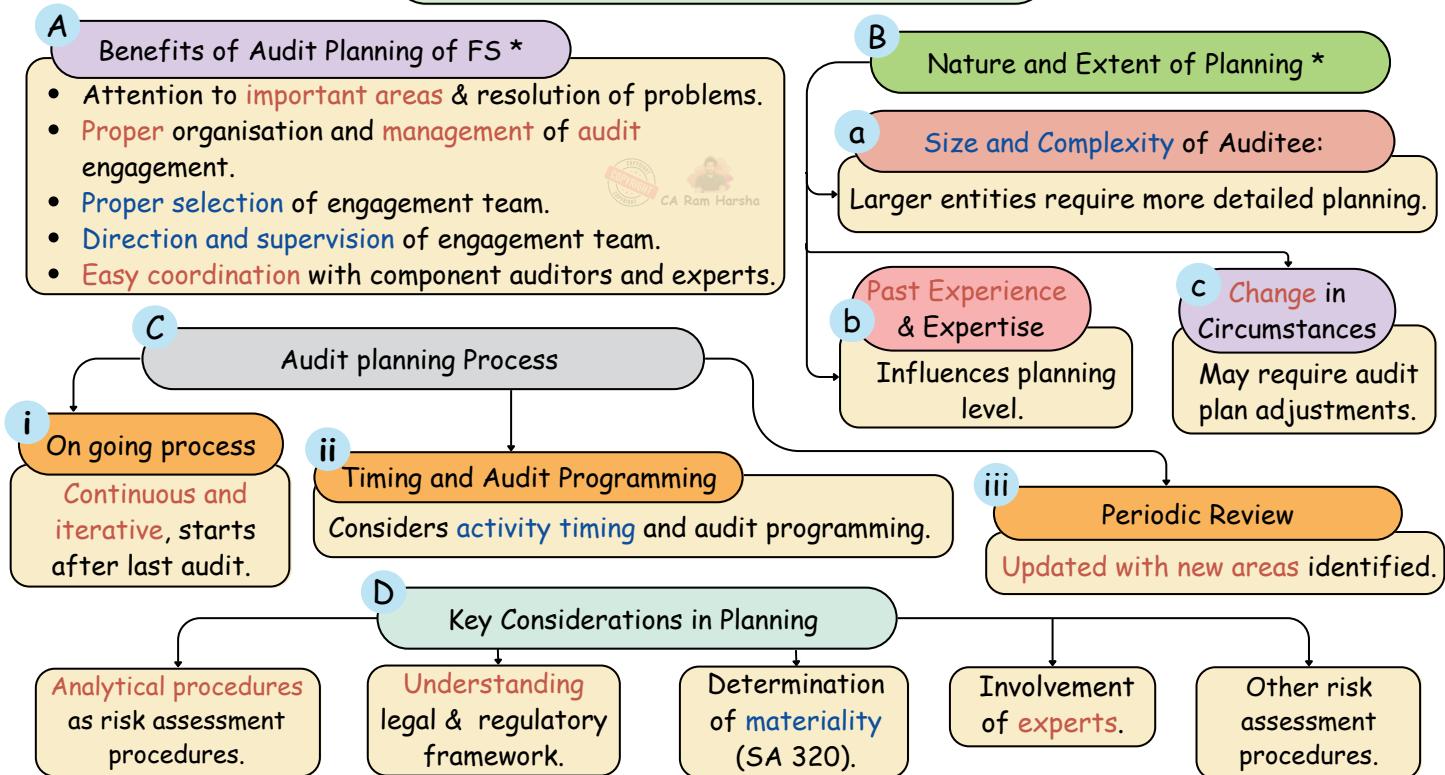
K. Reference in Audit Report of the User Auditor



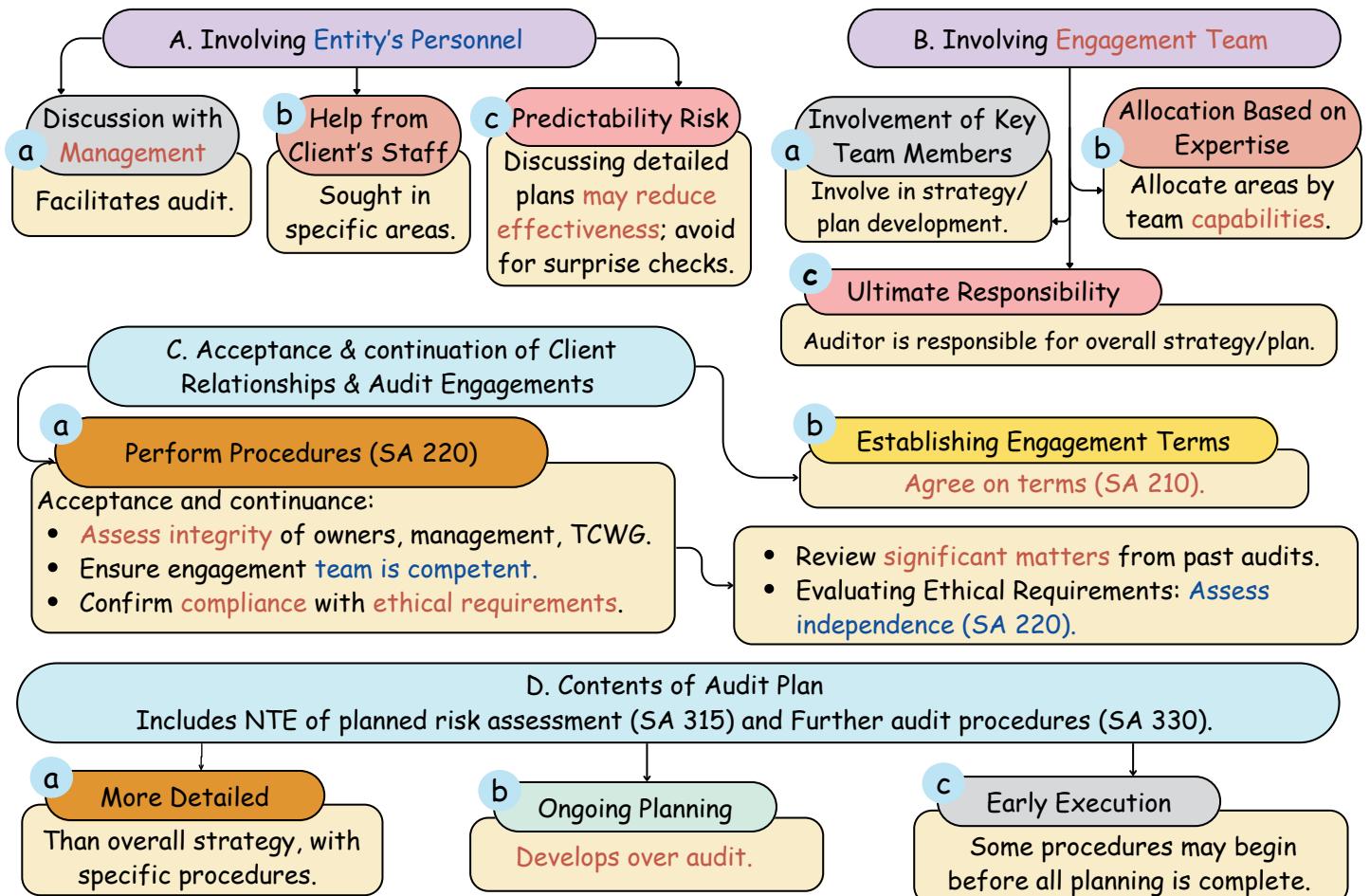


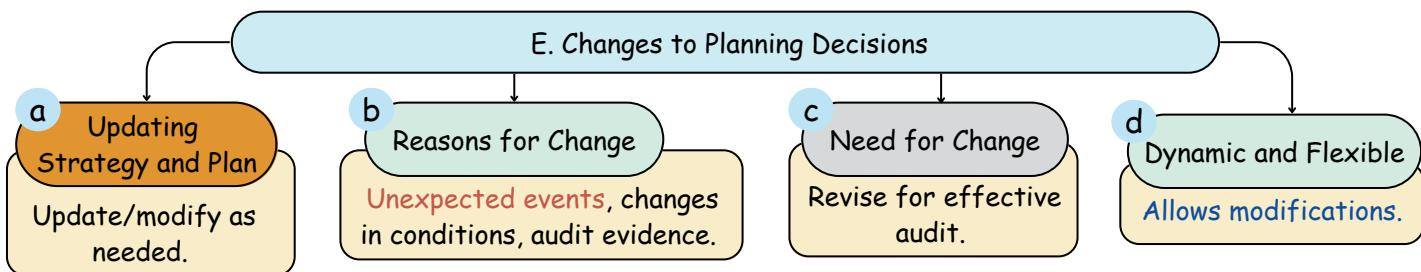
3. AUDIT PLANNING, STRATEGY AND EXECUTION

1. Audit Plan & Process

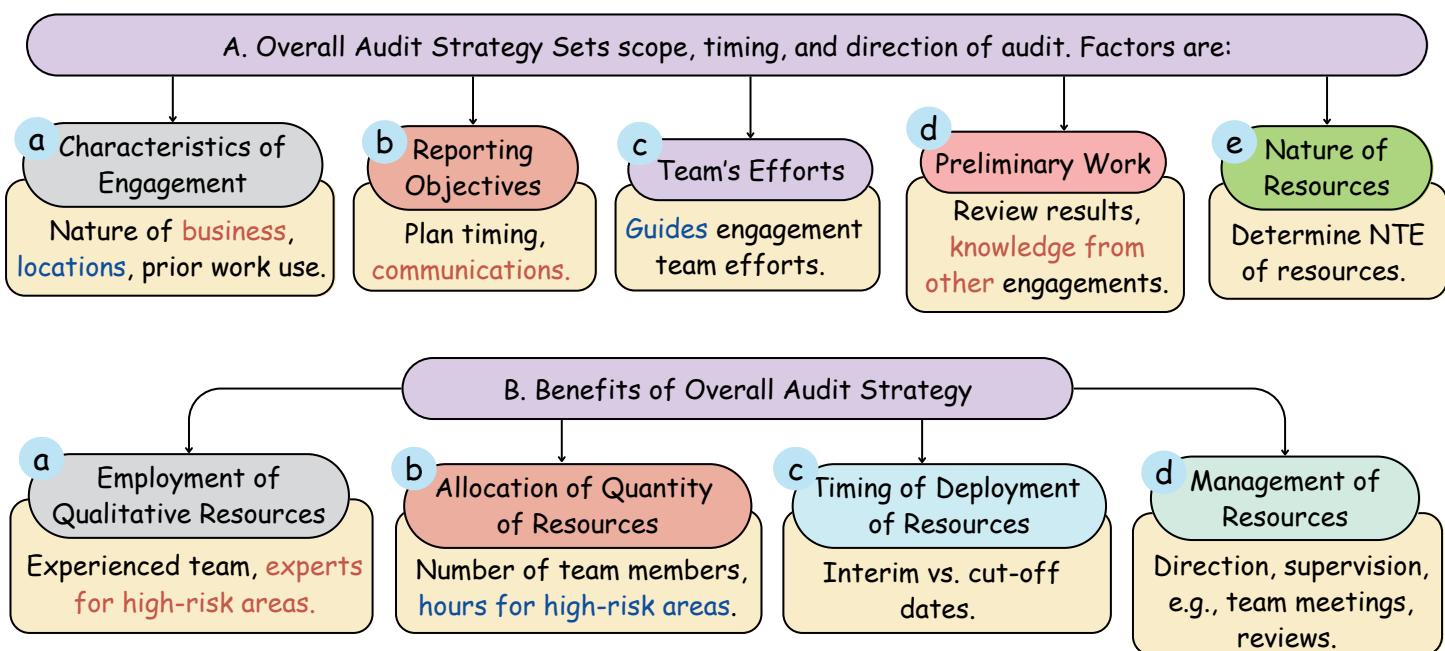


2. Preparation of Audit strategy and Plan

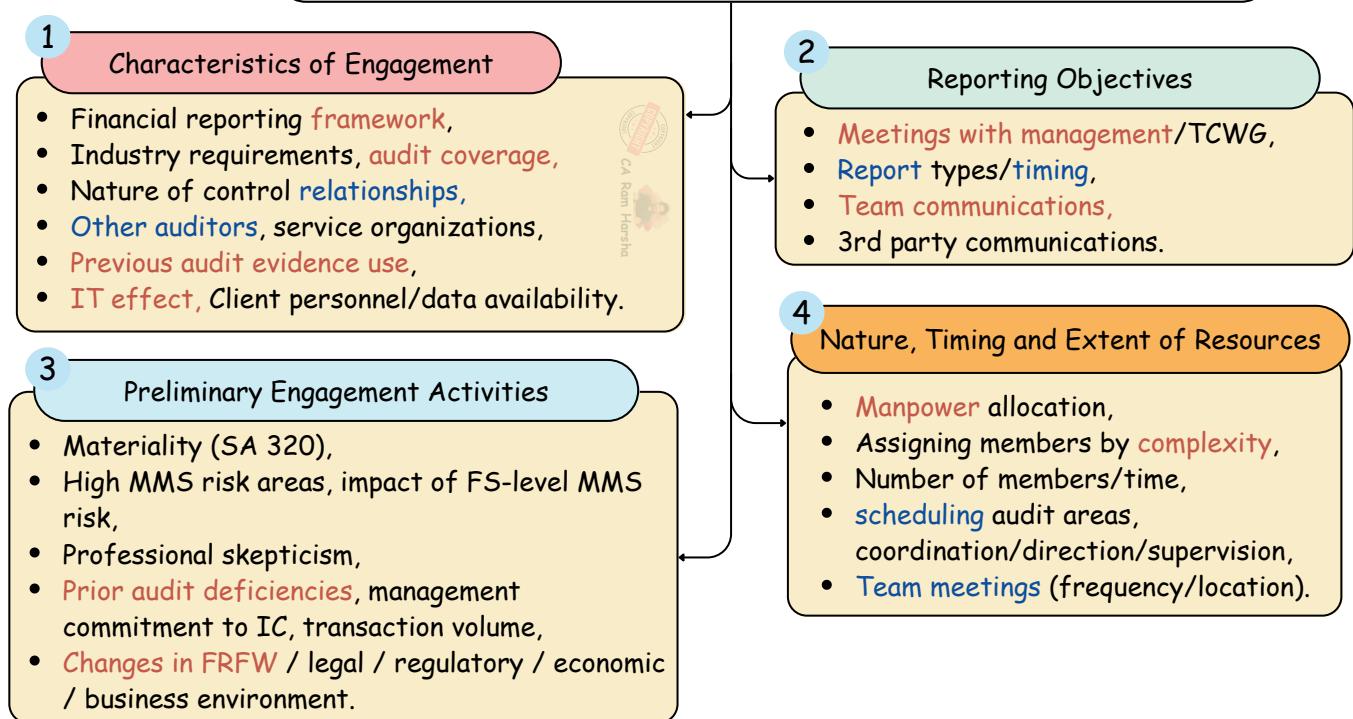




3. Factors while Establishing Overall Audit Strategy.



C. Details Discussion of Considerations in Establishing Audit Strategy



4. Documentation

A

Documenting Audit Plan

Auditor shall document overall audit strategy.

- **Detailed audit plans.**
- Significant **changes** to strategy/plan and **reasons**.
- Other **communications/agreements** for additional services.
- **Discussions** with **key entity persons**.

B

Need for Documentation [Assists the auditor]

Record of Key Decisions for team communication.

- Evidence of **Compliance with SA**.
- Summarizes strategy in Audit Programme.

5. Relationship

1

Strategy vs Plan

Strategy prepared first (framework), plan is more detailed.

2

Inter-Relationship

Change in one leads to change in other

3

Scope & Conduct

Strategy sets scope/conduct, Forms foundation for audit plan.

4

Audit Plan

Outlines **NTE** of procedures to obtain **SAAE**.

6. Audit Programme

A. Meaning

1

Audit Programme

- Document allocating work, **listing procedures, instructions**, and estimated time.
- Formulating: **Links audit objectives with procedures** for purposeful audit.



B. Matters to Consider in Planning

1

Nature of Business

- Examine **financial & accounting system**,
- Understand the **manufacturing processes**,
- Consider the **technical, financial & accounting setup** of the company.

2

Overall Plan

Systematic approach; **Modify plan then programme for deviations**, Ensure Overall plan is strictly followed.

3

Internal Control & Accounting Procedures

- Ensure Financial & Statistical records are checked,
- **Evaluate IC** for NTE of substantive procedures,
- Examine IC System has **3 steps**: Review, Compliance Testing & Evaluation.

4

Size of Organisation

Impacts complexity, especially with branches/products.

5

Information about Organisation

Client history, business purpose, audit schedule.

6

Accounting & Management Policies

Review past FS for practices & consistency in policies over the years.

7

Drawing up the Audit Programme

Decide areas for detail/test checks based on business conditions.

8

3 Stages of Audit Programme for **First-Time Audit** Broad outline, fill details after **IC review**, **Apply special procedures**.

9 Audit Programme for Subsequent Audits

Review/modify based on experience, business/IC/accounting changes, current year IC evaluation.

10 Circumstances for Altering Audit Programme

Increased turnover, **ineffective IC Procedures**, significant increase in book debts/stock, suspicion of asset misappropriation.

11 Reconsideration of Audit Programme

- As audit progresses, **based on IC review**, preliminary evaluation and
- Results of compliance & substantive procedures.**

C. Audit Execution [Key Phases]

a Execution Planning

- Plan work **in Advance**;
- Prepare **detailed audit program**;
- Consider **manpower, qualifications, time**;
- Preliminary **survey**.

b Risk and Control Evaluation

- Detailed risk / control assessment for each segment;
- Identify risks / controls**, design tests;
- Consider **materiality levels**

c Testing

Test operating effectiveness of controls **using multiple methods**.

d

Reporting

- Follow **SA 700 guidelines**;
- Review evidence for opinion on **FS**;
- Consider **FRFW/statutory compliance**;
- Express clear opinion.

7.SA 600 Using the Work of Another Auditor

General Principles

Auditor **remains responsible for opinion**, even when delegating.

- Can **rely on others' work** if skill/care is exercised.
- Must clearly state reliance on independent statutory appointees in report.



CA Ram Harsha

A. Division of Responsibility

- Principal auditor **NOT responsible for other auditors' work** unless reliability doubted.
- Must clearly **state division of responsibility in report**, indicating extent of work by other auditors.

B. Definitions

a Principal Auditor

Reports on **Entity's financial info**, including components audited by others.

b Other Auditor

Audits component included in principal auditor's financial info.

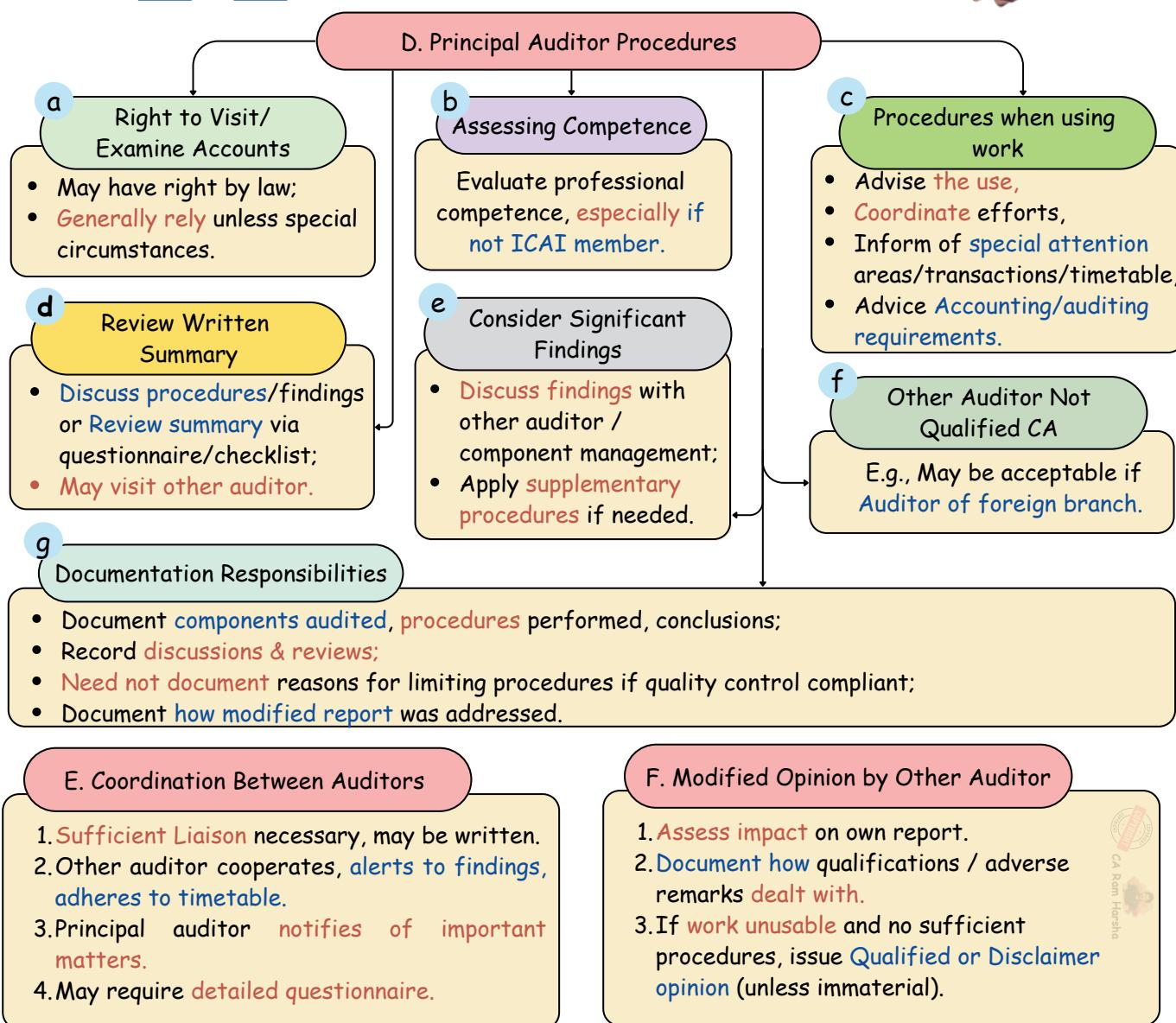
c Component

Division, branch, subsidiary, joint venture whose info is included in the **Financial Information** audited by Principal.

C. Acceptance of Principal Auditor

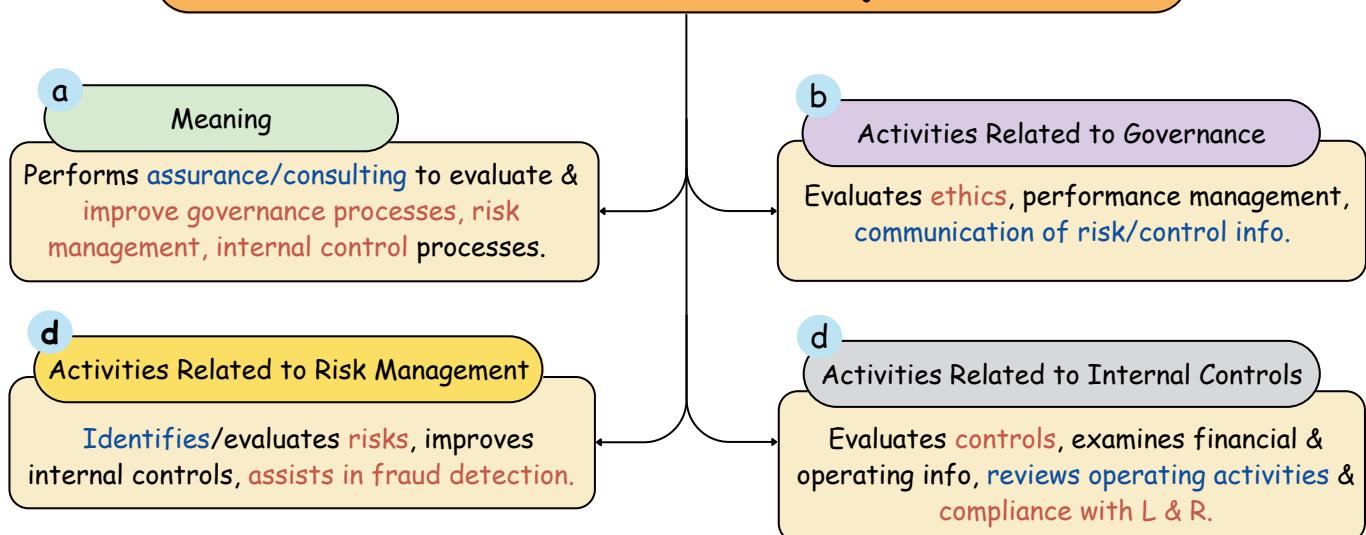
Assess sufficiency of participation.

Considerations: **Materiality of principal's portion**, business **knowledge of components**, risk of **misstatements in components**, need for additional procedures for **significant participation**.



8. SA 610 Using the Work of An Internal Auditor

A. Internal Audit Function and Objectives



B. Two Types of usage of work of Internal Auditor

Type 1 (Using Work Performed)

Obtain info for risk assessment, **may partially substitute external auditor's evidence**, if not prohibited by law.

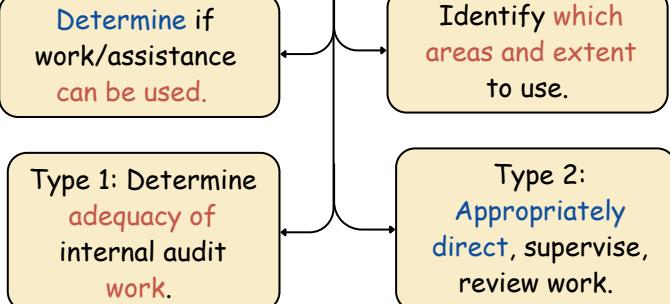
Type 2 (Direct Assistance)

Internal auditors **perform procedures under external auditor's direction/supervision/review**, if not prohibited by law.

C. External Auditor's responsibility under SA 610

1. **Sole responsibility** for audit opinion expressed.
2. **Responsibility not reduced** by using internal audit work or direct assistance.
3. **No compulsion to use** internal audit work.

D. Objective of External Auditor



E. Evaluating IAF for Type 1

a Objectivity

Evaluate **organizational status & policies supporting objectivity**.

b Competence

Assess **knowledge/skills**.

c Systematic and Disciplined Approach

Assess whether **planning, performance, supervision, review, documentation** are done **systematically** including **quality control**.

F. IAF work shall not be used by External auditor in these circumstances

Objectivity not adequately supported.

Lacks sufficient competence.

Does not apply systematic/disciplined approach.

G. Nature and Extent of work of IAF to be used by External Auditor

- Consider Nature/Scope of IAF work.

a Examples of usage

- TOC,
- Substantive procedures (**limited judgment**),
- **Inventory** observations,
- Tracing transactions,
- **Regulatory** compliance testing,
- Component audits **not significant** to group.

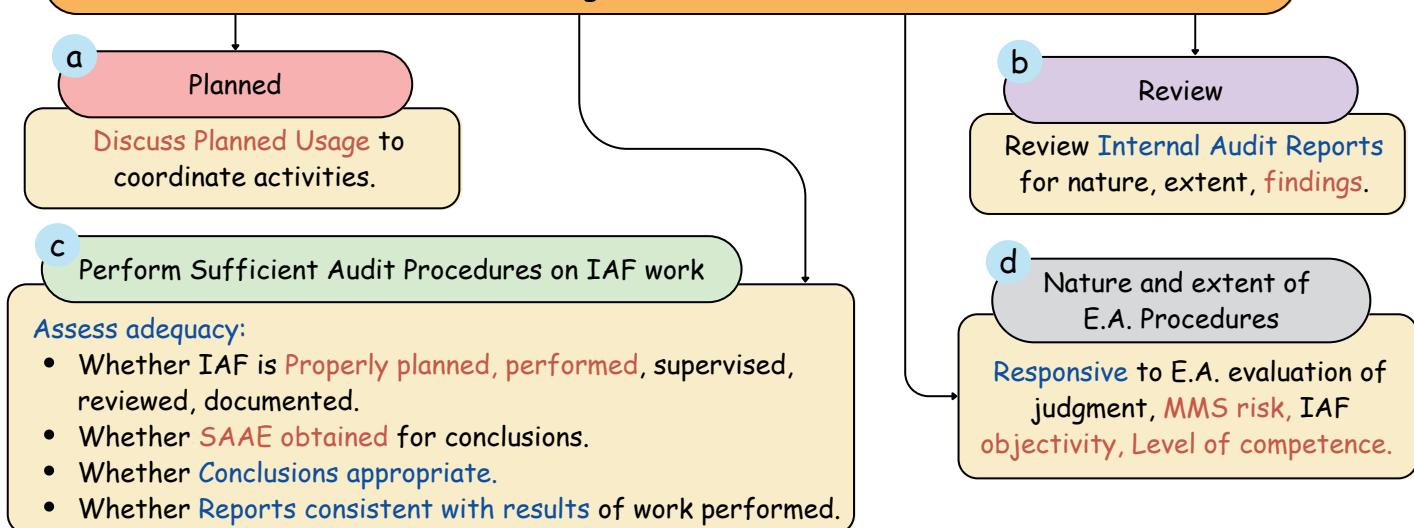
b IAF work

Evaluate if using IAF work results in **sufficient external auditor involvement**.

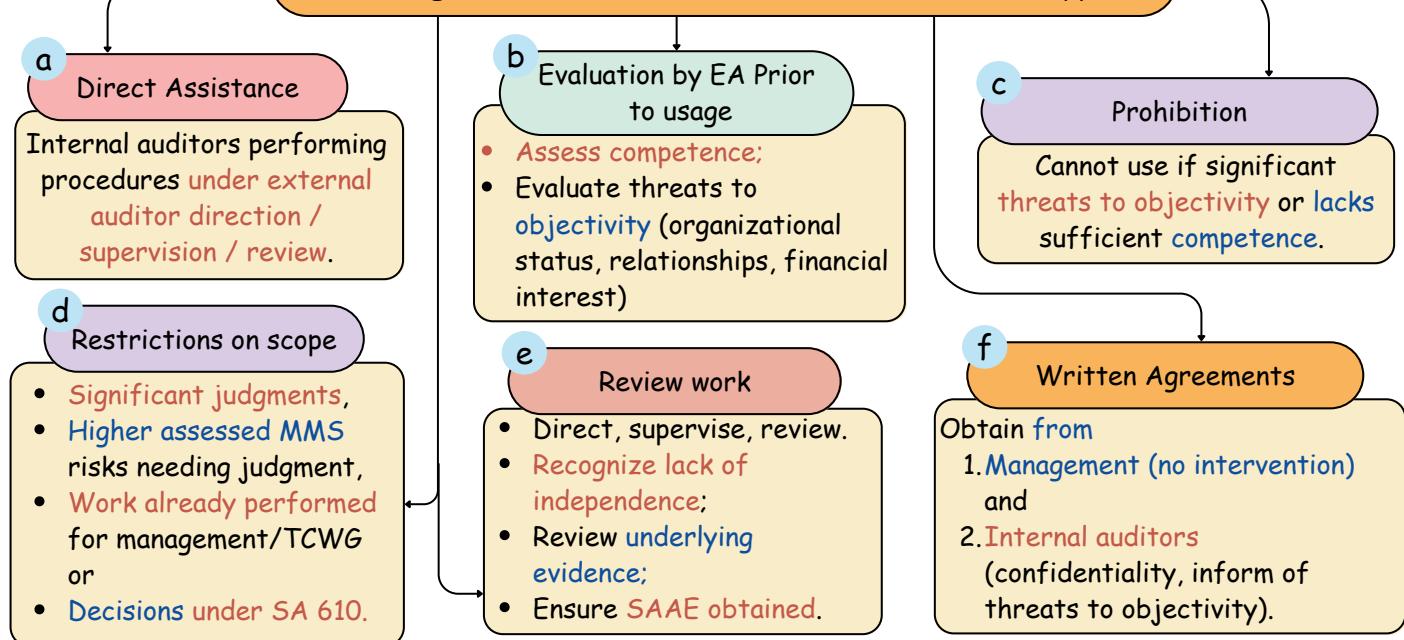
c External auditor makes all significant judgments

- **More judgment** required in Procedures, Evidence evaluation.
- Assessed **ROMM** is **High**
- **Lower IAF objectivity**.
- **Lower competence**.

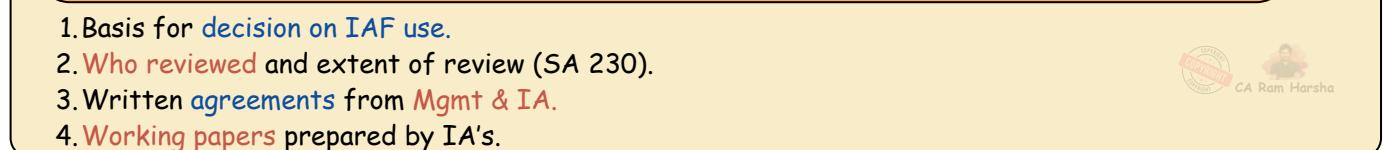
H. Using the work of IAF



I. EA usage of IAFs staff for Direct Assistance [Type 2]

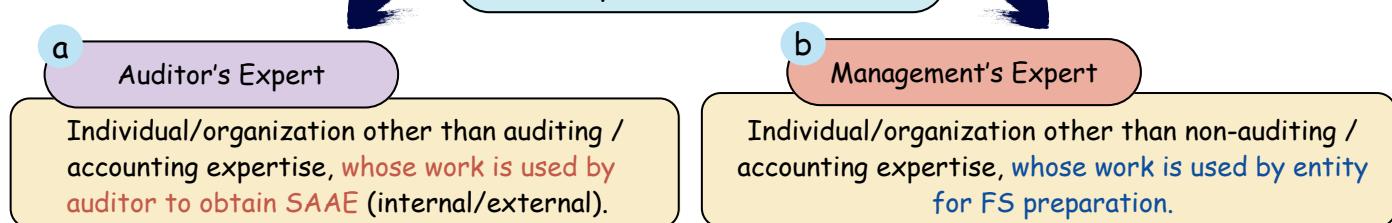


J. Documentation



9. SA 620 Using the Work of an Auditor's Expert

A. Important Definitions



B. Applicability

- For Auditor's responsibility for using auditor's expert.
- Does not apply to: Experts part of engagement team (specialized accounting/auditing) or management's expert (covered by SA 500).

C. Sole Responsibility - Auditors Only

- Auditor has sole responsibility for opinion, even if expert's work is used.

D. Objective of the Auditor

- Decide whether to use expert.
- Ensure expert's work is adequate for audit purposes.

E. Examples

- Valuation (financial instruments, property), complex tax compliance issues, actuarial calculations, contract interpretation, oil & gas reserve estimation.

F. Determining the need of auditor's expert.

a

Needed for

Understanding entity & IC, assessing MMS risks, designing & performing procedures, evaluating SAAE.

b

Auditors understanding of field

Obtained through Experience, Education, Discussions.

G. Considerations on Deciding to Use an Auditors Expert

- Management's use of an expert.
- Nature/significance/complexity of matter.
- Risks of MMS.
- Auditor's knowledge/experience with expert.
- Availability of alternative evidence.
- When management used expert: Nature / scope / objectives of work, employment status, management control / influence, expert's competence / capabilities, technical standards.



H. Audit Procedures Influenced by Auditors Expert's Work

- NTE depends on nature/risks of MMS, significance of work, prior experience.
- More extensive procedures when: Matter complex/subjective, no prior experience/competence awareness, expert performing integral procedures, Expert is external and not subject to firm's quality control.

I. Evaluate Competence, Capability, and Objectivity of Auditors Expert

Must evaluate these.

- External expert: Inquire about interests/relationships (financial, business, personal, other services); obtain representation; discuss safeguards; evaluate technical/ethical standards; relevance of competence/specialty.
- Evaluation is continuous process

J. Agreement with Auditor's Expert

Nature/scope/objectives, roles/responsibilities, communication, timing & reporting, confidentiality.

K. Evaluating Adequacy of Auditors Expert's Work

- Review **reasonableness of findings**, inquire, review working papers/reports.
- Corroborative procedures:** Observing work, confirming with third parties, analytical procedures, re-performing calculations, discussing with another expert, discussing with management.
- Evaluate **reasonableness of assumptions** and **relevance/reliability/completeness/accuracy of source data**.

L. When the Expert's Work is Not Adequate

- Agree on **Additional work**.
- Perform **further audit procedures**.
- Engage **another expert**.
- If unresolved, may issue **modified opinion (SA 705)** for insufficient SAAE.



M. Reporting in Auditor's Report

a Unmodified Opinion (UMO)

- No reference to expert unless required by law;
- If referred, state auditor's responsibility not reduced.

b Modified Opinion (MO)

- May refer if relevant for user understanding of modification;
- Reference does not reduce auditor's responsibility.

10. SA 540 Auditing Accounting Estimates including FV Accounting estimates and related Disclosures

A. Scope and Definitions

a Objective

Obtain SAAE that accounting estimates are reasonable and disclosures adequate.

b Accounting Estimate

Approximation of monetary amount without precise measurement (includes fair value).

c Auditor's Point Estimate

Amount/range derived from audit evidence to evaluate management's estimate.

d Management's Point Estimate

Amount selected by Mgmt for Recognition/Disclosure

e Management Bias

Lack of neutrality in presenting info.

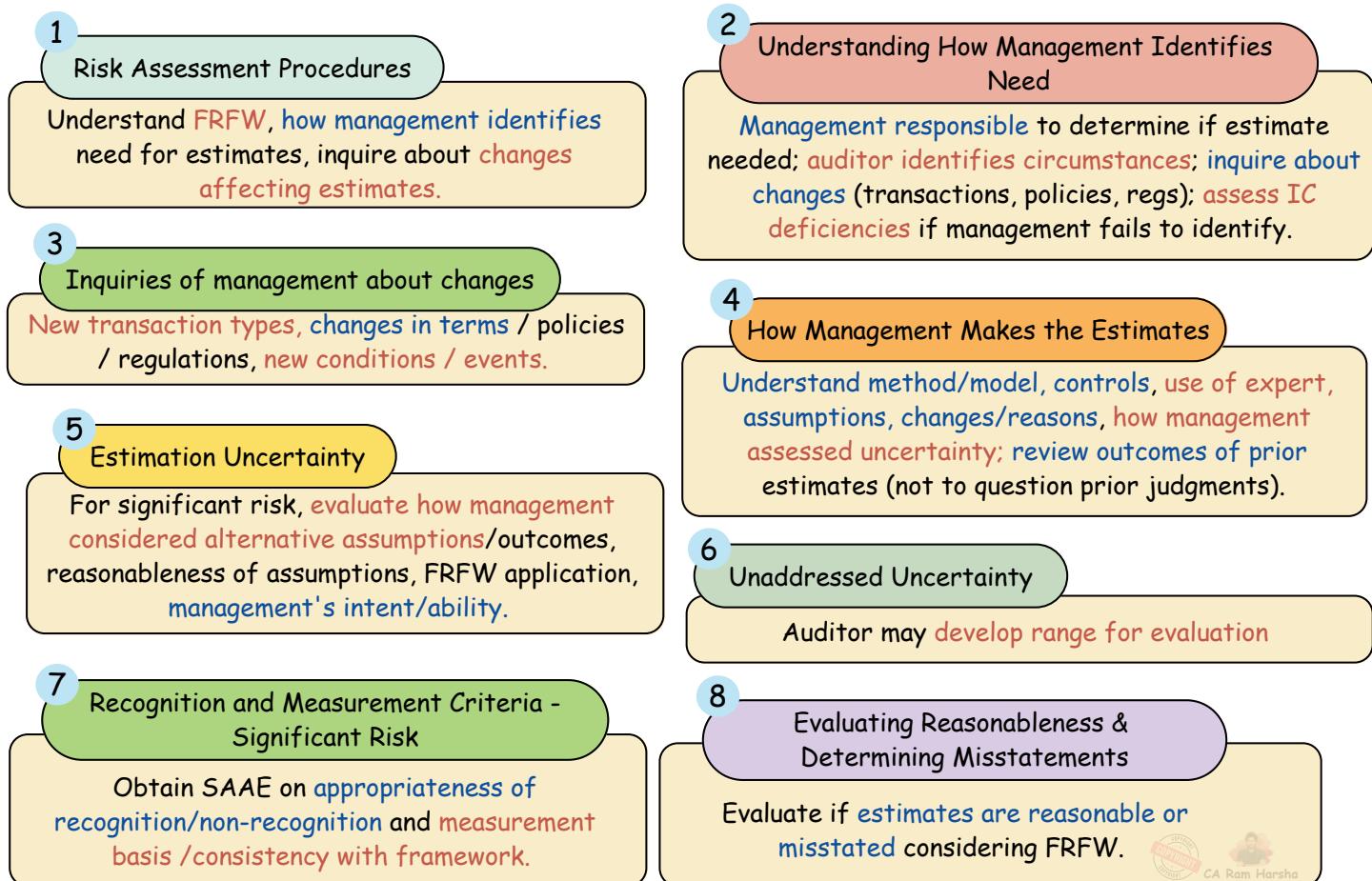
f Estimation Uncertainty

Inherent lack of precision in measuring estimate.

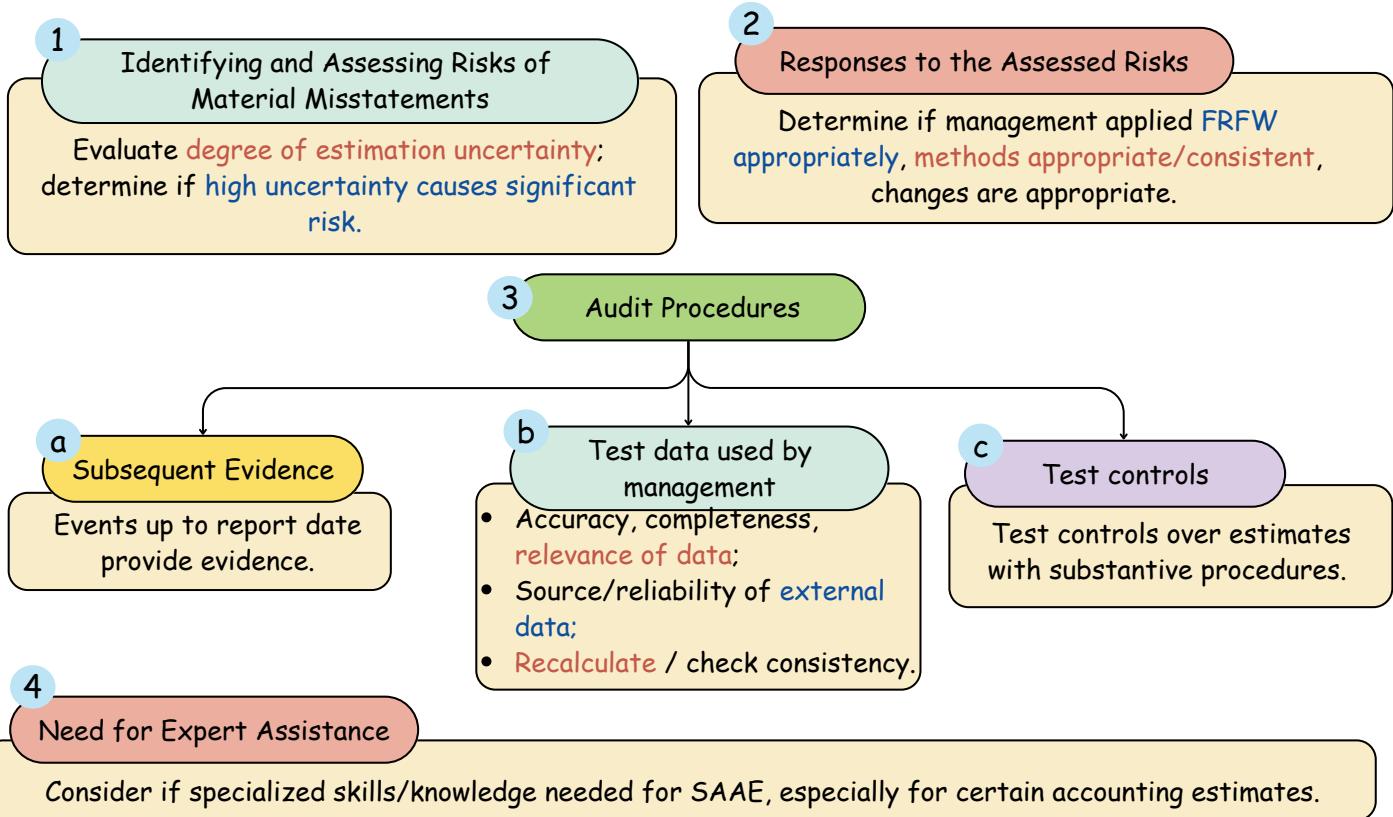
g Outcome of an Accounting Estimate

Actual monetary amount from resolution of underlying transactions/events.

B. Auditor's Responsibility / Audit Procedures



C. Risk Assessment and Response



D. Audit Reporting & Disclosure

1

Disclosures Related to Accounting Estimates

1. Obtain SAAE disclosures comply with FRFW (assumptions, methods, basis, changes, source/implication of uncertainty).
2. For significant risks, evaluate adequacy of estimation uncertainty disclosures.
3. Written Representations: From management about reasonableness of significant assumptions.

2

Documentation of Accounting Estimates

Include basis for conclusions on reasonableness & disclosures; indicators of management bias.

Accounting Related Content [Not Imp]

1. Nature of Accounting Estimates

1

Nature

Financial statement items requiring estimation, not precise measurement.

2

Reason

Arise from uncertainties in business activities or asset/liability characteristics.

The information available to management for making of an accounting estimate varies widely

which affects the degree of estimation uncertainty

The degree of estimation uncertainty affects, in turn the risks of material misstatement of accounting estimates

2. Low Estimation Uncertainty

Not complex, routine, readily available data, fair value estimates, accepted models.

3. High Estimation Uncertainty

Litigation outcomes, non-public derivatives, specialized models/uncertain inputs.

4. Degree of Estimation Uncertainty

Varies by nature, method, subjectivity of assumptions.

5. Examples of Accounting Estimates:

a

Non-fair value

- Doubtful accounts,
- inventory obsolescence,
- warranties,
- depreciation, provisions,
- long-term contracts,
- litigation settlements.

b

Fair value

- Complex financial instruments,
- share-based payments,
- property/equipment for disposal,
- goodwill/intangibles in business combinations.

6. Estimation Involves Judgments

- Based on available info, assumptions about future;
- Auditor not responsible for predicting future.

7. Management Bias

- Lack of neutrality, increases with subjectivity; indicators may persist;
- Intended to mislead is fraudulent;
- Difficult to detect at account level, often seen in aggregate or over time.

8. The Measurement Objective

Depends on FRFW & financial item; forecasting vs. fair value (current value based on hypothetical transaction).

Outcome vs. Recognition: **Difference between estimate and actual outcome doesn't always mean misstatement.**

11. SA 450 Evaluation of Misstatements Identified during the Audit

A. Meaning of Misstatement

Difference between **reported item** and **FRFW requirement** (can arise from error or fraud).

Uncorrected Misstatements

Accumulated during audit but not corrected in FS

B. Accumulation of Misstatements identified in Audit

- Accumulate all misstatements **except clearly trivial**.
- Matters that are Clearly trivial:**
 - Wholly different **magnitude** than **materiality** (smaller),
 - Inconsequential** (size, nature, circumstances)
 - Uncertainty** to decide - **not to be clearly trivial**.

Categories

a

Factual Misstatement

Misstatement about which **there is No doubt**.

b

Judgemental Misstatements

Differences from **unreasonable management judgments** (estimates v/s policies).

c

Projected Misstatements

Auditor's best estimate from projecting sample misstatements to population.

C. Consideration of Identified Misstatements as Audit Progresses

a Revision of Overall Audit strategy and plan

If nature/circumstance **indicates other potential misstatements**, or **aggregate misstatements approach materiality** (SA 320).

D. Communication and Correction of Misstatements identified

a

Timely Communication

Communicate **all accumulated misstatements** to appropriate management (unless prohibited) **for evaluation/correction**.

b

Request Management to Correct

Helps maintain accurate records, reduces future MMS risk.

c

Management Refuses to Correct

Understand **reasons**, evaluate **impact on FS** being free of MMS.

E. Evaluating effect of Uncorrected Misstatements

a Re-evaluate Materiality levels

1. **Re-evaluate Materiality levels:** Confirm appropriateness based on actual financial results before evaluating uncorrected misstatements.
2. **Materiality of Uncorrected misstatements:** Determine if material individually/in aggregate (size/nature in relation to transactions/balances/disclosures, circumstances); effect of prior period misstatements.

b Communication with TCWG

Communicate uncorrected misstatements, their impact, request corrections, discuss prior period effects.

c Written Representation

Management/TCWG that uncorrected misstatements are immaterial; include summary.

F. Documentation of Misstatements Identified shall include

a Trivial level

Amount below which misstatements are clearly trivial.

b Accumulated Misstatements

All identified, indicating correction status.

c Conclusion on Uncorrected Misstatements

Whether material (individually/aggregate) and basis.

12.SA 520 Analytical Procedures

A. Analytical Procedures - As Sole Substantive Audit Procedures

a Suitability of Procedures

Determine suitability for assertions, considering assessed MMS risks and tests of details.

b Reliability of Data

Evaluate by considering source, comparability, nature/relevance, controls over preparation.

c Development of Expectation

Develop precise expectation to identify material misstatements.

d Acceptable Difference

Determine threshold without further investigation.

B. Overall Conclusions

a Purpose

Corroborate conclusions from individual components or financial elements.

b Auditor's Opinion

Help draw reasonable conclusions for opinion

c Identifying New Risks

May reveal unrecognized MMS risk.

d Action Required

Revise risk assessment, Modify further planned audit procedures.

C. Investigating results of Analytical Procedures

1. Investigate inconsistent

Investigate inconsistent fluctuations or significant differences by

a Inquiring of Management

- Explain fluctuations/inconsistencies;
- evaluate response against other evidence.

b Performing Additional Audit Procedures

- If management explanation inadequate,
- identify material misstatements.



4. RISK ASSESSMENT AND INTERNAL CONTROL

1. Materiality & Risk Assessment

A. Content

1 Risk Assessment

- Assesses risk level in business processes, considering environment, regulatory, structure, management concerns.
- Focuses on areas with greatest risk by identifying assertions with Material Misstatement (MMS).
- Scepticism: Inappropriate/misapplied audit procedure, misinterpreted results.

2 Audit Risk

- Risk of giving an inappropriate audit opinion on materially misstated FS.

B. Components of Audit Risk

1 Inherent Risk (IR)

- Susceptibility of MMS without ICs.
- Examples: Technological changes (inventory obsolescence), Complex calculations, High-value inventory, Uncertain estimates, Volatile industry.

2 Control Risk (CR)

- Risk that internal controls (ICs) will not prevent, detect, or correct MMS on time.
- Entity assesses business risks and implement controls.
- Entity-level controls (e.g., board oversight) apply broadly.
- Activity-level controls relate to specific assertions.
- CR always exists due to IC limitations.

3 Detection Risk (DR)

- Risk that the auditor will not detect a MMS even when performing audit procedures.
- Auditors apply procedures to high-risk areas.
- Consider non-sampling risk:
 - Inappropriate procedure,
 - Incorrect application,
 - Misinterpretation of results.

C. Relationship Between Components

- Audit Risk (AR) = Risk of Material Misstatement (RMM) \times Detection Risk (DR).
- Risk of Material Misstatement (RMM) = Inherent Risk (IR) \times Control Risk (CR).
- IR and CR (combined level) is inversely related to DR.
- Audit Materiality is inversely related to Audit Risk.
- Mathematically: AR = IR \times CR \times DR.



D. Levels of Assessment of Risk of MMS

1

Financial statement level

- Risks affecting FS as a whole, potentially impacting many assertions (pervasive).
- Example: Incompetent top accountant affecting multiple FS areas.

2

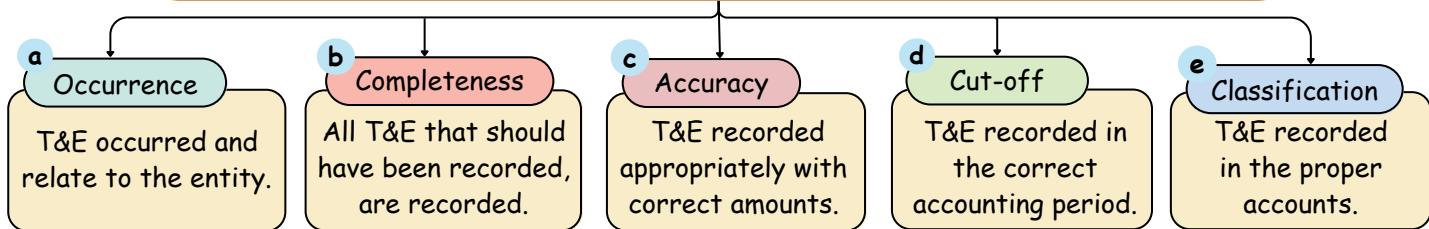
Assertion level

- Risks identified at the specific assertion level for transactions, account balances or disclosures.
- Each assertion (e.g., valuation, completeness) is individually assessed for risk.

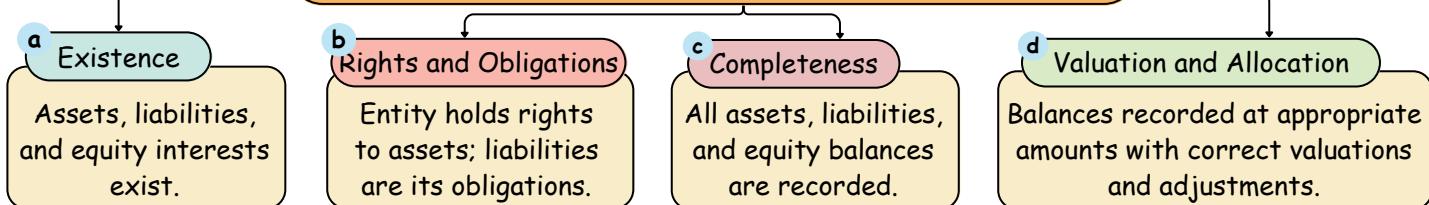


2. Different Types of Assertions made by Management

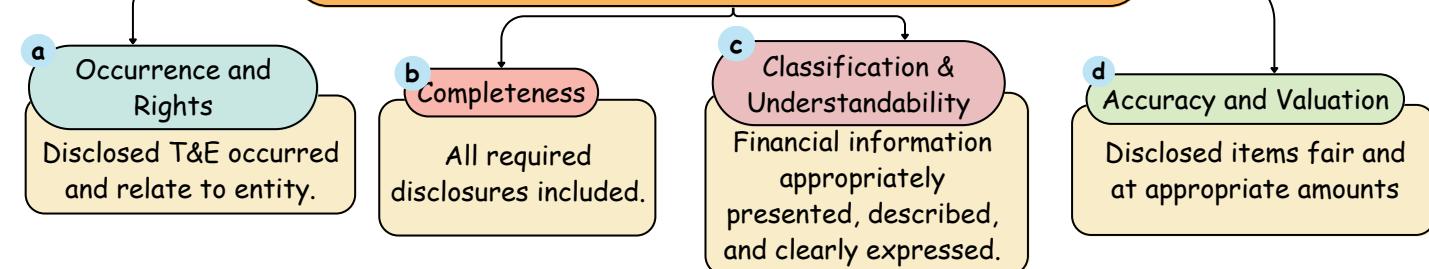
A. Assertions Related to Class of Transactions and Events [T & E]



B. Assertions Related to Account Balances



C. Assertions Related to Presentation and Disclosures

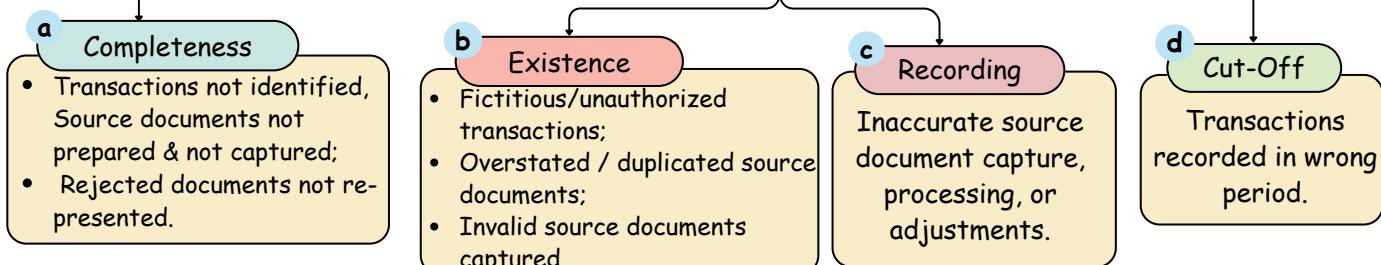


3. Steps Involved in Risk Identification

A. Steps involved for identification of risk

- Assess **significance of risk**; **revise materiality** for specific account.
- Determine **likelihood** and **impact** on audit procedures.
- Document **affected assertions**.
- Consider **impact on each assertion** (completeness, existence, accuracy, validity, valuation, presentation).
- Identify** significant risks requiring **separate attention**.
- Enquire and **document** management's response to the risk.
- Consider nature and **effectiveness of the IC system** (routine, designed to prevent/detect/correct errors, manual/automated).
- Consider **unique characteristics** of the risk.
- Consider inherent risks** in transactions, account balances, or disclosures needing further audit procedures (e.g., high-value inventory).

B. Indicators of Possible Potential Misstatement



4. Risk based Audit Approach

A. Meaning

a Risk-Based Audit (RBA)

- **Analyzes audit risks**, sets **materiality**, allocates **more resources to high-risk areas**.
- Audit procedures **focus on identified high-risk areas**.
- Essential in financial audits and audits of FS including internal controls.
- Focuses reducing impact to acceptable level.
- Helps improve auditee's risk management and control processes.

b RBA in Performance Audit

Focuses on risks to delivery of activities with **economy, efficiency & effectiveness**.

B. Audit Risk Analysis

a Meaning

Auditor **performs audit risk analysis before specific procedures**. Risk assessment is **subjective**, based on **professional judgment**.

b Audit risk

Audit risk is the possibility that the **auditor fails to appropriately modify** their opinion on misstated FS.

c Audit Risks from Error and Fraud

- **Error**: An **unintentional** mistake (omission/inclusion of erroneous transactions).
- **Fraud**: An **intentional** misstatement to deceive or conceal misappropriations.

d Auditor's Responsibility

Plan and perform audit to obtain **reasonable assurance** FS are **free of MMS**, caused by **error/fraud**.

e Error Risk

May arise from issues in principle, estimates, information processing, financial reporting or disclosure.

f Fraud Risk

Involves manipulation, falsification, misrepresentation in records/FS, misapplication of accounting principles, misappropriation.

C. General steps in conducting Risk Based Audit

a Audit Objective

Obtain reasonable assurance that no MMS exist in the FS.

b Key Steps

- **Assessing the ROMM** in the FS.
- Designing and performing further audit procedures to **respond to assessed risks and reduce them** to an acceptable level.
- Issuing an **appropriate audit report** based on findings.

c Risk-Based Audit Process (3 phases)

Risk assessment, Risk response, Reporting.

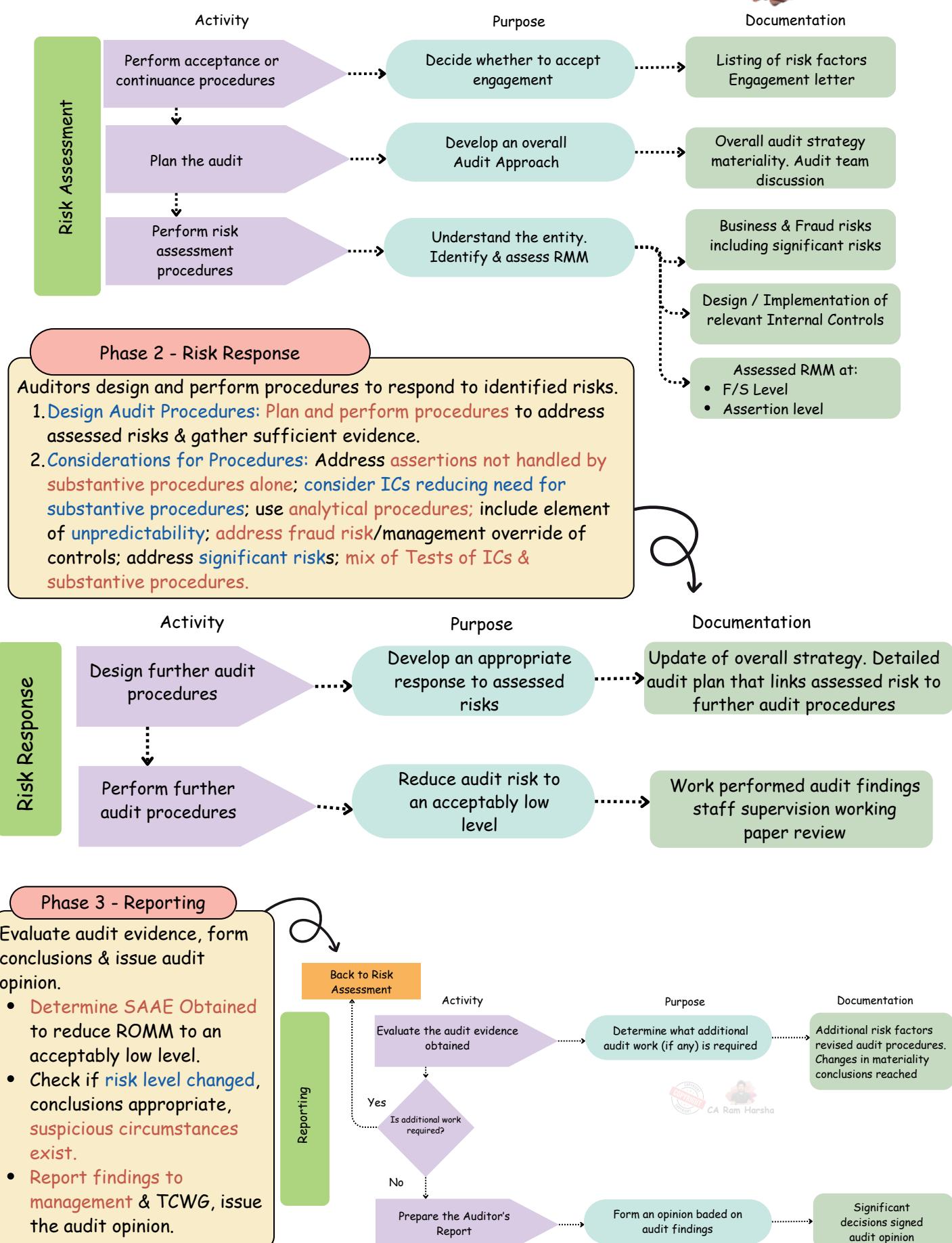
D. 3 distinct phases of Risk Based audit

Phase 1 - Risk Assessment

Understand client, identify risks, assess internal controls.

- Perform procedures to **accept/continue client**; **plan audit approach**.
- **RAP** to **understand business** and **identify** inherent and control risks.
- Identify and assess **design and implementation of ICs**.
- **Assess ROMM** at both the **financial statement level and at assertion level**.
- Identify **significant risks**; assess if substantive procedures alone are enough.
- **Report any material weaknesses** in IC to management and TCWG.



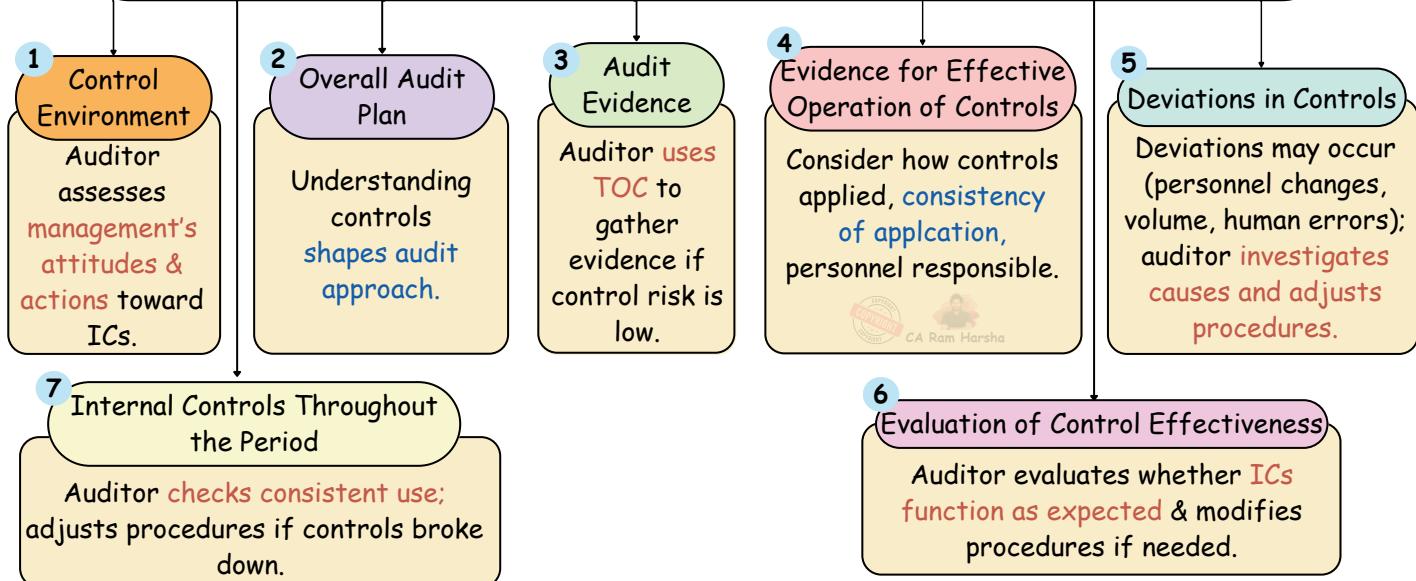




5. Internal Control Systems

A. IC Environment

- Meaning: Policies/procedures by management for efficient business conduct, safeguard assets, prevent fraud, ensure accuracy / completeness of records, timely FS.
- Understanding IC System: Crucial for assessing risks & planning audit procedures.



B. Nature of Internal Control

1 SA 315 Definition
Internal control is a process designed by management to ensure reliable financial reporting, operational efficiency, safeguarding assets and compliance.

2 Internal Control Process

System designed to support business objectives, addressing risks related to operations, compliance & financial reporting.

C. Scope of Internal Control

1 Scope
IC goes Beyond accounting; includes administrative controls influencing decision-making (e.g., production methods, pricing policies).

2 Auditor's Focus in Financial Audit
Focus on policies/procedures affecting FS (safeguarding assets, fraud detection, record accuracy, reliable info).

3 Administrative Controls
Less relevant to financial records but may be evaluated if they affect financial record reliability.

4 Integration of Internal Control
Integral to company's activities, not practiced isolated.

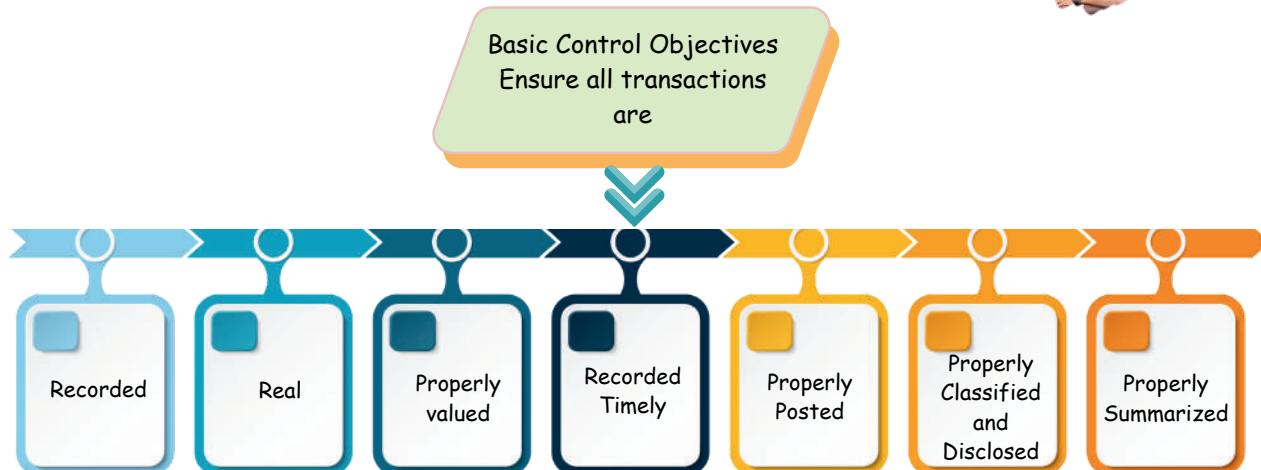
D. Objectives of Internal Controls

1 Objectives of IC
Management sets objectives based on business nature, scale, professionalism.

2 Accounting System Objectives
Transactions authorized/recorded; assets / records safeguarded; assets verified regularly.

3 Control Objectives
Ensure transactions are complete, valid, and accurate.

4 If control objectives of ICs are not met
Strong ICs permit limited tests; weak controls require more focused audit procedures.



E. Limitations of Internal Controls

- 1 Cost-Benefit Trade-Off
Cost of controls should not exceed benefits.
- 2 Not Targeting Unusual Transactions
ICs may not address unusual/exceptional transactions.
- 3 Human Error
Mistakes due to carelessness, distraction, misjudgment.
- 4 Circumvention via Collusion
ICs can be bypassed through collusion.
- 5 Abuse of Responsibility
Responsible person (management) may override ICs.
- 6 Management Manipulation
Management may manipulate transactions, estimates or judgments in FR.

F. Structure of Internal Control

- 1 Segregation of Duties
 - Ensures no one person handles all aspects of a transaction; It minimizes/detects fraud and errors early.
 - Segregate - Authorization, execution, custody of assets, record-keeping.
 - Avoiding excessive allocation of Tasks.
 - Periodically rotating tasks to detect fraud early & prevent vested interests.
- 2 Authorization of Transactions
 - Establish delegation of authority for transactions as per management guidelines.
 - Achieved by independent comparison of transaction document with General/ Specific authorizations.
- 3 Adequacy of Records & Documents
 - Ensure transactions are properly recorded, classified & safeguard assets.
 - Maintain proper documentation for audit. Protect assets/records from unauthorized access.
- 4 Accountability & Safeguarding of Assets
 1. Accountability from acquisition to disposal; frequent physical checks and reconciliations required.
 2. Authorized Personnel Access: Only authorized personnel should access/handle assets; physical custody and document processing control crucial.
- 5 Independent Checks
 - Regular checks by independent staff (internal/external) to verify control procedure effectiveness.

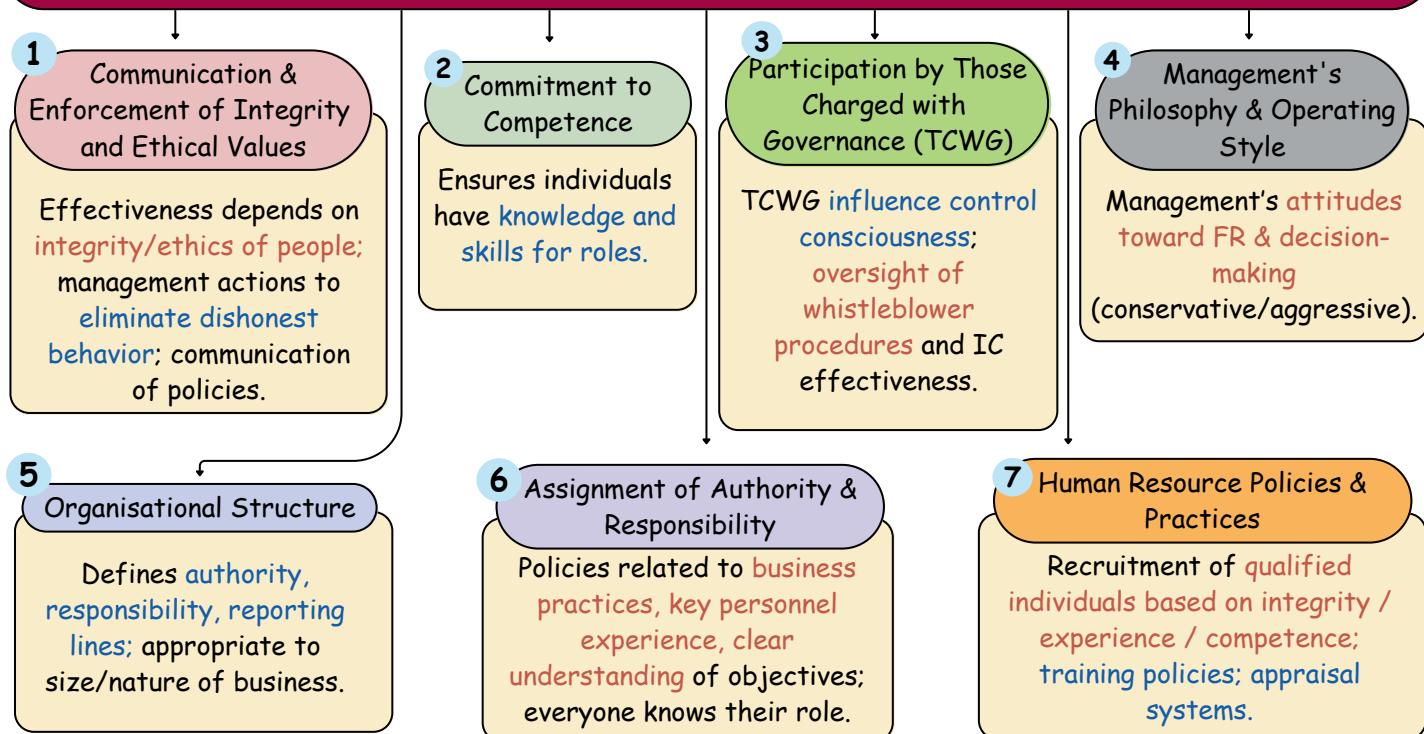
G. Components of Internal Controls

1. Control Environment
2. Risk Assessment Process
3. Information System
4. Control Activities
5. Monitoring of Controls

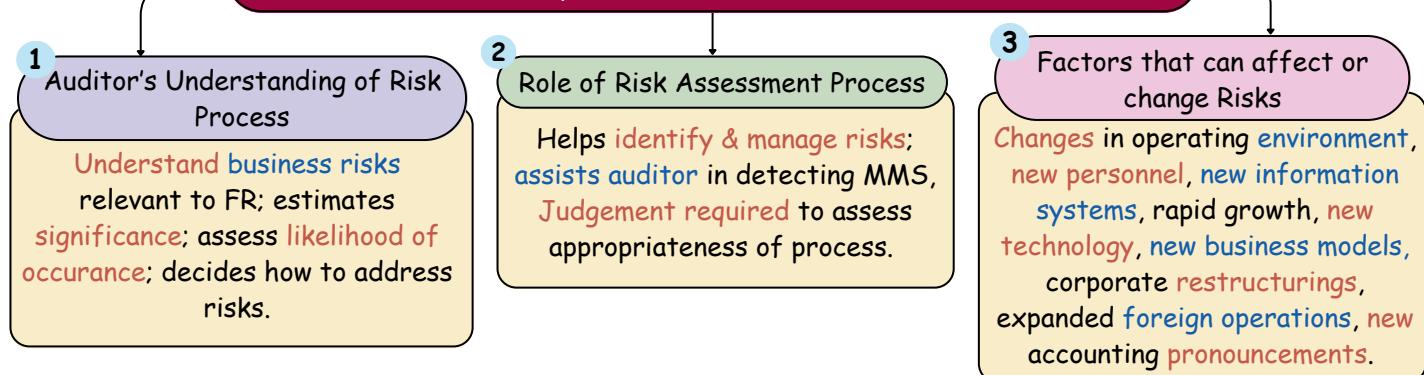


H. Elements of Control Environment

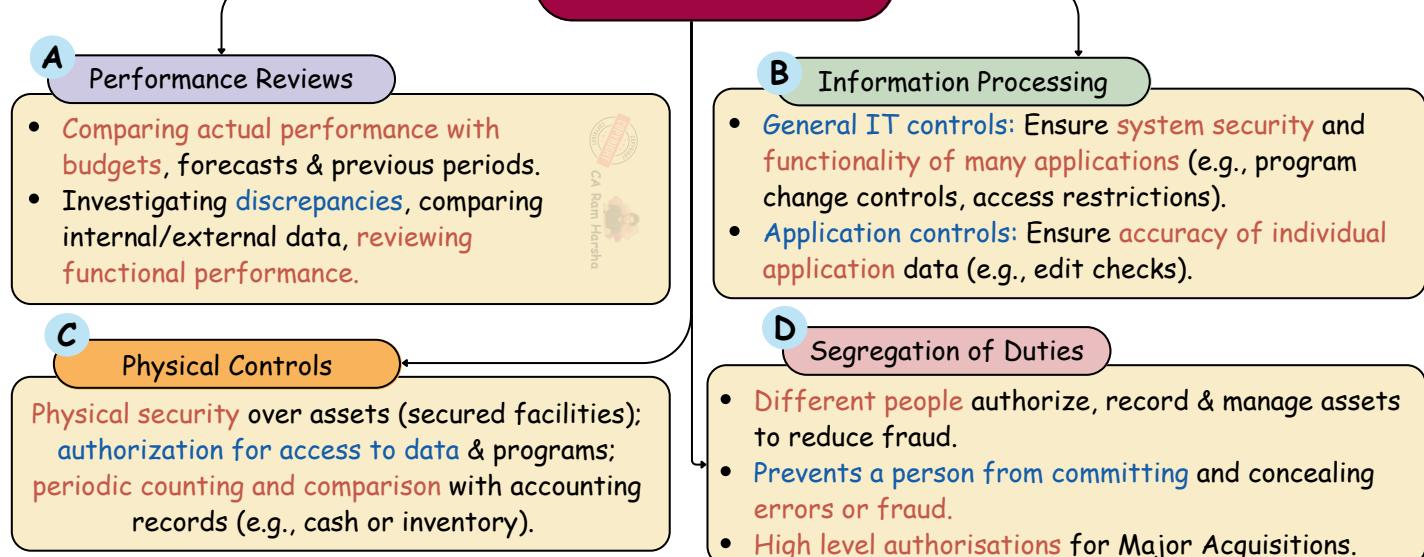
Includes governance/management functions, attitudes / awareness / actions of TCWG / management. Sets the tone, influencing control consciousness.

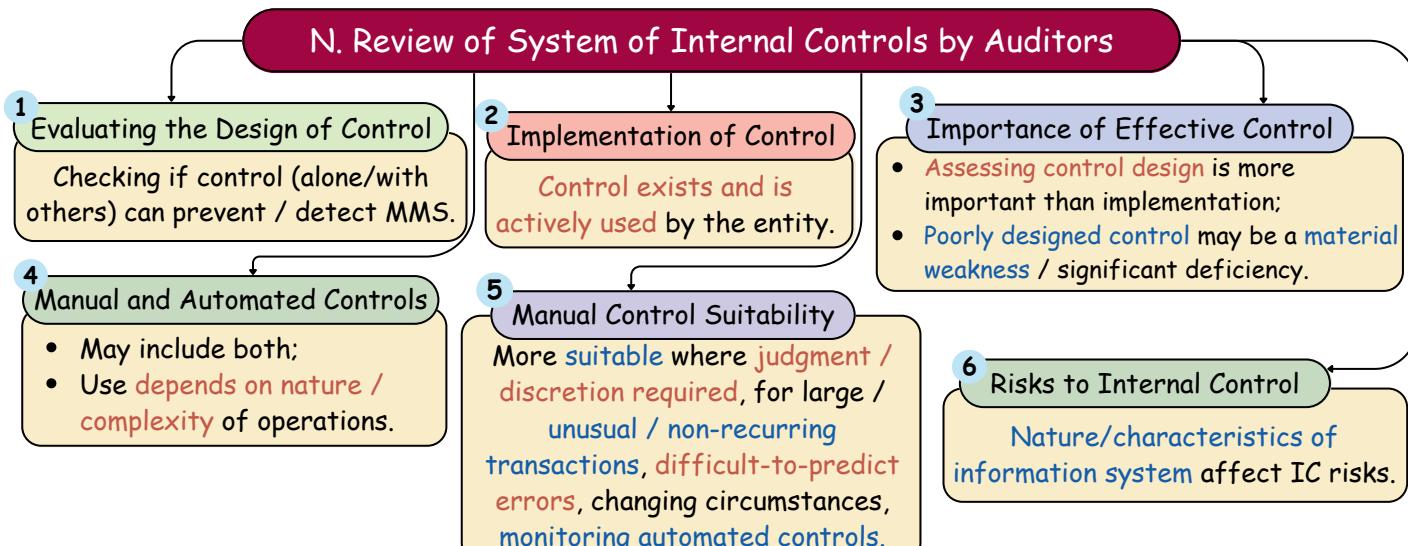
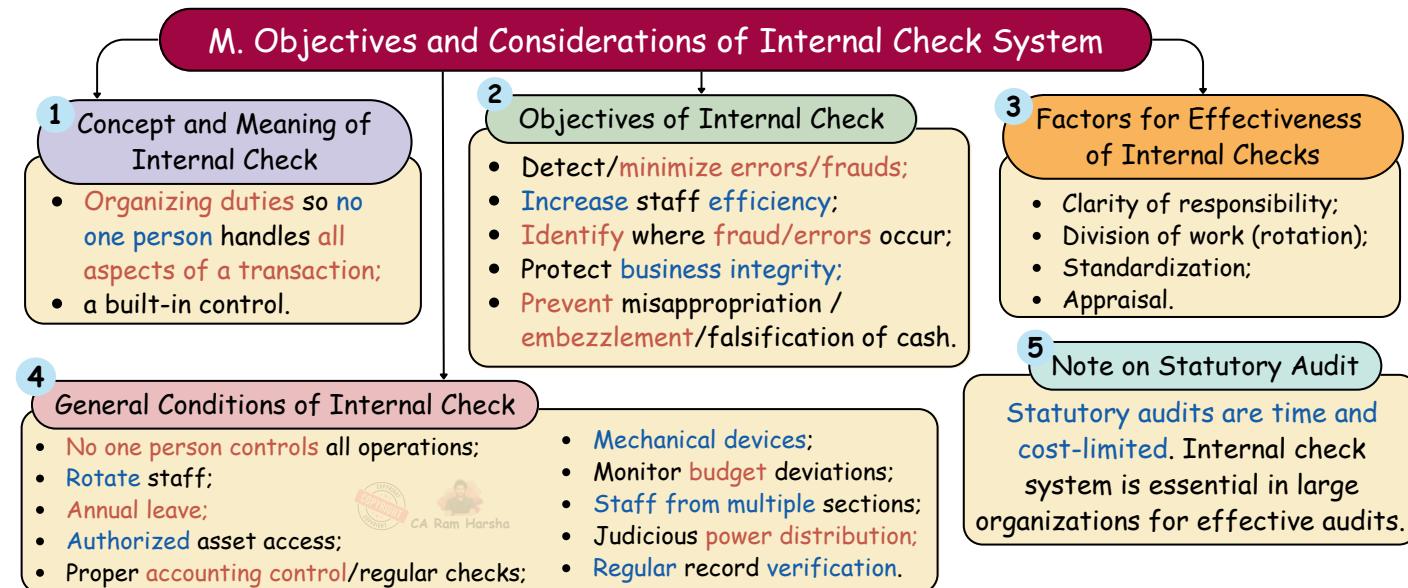
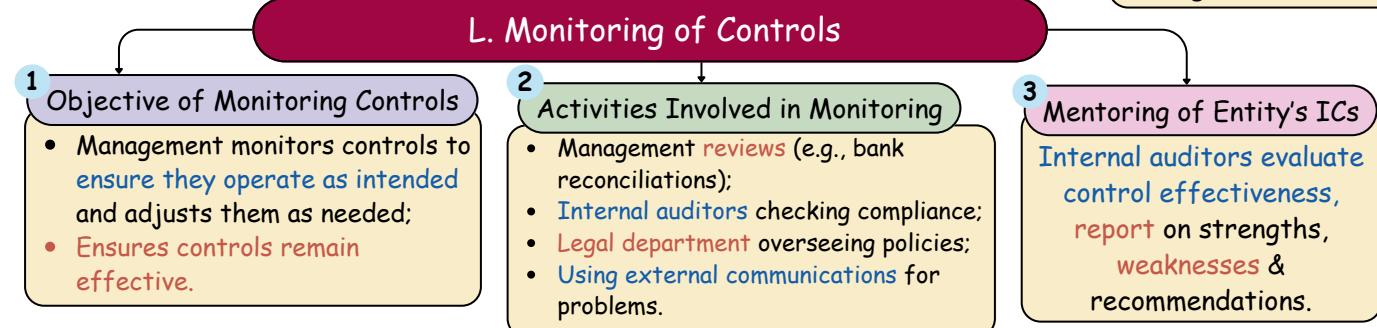
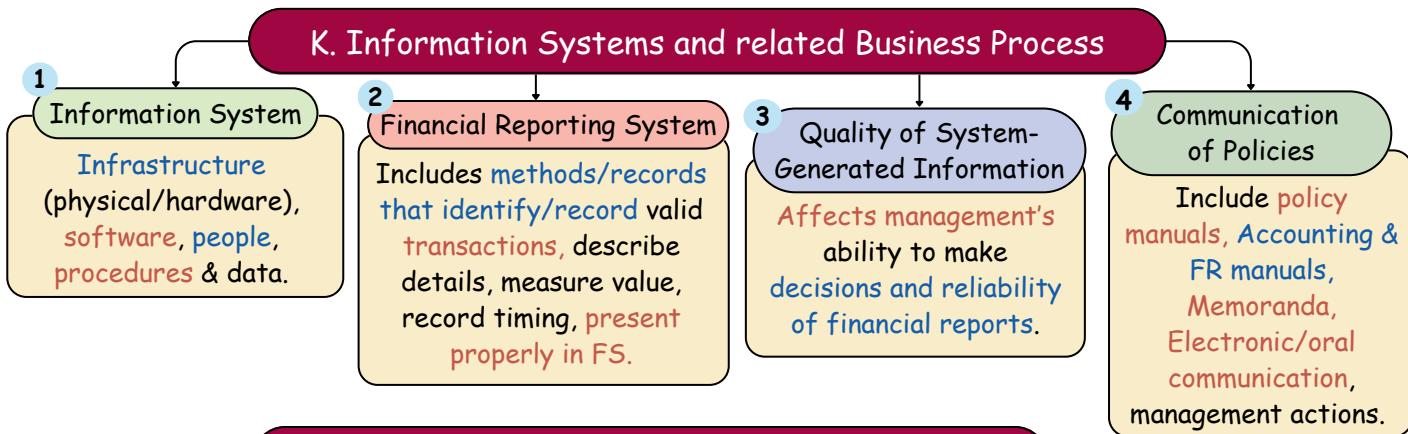


I. Entity's Risk Assessment Process



J. Control Activities







N. Review of System of Internal Controls by Auditors

7. Review of Internal Controls

- To formulate an opinion on whether the system allows for accurate FR;
- Identify weaknesses and adjust audit plan. E.g., weak trade receivables control → expand confirmations.

8. Timing of Review of Internal Controls

Professional Judgment.
Comprehensive review should occur every 3 years. For big entities, review is a distinct phase before finalization.

9. Letter of Weakness

- Inform client of weaknesses, suggest improvements.
- Auditor's duty to see inadequacies removed.
- Note changes, new weaknesses, non-compliance. Consider for audit program modification.

10. Review Procedures

Inquiring personnel, examining documentation, tracing transactions, Helps identify controls for compliance testing.

O. IC Assessment & Evaluation of Control environment

1. Standard Operating Procedures (SOPs)

- Clearly outline roles, responsibilities, processes, and controls;
- Ensures consistent application.

2. Enterprise Risk Management

- Robust process to identify/mitigate risks;
- Regular reviews help Identify gaps & take corrective actions early, reduce surprises of failures in controls.

3. Segregation of Job Responsibilities

- No individual handles all aspects of a transaction / decision;
- Reduces error/fraud risk;
- Essential for control.

4. Job Rotation in Sensitive Areas

- Prevents complacency /misuse.
- Ensures fresh perspectives/vigilance.

5. Delegation of Financial Powers Document

Clearly defined document ensures controls are operational, not dependent on individuals.

6. Information Technology Based Controls

- Embedded directly into processes.
- Reduced human dependency.
- Better audit trail, lower failure rates, easier to monitor.

6. Techniques of Evaluation of Internal Controls

A. Questionnaire

1. Meaning

Set of organized questions evaluating control effectiveness and identifying weaknesses.

2

Addresses Various Areas

Covers different functional areas (e.g., purchases, sales).

3. Filled by Client

By company executives (or auditor in some cases). Yes/No/Not applicable answers; "No" or "Yes" answers may indicate weaknesses.

4

Standardised ICQ

Based on assumptions like division of duties, no custodial functions for accounting, segregation of duties, evidence of work, review by others, proper documentation.

5. Purpose

Serves as a record of the state of internal controls provided by the client.

6

Periodicity

- Required for first year;
- Client confirms changes in subsequent years;
- Issued every 3rd year even if No changes.



B. Check List

1 Meaning

Series of **instructions or questions** regarding IC that the auditor must follow or answer.

2 Initials for Instructions

Auditor initials space when instruction carried out.

3 Question Format

Generally "Yes," "No," or "Not Applicable"

4 Reminder Nature

Serves as a **reminder** for the auditor on what to check for testing IC system.

5 Intended for Auditor's Staff

May be **used by auditor's own staff** to ensure tasks are completed.

6 Checklist vs Questionnaire

- Checklist for auditor's staff (instructions);
- Questionnaire for client (detailed questions).

7 ICQ vs Checklist

- ICQ more detailed; "Yes" in ICQ indicates weakness;
- "No" in checklist indicates weakness. Checklist requires statement about material weaknesses.

8 Example Checklist Questions

Examples related to cashier's duties (e.g., not opening mail, does not authorize ledgers, balances cash book daily, taking annual leave, monthly bank reconciliation).

C. Flow Chart

1 Graphical Presentation

Graphic presentation of internal controls, showing controls for each section/sub-section.

2 Less Narratives

- Reduces need for detailed narratives;
- Concise, comprehensive review.

3 Bird's Eye View

Provides a **visual summary** of auditor's findings.

4 Every Detail Included

Includes **every relevant detail** regarding control points.

5 Diagram Format

Essentially a diagram with **lines and symbols**.

6 Flow of Activities

Shows flow of activities (e.g., document creation/receipt, authorization checks, filing).

7 Analytical Knowledge Needed

Strong knowledge of internal controls and analytical mind required.

8 Section/Department -wise Charts

Created section / department-wise for clarity & reliability.

D. Communicating Weaknesses Identified in Internal Controls

1 Purpose of Letter

Lists IC **weaknesses** and suggests improvements.

2 Initials for Instructions

- Discusses weaknesses identified during the audit;
- Not an **assessment of overall IC** adequacy. Audit not designed to evaluate IC effectiveness.

3 Reference Document

Serves as a **reference for management** to improve and enforce IC.

4 Auditor's Responsibility

Issuing letter **doesn't relieve** duty to qualify FS if weaknesses remain/affect FS materially.

5 Case Law

Re S.P. Catterson & Ltd. (1937): auditor cleared of negligence if weaknesses identified and management ignored.

6 SA 265 View

Outlines auditor's responsibility to communicate deficiencies in IC to TCWG and management. Auditor's role **focuses on reporting deficiencies, not evaluating effectiveness of IC***

7 Audit Procedure

Identify deficiencies, communicate significant/other deficiencies to management in writing.

8 *U/s 143(3)(i) - Opinion on Operating Effectiveness if IFS over FS is required

8

Contents of Letter

- Description of **deficiencies** & **potential impact**;
- **Sufficient information to help management** understand context (Audit for FS opinion, IC considered but not for overall effectiveness, **report limited to significant deficiencies**).



7. Internal control Frameworks

A. Need of Internal Control Frameworks

1 Need for ICS

- Essential for **governance of every organization**;
- Safeguard business value.
- Global frameworks guide development of ICS.

2 Control within Processes

- Controls should be **embedded in processes**;
- Integrate **early warning** into **existing MIS**. BOD needs timely, relevant & reliable reports.

3 Objective of ICS

- Crucial for daily business operations and achieving objectives;
- **Covers entire company, not just FR**.

4 Guidance Note on Audit of Internal Financial Controls

- ICAI **GN Note on auditing ICOFR** (Companies Act, 2013);
- Covers scope, components, guidance. **Compliance with FRFW is essential for T&F view**.

5 FR Framework

- Accounting Standards (Companies Act) form the FRFW;
- Auditors use to assess T&F view.

6 IC Framework

A benchmark IC system is essential to assess control adequacy; management/auditors evaluate compliance with IC's.

B. COSO Framework

1 COSO Framework

- Introduced 1992;
- Guidance on establishing better ICs;
- Categorizes entity objectives: Operations, Financial Reporting, Compliance.

2 Components of COSO Framework

- **5 components with > 20 principles**:
- Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.

3 17 Internal Control Principles

- Core concepts for an effective ICS;
- Must be present and functioning in every entity.

4 Control Environment Principles

Integrity/ethical values, oversight, structure/authority/responsibility, competence, accountability.

5 Risk Assessment Principles

Specifies objectives, identifies / analyses risks, assesses fraud, identifies / analyses significant changes.

6 Control Activities Principles

Selects/develops control activities, controls over technology, deploys via policies/procedures.

7 Information and Communication Principles

Uses relevant info, communicates internally & externally.

8 Monitoring Principles

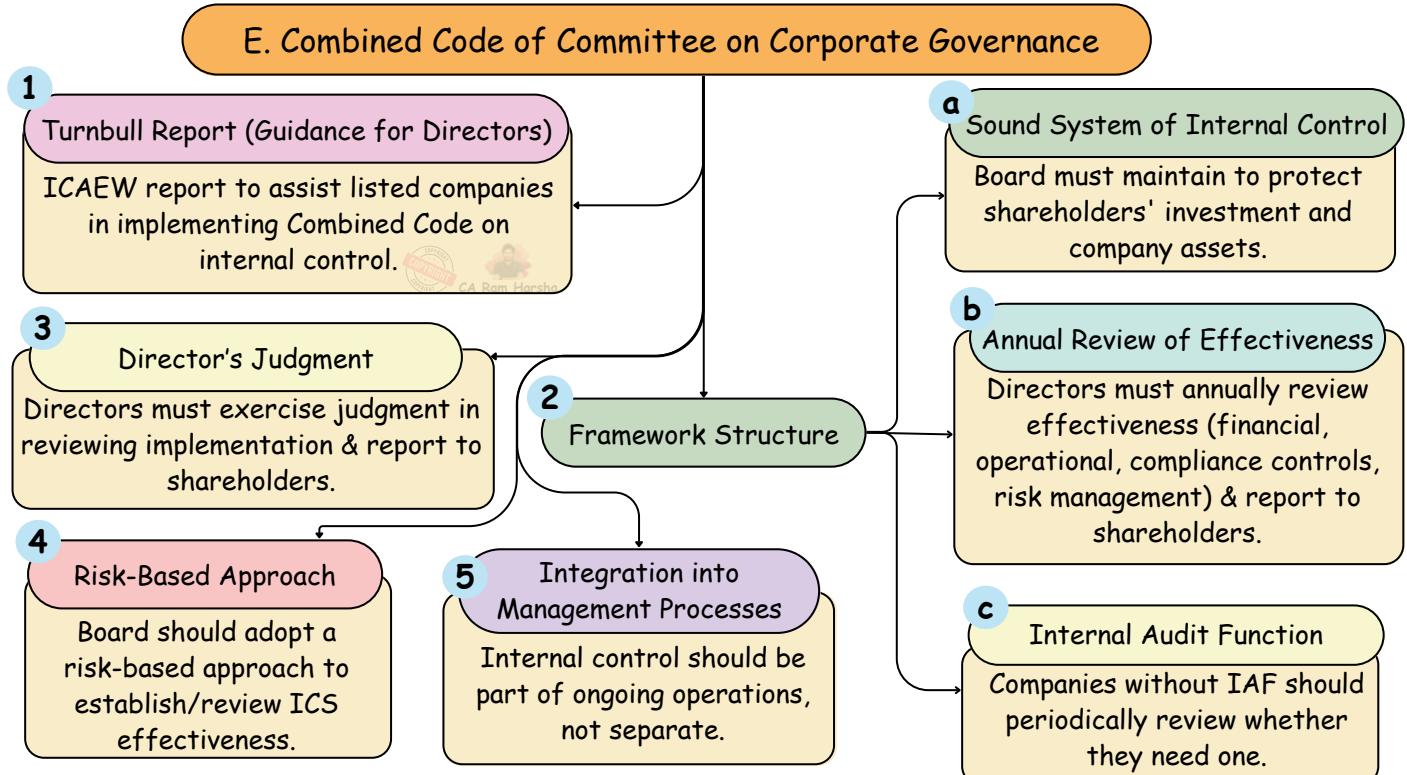
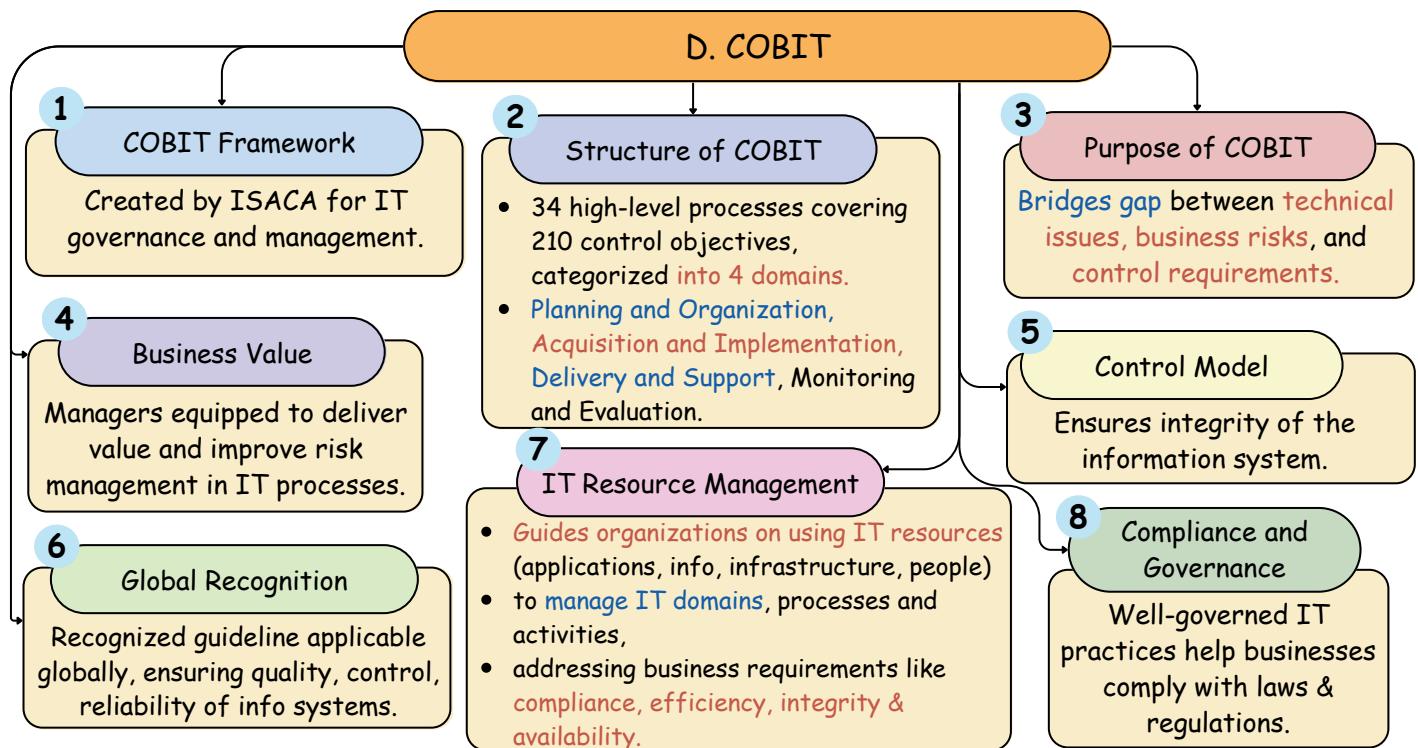
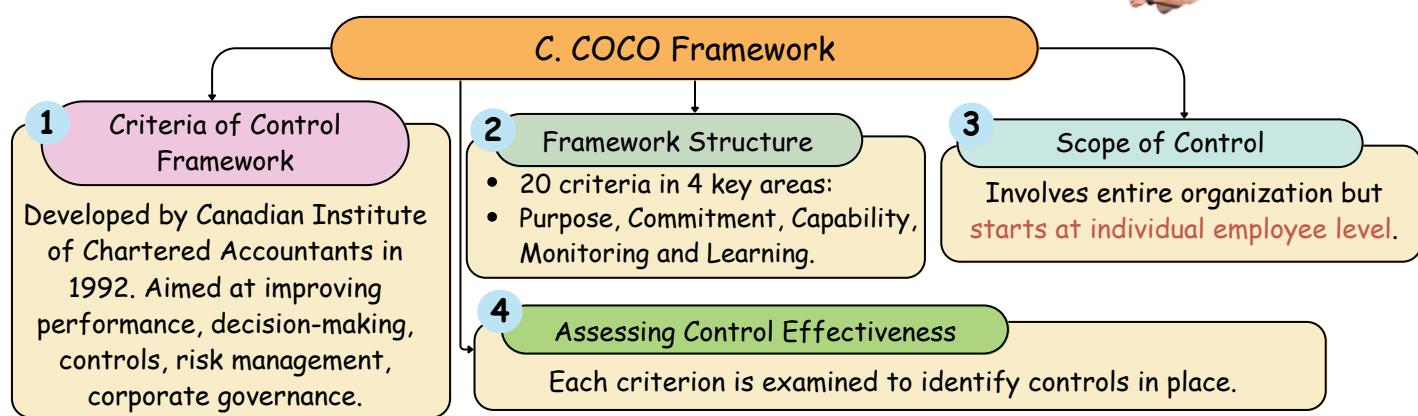
Conducts ongoing evaluations, evaluates & communicates deficiencies.

9 Objectives of COSO Framework

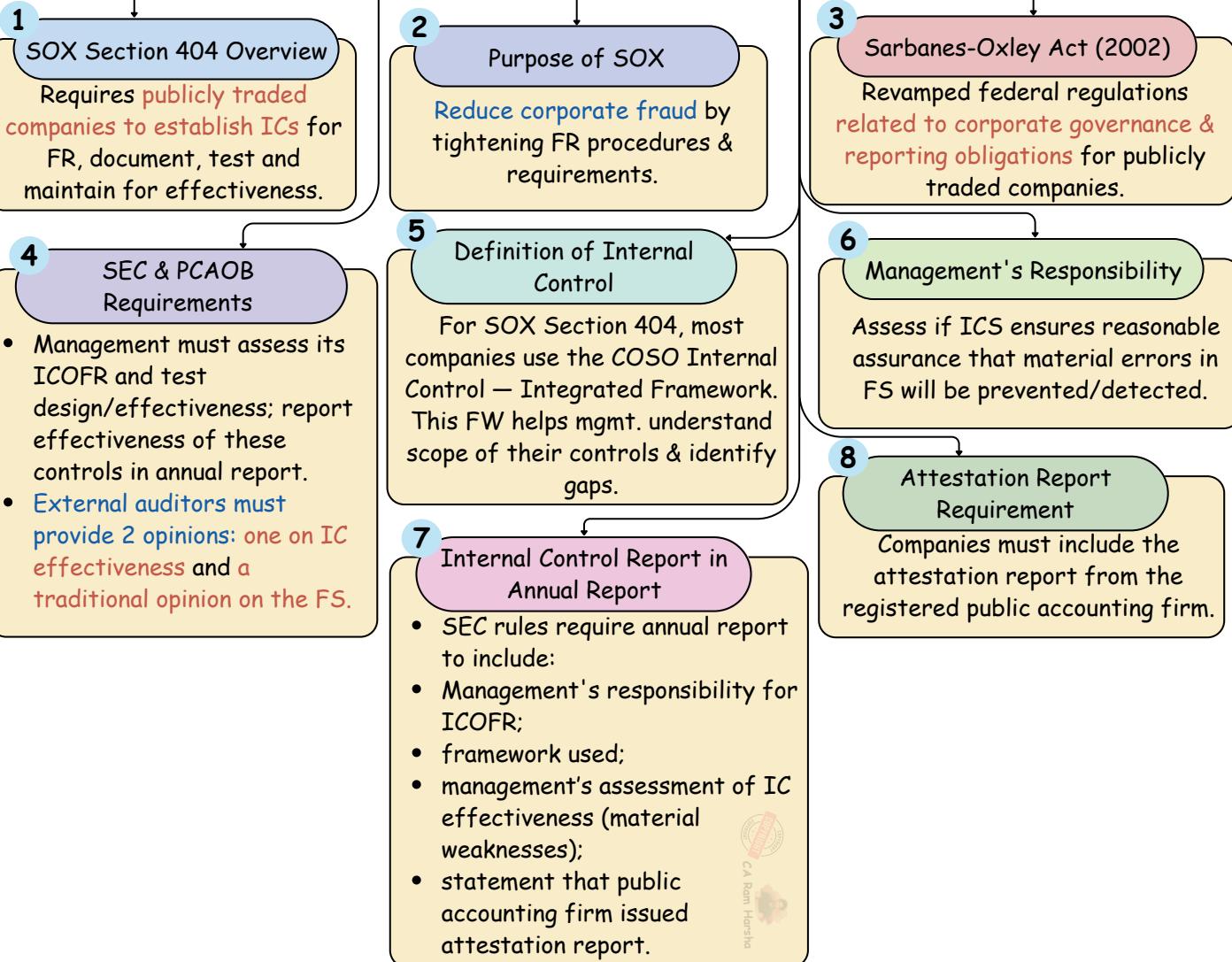
Assess IC effectiveness in achieving management-defined objectives: **Operations** (efficiency, effectiveness, safeguarding assets), **Reporting** (reliability, transparency), **Compliance** (L & R).

10 Limitations of Internal Control

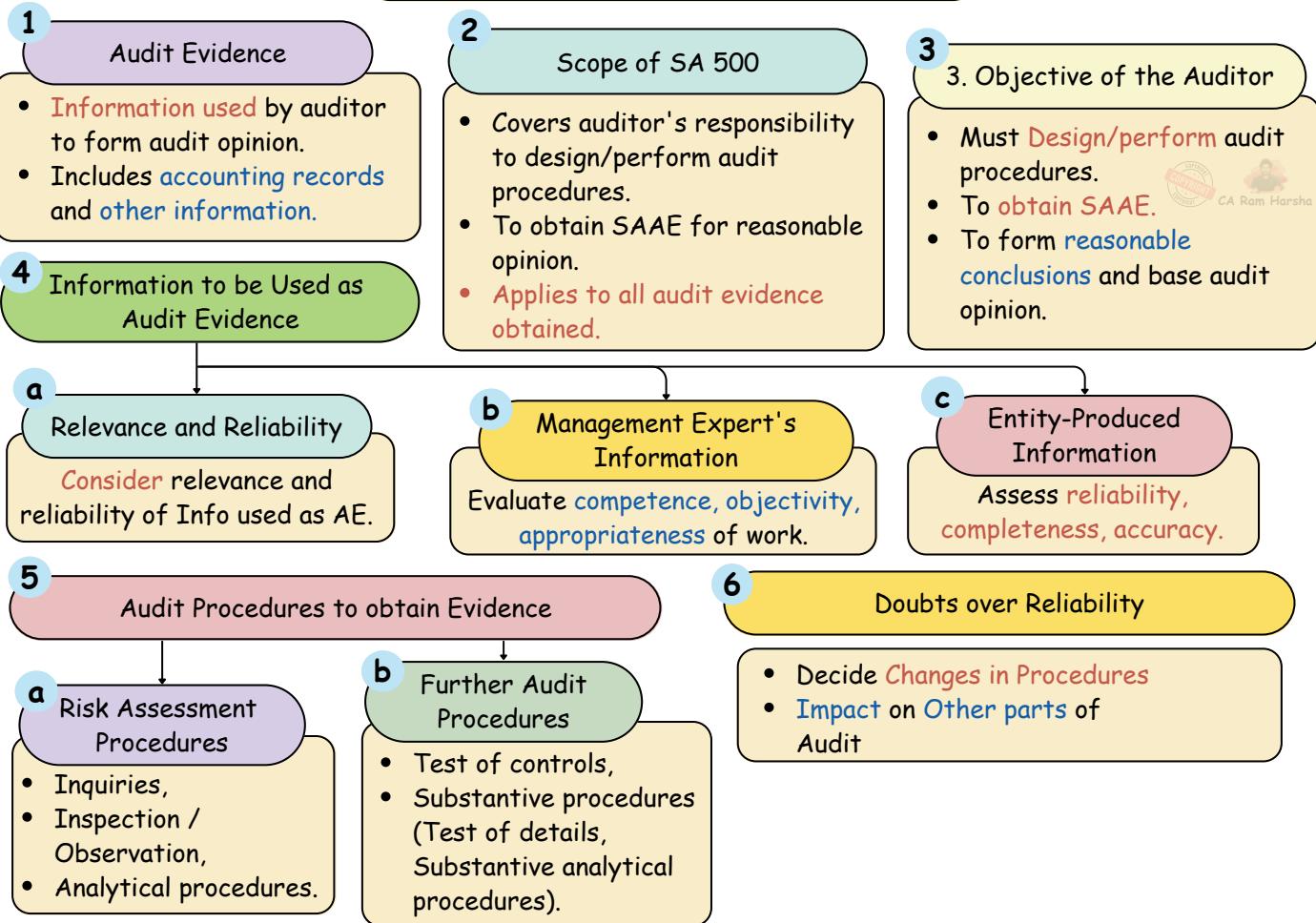
Acknowledges limitations (human error, management override, judgment, collusion). Provides reasonable assurance, not absolute.



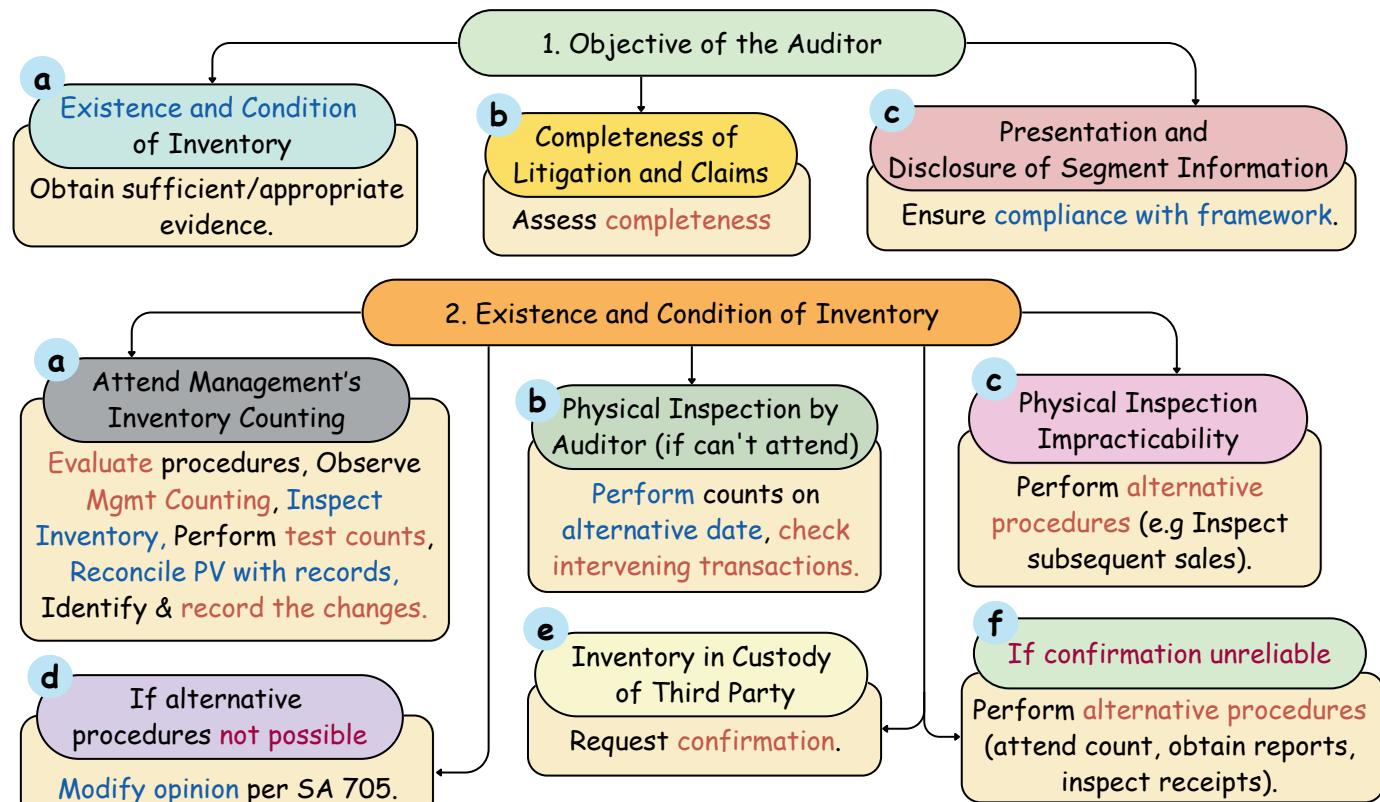
F. Sarbanes-Oxley Act

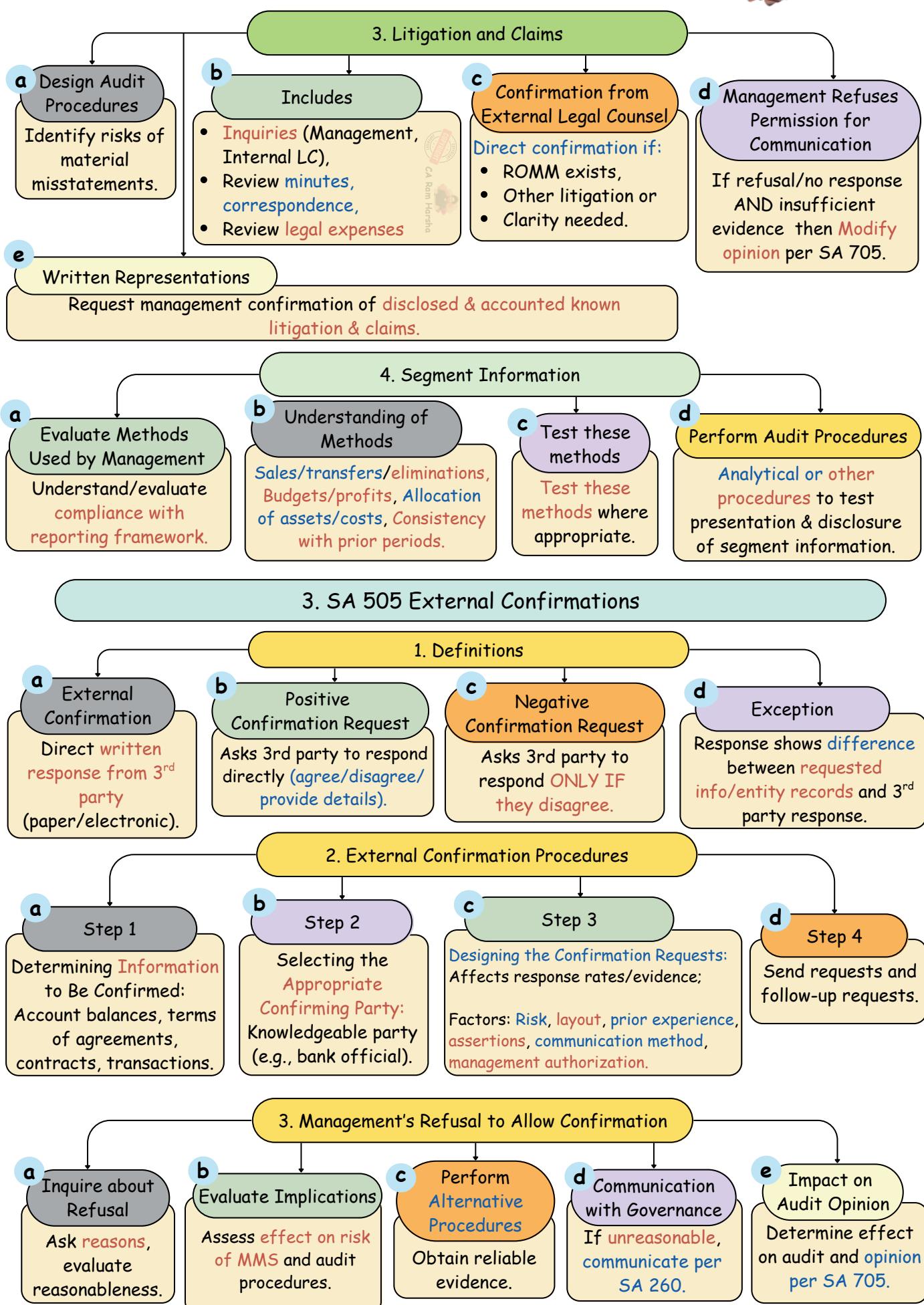


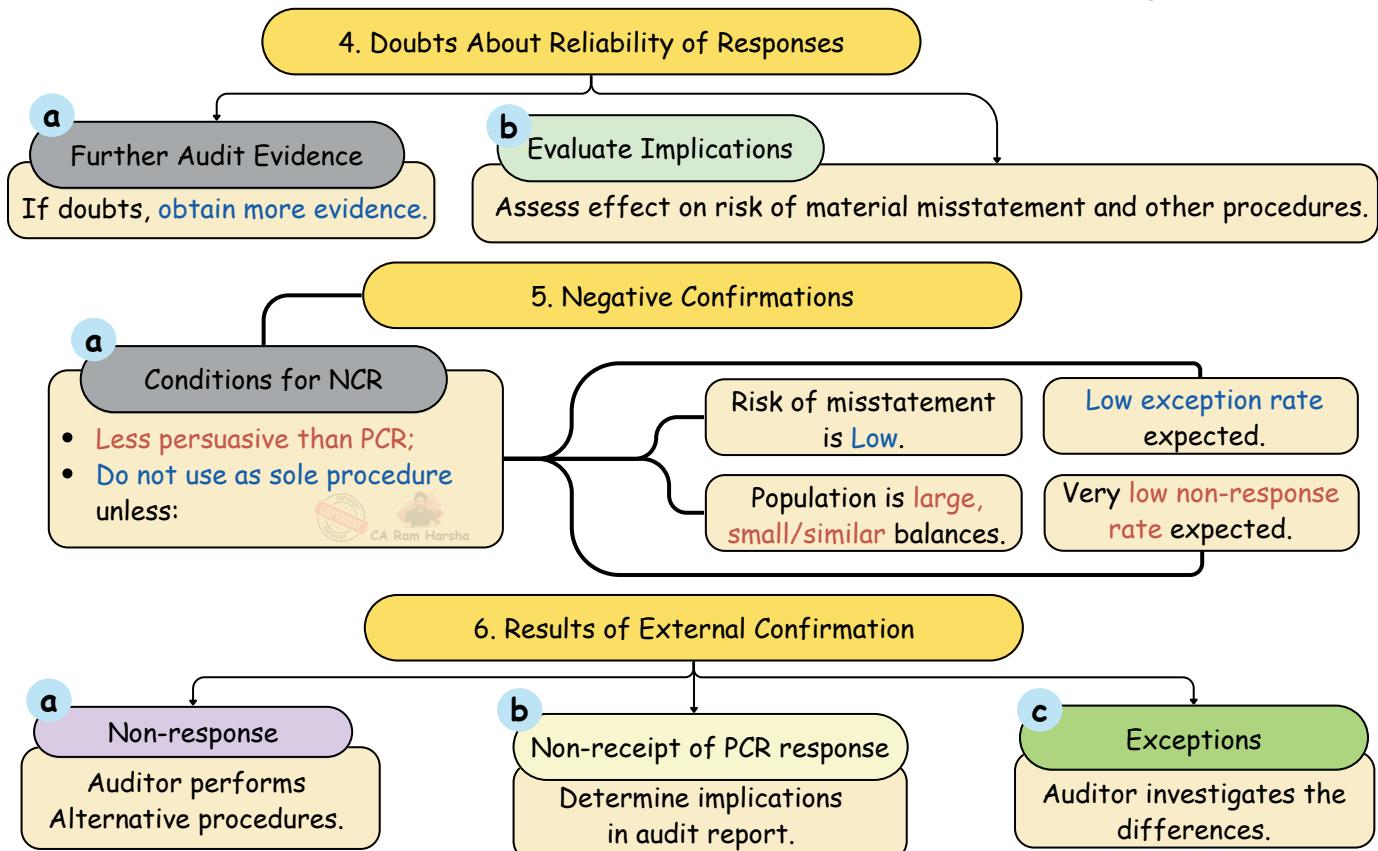
5. AUDIT EVIDENCE



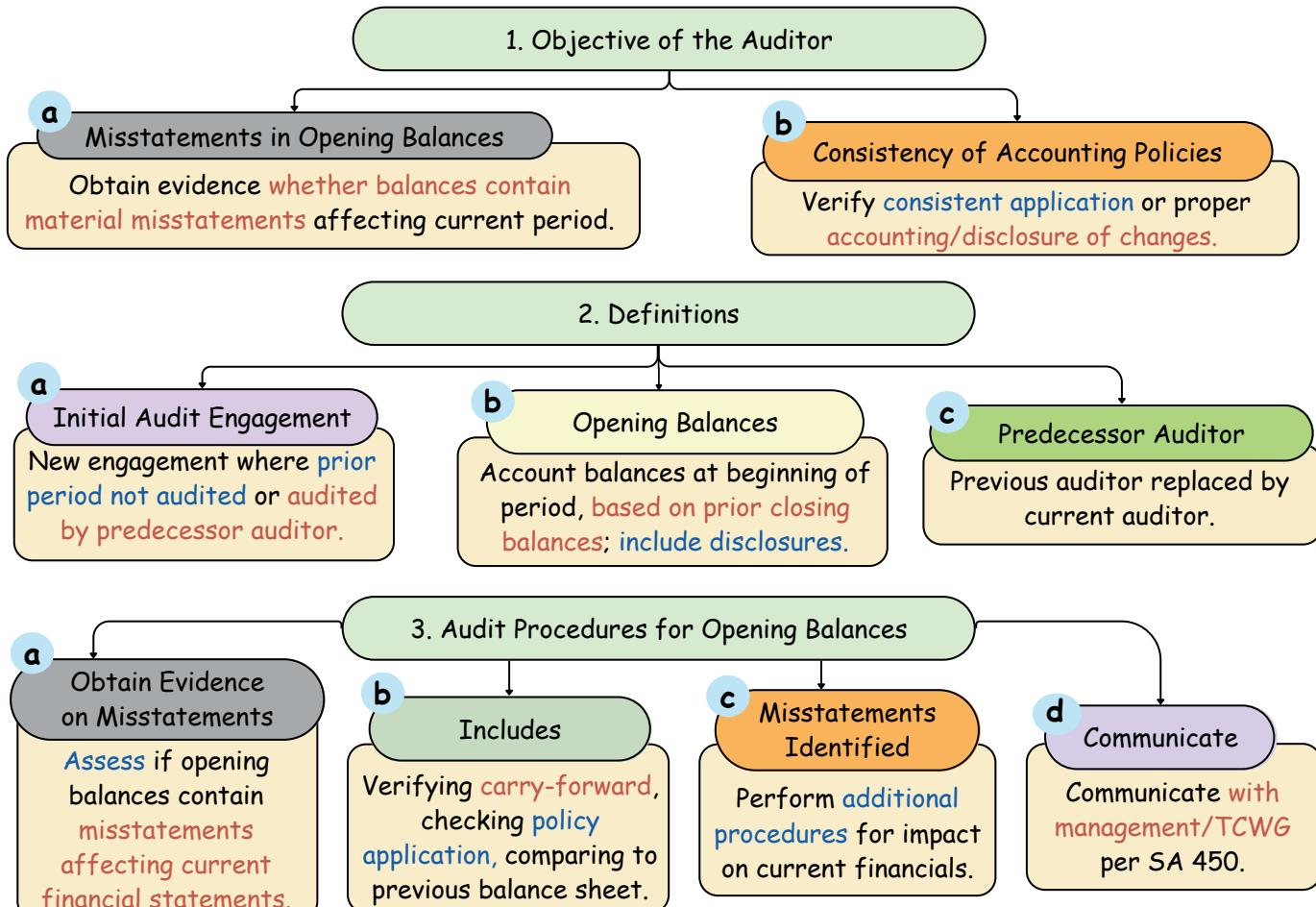
2. SA 501 Audit Evidence - Specific Considerations for Selected Items







4. SA 510 Initial Audit Engagements - Opening Balances



4. Consistency of Accounting Policies

a. Apply Policies Consistently

Verify policies applied consistently in current period.

b. Changes

Verify changes properly accounted for, presented, and disclosed.

5. Audit Conclusions and Reporting - Opening Balances

a. Misstatements in Opening Balances

If material and not properly accounted for/disclosed:
Issue **Qualified or Adverse opinion** per SA 705.

b. Insufficient Audit Evidence

If cannot obtain sufficient evidence: Issue **Qualified opinion or Disclaimer of opinion** per SA 705.

6. Audit Conclusions and Reporting - Consistency of Accounting Policies

a. Inconsistent Policies or Disclosures

If policies **inconsistent** or changes not properly accounted for/disclosed: **Issue QO or AO** as per SA 705.

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7. Modifications in Predecessor Auditor's Report

a. Relevant Modifications

If prior modification still relevant for current period: Current auditor must also modify opinion per SA 705.

5. SA 530 Audit Sampling

1. Scope of the SA & Objective of the auditor

a. Scope

Applies when auditor uses audit sampling. Deals with statistical/non-statistical sampling.

b. Objective

Provide **reasonable basis for conclusions about population** from sample.

2. Sample design, size and selection of items for testing

a. Design

Consider **purpose of procedure** and **population characteristics**.

b. Size

Determine sufficient size to reduce **sampling risk** to acceptably low level.

c. Selection

Each unit in population must have a chance of selection.

3. Performing Audit Procedures

a. Perform

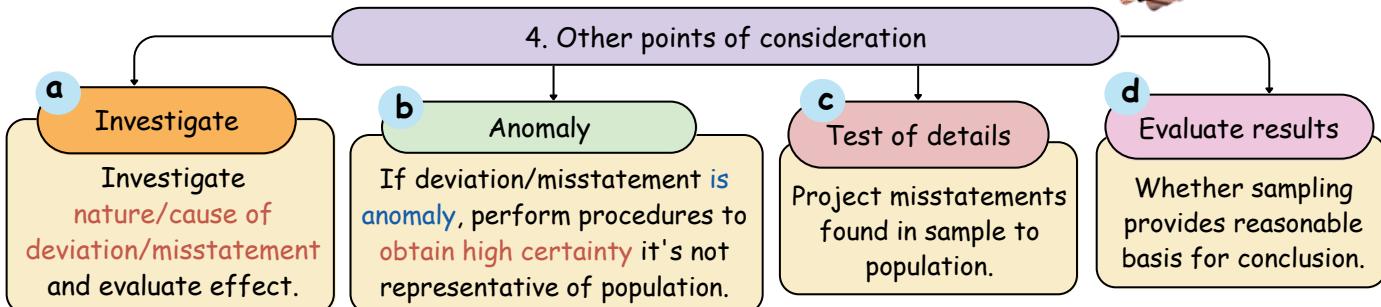
Perform appropriate audit procedure **on each selected item**.

b. Not applicable

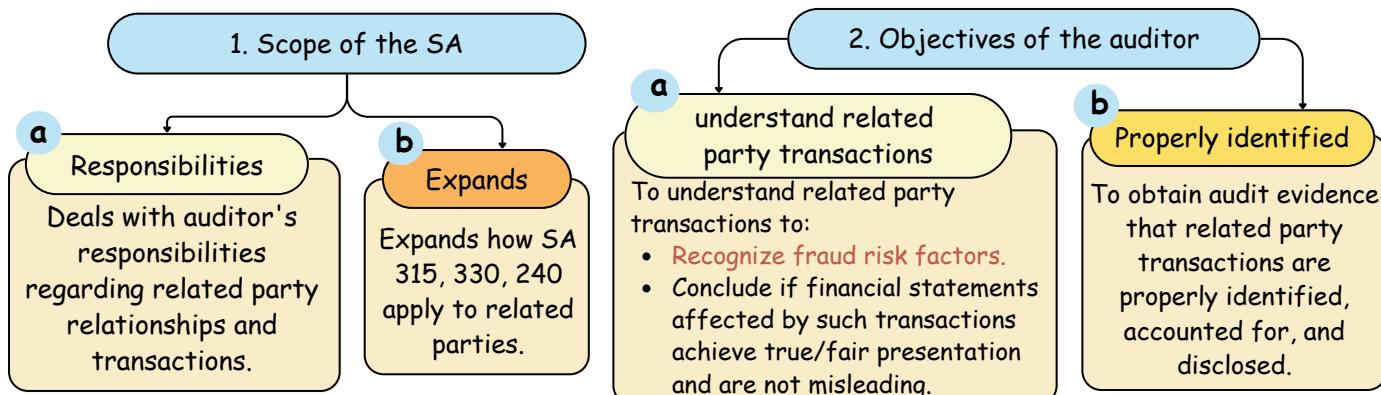
If not applicable, **apply to replacement item**.

c. Treat as deviation

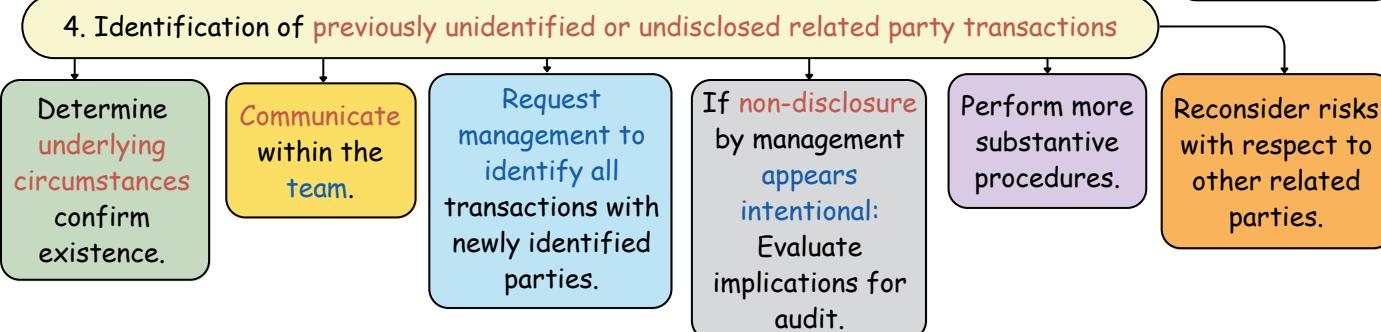
If **unable to apply**, treat as deviation (tests of controls) or **misstatement** (tests of details).



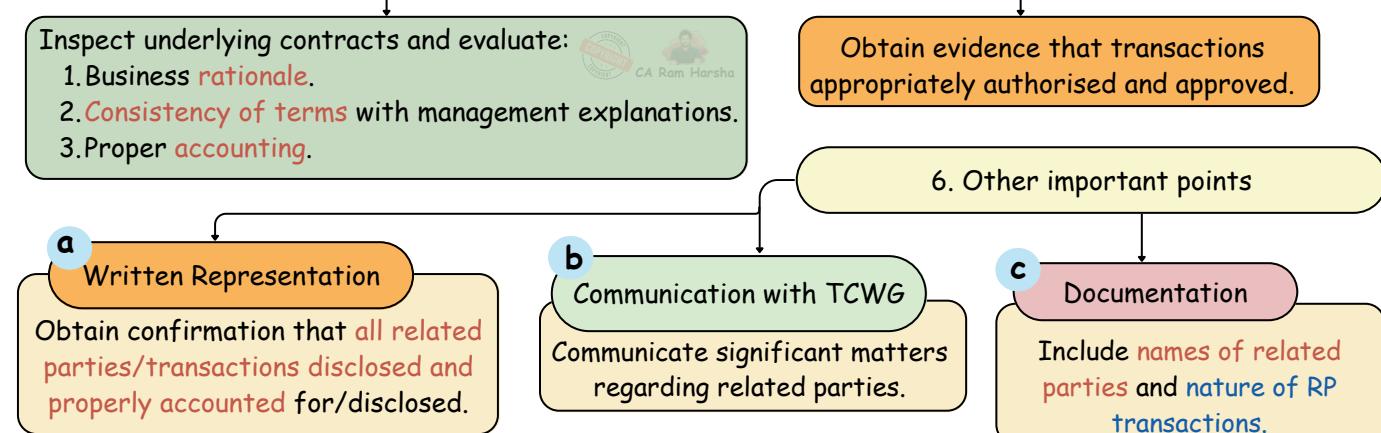
6. SA 550 Related Parties



3. Requirements of the SA



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



6. COMPLETION AND REVIEW

A. Objective

- Obtain evidence on events between financial statements date and auditor's report date
- Respond to facts known after auditor's report date that might require a change in the report.

B. Definitions

1 Subsequent Events

Events between FS date and auditor's report date, and facts known after auditor's report date.

2 Date of Financial Statements

End date of latest period.

3 Date of Approval

Date when FS prepared and responsibility asserted.

4 Date of Auditor's Report

Report issued date as per SA 700.

5 Date Financial Statements are Issued

Date when Report/statements available to 3rd parties.

C. Audit Procedure for Identifying Subsequent Events

- Ensure management has procedures in place to identify SE.
- Inquire management (new commitments, asset sales/acquisitions, asset destruction, contingencies, unusual adjustments, going concern issues).
- Read minutes of meetings after FS date.
- Review latest interim financial statements.



Case I: Facts Known After Auditor's Report but Before Financial Statements Are Issued

1 Obligation

No general obligation for procedures after report date.

2 If fact discovered that could affect report:

- Discuss with management/TCWG.
- Determine if FS need amendment.
- Inquire how management will address.

3 If Management Amends

Perform audit procedures on amendment, obtain SAAE.

4 If Management Does Not Amend:

a If report not issued

Modify opinion (SA 705), then issue the report.

b If report issued

Notify management not to issue FS to 3rd Parties

c If FS issued without amendment

Take action to prevent reliance on auditor's report.

Case II: Facts Known After Financial Statements Have Been Issued

1 Additional audit procedures

No additional audit procedures required after FS issued.

2 If fact discovered that could affect report:

- Discuss with management/TCWG.
- Determine if FS need amendment.
- Inquire how management will address.

3 If Management Amends

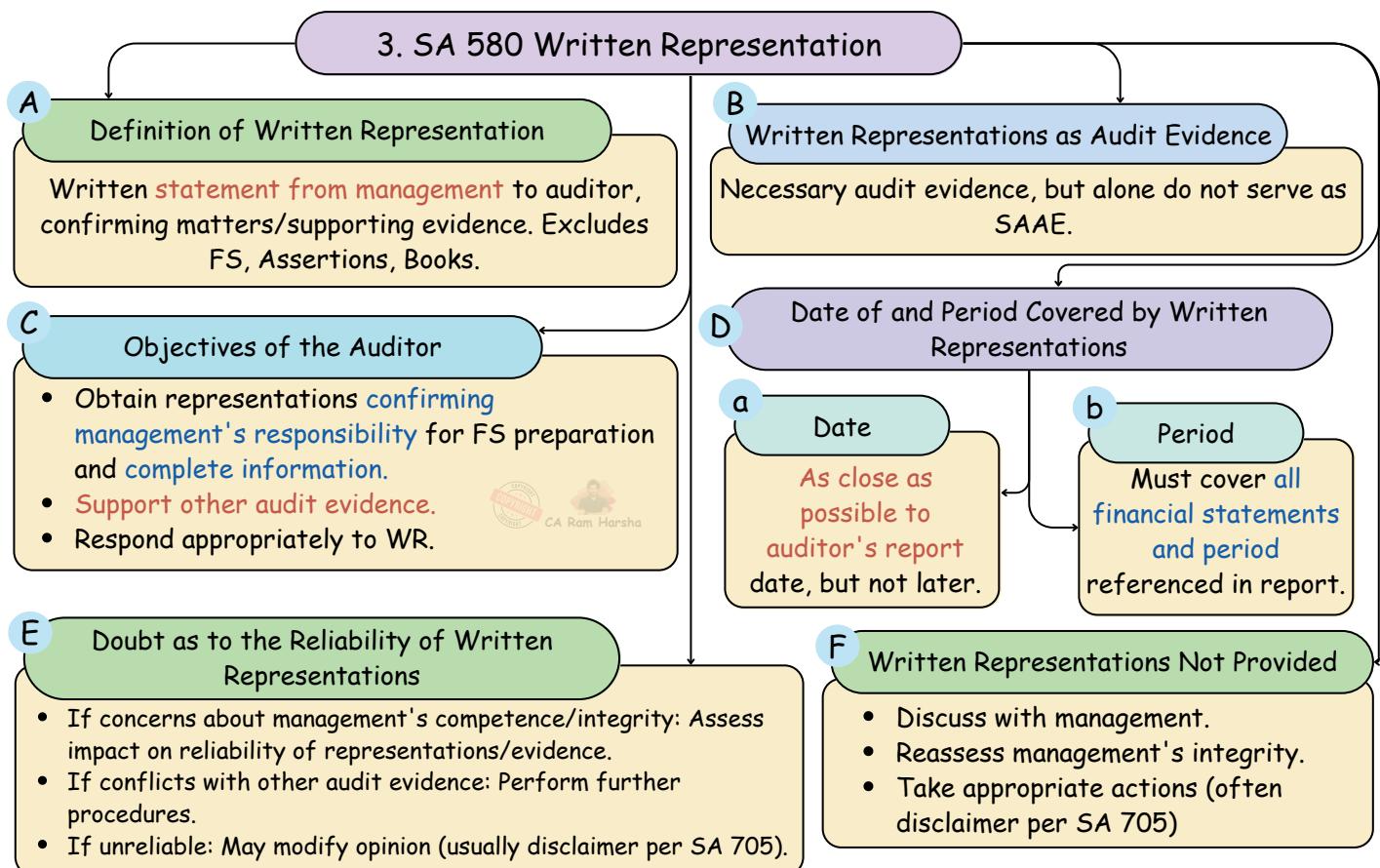
- Perform audit procedures on amendment,
- Review steps to inform previous recipients,
- Provide new report with (EOM) or (OM) paragraph.

4 If Management Does Not Take Necessary Steps

Auditor should act to prevent reliance on report & FS.

2. SA 570 Going Concern

Covered in Audit Reporting [Chapter 7]



7. AUDIT REPORT

1. SA 700 Forming an Opinion and Reporting on Financial Statements

A. Introduction

1 Scope of SA 700

- Auditor's responsibility to **form opinion on FS**.
- **Form and content** of auditor's report.

2 Need of SA 700

- **Global Consistency** and **comparability** in audit reporting.
- Promotes **credibility**.
- Helps **user understanding** & **highlights** unusual circumstances.

3 Objective of the Auditor

- **Form opinion on FS** based on audit evidence.
- Clearly **express opinion** in **written report**.

B. Forming of an Opinion

1 Auditor's Opinion

Opinion on **whether FS are prepared**, in all material respects, in line with AFRFW.



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2 Basis for Opinion

Reasonable assurance obtained that **FS are free MMS** due to fraud or error.

3 Factors to be Considered

- **SAAE** obtained.
- Whether uncorrected MMS are material.
- Evaluations performed.

C. Key Definitions of SA 700

1 General Purpose Financial Statements

Prepared as per a **GPFW**.

2 General Purpose Framework

A FRF designed for **common financial information needs** of wide range of users.

3 Types of Financial Reporting Frameworks

Fair presentation or **Compliance framework**.

4 Fair Presentation Framework

Requires **compliance** & **acknowledges** management may provide **additional disclosures** or **depart** from requirements to achieve **fair presentation**.

5 Compliance Framework

Requires **compliance** & **does not** acknowledge **additional disclosures** or **departure** from requirements.

D. Form of Opinions [Types]

1 Unmodified Opinion

Expressed when **FS are prepared**, as per **AFRFW**.

2 Modified Opinion [SA 705]

Issued if **FS are not free from MMS** OR **unable to obtain SAAE** to conclude they are free from MMS.

3 Wording of Unmodified Opinion

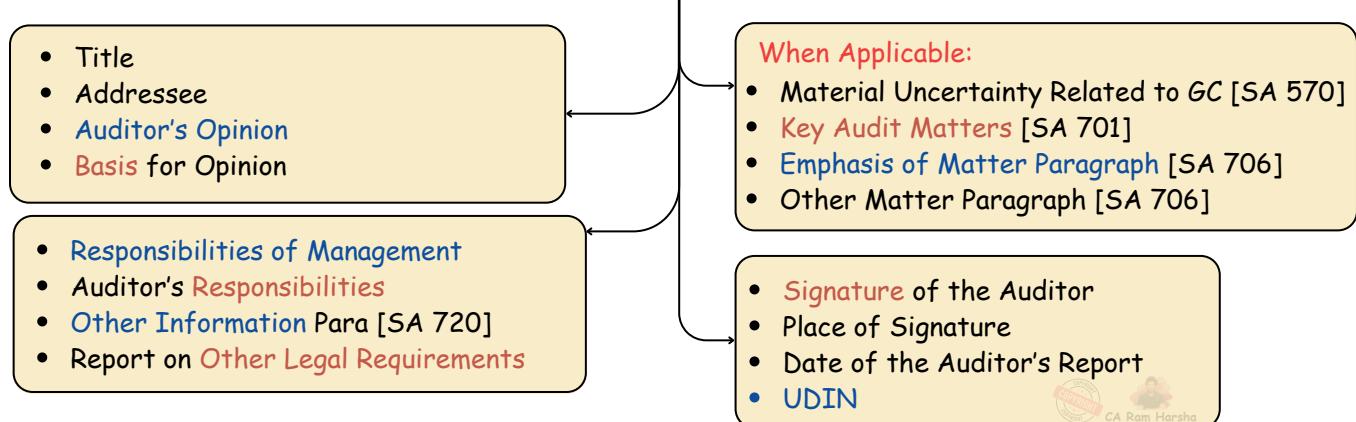
- Uses phrases like "**Present fairly**, in all material respects" or "**Give a true and fair view**".
- Both are **Equivalent**

4 Prohibited Wordings

Phrases like "**with the foregoing explanation**" or "**subject to**" must **not be used**.

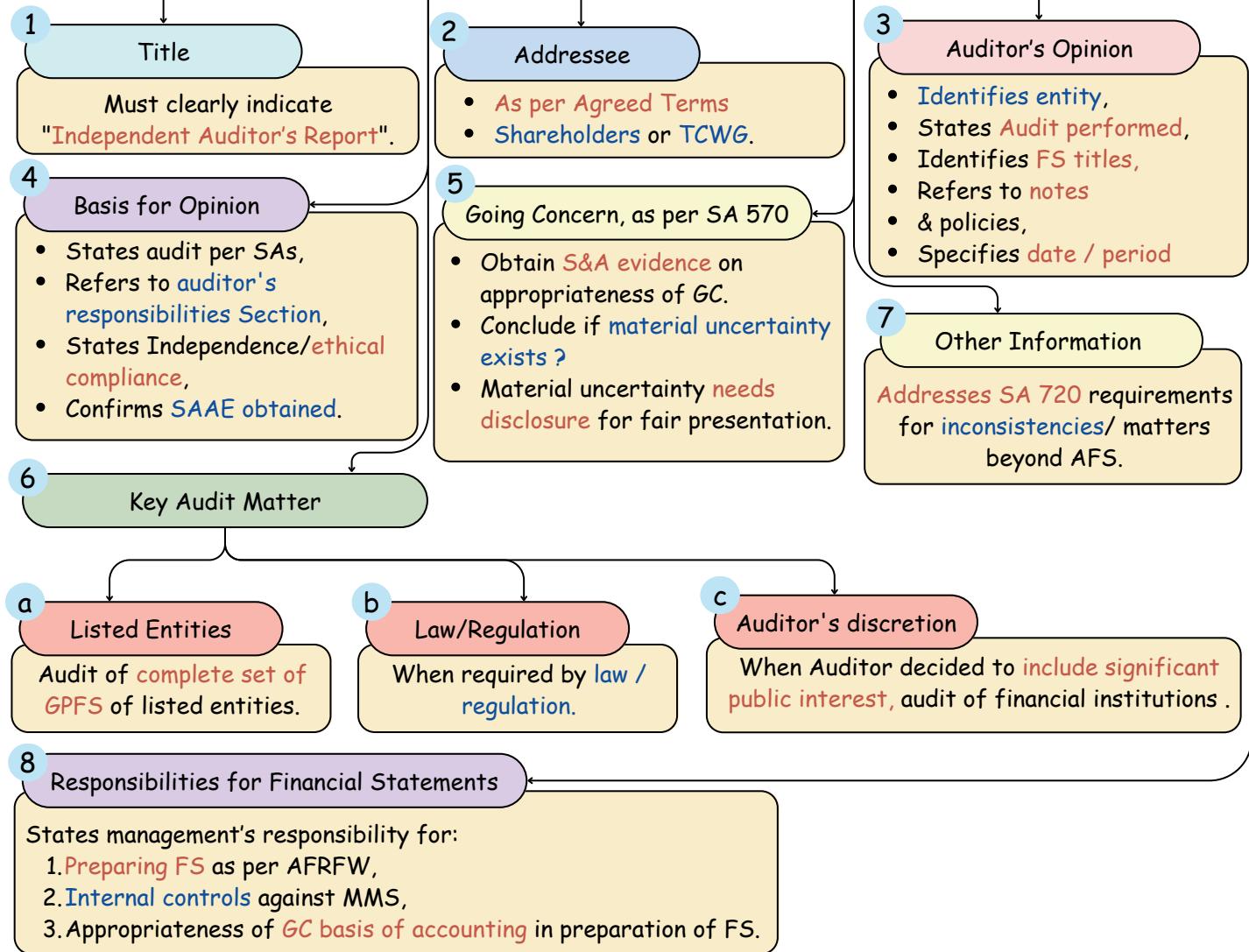
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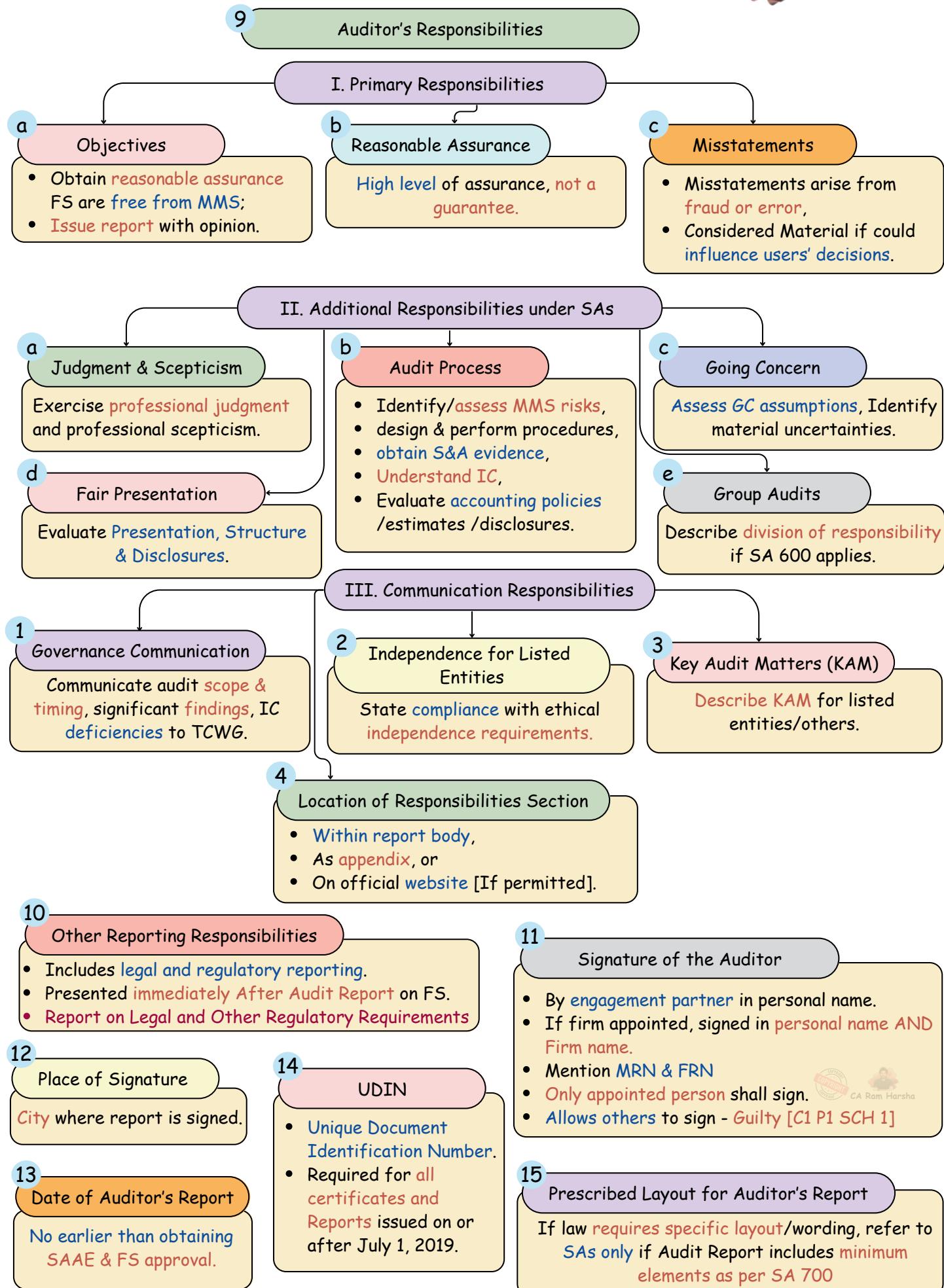
Contents / Elements of Auditor's Report for Audit Conducted as per SA's



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F. Detailed Explanation for Above Elements





AUDIT REPORT

G. Audit report if Audit is conducted both as per SAs and ISAs

a No contradiction.

Can refer to both standards only if NO contradiction.

b No Conflicts in Requirements

- If conflict could lead to different opinion/ omission,
- Dual reference not allowed.

c Minimum Reporting Elements

Must include all essential elements required by SAs.

d Clear Identification of Standards Referenced

Clearly identify each standard and jurisdiction.

H. Supplementary Information along with Financial Statements

a As Integral Part

Auditor's opinion should cover such information.

b Not Integral Part

- Verify information is clearly differentiated from audited financial statements.
- If not, request management to differentiate.
- If management refuses, auditor shall identify and explain information is unaudited.

2. SA 701 Communicating KAM in the Independent Auditor's Report

A. Scope

1 Key Audit Matters (KAM)

Auditor's responsibility to communicate KAM.

2 Auditor Judgments and Communication

Addresses judgments, form & content of communication.

B. Applicability

a Listed Entities

KAM must be communicated.



b Law or Regulation

If required or if auditor chooses to communicate, must comply with SA 701.

c Public Interest

May communicate for other entities of significant public interest.

d Prohibition on KAM

If auditor Disclaims opinion on FS.

C. Definition of Key Audit Matter

1

Understanding KAM

KAM are those matters that, in the auditor's professional judgement, were of **most significance in the audit of the FS** of the current period.

2

Matters Communicated with Governance

Selected from **matters communicated** with TCWG.

D. Purpose of Communicating Key Audit Matters (KAM)

a

Enhanced Value and Transparency

Enhances **communicative value** and transparency of auditor's report.

b

Judgment Understanding

Offers **additional information** to help users understand entity & significant mgmt judgment.

c

NOT a substitute for

- Framework disclosures,
- Modified opinion (SA 705),
- Separate opinion on individual matters, or reporting on going concern (SA 570).

E. Determining Key Audit Matters

a

Derived from Significant TCWG Communications

Derived from **matters communicated** with TCWG that required **significant auditor attention**.

b

Auditor Considerations include

- Areas of **higher risk** / significant risks (SA 315),
- Areas of significant mgmt judgments,
- Impact of **significant events** / transactions.

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c

Examples

Impairment assessment, provisions for losses & contingencies, Financial Instrument valuation, revenue recognition & taxation matters.

F. Manner of Communicating Key Audit Matters

a

Structured Reporting

Under **appropriate subheading** in a separate section.

b

Introductory section explains

KAM are most **significant in audit**, addressed in context of audit as a whole, **no separate opinion** on these matters.

c

If, NO Key Audit Matters

If no KAM, report must state "**No KAM to communicate**".

3. SA 705 Modifications to the Opinion in the Independent Auditors Report

A. Scope of SA 705

1

Auditor's Duty for Modified Reports

Auditor's responsibility to **issue appropriate report** when modification is necessary.

2

Form and content

Deals with form and content of **modified opinion report**.

B. Circumstances for Modification

1 FS Not Free From MMS

FS are not free from MMS.

2 Inability to Obtain

Unable to obtain SAAE to conclude FS are free from MMS.

C. Objective of the Auditor

1

To clearly express an MO

- 1 Concludes → FS are not free from MMS
- 2 Unable to obtain SAAE

D. Types of Modified Opinions

1 Qualified Opinion

- Misstatements are **Material But Not pervasive**. [On SAAE]
- **Unable to obtain SAAE**, possible effects are **material But Not pervasive**. [NO SAAE]

2 Adverse Opinion

Misstatements are **Material AND Pervasive**.
[On SAAE]



3 Disclaimer of Opinion

- Unable to obtain SAAE and possible effects are **Material & Pervasive**. [NO SAAE]
- Issued in rare cases involving **multiple uncertainties** preventing opinion.

E. Definition of Pervasive

1 Describes impact of MS or Undetected MSs that

- Are **not confined to specific elements** or
- If confined, represent a **substantial proportion of FS** or
- In relation to disclosures - **fundamental to users' understanding**.

2 Not localised

Not localised to one or two elements but impacts various elements. [Generally]

F. Determining the Type of Opinion

1 Nature of Matter

- Whether FS are **Materially misstated**
- **Inability** to obtain SAAE evidence

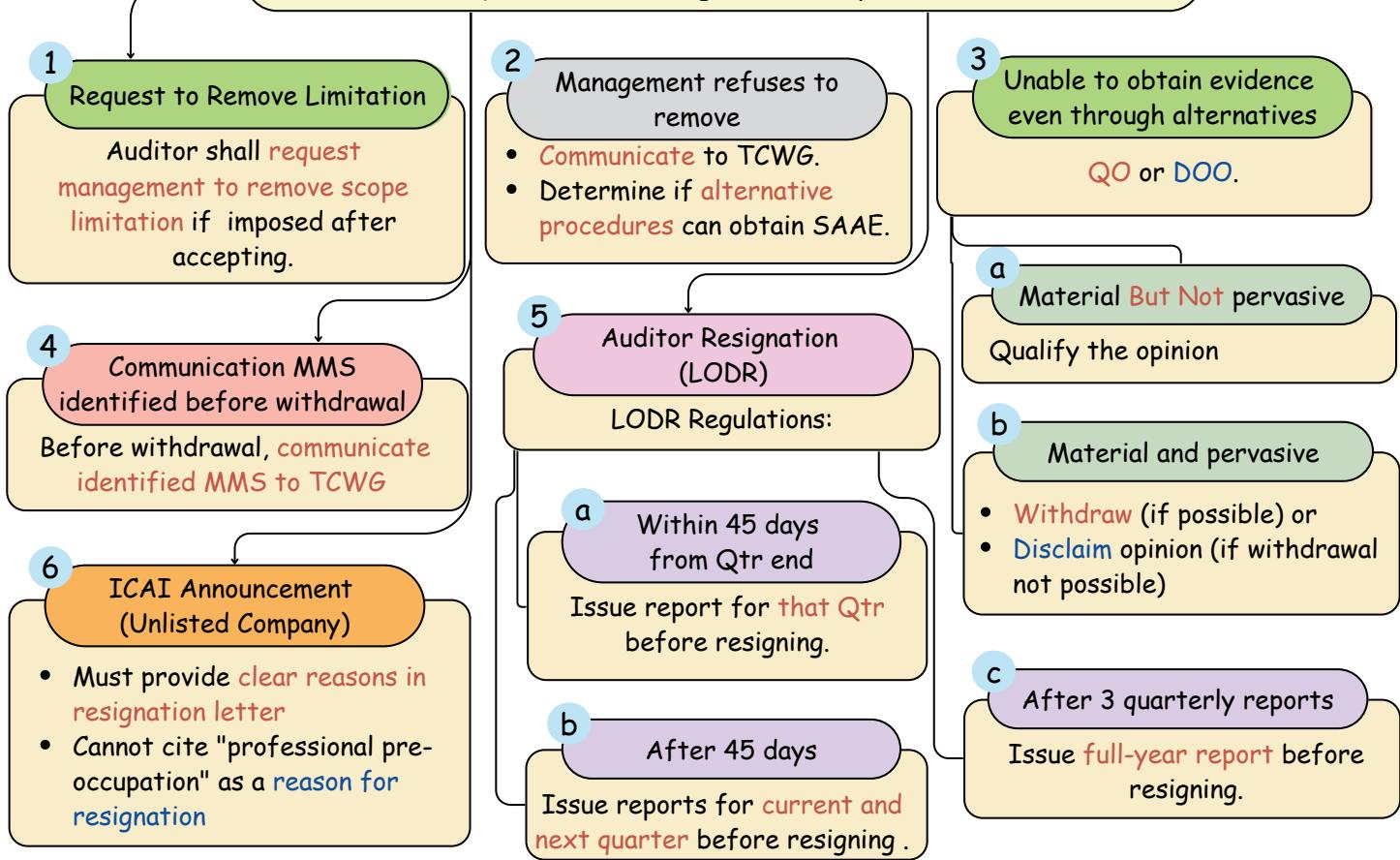
2 Pervasiveness

Pervasiveness of **effects or Possible effects**

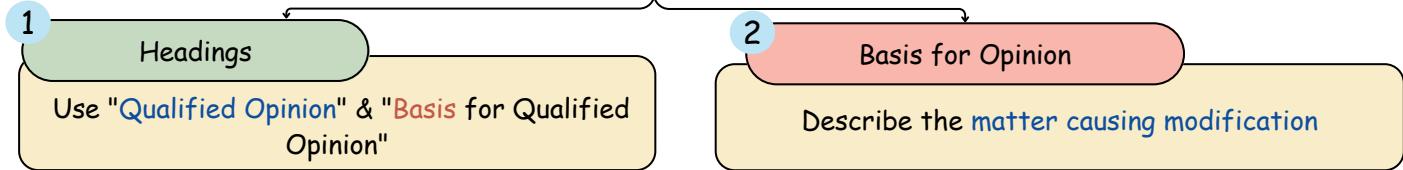
Summary of Opinions

Situation	SL No.	MMS exist?	Pervasive?	Opinion
Sufficient and appropriate audit evidence Obtained	1.	No	NA	UQO
	2.	Yes	No	QO
	3.	Yes	Yes	AO
Sufficient and appropriate evidence NOT Obtained	SL No.	Material item?	Possible effect is Pervasive?	Opinion
	1.	Yes	No	QO
	2.	Yes	Yes	DOO

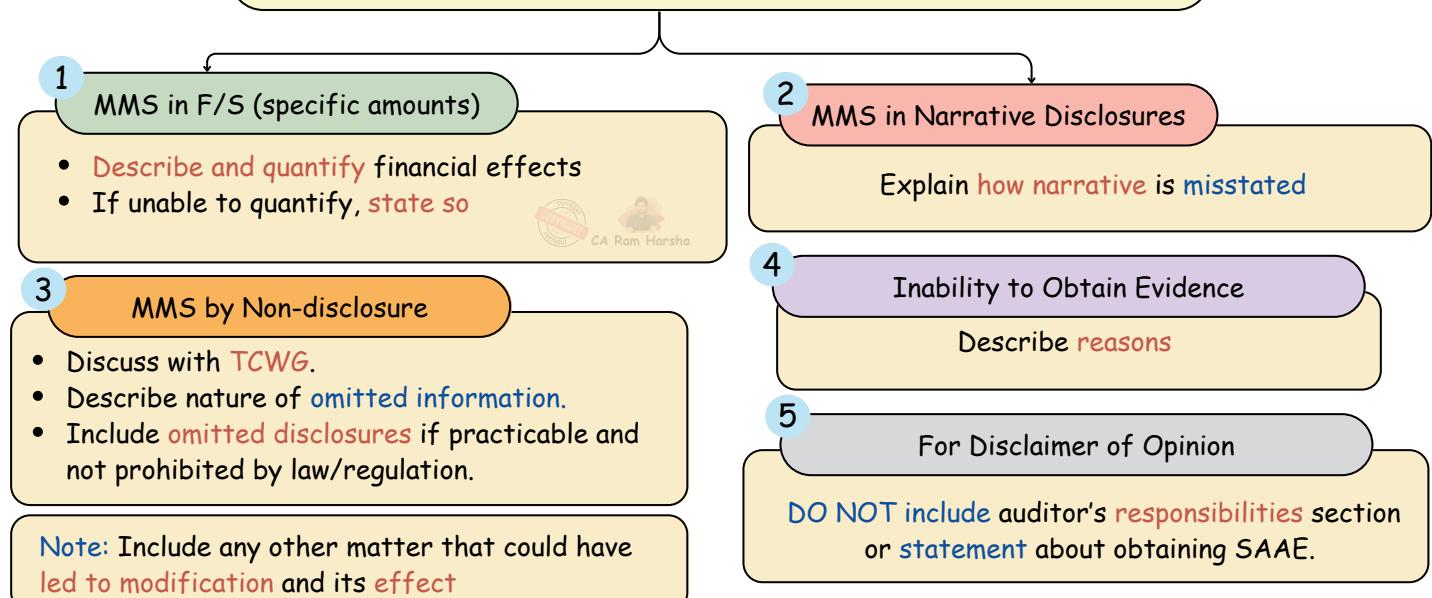
G. Consequence of Management-Imposed Limitation



H. Reference in Audit Report for Modified Opinion



I. Basis for Opinion in Modified Opinion



J. Auditor's Responsibilities in Disclaimer Opinion
1 Amend responsibilities to include

- Statement of **responsibility to conduct** audit as per **SAs** and issue report.
- Statement that **SAAE could not be obtained** due to matters described in **Basis for Disclaimer**.
- Statement on **independence** and other **ethical responsibilities**.

2
NOT be included

KAM section shall **NOT be included** unless required by law/regulation.

K. Other Considerations related to Adverse or Disclaimer Opinions
1 No UMO in Same Report

No Unmodified Opinion Allowed on single financial statement or specific elements **in the same report**.
(**Exception:** SA 805 specific element opinion).

2
Communication with TCWG (Modified Opinion)

If a modified opinion is **expected**, **communicate circumstances and wording of modification** to TCWG

4. SA 706 Emphasis of Matter Paragraph & Other Matter Paragraph
A. Definitions
1 EOMP

Paragraph referring to a **matter appropriately presented** & disclosed in FS, fundamental to users' understanding.

2 OMP

Paragraph referring to a **matter NOT presented** or disclosed in FS, but relevant to users' understanding of **audit, auditor's responsibilities or audit report**.

B. Usage of EOMP & OMP
1 Can be included if

Auditor **not required to modify opinion** and matter is not a KAM.

2
Examples

Uncertainty about **litigation**, Major catastrophe, **Significant subsequent events**, Early application of **new AS**.

3 Manner of Presentation

Separate section "Emphasis of Matter"; clearly express matter, reference disclosure; **state opinion is not modified**.

4
EOMP is NOT a substitute for

- Modified Opinion**,
- Required FS disclosures** or
- Going concern reporting**

5 Other Matter Paragraphs

- Include if:** Not prohibited by Law & matter is not a KAM (SA 701)
- Separate section "Other Matter"**

6
Communication with Governance

If **EOMP or OMP is expected**, communicate with TCWG including wording

5. SA 710 Comparative Information - Corresponding Figures & Comparative FS

A. Scope

1 Key Responsibility

- Addresses auditor's **responsibilities for comparative information**.
- **SA 510** applies if **prior period FS** were audited by **predecessor auditor** or not audited.



B. Nature of Comparative Information

1 Two approaches

Corresponding figures &
Comparative FS

2 Corresponding Figures

Opinion refers to **current period**
only

3 Comparative F/S

Opinion refers to **EACH period**
presented

C. Objectives

1 Obtain S&A

Obtain **SAAE** that comparative info
presented as per **AFRFW**

2 Report

Report in line with **reporting**
responsibilities

D. Meaning of Comparative Information

Amounts and disclosures of one or more prior periods included in the FS as per the FRFW

E. Audit Procedures for Comparative Information

1 Inclusion and classification

Verify inclusion and classification of comparative
information.

2 Prior Period

Ensure comparative info **agrees to prior period**
amounts/disclosures

3 Accounting Policies or changes

Verify **consistency of accounting policies** or
changes properly accounted & disclosed.

4

Comparative info identified

If **MMS** in comparative info identified, **perform**
additional procedures for **current period impact** of
MMS.

5 Written representations

- Obtain **all periods referred** to in opinion.
- Obtain **Specific Representation for PPI***

*Prior Period Items

F. Audit Reporting (Corresponding Figures)

Opinion generally NOT refer to corresponding figures, EXCEPT for:

1. Unresolved Prior Period Modifications

a Material in Current Period

Refer to both current and corresponding figures in Basis for Modification.

b Not Material in Current Period

Explain current opinion modified due to unresolved matter's effects on comparability of current & prior period figures.

2 Material Misstatement in Prior Period

If not corrected, express qualified /adverse opinion on current period F/S.

3 Prior Period Not Audited

- State "corresponding figures are unaudited" in OMP.
- This statement doesn't reduce responsibility to obtain SAAE as per SA 510

4 Prior Period Audited by Predecessor

Include OMP stating audited by predecessor, mention opinion type, reasons for modification and report date.

Definition of Corresponding Figures

- Prior period amounts shown as comparative info in current FS.
- Meant to be read with current period figures.
- Detail level depends on relevance to current period.

G. Audit Reporting (Comparative Financial Statements)

1 Auditor's opinion

Auditor's opinion MUST refer to EACH period presented.

2 Difference of Opinion with prior report

Disclose substantive reasons in OMP.

3 Prior Period Audited by Predecessor

Include OMP stating audited by predecessor, opinion type, reasons for modification and report date.

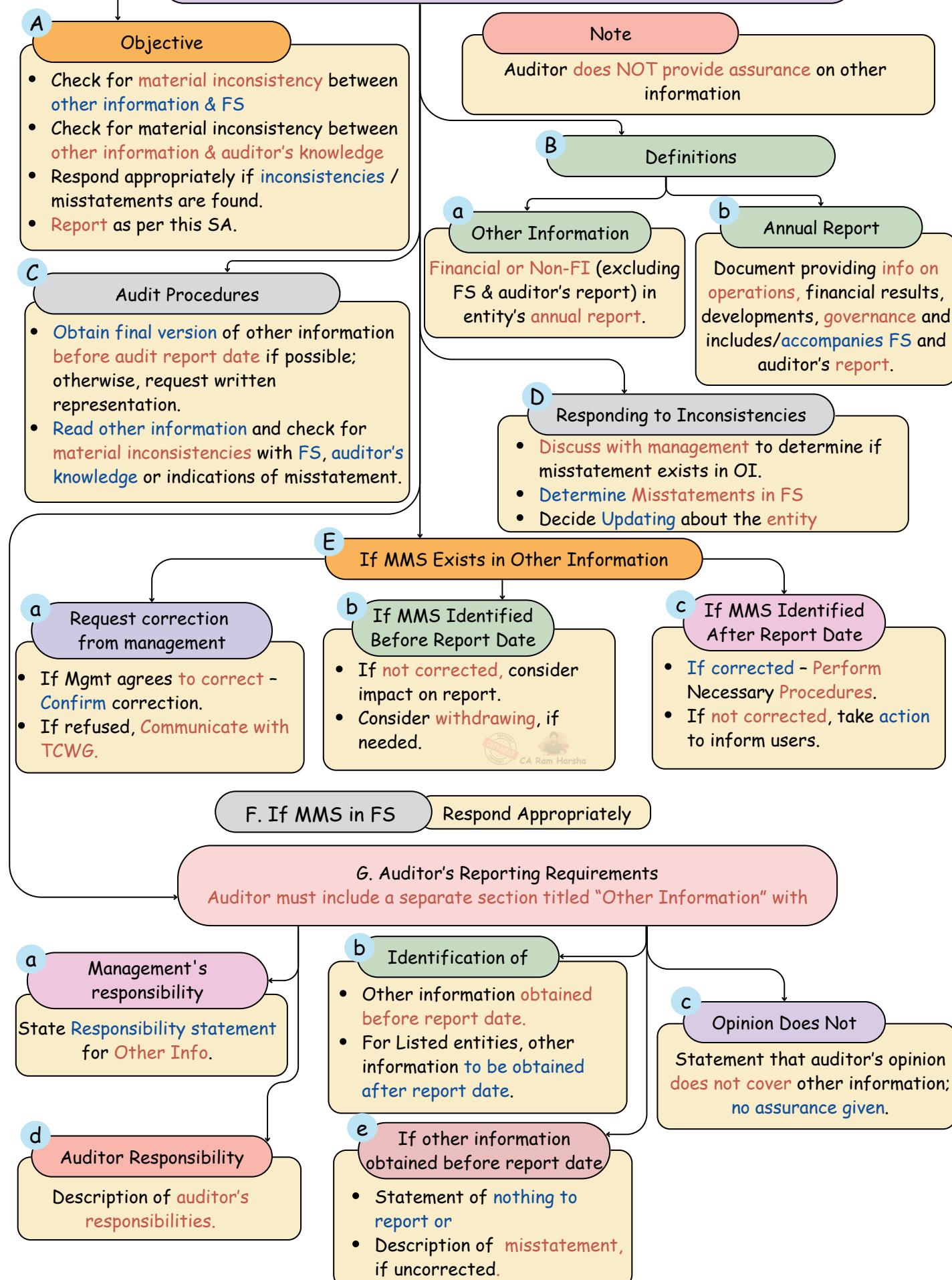
4 Prior Period Not Audited

- Include OMP stating "comparative financial statements are unaudited".
- This statement doesn't reduce responsibility to obtain SAAE as per SA 510

Definition of Comparative Financial Statements

- Prior period amounts shown as comparative info with current FS.
- If audited, referred in auditor's opinion.
- Same detail level as current period FS.

6. SA 720 Auditors Responsibility related to Other Information



H. Reporting under Law or Regulation

- 1 If law/regulation requires reference to other information with specific layout/wording, Report shall mention SA only if it includes:

- Identification of other information obtained before audit report date.
- Description of auditor's responsibilities regarding this information.
- Explicit statement on outcome of auditor's work related to this information.



MMS in Other Information

UMO and Report in Other Info para about such MMS in Other Info.

MMS in Financial Statements

Modified Opinion and Reasons in Basis for M.O para of the report.

7. SA 299 Joint Audit of Financial Statements

A What is Joint Audit

Appointing two or more auditors for auditing FS.

Note: u/s 139(3) - Members May resolve for Joint Audit

3

Determining NTE of Audit Procedures

i Each Joint Auditor

- Determines nature, timing, extent of audit procedures for assigned areas.
- Individually assess ICS and risk related to their work.
- Execute procedures correctly even for common audit areas.

ii For Common Areas

- Collective decisions on Audit Procedures
- Execution Remains - Individuals Responsibility Only

B Responsibilities

1

Individual/Separate

- Each auditor responsible only for allocated work
- Allocation based on:
 - Items of Assets /Liabilities,
 - Income/Expenditure,
 - Geographical Areas,
 - Identified units & Period of FS.

2

Joint/Indivisible

- Audit work not divided and performed collectively.
- Collective decisions on common areas.
- Matters brought to all attention and agreed upon
- Ensuring FS comply with statutory requirements
- Verifying presentation and disclosure as per AFRFW.
- Ensuring audit report complies with standards & statutes.

C Audit Reporting

1 Common Report

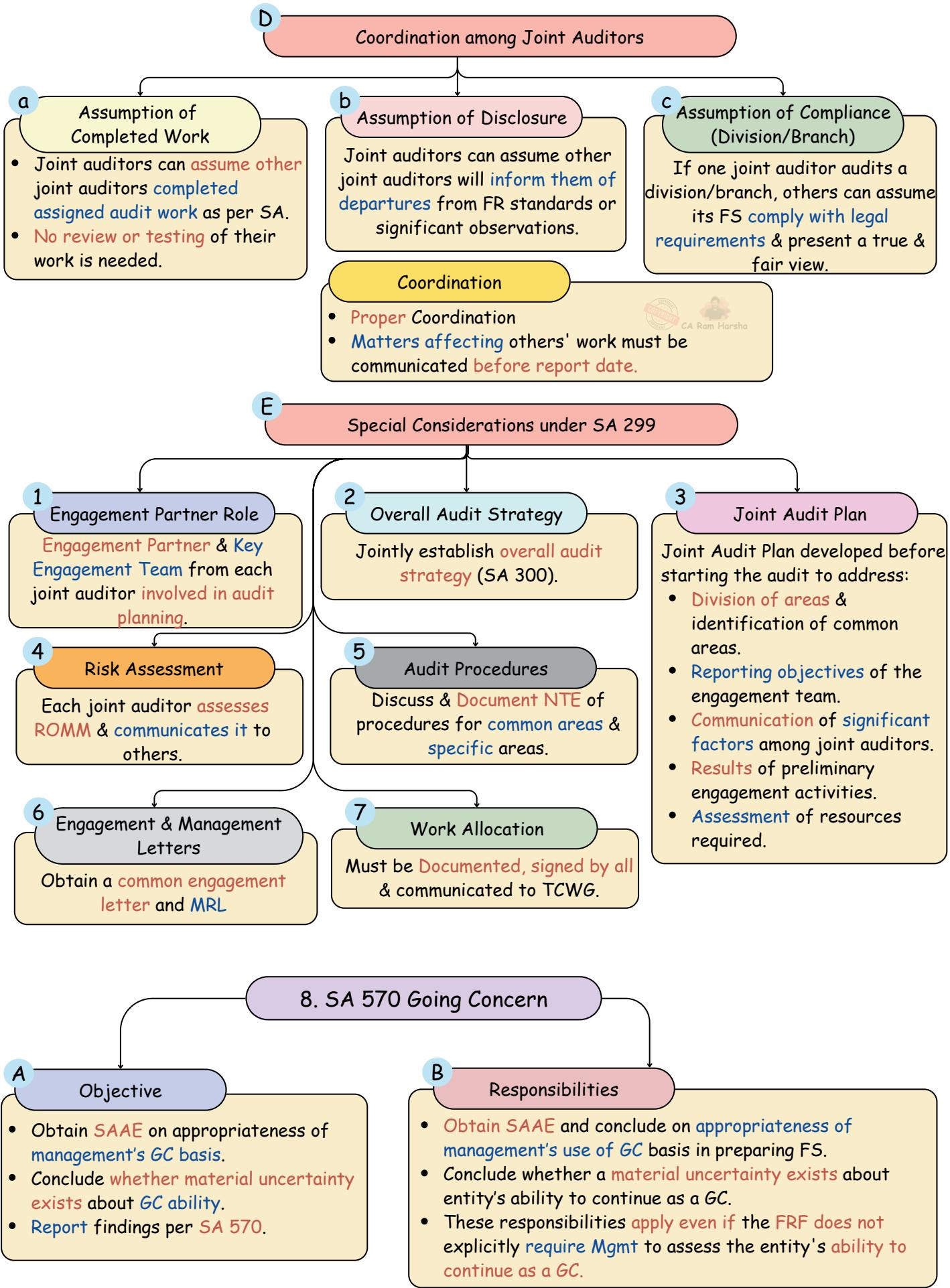
Single audit report with common conclusions & opinion.

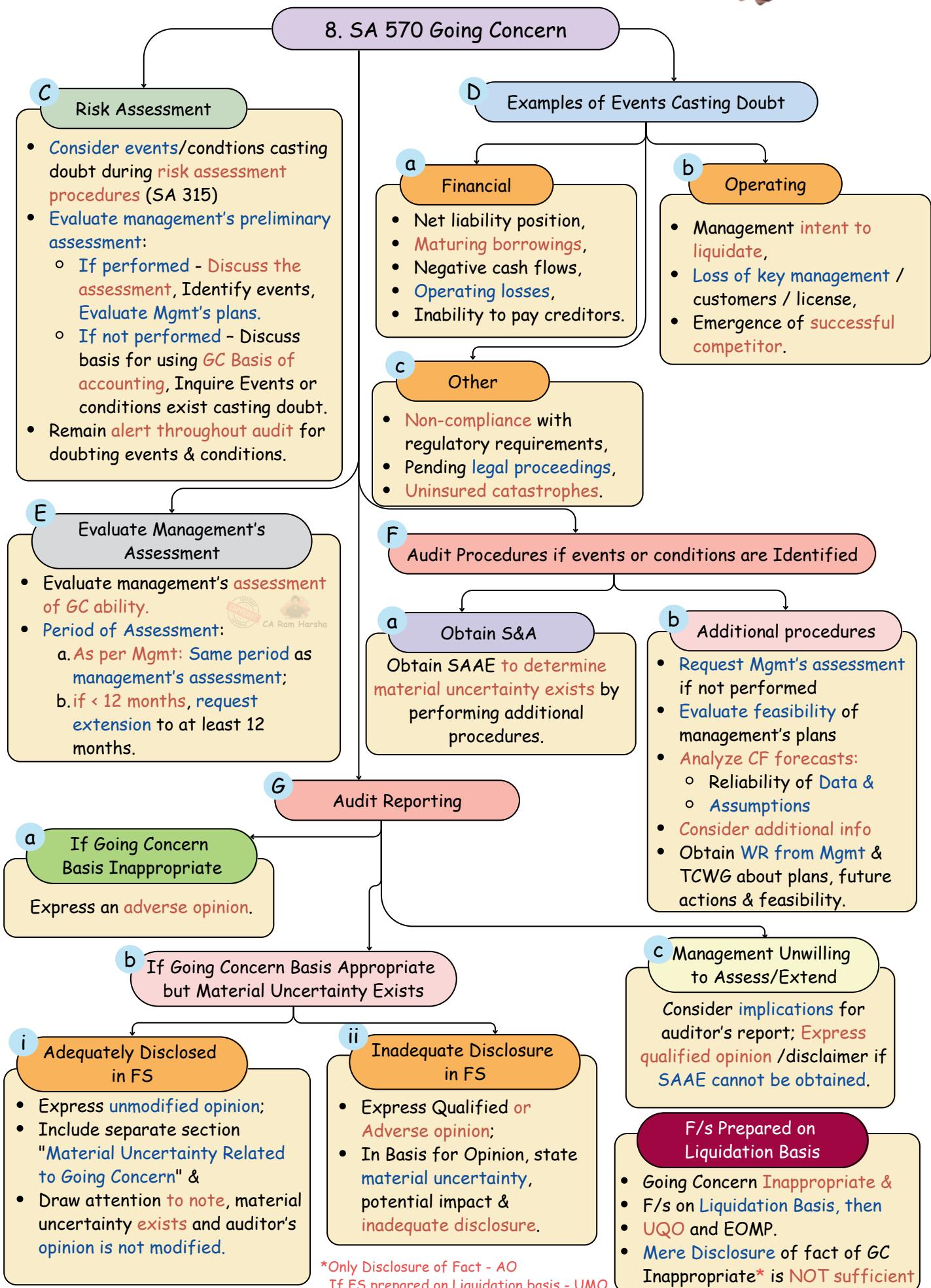
2 Disagreement

Joint auditor NOT bound by majority's opinion; disagreeing auditor can issue separate report, which should refer to the other Joint Auditor's report. [OMP]

3 Communication to TCWG

Inform TCWG reasons & proposed wording if modifying opinion or including EOMP/OMP.





12. Reporting Requirements Under the Companies Act, 2013

Report on other Legal & Regulatory Requirements

1

Section 143(1) - Matters to Inquire

- Loans/advances being **secured** & Terms are **not prejudicial**,
- Book Entries Prejudicial ?
- Shares are **sold below purchase price**, [NA to Banks and Investment Co's]
- **Personal expenses** are **charged to revenue a/c**,
- Loans & Advances shown as Deposits?
- Shares **allotted for cash**
 - a. Has been **received**?
 - b. Its position in **BOA** is correct.

Note: Positive responses can be ignored. **Adverse comments** must be stated with reasons.

2

Section 143(2) - Accounts Examined

- Report to **members** on **accounts examined** & FS
- Report **whether FS** provide a **true and fair view** of state of affairs, profit/loss, cash flows.

3

Section 143(3) - Checklist / Affirmations

Report on

- **Information & explanations** obtained.
- Proper books, branch returns.
- **Branch audit report** consideration.
- **FS agreement** with books/returns.
- **FS compliance** with accounting standards.

- **Adverse observations**/comments.
- Director disqualification.
- Qualifications, reservations, or adverse remarks.
- Adequacy and operating effectiveness of IFCs (Not Apply to OPC, Small Companies, Private Companies whose T/O < Rs. 50 Cr & Borrowings < Rs.25cr at any point of time) [As per Latest FS]

Rule 11 Matters:

1. Pending litigations,
2. Provisions for **long-term derivative losses**,
3. IEPF **transfer delays**,

d

Obtain Management's representation that
[Other than those disclosed in F/S]

i Client is Funding Party ii Client is Intermediary

Funding Party has **NOT advanced / loaned / invested** in any foreign entity (Intermediary) that such Intermediary shall:

- **Lend/advance/invest directly** or indirectly in another entity (Ultimate beneficiary).
- **Provide guarantee/security** on behalf of Ultimate beneficiary.

Intermediary has **NOT received funds** from any entity (Funding Party) that the Intermediary shall:

- **Lend/advance/invest directly** or indirectly in another entity.
- **Provide guarantee/security** on behalf of Ultimate beneficiary.

iii

Limited Assurance on Representation

Conclude, based on **SAAE**, that **nothing has come** to the auditor's attention indicating the **above two representations** contain any MMS.

e & f

Dividend and Audit Trail

- Dividend compliance u/s 123,
- **Accounting software** with (**Audit trail features**, not tampered, preserved 8 years).

Reporting Requirement u/s 143(3):

- Report Both positive or Negative.
- For **Negative Responses/qualifications**, **state reasons**.

Report on other Legal & Regulatory Requirements

4 Section 197(16) - Director Remuneration

Report whether remuneration is as per provisions of section; **if excess**, give details (public companies only).

5 Section 143(11) - Other Matters

CG along with NFRA may require **additional statements** (eg CARO, 2020).

Section 143(12) - Reporting on Frauds

i Frauds ≥ Rs. 1 crore

Report to **CG** (Rule 13, Form **ADT-4**)

ii Frauds < Rs. 1 crore

- Report to **Audit Committee or Board** (**nature, amount, parties**).
- Board report includes same + **remedial actions taken**.

iii Manner of Reporting to CG (≥ ₹1 crore)

- Report to Board/AC (2 days)**, seek reply (45 days); **forward to CG (15 days with reply or a note if no reply)** in **Form ADT-4**.
- Report shall be on the **letterhead of auditor**.
- Applies to **cost & secretarial auditors**
- Report fraud matters in **CARO 2020 clause (xi)**.

2. Fraud under SA 240 and Sec 447

Sec 447 includes **acts to harm company / stakeholders even without financial gain/loss**. Auditors may **not detect frauds** unless financial impact in books.

13. The Companies (Auditor's Report) Order, 2020 [CARO, 2020]

1 Applicability of CARO 2020

All Companies, except:

- Banking companies
- Insurance companies
- Section 8 companies
- OPC & **Small companies**
- Private Limited [4 Conditions]

2 Private limited companies meeting ALL 4 conditions

- Not subsidiary/holding of public companies.
- Aggregate paid-up capital / R & S ≤ Rs. 1 crore on BS date.
- Aggregate borrowings from Banks/FIs ≤ Rs. 1 crore at any time during financial year.
- Turnover ≤ Rs. 10 crores in the financial year.

Note: This category is **IRRELEVANT** as the above Private Companies falls under **Small Company** as per GN on CARO 2020

3 Additional Points

- For **holding/subs. companies**, CARO limits computed separately for **standalone** financials.
- For companies with **branches**, CARO limits based on **entire company**.
- Branches are covered if CARO applies to the company as a whole.

4 Non-Applicability on Consolidated Financial Statements

- CARO 2020 **does not apply to CFS**.
- However, in CFS Audit report, principal auditor reports on **Clause (xxi)**.

Matters to be Included in under CARO 2020 of Auditor's Report.

1. Fixed Assets

a Fixed Asset Register

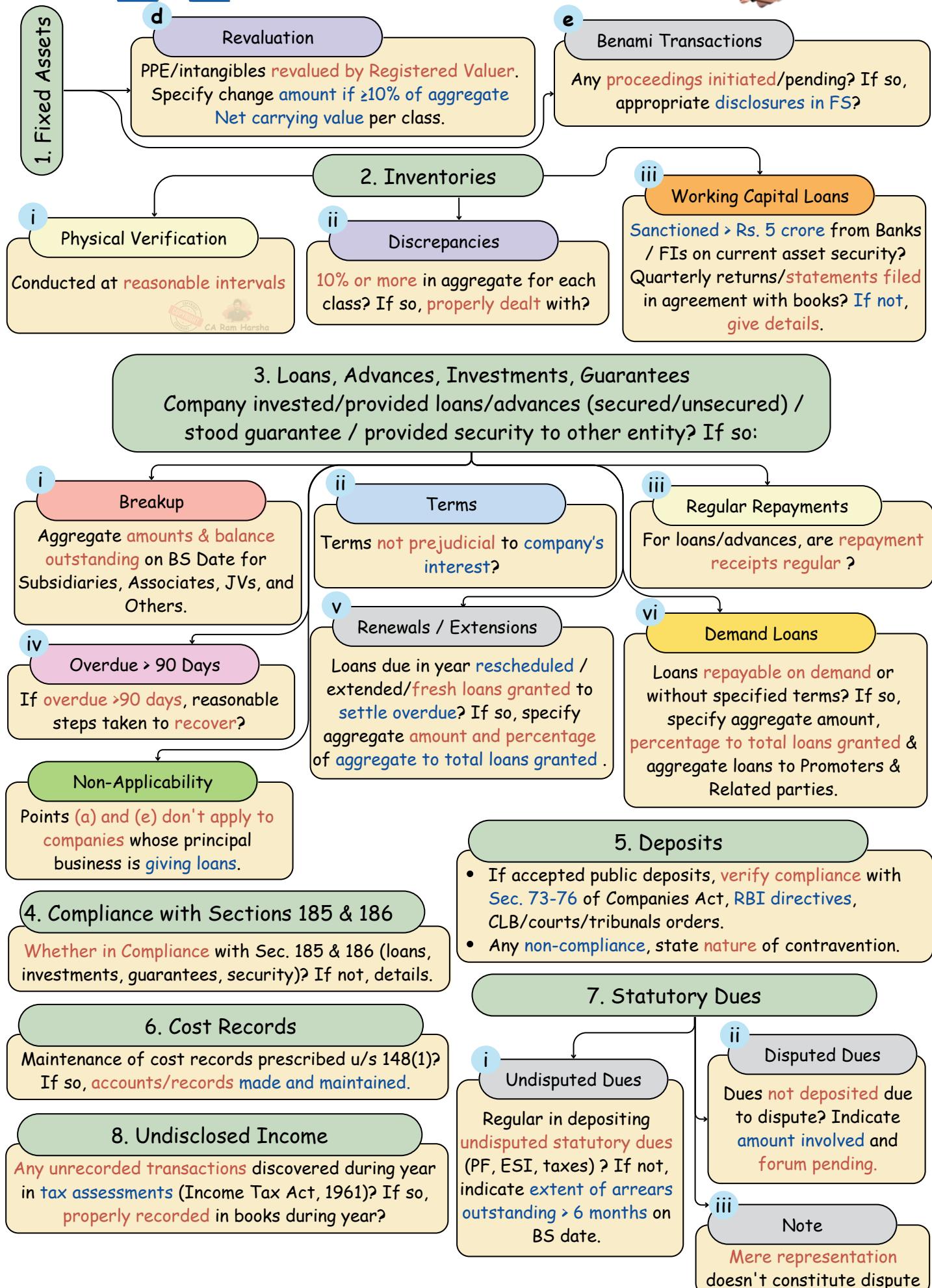
Proper records (quantitative details, situation) for **PPE** and **intangibles** maintained.

b Physical Verification

PPE physically verified at reasonable intervals; discrepancies properly dealt with.

c Title of Immovable Property

Title deeds of **all immovable property** in company's name. If not, disclose details of Description, Gross Carrying Value, Held in Name of (Promoter / Director / Relative / Employee) Period Held & Reasons).



9. Defaults in Repayment

i Lender-wise Defaults

- Defaulted in repayment of loans/interest to any lender?
- If yes, indicate lender-wise* details (Nature, Name, Amount, Principal/Interest, No. of Days Delay, Remarks).

ii Diversion of Funds (Term Loans)

Term loans applied for stated purpose? If not, indicate amount diverted and purpose.

*If lender is Bank / FIs / Govt.

iii Short-term funds diverted

Short-term funds used for long-term purposes? If so, indicate nature and amount.

iv Loans for Subsidiaries

Taken funds to meet obligations of subsidiaries / associates / JVs? If so, details (nature, amount).

v Loans against pledge of shares

Raised loans on pledge of securities in Subs / Assoc / JVs? If so, report details and default in repayment of these loans.

vi Wilful defaulter

Declared as willful defaulter by any lender?

10. End Use of Funds

i IPO / FPO

Money utilized for purposes raised? If not, details (defaults, delays, rectifications).

ii Preferential Allotment

- Made preferential allotment / private placement of shares / convertible debentures? If so, verify compliance with Sec. 42 and utilization of amount for raised purpose.
- If not, provide details (amount, non-compliance nature).

11. Fraud Reporting

i Noticed or Reported

Any fraud by/on company noticed or reported during year? If yes, nature & amount involved.

ii Reported to CG

Any report u/s 143(12) filed in Form ADT-4 with Central Government?

iii Whistle Blower Complaints

Auditor considered whistle-blower complaints received?

12. Nidhi Company Compliance

- Complied with Net Owned Funds to Deposits ratio of 1:20?
- Maintaining 10% Unencumbered term deposits as per Nidhi Rules, 2014?
- Any default in payment of interest/repayment of deposits? If so, details.

14. Internal Audit system

- Internal audit system commensurate with size and nature of business?
- Reports of internal auditors for period considered by statutory auditor?

13. Related Party Transactions

- All transactions with related parties in compliance with Sec. 177 & 188 (where applicable)?
- Details disclosed in FS as required by applicable AS?

15. Non-Cash Transactions

- Company entered into Non-Cash Transactions with directors? If so, provisions of Sec. 192 complied?

16. Non-Banking Financial Institutions

i

45IA OF RBI Act

- Required to be registered u/s 45-IA of RBI Act, 1934 ? If so, registration obtained?

ii

NBFC Activities

- Conducted NBFC/Housing Finance activities without valid CoR from RBI ?

17. Cash Losses

Incurred cash losses in current and immediately preceding financial year? If so, state amount.

iii

Group CICs

Is company a CIC as per RBI regulations ?

- Continues to fulfill CIC criteria ? If exempted / unregistered CIC, continues to fulfill criteria ?
- Group has more than one CIC? If yes, indicate number.

18. Resignation of Auditors

Any resignation of statutory auditors during year? If so, auditor considered issues / objections / concerns raised by outgoing auditors?

20. CSR Compliance

19. Material Uncertainty

- Based on financial ratios, ageing, expected realization & payment dates, other F/S info, auditor's knowledge of Board / Management plans:
- No material uncertainty exists as of Audit Report date of meeting liabilities existing at BS date as and when due within one year.

i

Other-than Project expense

Unspent amount trfd to Sch VII Fund within 6M of FY expiry - proviso to Sec. 135(5)

ii

Project expense

Unspent amount u/s 135(5) related to ongoing project transferred to special account u/s 135(6)?

21. This clause applies for A/R on CFS

- Any qualifications/ adverse remarks by respective auditors in CARO 2020 reports of companies included in CFS ?
- If yes, indicate details of companies and paragraph numbers of CARO report containing remarks .

Note: Reporting Requirement under CARO 2020



- If answer to any question is unfavourable or qualified, report shall state the basis.
- If auditor unable to express opinion on a matter, report shall indicate such fact and reasons why opinion not possible

8. SPECIALISED AREAS

1. Introduction

A SA 800 Special Considerations - Audit of Financial Statements

Prepared in Accordance with Special Purpose Framework

- Applies to **SPFW**.
- Focuses on **audits of FS** following **special guidelines**.



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B SA 805 Audit of a Single Financial Statement or Specific Element, Account, or Item

- Applies to **single FS** or **specific element** audit.
- **Special considerations for individual** items.

B SA 810 Report on Summary Financial Statements

- Relevant when auditor reports on **Summary FS** derived from audited FS.
- Must be the **same auditor**.

2. SA 800 Special Considerations - Audit of FS prepared in accordance with SPFW (Revised)

A. Scope of SA 800

1

Areas Addressed

Acceptance, Planning and Performance, Forming Opinion and Reporting.

B. Meaning of SPFW

1

Special Purpose Framework

1. SPFW designed for **specific users**
2. Can be **fair presentation** or **compliance framework**
3. Determines **form/content** and **complete set of FS**
4. Examples: **Cash basis**, regulatory, contractual

2

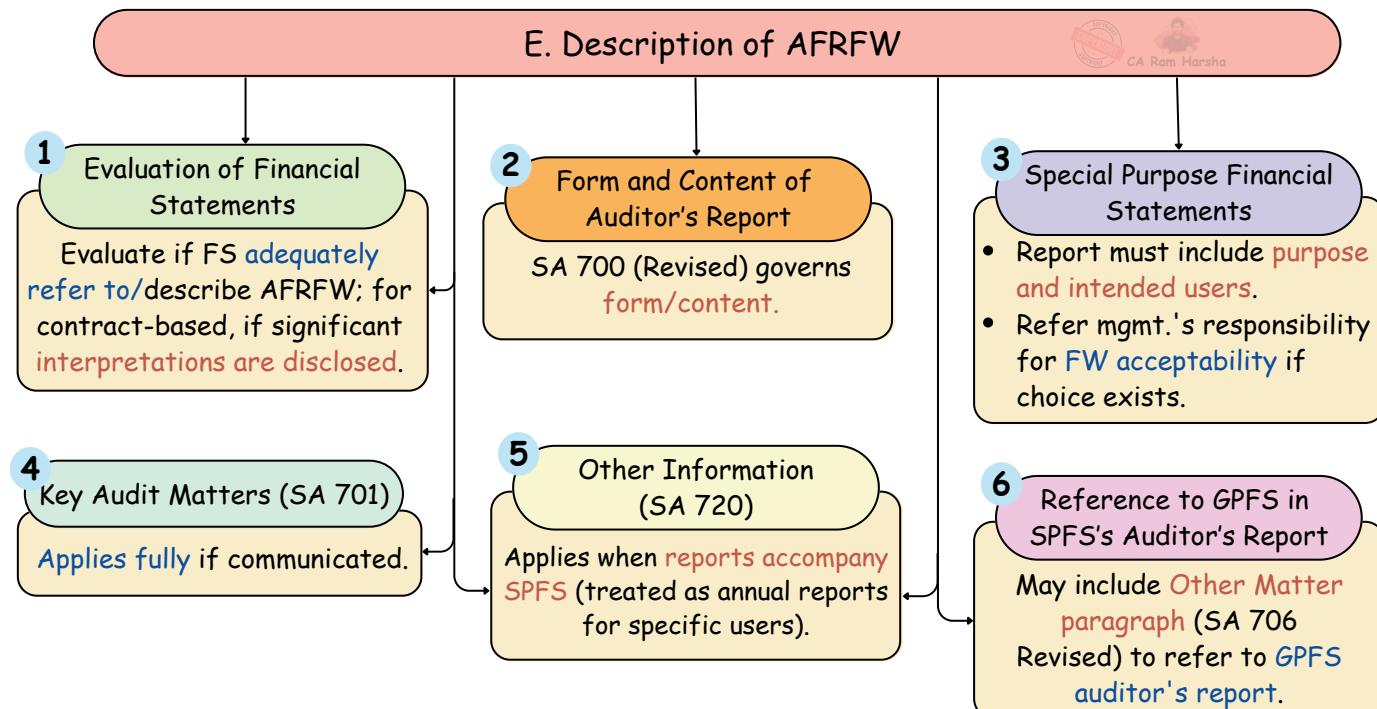
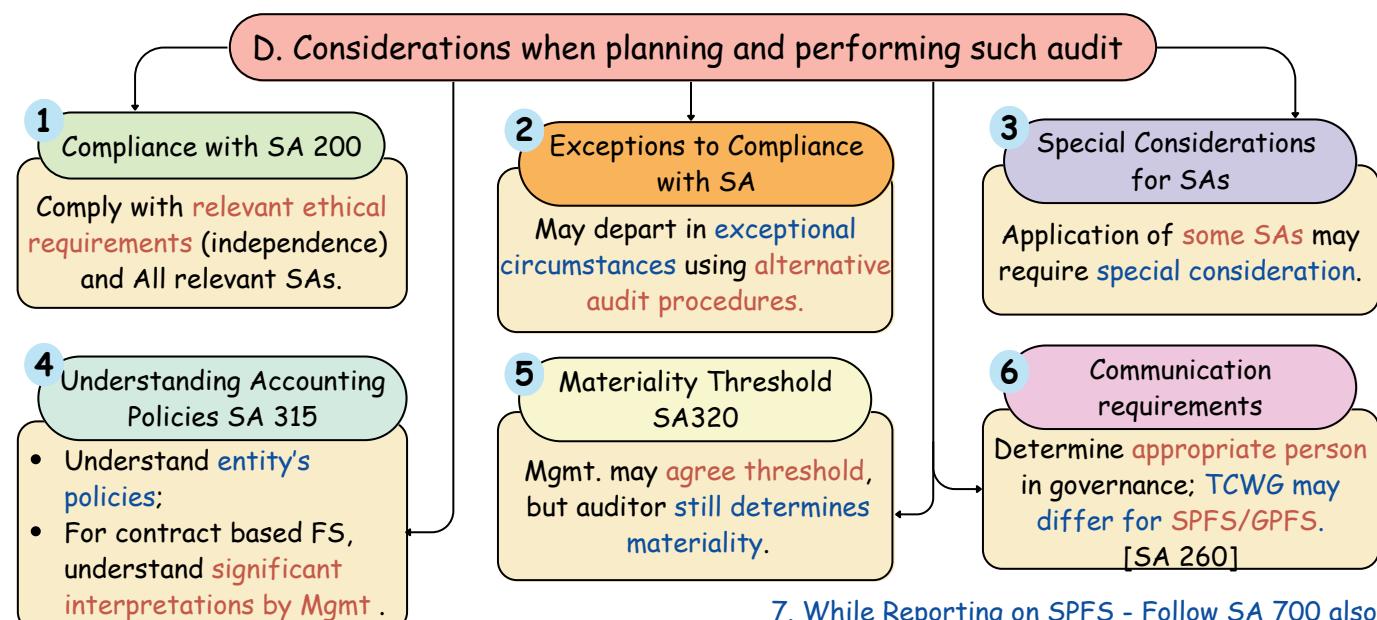
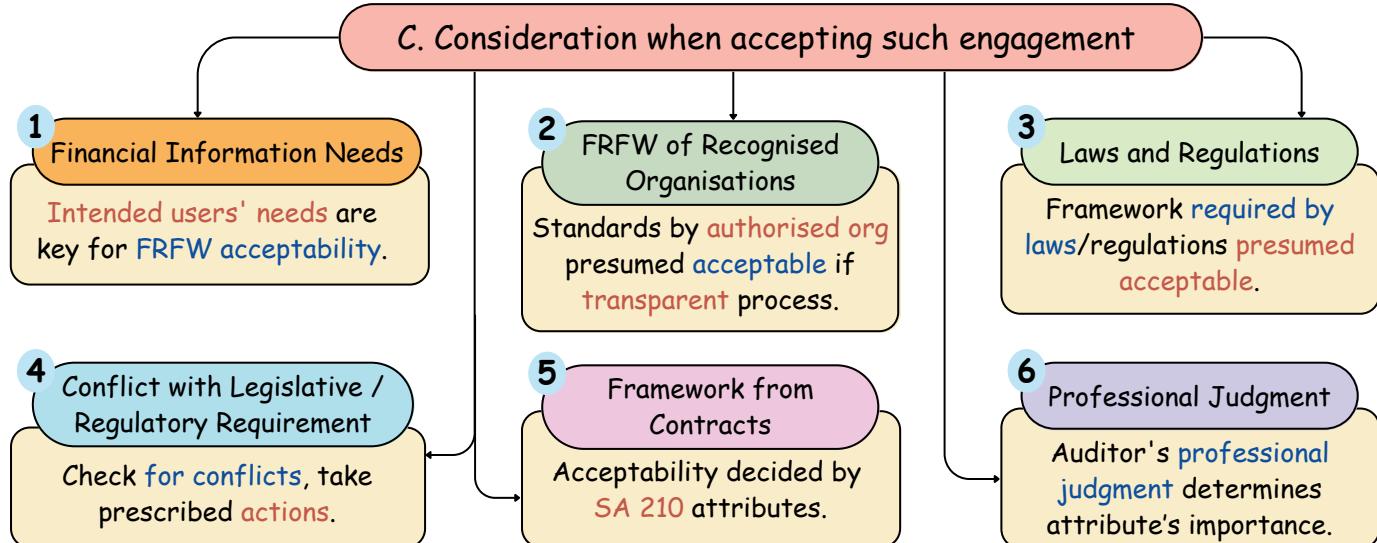
Special Purpose vs General Purpose

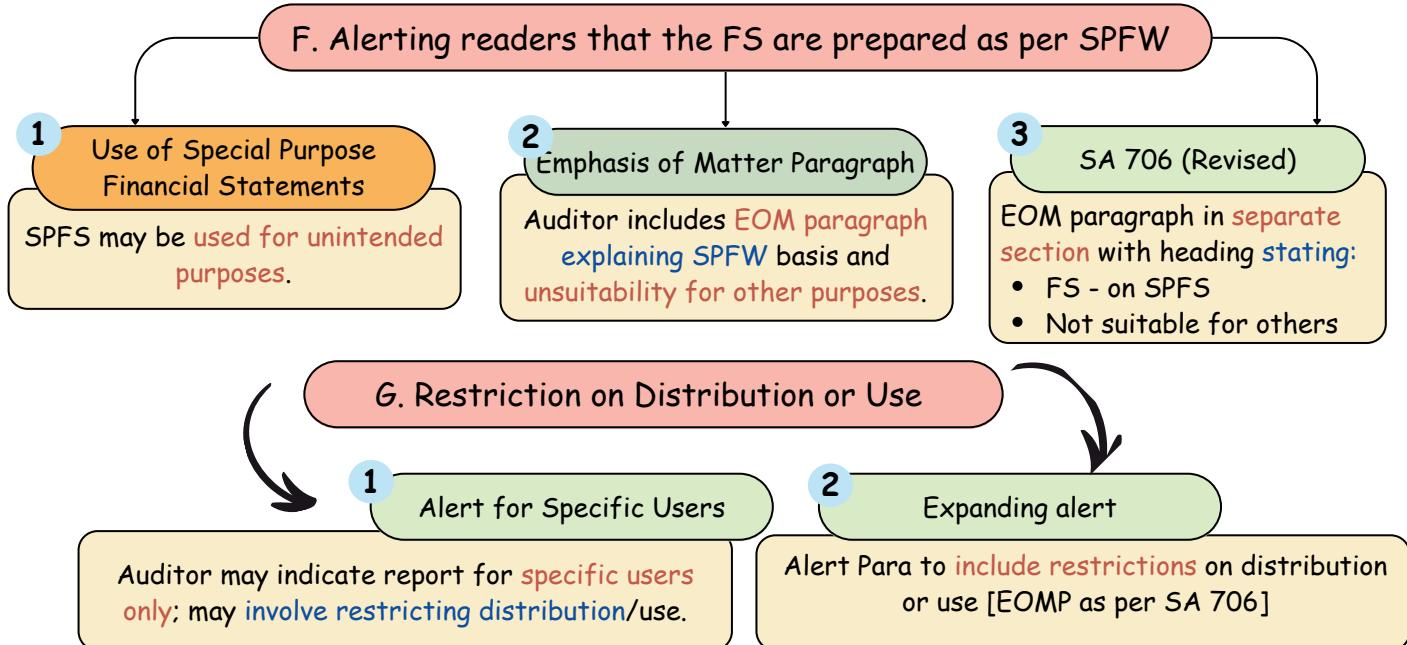
1. SPFW for **specific users**
2. GPFW for **wide range** of users

3

Financial Statement

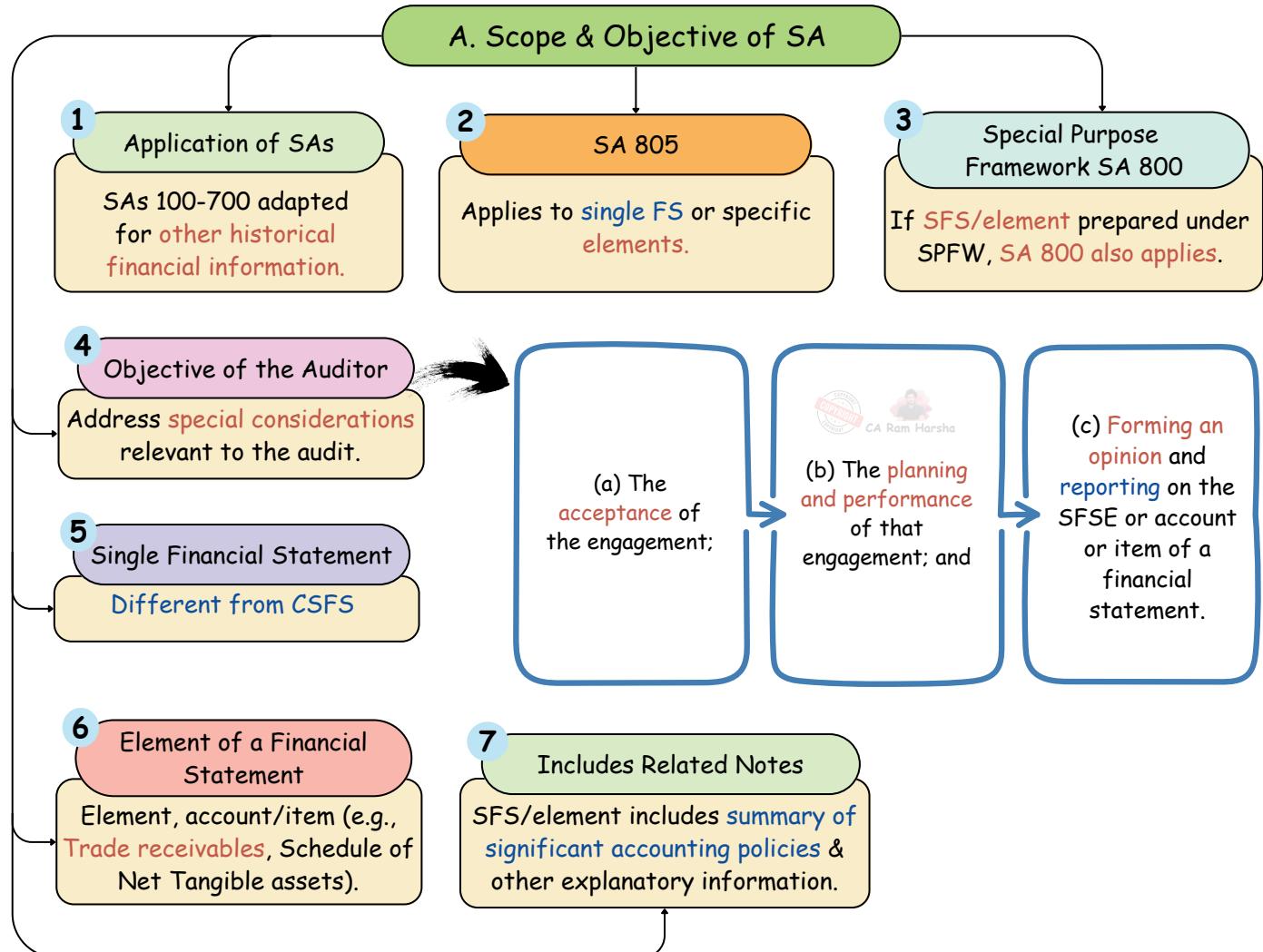
1. Refers to **complete set of special purpose financial statements (CSSPFS)**
2. Includes related notes such as **summary of significant accounting policies** & explanatory information.





3. SA 805-Audits of SFSE, Accounts or Items of a FS (Revised)

SFSE - Single Financial Statement and specific Element





B. Consideration when accepting such engagement

1 Application of SA's

Auditor must comply with **all relevant SAs** (including independence), even if not auditing CSFS.

2 Practicability of Applying SAs

If not audited CSFS, determine if **Audit of SFS / element** is practicable.

3 Compliance with Ethical Requirements

Independence and all relevant SAs.

4 Exceptions to Compliance

- Comply unless irrelevant / condition does not apply;
- Alternative procedures in exceptional cases

5 Auditor who is not engaged to audit CSFS

May lack full understanding, requires additional corroborative evidence.

6 Audit work disproportionate to the Audit of Element

- Some SAs (e.g., SA 570) may be impractical for small elements;
- Discuss other engagement types.

C. Acceptability of the Financial Reporting Framework

1 Acceptability of FW

Determine acceptability (SA 210); assess adequate disclosures and effect of material transactions / events.

2 Applicable Framework

Check if framework includes **all relevant requirements** for adequate disclosures.

D. Considerations when planning & performing the audit

1 Application of SAs

All relevant SAs must be adapted (SA 240, 550, 570 are relevant).

2 Communication with Governance

- Determine **appropriate person in governance** to communicate;
- TCWG may differ for SFS / element vs. CSFS.

3 Use of Evidence from CSFS

Can use **evidence from CSFS audit** but **SAAE specific to SFS / element** still required

4 Interrelationship of Financial Statements

- SFS/elements **cannot be considered** in isolation;
- Perform procedures for interrelated items.

5 Materiality Considerations

Materiality for SFS/element **may be lower than CSFS**, affecting auditing procedures.

E. Forms of Opinion

3 Opinion for Unmodified Opinion

Fairly present (FPFW) or prepared in all material respects (CFW) for CSFS.

1 Agreed Terms of the Audit

Include **expected form** of report.

2 Form of Opinion

Depends on AFRFW & applicable laws/regulations.

6 Auditor's Professional Judgment

Decision **based on professional judgment**.

4 Presentation of SFS/Element

- Framework **may not address presentation**;
- Auditor considers if **expected opinion form** is **appropriate**.

5 Factors the auditor Considers for the use of Phrases "Present Fairly"

Framework **limits**, compliance, disclosures, **need for additional disclosures/departure from FW**.

7 Use of Phrases

Consider if "presents fairly" or "true and fair view" are accepted in jurisdiction for SFS/element.



4. SA 810 - Engagements to Report on Summary Financial Statements (Revised)

A. Scope and meaning

1 Scope

Deals with **auditor's responsibilities** when reporting on **Summary FS** derived from audited financial statements (**AFS**) by the same auditor.

2

Summary Financial Statements (Summary FS)

Reflect Historical FI from AFS with less detail. They provide a **structured representation of economic resources / obligations** at a point in time / changes during the period. Laws & Obligations use different terminology to describe historical FI.

B. Accepting an Engagement

1 Only if Audited the CSFS [say AFS*]

Usually accept **only if auditor has audited the AFS first.**

2 Auditing Precedes Summary Financial Statements

The requirement exists because **without auditing the FS first**, the auditor **lacks the necessary knowledge** to report on the Summary FS.

*Audited Financial Statements - Nothing But Complete Set of FS

C. Before Accepting engagement to report on Summary F/S:

Determine **Acceptability of Criteria**, **Management's agreement** on responsibility, Agree with Mgmt on **form of opinion** to be expressed.

D. Acceptability of Applicable Criteria

1 Determine Acceptability of Criteria

Assess criteria for preparing Summary FS.



2 Applied Criteria

Refers to **Guidelines for Summary FS** to ensure fair representation of AFS.

3 Risk Factors

Increased **risk of misleading Summary FS** due to **limited disclosures** if criteria not well-defined.

4 Factors Affecting Determination

Entity **nature, purpose, user needs**, criteria ensuring - not to mislead.

E. Applicable Criteria for Summary Financial Statements

1 Criteria for preparing Summary FS

Set by **authorised standards org., law, or regulation** or **Management may develop criteria based on industry practice.**

2 Unacceptable Criteria

Must not accept engagement if **unacceptable** or no mgmt. agreement (unless required by law).

3

Engagement not as per L/R which does not comply with this SA

AR must **not state Audit** as per this SA, **TOE*** shoud **mention this fact**, Assess the **effect it has on engagement** to audit the FS from which Summary FS derived

4 Disclosure of Summary Nature

Adequate disclosure with title like: **"Summary FS prepared from the AFS"**

*Terms of Engagement

F. Management's Responsibilities for Summary Financial Statements

1 Obtain Agreement from Management

Mgmt. **acknowledges responsibility** for preparation as per criteria and **making AFS available** to users.

2 Availability of Audited Financial Statements

Mgmt. **ensures AFS available** without undue difficulty. If law prohibits, **describe in Summary FS**.

3 Factors Affecting Availability

Clear statement of **where/from whom**, public record, easy access process.

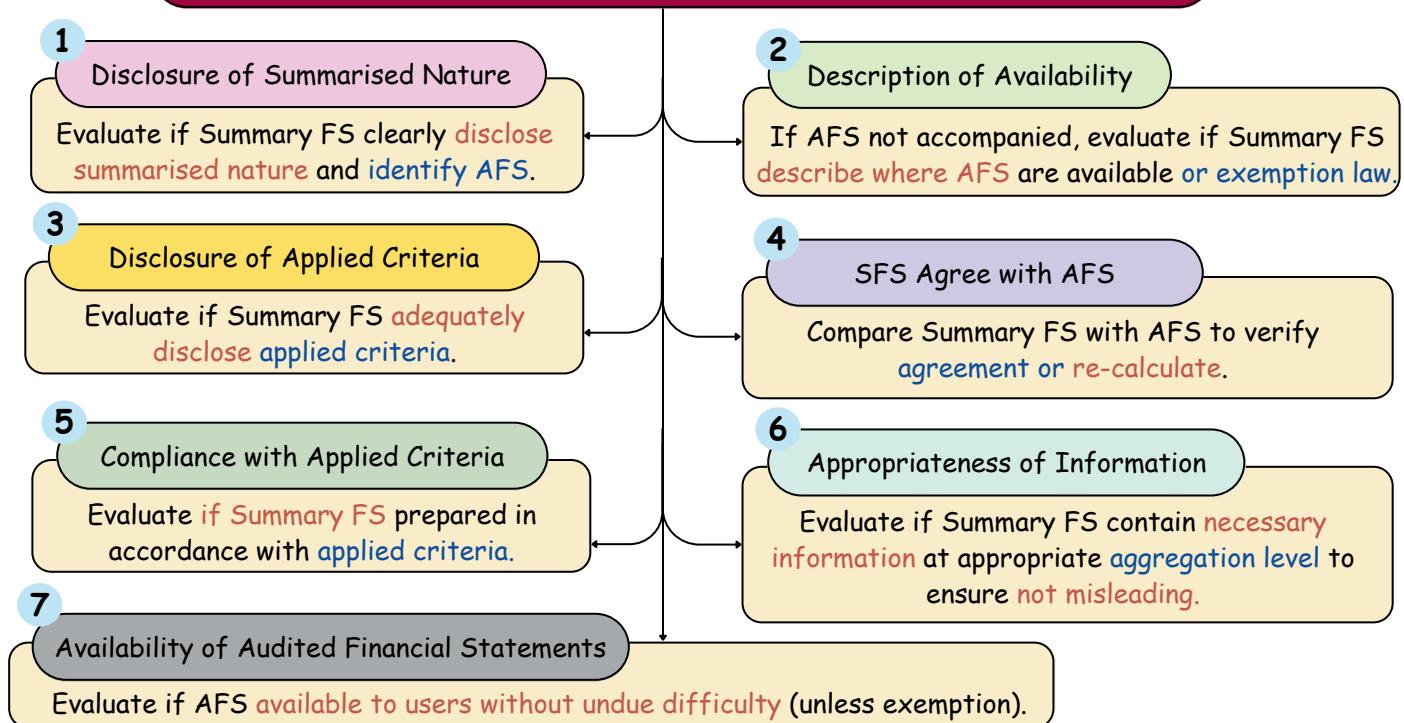
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Inclusion of Auditor's Report

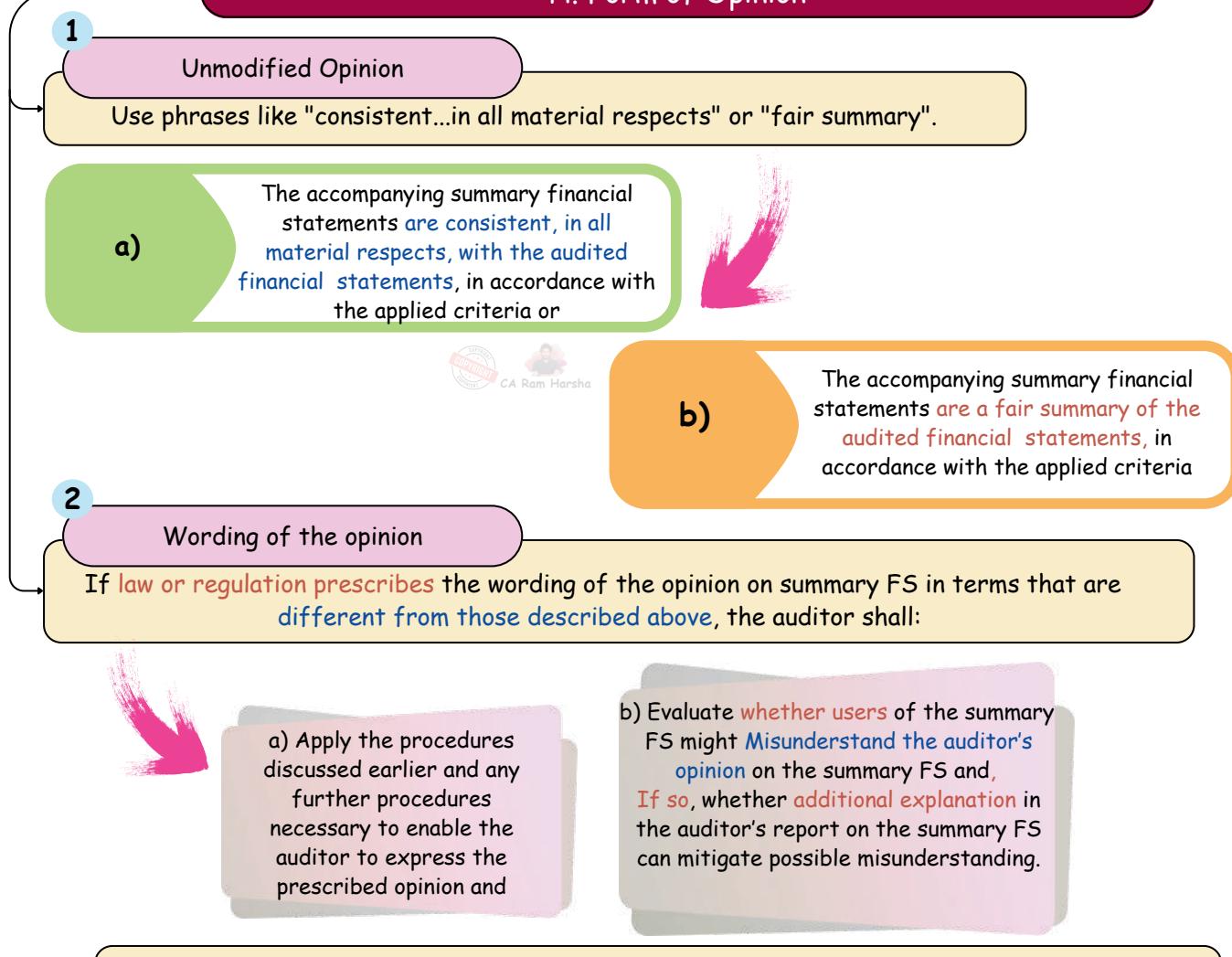
Mgmt. **responsible** for including auditor's report on Summary FS or indicating auditor reported.



G. Nature of Procedures to be performed by the auditor



H. Form of Opinion



DO NOT ACCEPT if additional explanation can't avoid misunderstanding, unless legally required.

3

Compliance with SA

Engagement not complying with SA should not state compliance with this SA.



I. Auditor's Report on Summary Financial Statement

1

Title

Must clearly indicate independent auditor's report.

2

Addressee

Compare Summary FS with AFS to verify agreement or re-calculability.

3

Identification of Summary Financial Statements

Identify Summary FS (title, page numbers).

4

Identification of AFS

Identification of Audited FS

5

Clear Expression of Opinion (covered above)

6

Disclosure Statement
State Summary FS lack full disclosures and not substitute for AFS.

7

Subsequent Events (if required)
State Summary/AFS do not reflect subsequent events.

8

Reference to Audited Financial Statements
Refer to AFS auditor's report (date, unmodified opinion).

9

Management's Responsibility

Describe mgmt.'s responsibility for preparing Summary FS as per criteria.

10

Auditor's Responsibility
State auditor's responsibility to express opinion on consistency with AFS.

11

Auditor's Signature
Signature, MRN, FRN, UDIN.

12

Date of Auditor's Report

Not earlier than evidence gathered (prepared, responsibility asserted) and date of AFS auditor's report.

13

Signature

Place of Signature

J. Reporting when - Summary FS are Consistent with AFS

1

Qualified Opinion on Audited Financial Statements

- If AFS report includes MO / EOMP / OMP / MURGC / KAM / Uncorrected MMS.
- AND Summary FS are Consistent with AFS: Summary FS report shall state AFS report includes these matters and describe basis for QO/matters referred /Uncorrected MMS of other Info & effect on Summary FS & Auditor's Report.

2

Adverse Opinion or Disclaimer of Opinion in AFS

Summary FS report shall state AO/DOO on AFS, describe basis, and state inappropriate to express opinion on Summary FS.

K. Reporting when - Summary FS are Inconsistent with AFS

If inconsistent & Mgmt. refuses changes, auditor may express adverse opinion on Summary FS.

L. Restriction On Distribution or Use

If AFS report has restriction/alert (SPFW), Summary FS report must include similar restriction/alert.



M. Comparatives

1

No Comparatives in Summary FS

Assess if omission reasonable; determine impact of unreasonable omission.

2

Comparatives Reported by Another Auditor

Summary FS report includes SA 710 matters as in AFS.

N. Unaudited Supplementary Info presented with Summary FS

1

Unaudited Supplementary Information

Evaluate if clearly differentiated from Summary FS.

2

Presentation of Unaudited information

If not differentiated, ask Mgmt. to change.

3

Management Refusal

Explain in report that unaudited info not covered.



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O. Information in documents containing Summary FS

1

Reading of Document

Read document; check for material inconsistency.

2

Identifying Material Inconsistency

Discuss with Mgmt, determine if Summary FS needs to be revised.

3

Management Refusal to Revise

Consider impact on Summary FS report, take appropriate action.

P. Auditors Association

1

Auditor's Report not included in the Document

If entity plans to state auditor reported but won't include report, request inclusion.

2

Management Refusal to Include Auditor's Report

Take appropriate actions to prevent inappropriate association.

3

Auditor Not Engaged on Summary Financial Statements

Ensure reference is to AFS report only, not implying report on Summary FS.

4

Management - Not Meet Requirements in (3)

Request change or no reference; alternatively, entity can engage same auditor for Summary FS.

5

Management Refuses

Inform mgmt. of disagreement, take actions to prevent inappropriate references.

Q. Timing of Work & Events subsequent to the date of AR on AFS

1

Date of Auditor's Report on Summary FS

If later than AFS report, state Summary/AFS don't reflect subsequent events after AFS report date.

2

Awareness of New Facts

If new facts existed at AFS report date, don't issue Summary FS report until SA 560 considered.

3

No Additional Audit Evidence Required

No need for additional audit evidence on AFS or report on subsequent events as Summary FS derived from AFS

9. RELATED SERVICES

1. Standards on related services

A. Standardization procedure

- Chartered Accountants provide **non-opinion services**.
- AASB of ICAI issued **2 Standards** on Related Services (SRS) for standardization:
 - SRS 4400**: *Agreed-upon Procedures* regarding financial information.
 - SRS 4410**: *Compilation Engagements* (preparing financial info without opinion).

B. Related Services & Agreed upon Procedures Engagements

1 Assurance engagement

Practitioner expresses **conclusion to increase user confidence** on subject matter against criteria.

4 Role of Practitioner*

Need **not be the auditor** of entity's FS.

2 Related Services

All engagements are **not assurance** engagements. Includes:

- Tax return preparation** (no assurance).
- Consulting/advisory** (management, tax).
- Engagements **covered by SRS** (agreed-upon procedures, compilation of FI).

3 Agreed-upon Procedures

Auditor reports **factual findings** based on specific procedures on financial information elements/accounts /items.

*Practitioner - SRSs, SRE 2400, SAE 3420
Auditor - SAs, SAEs, SRE 2410

2. SRS 4400 Engagements to Perform Agreed upon procedures on FI.

A. Objective

1 Report factual findings.

Perform **audit-like procedures** agreed by auditor, entity & 3rd parties, **report factual findings**.

2 No Assurance Provided

- Auditor provides **no assurance**;
- Users draw **own conclusions**.

3 Restricted Report

Report restricted to **agreed parties** to prevent **misinterpretation**.

B. Differences between Audit and Agreed-upon procedures

1 Audit

Expresses **opinion and assurance**.

2 Agreed-Upon Procedures

- Only factual findings**;
- No assurance;
- Users draw **conclusions**;
- Non-assurance engagement.

3 Example

Comparing **supplier statements** to trial balance, reporting variations without assurance.

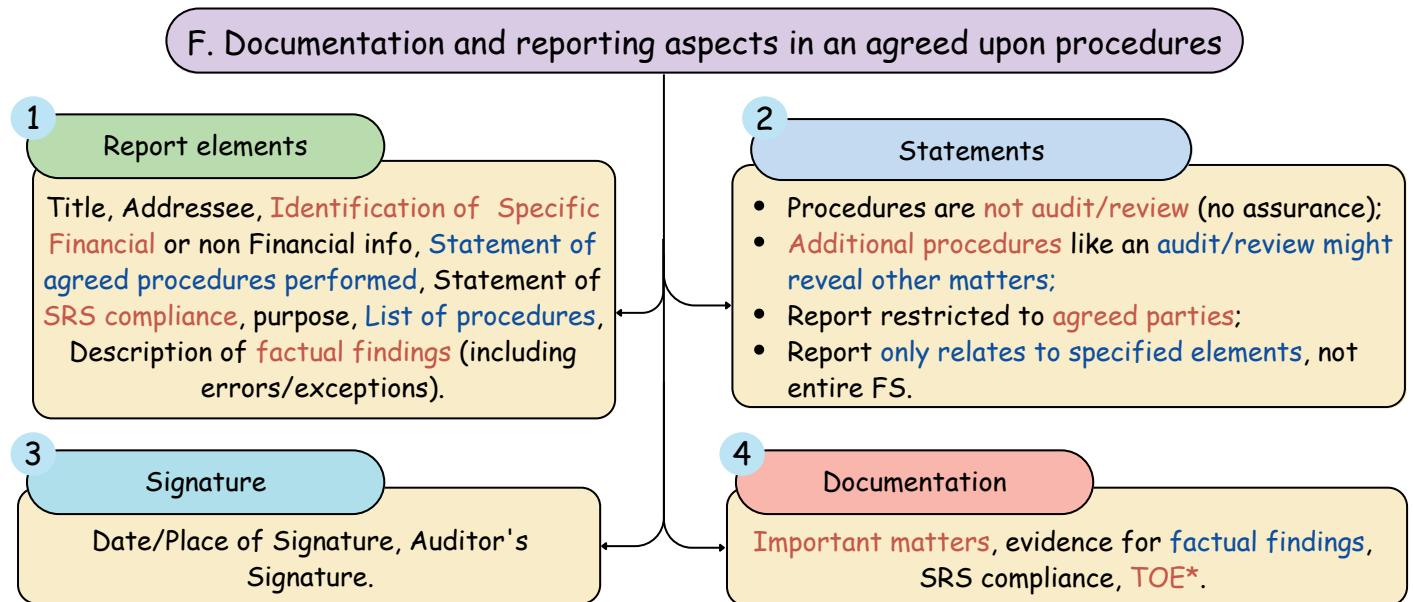
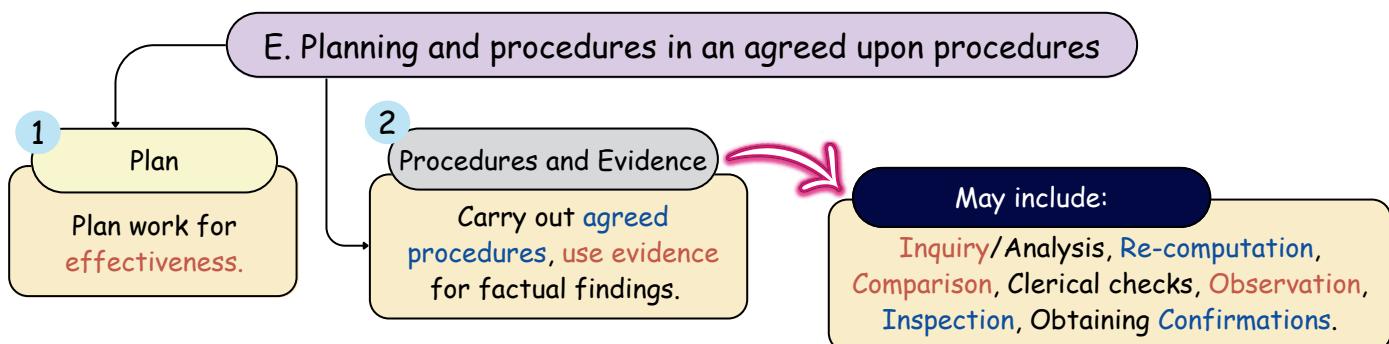
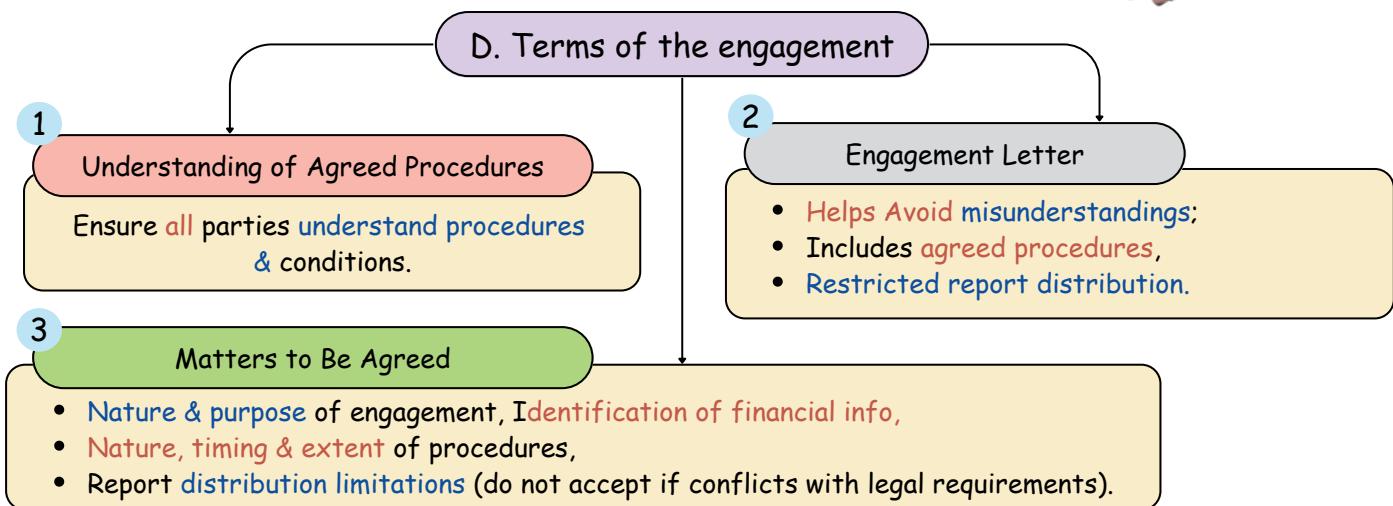
C. General principles of an agreed-upon procedures engagement

1 Ethical Compliance

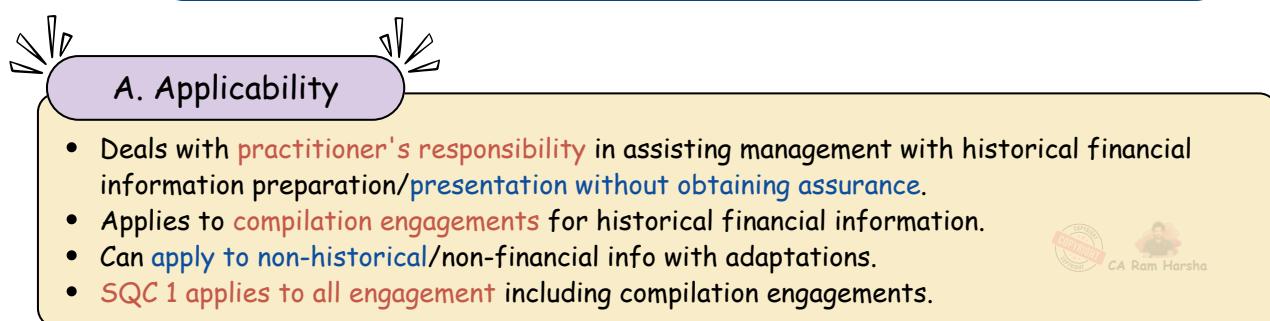
Comply with **ICAI Code of Ethics** (integrity, objectivity, competence, due care, **confidentiality**, professional conduct, technical standards).

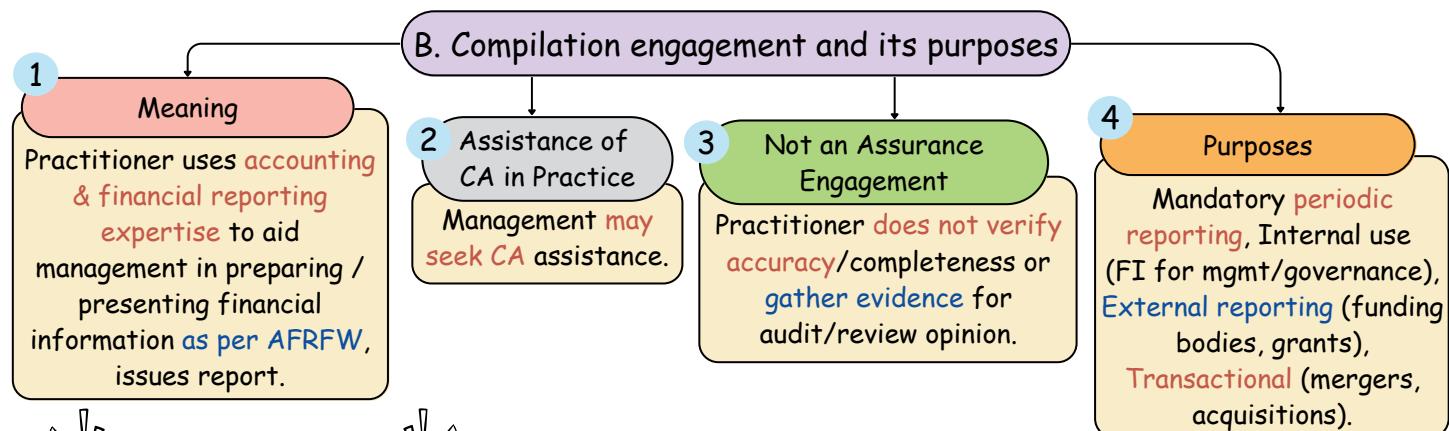
2 Independence

Not mandatory but engagement **terms** may require it. If not independent, **state in report**.



3. SRS 4410 Compilation Engagements



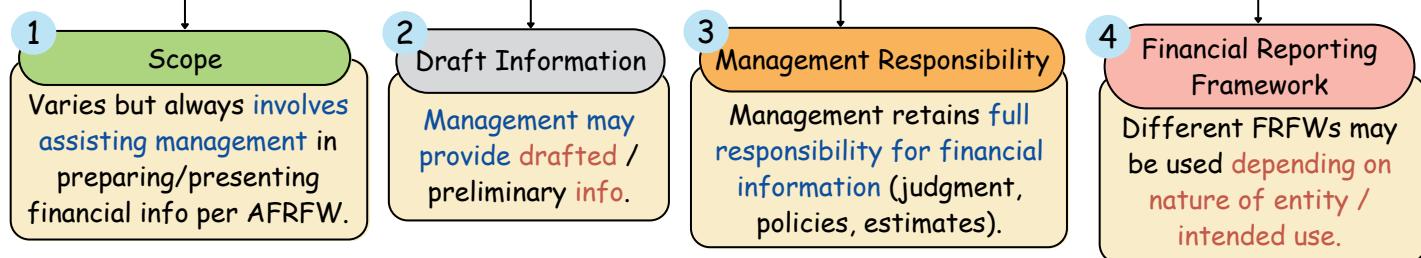


C. Objectives

- Practitioner applies **expertise to assist management** in preparing & presenting financial information as per AFRFW.
- Reports as per **SRS requirements**.



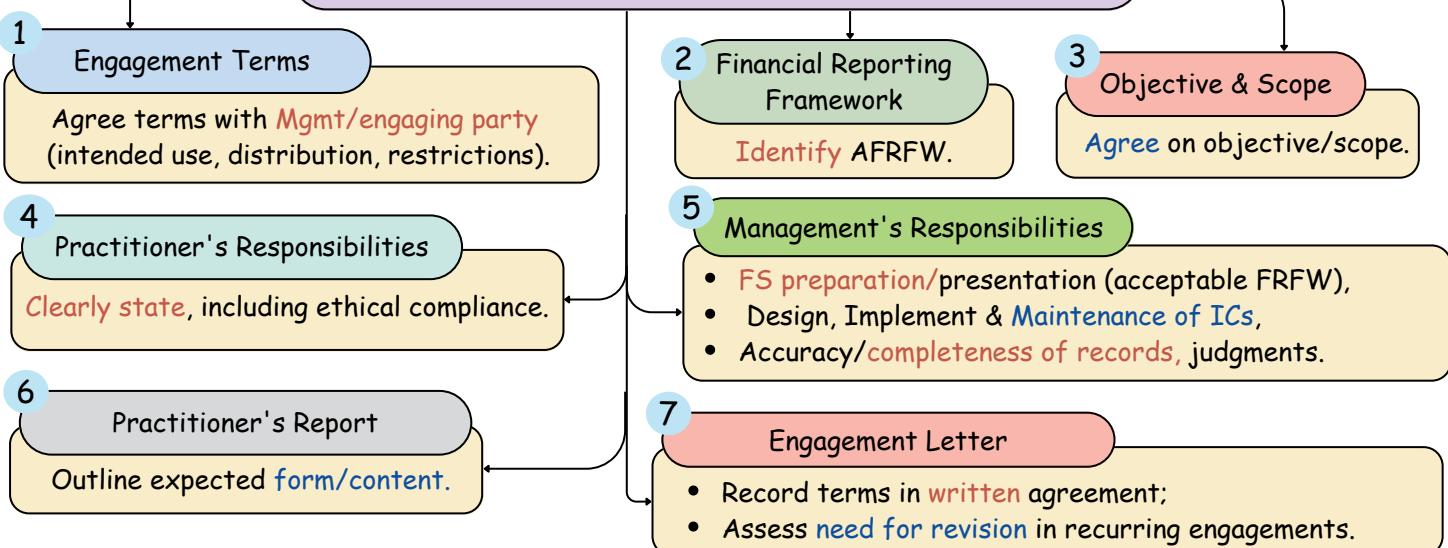
D. Scope of the standard



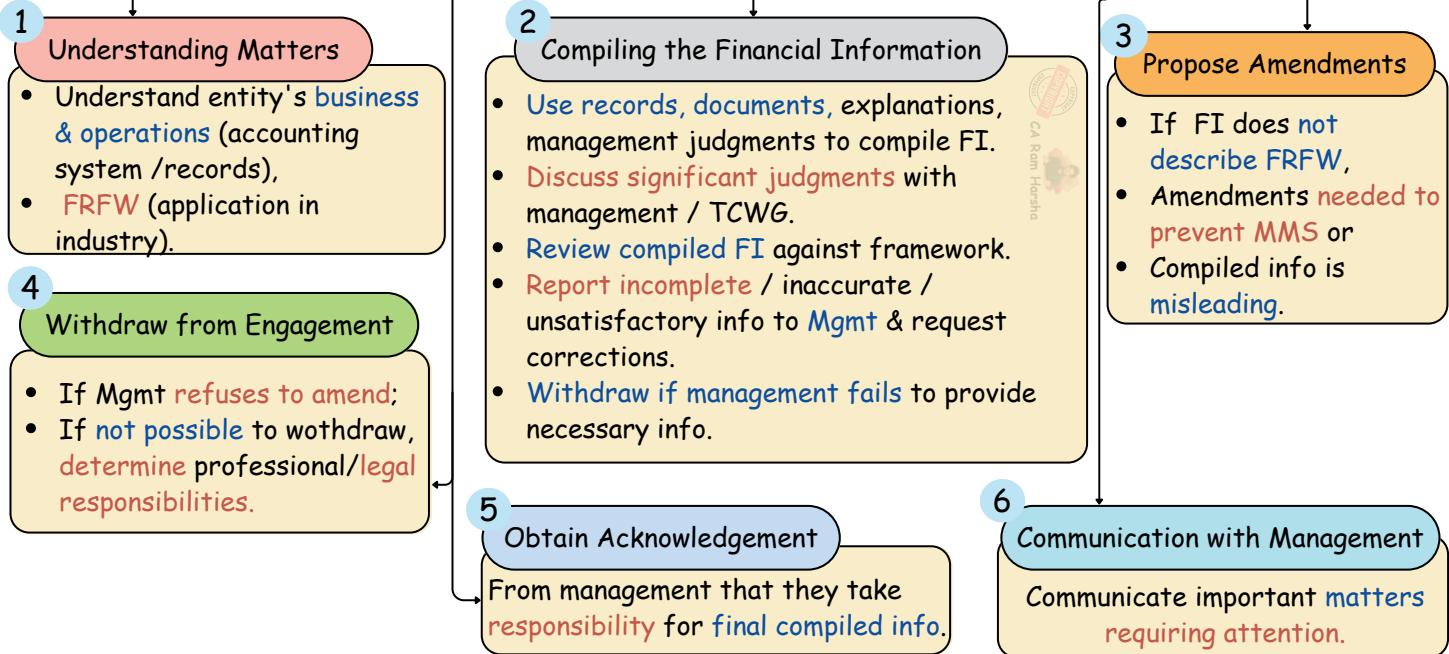
E. Ethical requirements in the context of compilation engagements



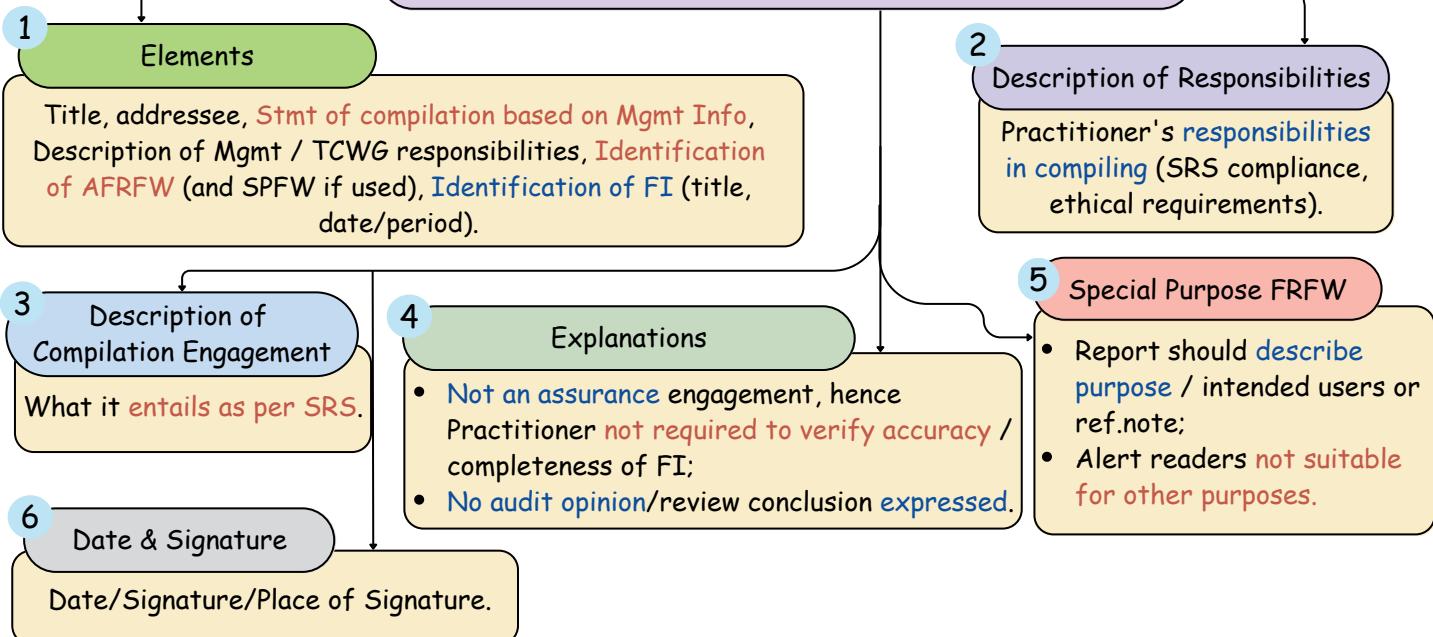
F. Engagement acceptance and continuance



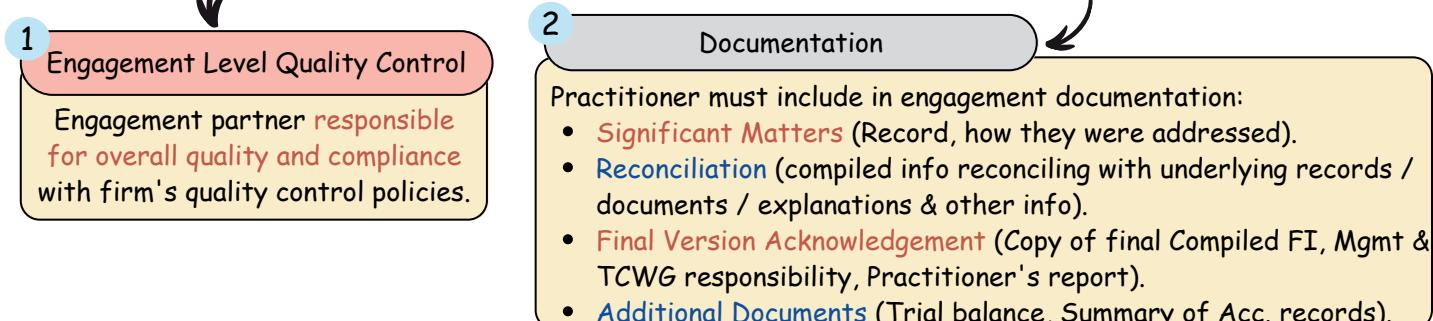
G. Performing the compilation engagement



H. Practitioner's Report on compilation engagement



I. Engagement Level Quality Control and Documentation





10. REVIEW OF FINANCIAL INFORMATION

A. Introduction

1. SQC applies to all Engagement Standards services.
2. Review Engagements standards are part of Engagement Standards.
3. Quality control in reviews assumes firm follows SQC 1.

B. Meaning of Review

1. A review is **limited assurance** engagement.
2. **Minimum evidence gathering** for meaningful assurance.
3. Provides **lower assurance** than an audit.
4. Relates to **historical FI**.

C. Audit vs. Review

1. **Assurance:** Audit = reasonable; Review = limited.
2. **Procedures:** Audit = extensive; Review = fewer (inquiry, analytical).
3. **Conclusions:** Audit = reasonable; Review = limited.
4. **Reporting:** Audit = opinion; Review = conclusion.
5. **Language:** Audit = positively worded; Review = negatively worded.

SRE 2400 Engagements to Review Historical Financial Statements

SRE 2400 deals with

The practitioner's* responsibilities when engaged to perform a **review of historical FS**, when the practitioner is **not the auditor of the entity's FS** and

The **form and content** of the practitioner's report on the financial statements.

*Practitioner - SRSs, SRE 2400, SAE 3420
Auditor - SAs, SAEs, SRE 2410

1 Conclusion in Review

Enhances user confidence about FS prepared under FRFW.

A. Introduction

2 Type of Framework

GPFW or SPFW.

3 Nature of Conclusion

Based on **limited assurance**; report describes engagement.

4 Procedures Performed

Inquiry & analytical procedures for SAE*. [SAAE]

5 Additional Procedures

Performed if FS may be materially misstated (MMS).

*Sufficient Appropriate Evidence

B. Objective of SRE 2400

1 Obtained Limited Assurance

- Aim to obtain limited assurance via inquiry / analytical procedures to check for MMS.
- Report on **FS as a whole** and **communicate findings**

2 Not Obtained Limited Assurance

1. If limited assurance **not obtainable** and modified conclusion insufficient, practitioner may:
 - Disclaim** a conclusion.
 - Withdraw** (if permitted).



C. Compliance with Ethical Requirements and Engagement Level Quality Control

- Comply with **ethical requirements**, including **independence**.
- Engagement partner **responsible for overall quality**.

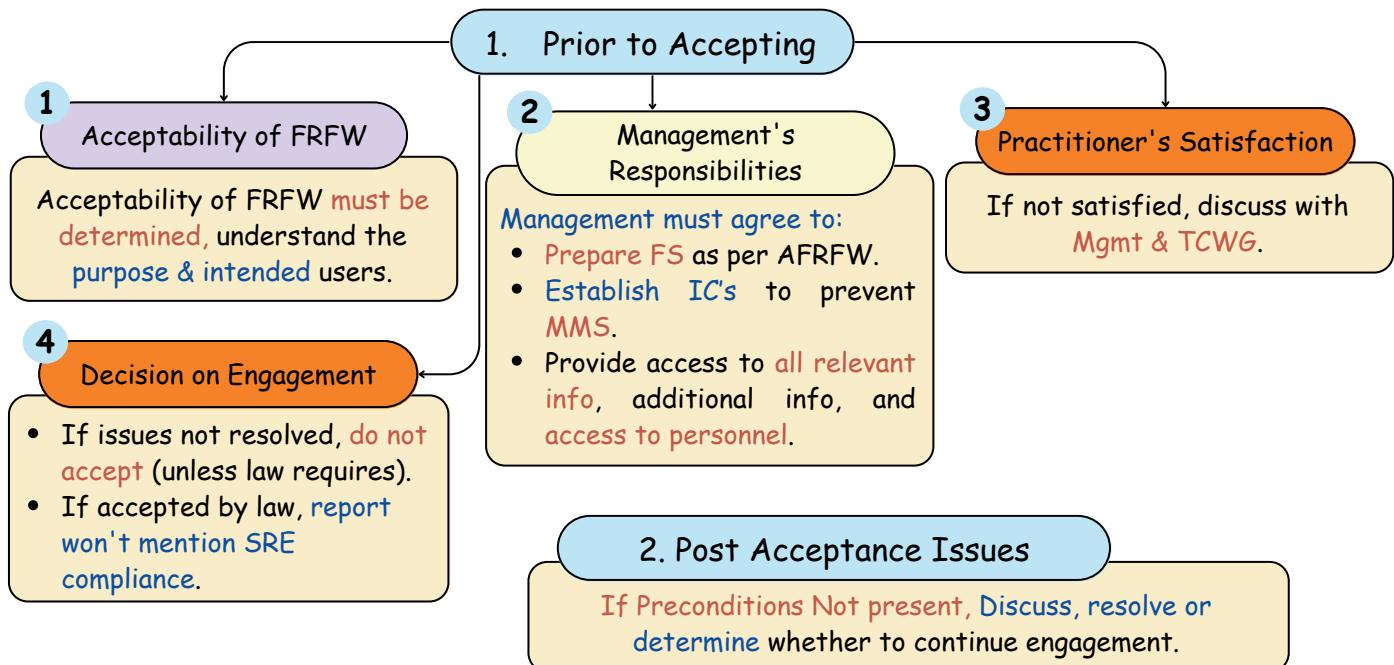
D. Factors affecting Acceptance & Continuance of Client Relationships

1 Practitioner Shall Not accept if:

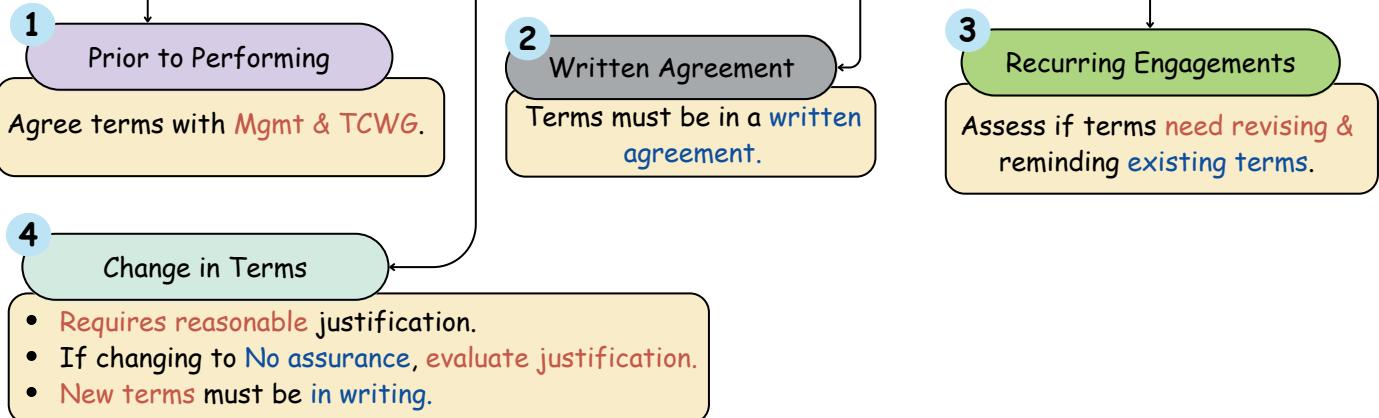
- **No Rationale** (e.g. scope limitations, inappropriate FS association).
- **Review Not Appropriate** (Law requires audit, not suitable in some circumstances).
- **Non-Compliance Ethical Req.** (E.g. independence not met).
- **Non-Availability of Information** (Unavailable/unreliable).
- **Doubts about Mgmt Integrity** (Affect the proper performance review).
- **Limitation on Scope by Mgmt** (could lead to disclaimer of opinion).



E. Preconditions for accepting a Review Engagement



F. Agreeing to the terms of engagement





G. Performing a Review Engagement after Acceptance

1 Determine Materiality

- Determine materiality for entire FS.
- Judgment same regardless of assurance level.
- Revise if new information arises.

2 Obtaining Understanding of the Entity

Understand entity, environment, FRFW to identify potential MMS

3 Designing and Performing Procedures through Inquiry and Analytical Procedures

- Perform inquiry & analytical procedures for SAE* [SAAE]
- Address all material items, focus on likely misstatement areas.
- Other procedures possible if effective/efficient [objective of limited assurance remains]
- May review accounting records for significant / unusual transactions.

*Sufficient Appropriate Evidence.



3A Inquiry

- Seeking information from Mgmt /relevant persons.
- Key inquiries cover: Accounting estimates, related parties, significant/unusual transactions, suspected fraud, subsequent events, GC assessment, contingencies.
- Evaluate responses for reasonableness/consistency.

3B Analytical Procedures

- Ensure entity data is adequate.

Inquire Non Financial Info

Action taken, Communication from Regulatory bodies, Matters arising during Other Procedures

H. Why Inquiry & Analytical Procedures are Important

1 Importance of Inquiry

- Provides evidence on Mgmt intent.
 - Past history,
 - Reasons for action,
 - Ability to Pursue
- Professional skepticism essential.
- Helps update UOEE*, Identify MMS areas.

2 Importance of Analytical Procedures

- Updates UOEE, identifies potential MMS areas.
- Identifies inconsistencies/variances.
- Corroborative evidence.
- Serves as additional procedures if misstatements suspected.
- Methods range from simple to complex analyses.

*Understanding of Entity and Environment

I. Specific Circumstances

1 Related Parties

- Stay alert for unidentified/undisclosed RP relationships/transactions.
- Inquire about nature, parties, rationale for significant unusual transactions.

2 Fraud and Non-Compliance with Laws or Regulations

If indications, communicate to Mgmt, request assessment of effects on FS; consider external reporting.

3 Going Concern

- Assess ability to continue as GC.
- If concerns arise, inquire mgmt's plans, evaluate responses, determine if FS should continue on GC basis.

4 Use of Work Performed by Others

Ensure work is adequate.

5 Review of Group Financial Statements

Plan procedures considering group context.



J. Additional Procedures when FS are materially misstated

1 If Matters Indicate Possible Misstatement

If FS may be MMS, design/perform additional procedures to conclude on MMS, Determine if matter cause the FS to be materially misstated.

2 Practitioner's Judgment

Response varies based on professional judgment

3 Additional Procedures

Aim to gather SAE. May include:

- Inquiry/Analytical procedures (more detail/focus).
- Other procedures (substantive tests of details, external confirmations).

4 Example of Additional Procedures

- Accounts Receivable overdue, no bad debt provision).

a Possible Outcomes

No issues, FS clearly misstated or uncertainty remains

b What Happens Next?

If issue unresolved, acknowledge scope limitation, no unmodified opinion.

- If uncertainty remains, extend additional procedures.
- Unable to reach conclusions - Scope Limitation

K. Procedures related to subsequent events

1 Subsequent Events

If aware of events requiring adjustment/disclosure before report date, Ask Mgmt to correct.

2 Amending the FS

If fact arises after report date but before FS issued that would amend report,

- Discuss with Mgmt/TCWG,
- Determine FS amendment needed,
- Inquire how Mgmt will address.



3 Mgmt Not Amending the FS

- If Mgmt refuses and report issued: Notify Mgmt/TCWG not to issue FS.
- If FS issued, Take action to prevent reliance on report.

L. Written representations

1 Not a Substitute for Evidence

Crucial evidence; changes/no WR indicates issues.

2 Importance of Written Representations

Prompts rigorous consideration by Mgmt.

3 Responsibilities of Management

Request WR that Mgmt fulfilled responsibilities (prepared FS as per AFRFW, provided all info/access, all transactions recorded).

4 Representations Related to Disclosures

May request additional WR for specific items & disclosures in FS.

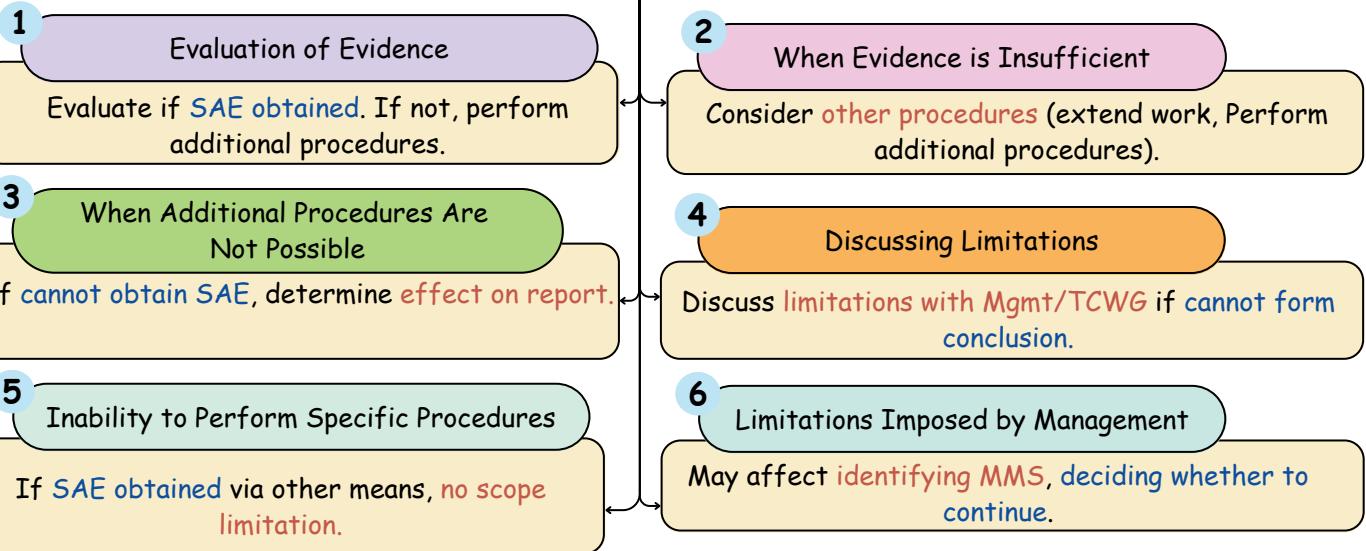
6 No WR Provided

- Discuss with Mgmt/Governance.
- Re-evaluate integrity if Mgmt.
- Take appropriate actions.

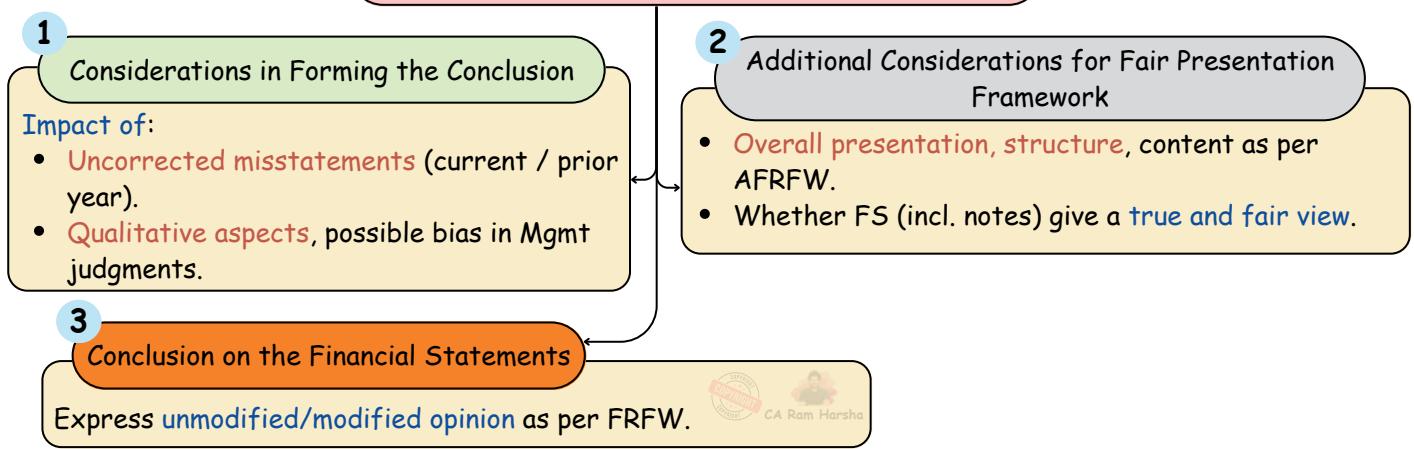
7 If no WR/Integrity doubt

Disclaim conclusion or withdraw.

M. Evaluating evidence obtained from the procedures



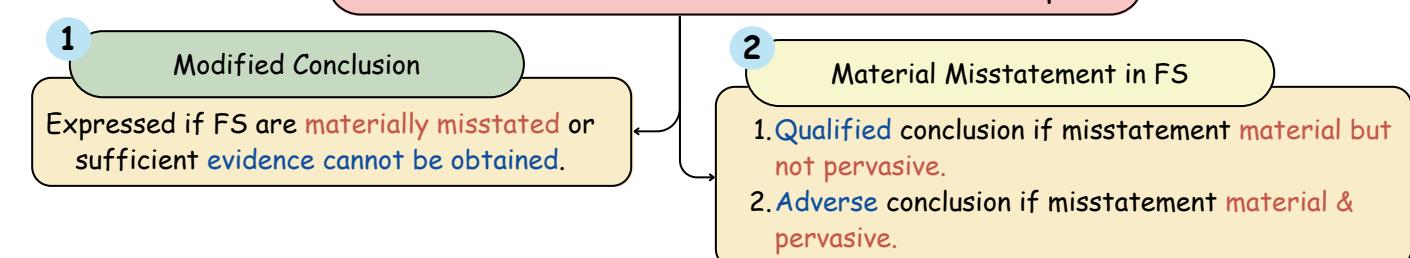
N. Practitioner's Conclusion on FS



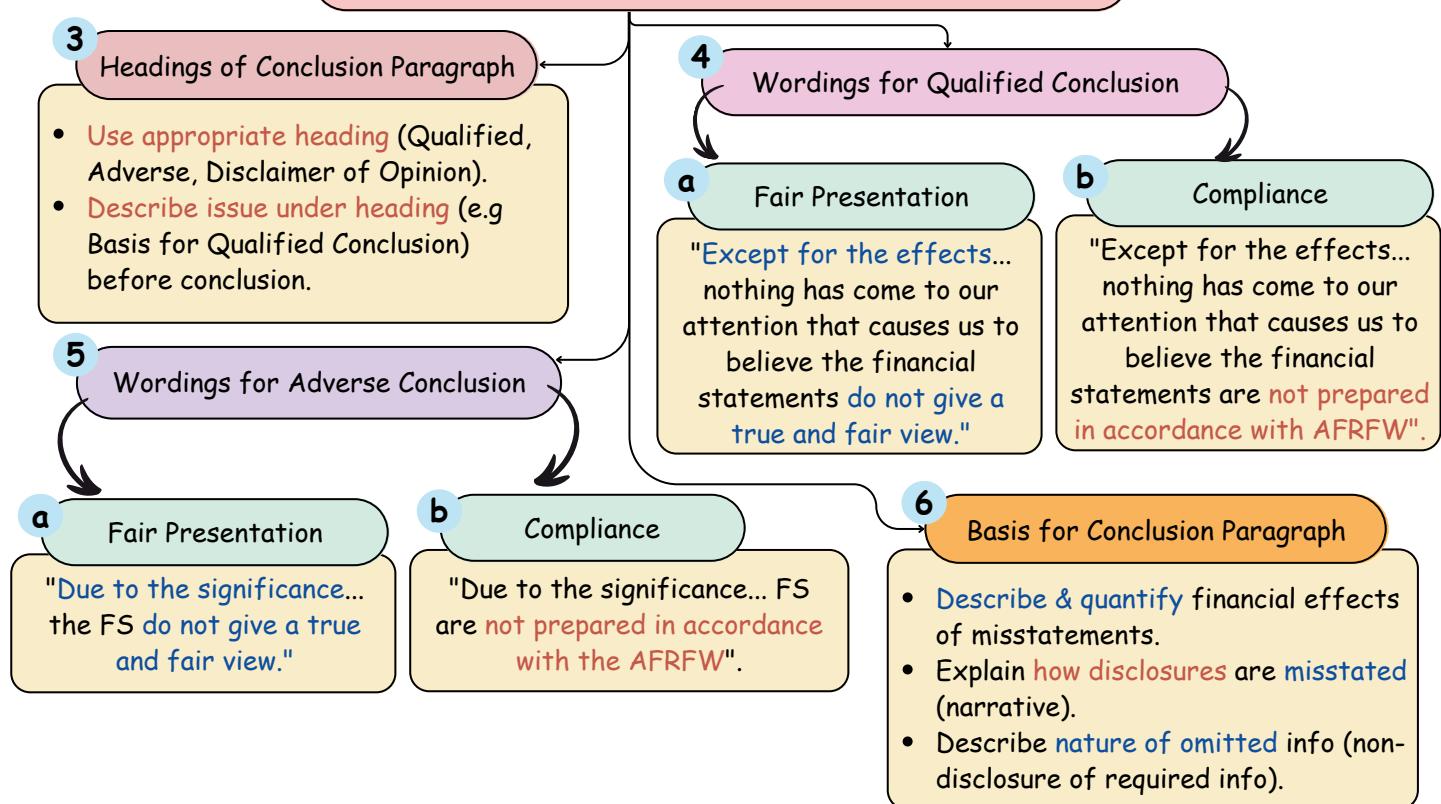
O. Unmodified conclusion in the Practitioner's report



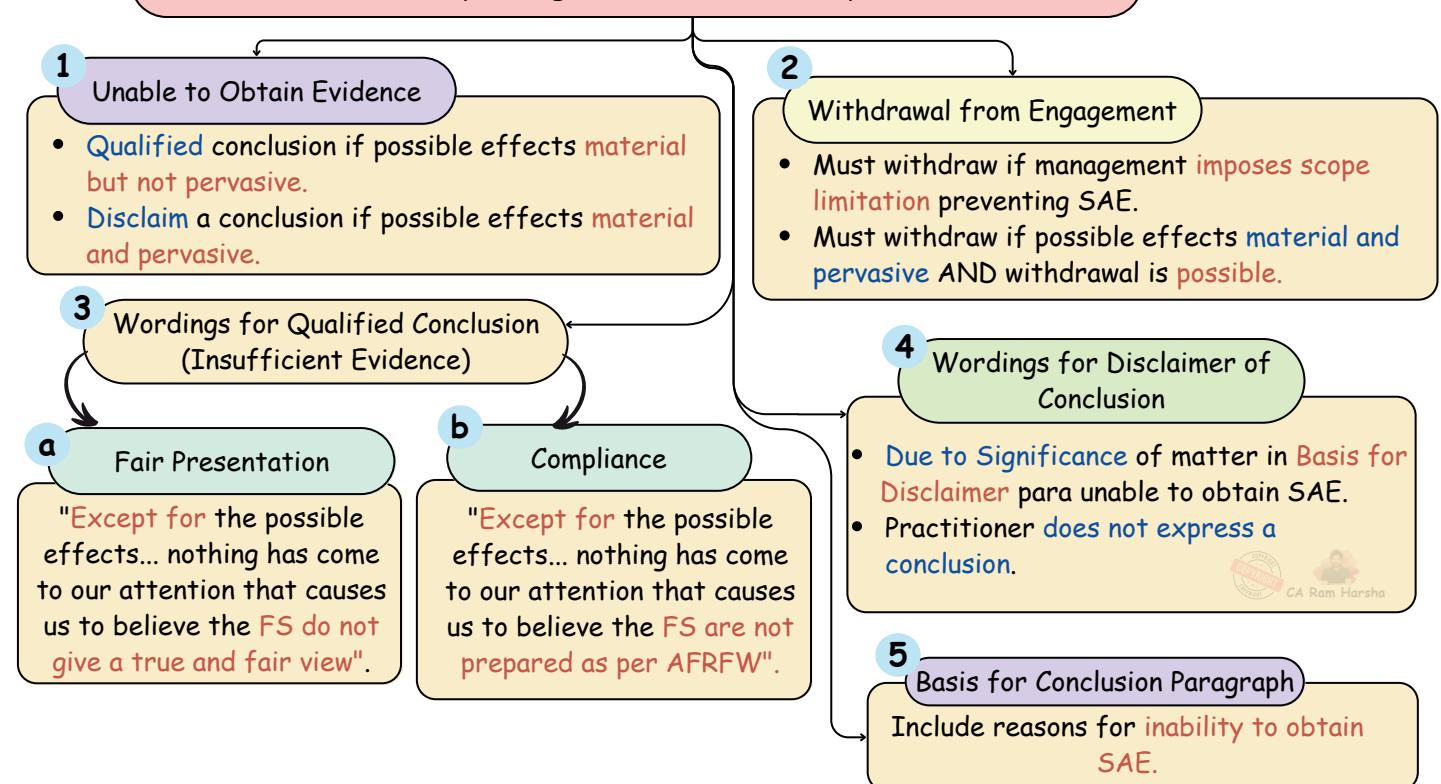
P. Modified Conclusion in the Practitioner's Report



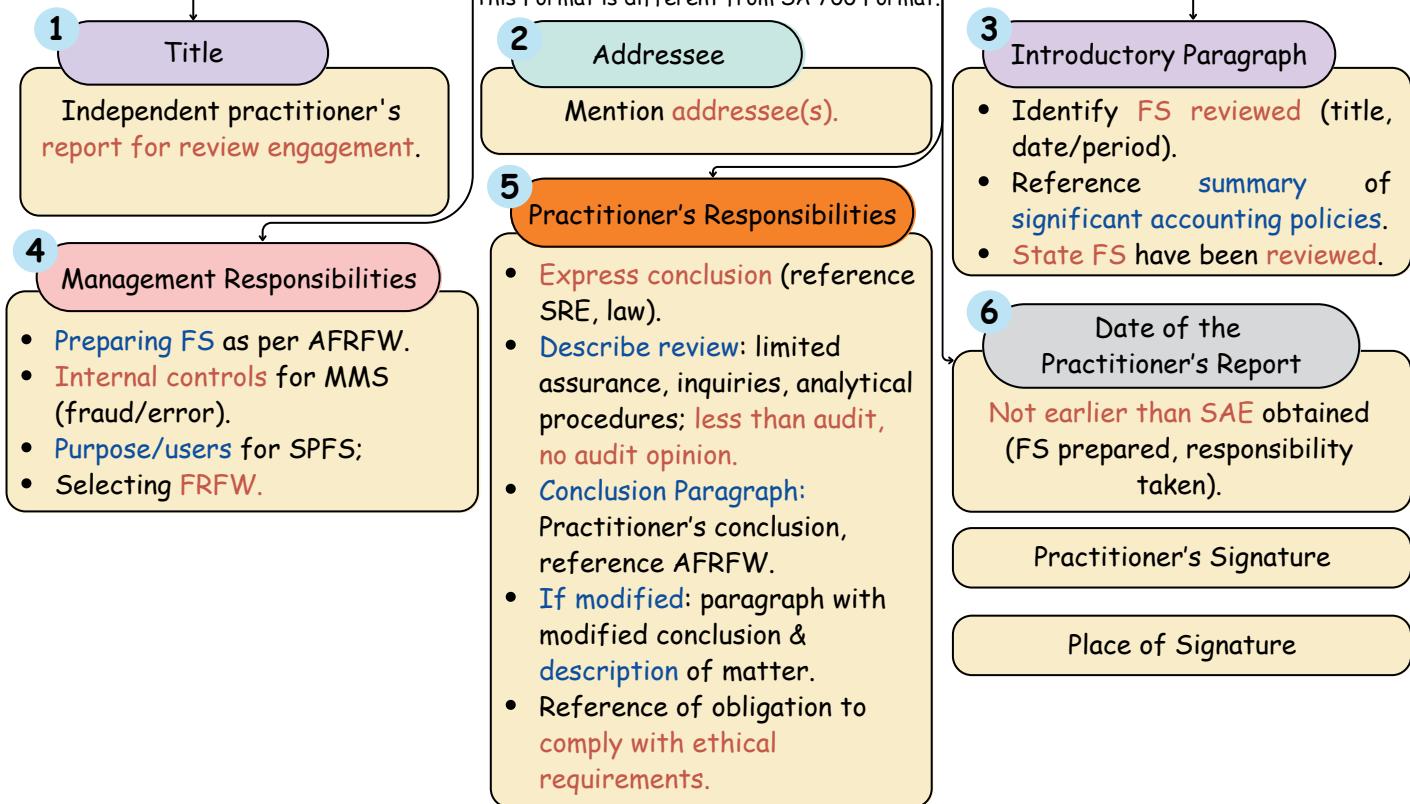
P. Modified Conclusion in the Practitioner's Report



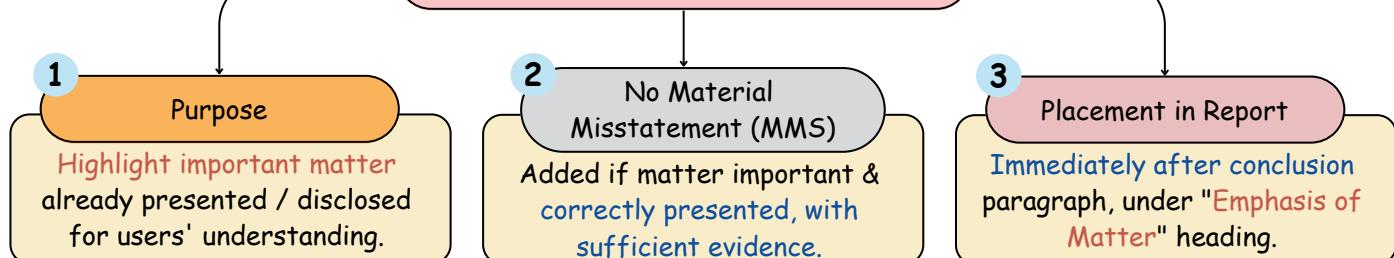
Q. Conclusion on Reporting in Case of Inability to Obtain SAE



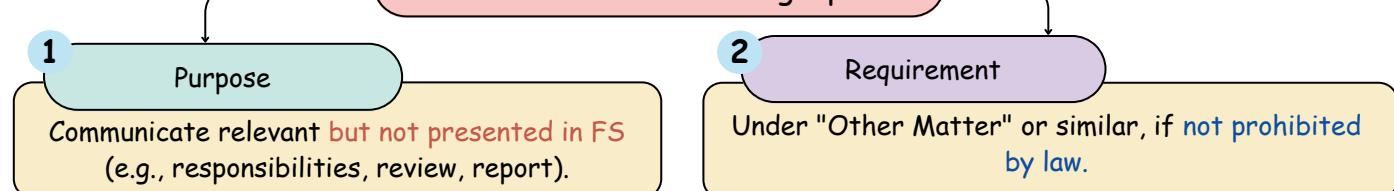
R. Elements of Practitioner's Report



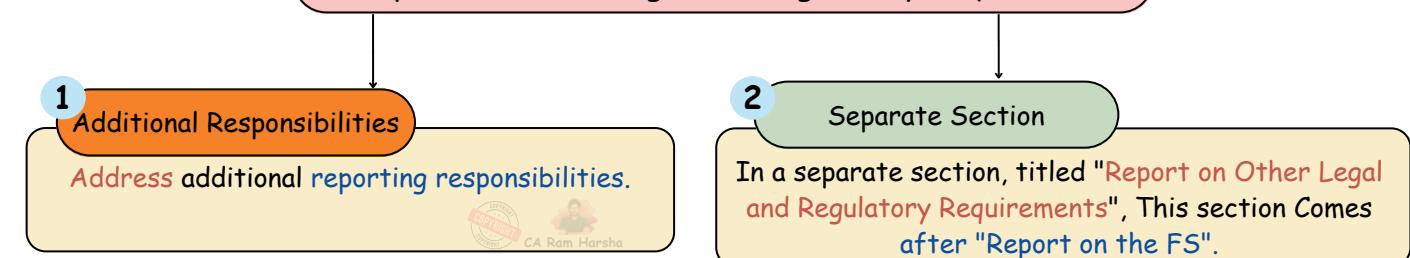
S. Emphasis of Matter Paragraph

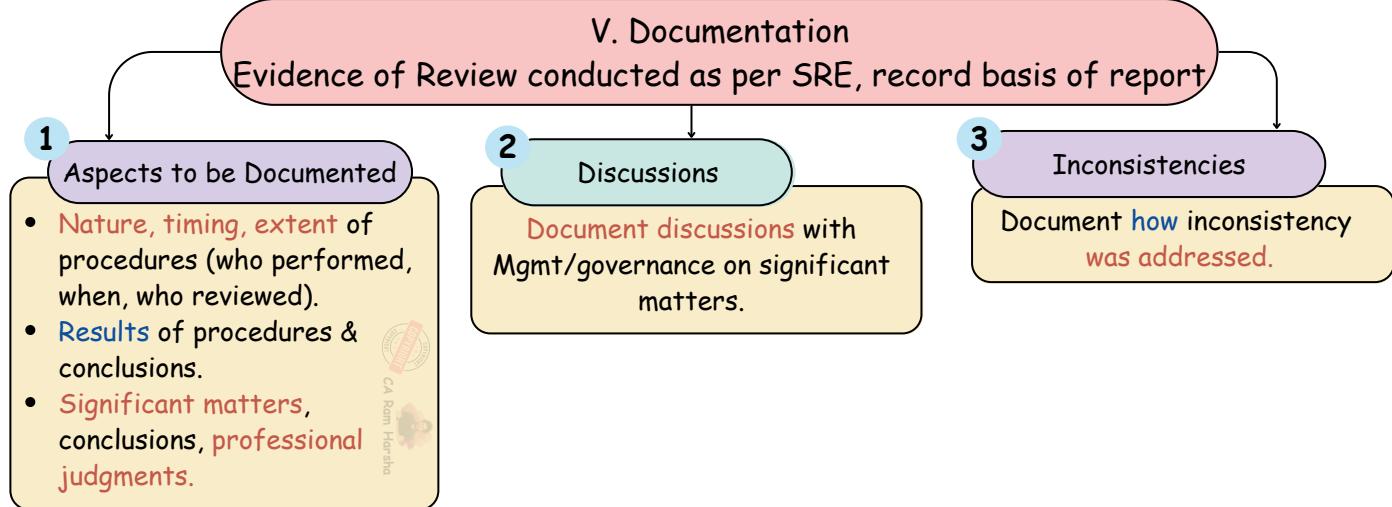


T. Other Matter Paragraph

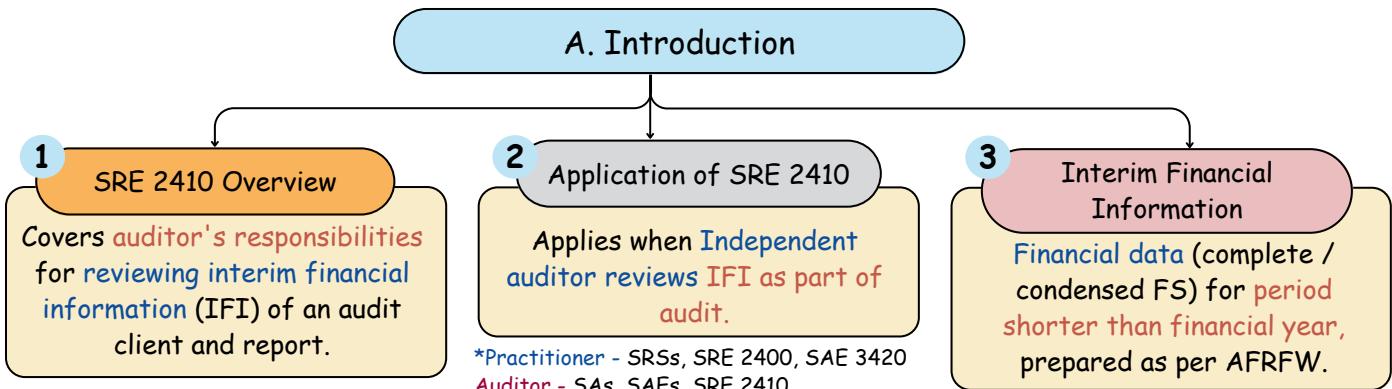


U. Report on Other Legal and Regulatory Requirements

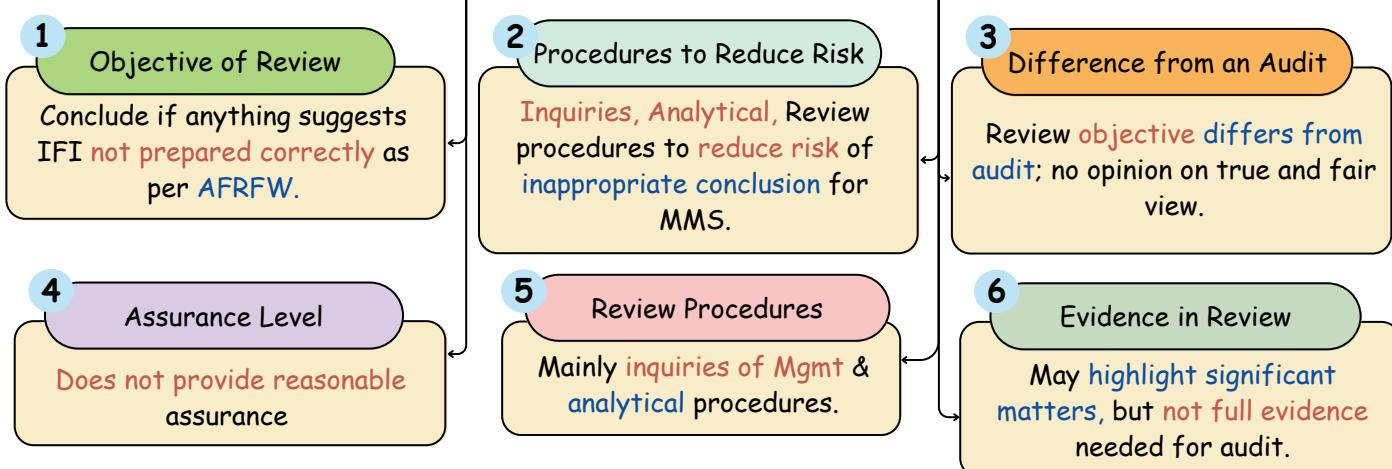




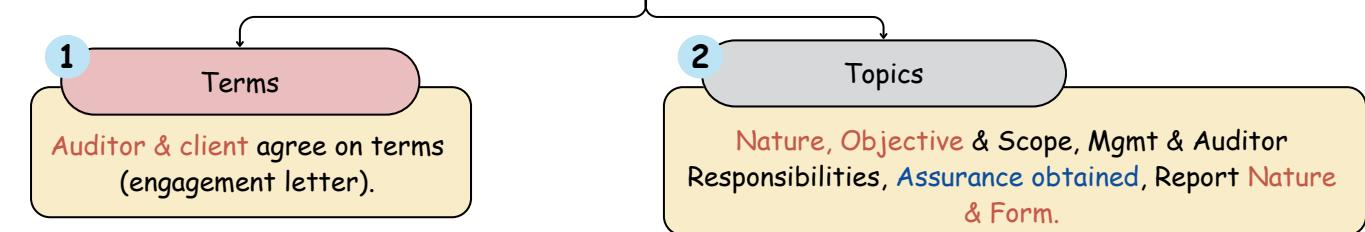
SRE 2410 - Review of Interim FI Performed by Independent Auditor of the Entity



B. Objective of an Engagement to Review Interim Financial Information

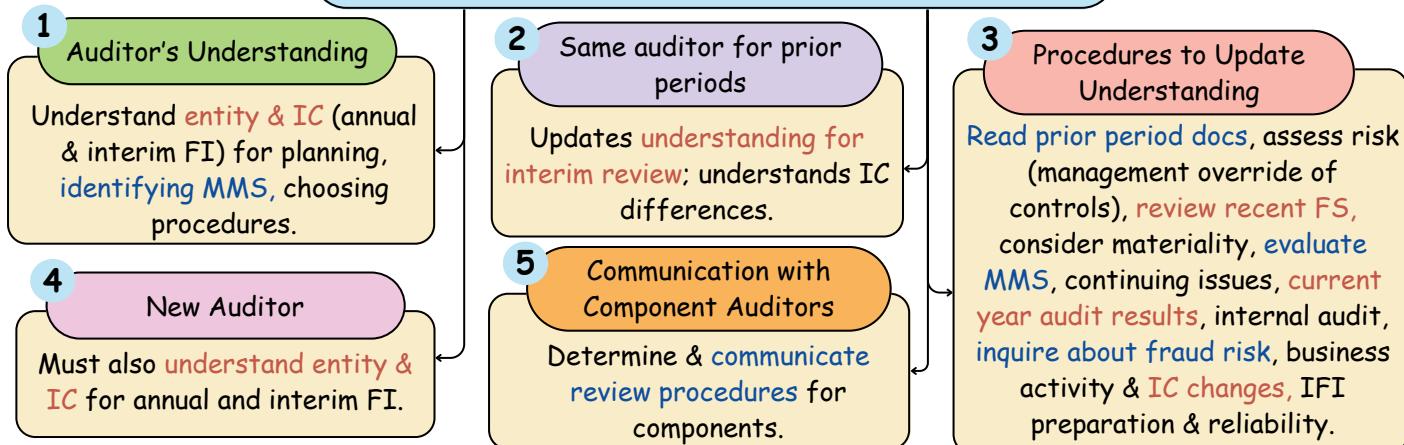


C. Agreeing the Terms of the Engagement

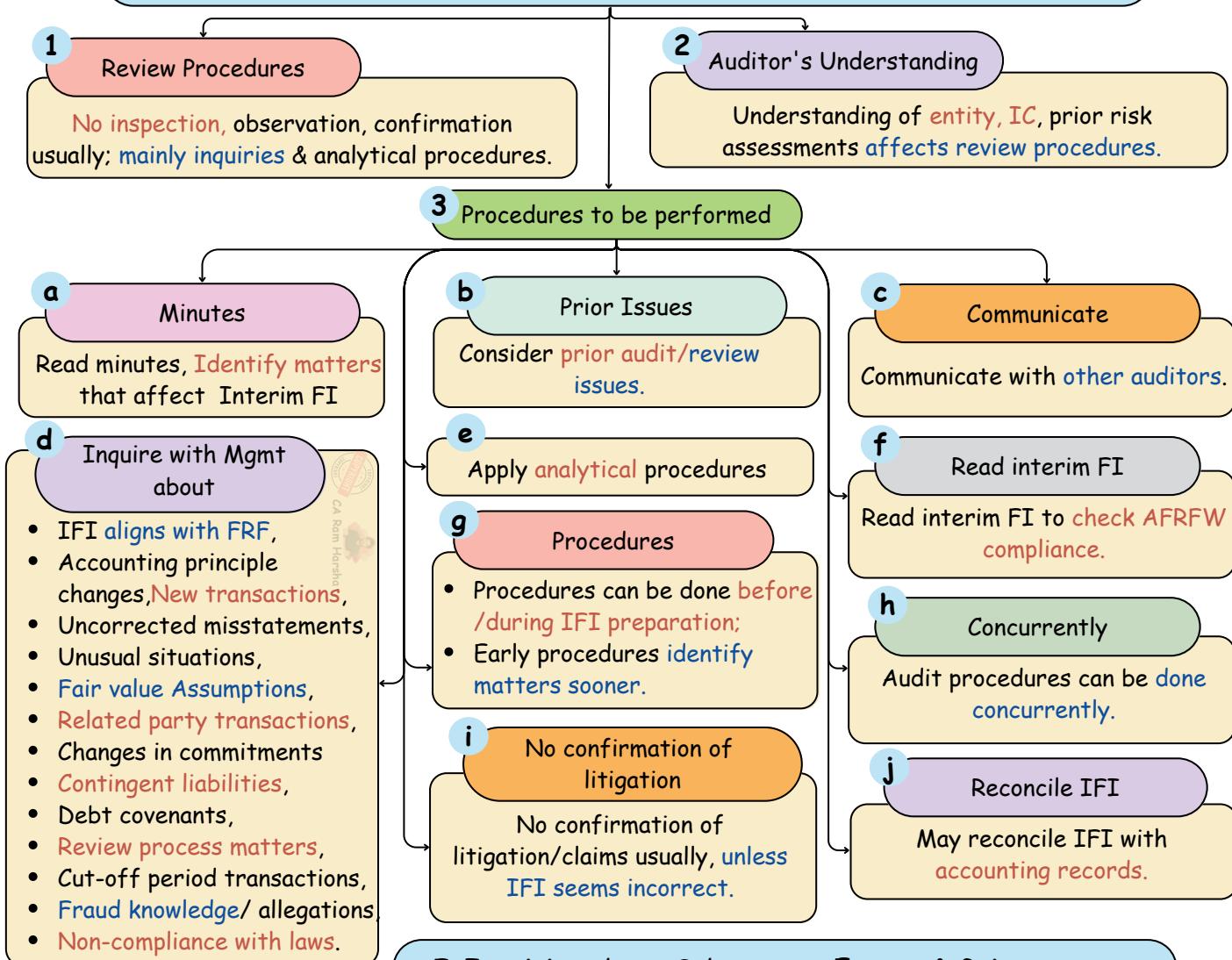




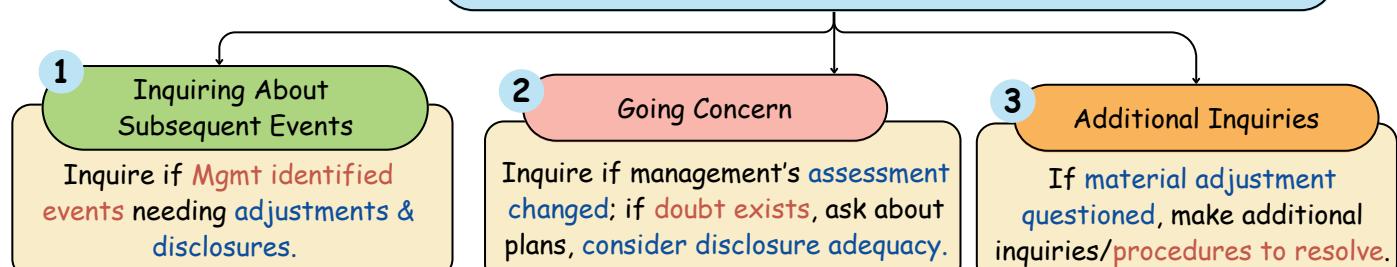
D. Understanding the Entity and its environment



E. Inquiries, Analytical and other review procedures



F. Inquiries about Subsequent Events & Going concern



G. Evaluation of Misstatements identified

1 Evaluation of Uncorrected Misstatements

Assess if uncorrected MMS (individually/total) are material.

2 Evaluation of Misstatements

Assess all misstatements for material adjustment needs.

3 Professional Judgment

Use professional judgment for materiality of uncorrected MMS.

H. Obtaining Mgmt Representations

1

Management acknowledges responsibility for

- Design & Implement IC to prevent/detect fraud/error.
- IFI prepared per AFRW.
- Uncorrected MMS immaterial.
- Disclosure of fraud/suspected fraud.
- Assessment of fraud risks.
- Non-compliance with laws/regulations affecting IFI.
- Subsequent events requiring adjustments/disclosures.

I. Auditor's Responsibility for Accompanying Information

1 Read the Other Information

Read to check for material inconsistency with financial data.

2 Material Inconsistency

a MMS in Interim Financial Information

If amendment needed & Mgmt refuses, consider impact on review report.

b MMS in Other Information

If amendment needed & Mgmt refuses, auditor may add additional para, withhold report, or withdraw.

c MMS of Fact in Other Information

Discuss with Mgmt.

3 Other Information not Related to Interim FI

Discuss, Assess validity involving 3rd party consultation; if Mgmt refuses to correct, consider notifying TCWG or legal advice.

J. Communication of Matters to Management

1 Communicate to Mgmt

If material adjustment needed for IFI compliance.

2 Communicate to TCWG

If management does not respond.

3 Manner of Communication

Oral or written (depends on nature, sensitivity, timing; document oral).

4 TCWG not Responded

Consider modifying report or withdrawing/resigning.

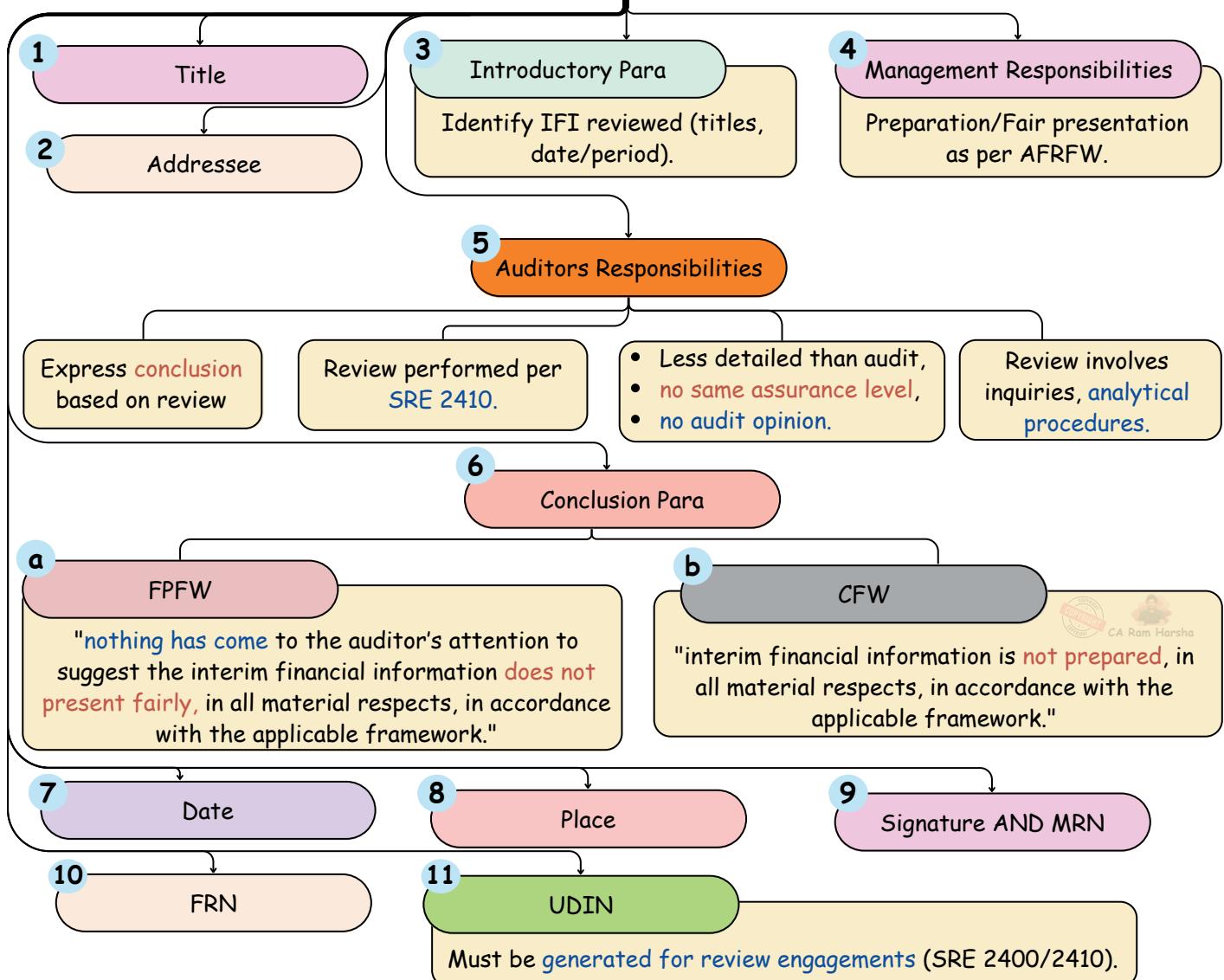
5 Communication of Fraud

- Communicate to Mgmt;
- Consider collusion / involvement of Mgmt,
- Reporting to TCWG, implications.

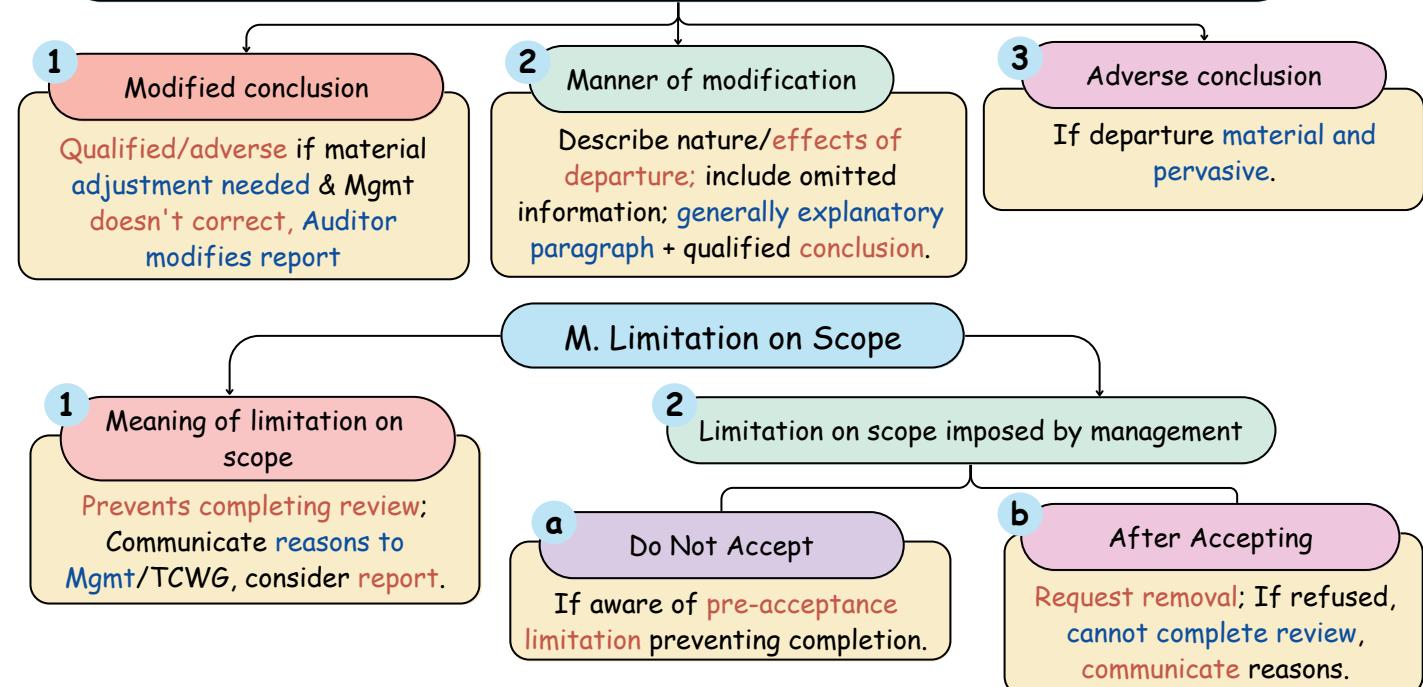
6 Governance Matters to TCWG

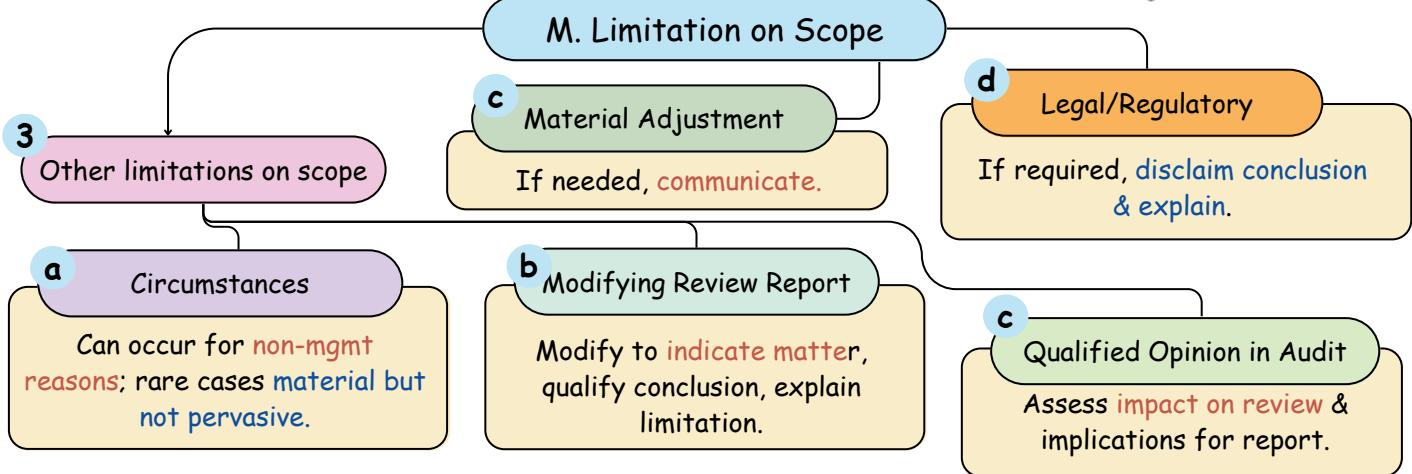
Communicate matters of governance interest.

K. Review Report on Interim FI

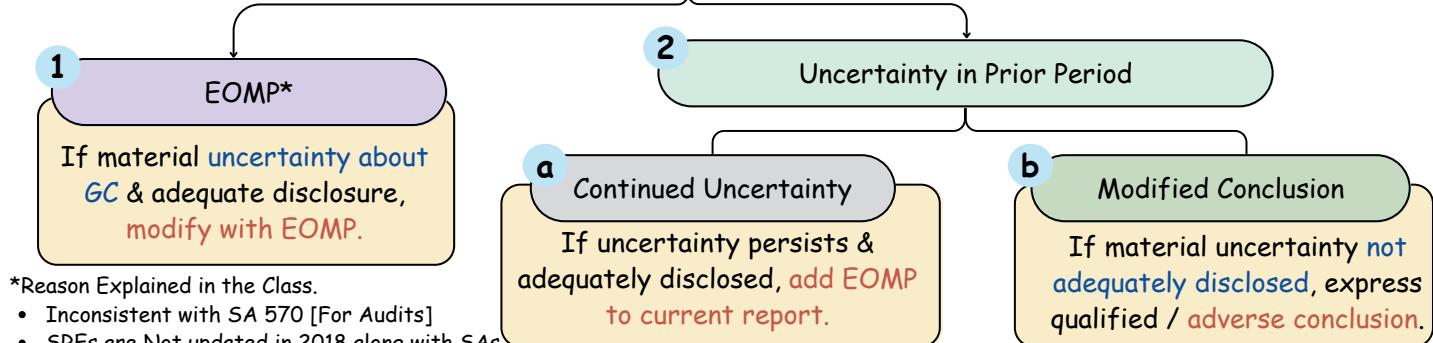


L. Departure from the AFRFW for Preparation and Presentation of Interim FI

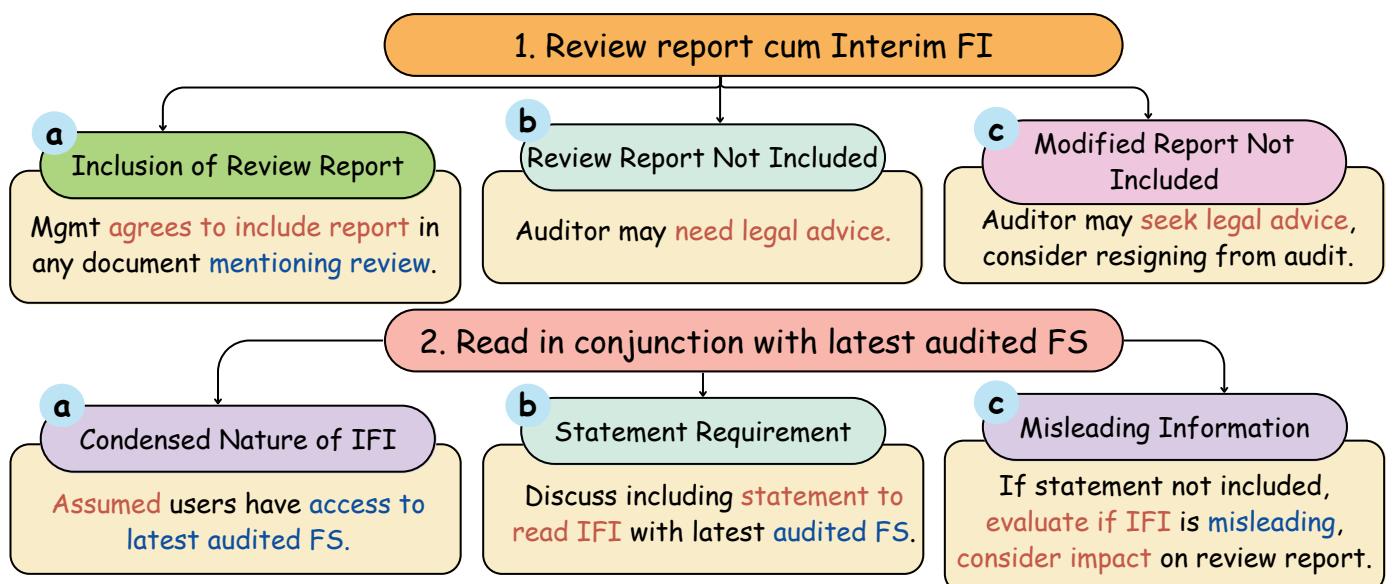




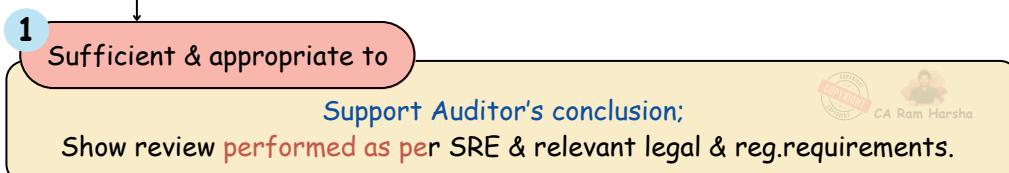
N. Going Concern and Significant Uncertainties



O. Other Considerations



P. Documentation Review Documentation



11. PFI AND OTHER ASSURANCE SERVICES

A. Concept of Assurance Services

1 Assurance Engagements

Focus on **subject matters other than historical financial information**:

1. **Prospective Financial Information (PFI)** or
2. **Non-financial matters** (e.g., control design/operation).

2 Standards on Assurance Engagements

Contain **responsibilities** of professional accountants.

3 Level of Assurance

The level of assurance in these engagements is **Moderate***

*Another phrase of Limited Assurance.
Lower Assurance than Reasonable Assurance

SAE 3400 - Examination of Prospective Financial Information (PFI)

A. Various Terms

1 SAE 3400

- **Guidance for examining PFI**, including **best-estimate & hypothetical assumptions**.
- **Need not** be by Stat Auditor

2 Prospective Financial Information (PFI)

- **Based on assumptions about future events and possible actions;**
- **Highly subjective**, requires significant judgment

3 (Forms of Prospective Information)

Forecast, Projection or combination.

4 Forecast

PFI based on management's **expected future events** and **actions**. Uses **best-estimate assumptions**.



5 Best-Estimate Assumptions

Reflect **anticipated experience** with **no provision for adverse deviation risk**

6 Projection

PFI based on **hypothetical assumptions** (not expected to occur) or a **mix** of best-estimate and hypothetical

7 Auditor*

Any individual examining PFI services, not necessarily statutory auditor.

*Practitioner - SRSs, SRE 2400, SAE 3420
Auditor - SAs, SAEs, SRE 2410

B. Purpose & Scope of SAE 3400

1 Purpose

Set **standards & guidance** for examining & reporting on PFI (best-estimate & hypothetical assumptions).

2 Scope

Not applicable to PFI in general terms (e.g., MDA*).

*Mgmt Discussion & Analysis

3 Reference to Other Standards

Apply principles from other SAs (ICAI) where practicable.

C. Nature of assurance provided for PFI

1 PFI

Relates to future events that may not occur.

2 Evidence

- **Future-oriented, speculative;**
- **Different from historical data.**

3 Assurance Level

Only **Moderate**.

4 Opinion

Cannot be expressed on whether **prospective results** will be **achieved**.

D. Responsibility of preparation and presentation of PFI

Management is responsible for preparation & presentation, including **identification & disclosure** of PFI, **basis of forecast** and underlying **assumptions**.

E. CA in practice in association with PFI

1 Need for CAs

Stakeholders **rely on CA reports for projected cash flow/profitability.**

2 Code of Ethics

Prohibits linking name with **earnings estimates contingent on future events** stated under [C3 P1 SCH 2 of CA Act]

3 Exception

CA can associate with prospective FS

- If they **disclose sources**,
- Explain **basis of assumptions** and
- State they **do not vouch** for **accuracy**.

4 Projections

Same rules apply; CA must **not vouch** for accuracy.



F. Duties of member examining PFI

1 Management's Assumptions

- Verify best-estimate assumptions are **reasonable**;
- Hypothetical assumptions are **consistent** with purpose.

2 Basis of Preparation

Ensure PFI is **properly prepared** based on assumptions.

3 Presentation and Disclosure

Confirm **proper presentation & disclosure** of all material **assumptions** (best-estimate/hypothetical).

4 Consistency with Historical Statements

Verify **consistent preparation** with historical FS using **appropriate accounting principles**.

5 Application of Other Standards

Apply relevant **SA** where practicable.

G. Acceptance of Engagement by Auditor in relation to PFI

1 Precautions Before Acceptance

Auditor considers:

- Intended use**,
- Distribution**,
- Nature of assumptions**,
- Elements of PFI,
- Period covered**.

2 Decline or Withdraw

If assumptions are **unrealistic** or **information inappropriate**

3 Reliance on Historical Data

Assess **reliability** of past financial data for projections.

4 Engagement Letter

Agree on **terms** with client



H. Examination Procedures

1 Key Factors

- Previous engagement knowledge, **Management competence**,
- MMS likelihood,
- **Judgment impact**,
- Info sources reliability,
- Business stability,
- **Team experience**.

2 Assessing Evidence Reliability

Evaluate **data sources** (budgets, debt agreements, industry reports).

4 Consistency Check

Ensure **hypothetical assumptions align** with **financial purpose** and are not unrealistic.

3 Hypothetical Assumptions

Consider **all significant implications***.
*Perform Sensitivity Analysis

I. Presentation & Disclosure of PFI

- **Informative & Not Misleading**.
- **Accounting Policies**: Clearly disclosed in notes.
- **Changes in Accounting Policy**: Reason & impact disclosed.
- **Disclosure of Assumptions**: Clearly state if best-estimate / hypothetical; disclose if highly uncertain.
- **Date of Preparation**: Disclosed and Management confirm validity of Assumptions on this date.
- **Range Disclosure**: Basis for setting it must be clear, not biased/misleading.



CA Ram Harsha

J. Report Components for Examination of PFI

1 Includes

- Title,
- Addressee,
- PFI identification,
- SAE reference,
- Management responsibility statement for PFI & assumptions,
- Purpose/restricted distribution reference (if applicable).

2 Procedures Statement

Examination on **test basis** of evidence supporting **assumptions / amounts**.

4 Opinion

On whether PFI is **properly prepared on assumptions & presented per FRFW**.

3 Negative Assurance

On whether **assumptions provide reasonable basis**.

5 Caveats

Concerning achievability of results.

6 Date, Place, Signature.

K. Disclaimers in the Report

1 Reasonable Basis

State if anything suggests assumptions **do not provide reasonable basis**.

2 Opinion on Preparation

Express **opinion on proper preparation / reporting FW adherence**.

3 Actual vs. Projected Results

State actual results **may differ significantly**; **No guarantee for range**.

4 Intended Use of Projection

Emphasize hypothetical basis; **caution against unintended use**.

5 Presentation and Disclosure Inadequacy

Qualified/Adverse opinion or withdrawal.

6 Unreasonable Assumptions

Adverse opinion or **Withdrawal**.

7 Examination Affected by Conditions [Limitations]

Withdrawal or Disclaimer and describe scope limitation.

L. Documentation

Document **evidence supporting report** and examination as per SAE.

SAE 3402 Assurance Reports on Controls at a Service Organisation

*Advisable to Read along with SA 402

A. Purpose of SAE 3402

1 Coverage

Assurance engagements on controls at a S.O. that impact user entities' ICOFR.



2 Purpose

Provide report for user entities and their auditors on effectiveness of controls at S.O.

3 Link to SA 402

Complements SA 402 by offering appropriate evidence.

*Practitioner - SRSSs, SRE 2400, SAE 3420

Auditor - SAs, SAEs, SRE 2410

B. Scope and Applicability

1 Applicability

Only If S.O. is responsible for / asserts suitable design of controls.

2 Does not cover

- Reports only* on controls at S.O.
- Controls unrelated to user entity's FR.

*3402 is applicable ONLY to satisfy the needs of U/E or U/A

C. Meaning of Service Organization & User entity

1 Service Organization (S.O.)

3rd party providing services to user entities affecting their IC related to FR.

2 User Entity

Entity that uses S.O. services.

D. Why Controls at S.O. are important to User entity's ICOFR

1 Impact on User Entity's Internal Control

S.O. controls may be relevant to user entity's financial reporting

2 Scope of Controls at S.O.

Includes controls over user entity's information systems maintained by S.O.

3 Professional Judgment

Relevance depends on control objectives and suitability of criteria.

E. User Auditor & Service Auditor

1 User Auditor

Audits & reports on user entity's FS.

2 Service Auditor

Professional accountant providing assurance report on S.O. controls at S.O.'s request.

F. Objectives of a Service Auditor (as per SAE 3402)

1 Obtain Reasonable Assurance

Ensure S.O. **system and controls** are fairly **presented, designed and operating effectively** based on suitable criteria.

- System Description: **Verify accurate representation** (Type 1&2).
- Control Design: **Assess suitable design** (Type 1&2).
- Control Effectiveness: **Determine effective operation** (Type 2 Only).

2 Reporting

Provide report based on **findings**

G. Type I & Type II Report

1 Type 1 Report

Focuses on **system description and design of controls** at a specified date.

2 Type 2 Report

Focuses on **system description, design, AND operating effectiveness of controls** throughout a specified period. Includes **description of tests and results**.

H. Proceeding with an Engagement

1 Compliance with Ethical Requirements

Including **independence**.

2 Communication

Inquiries, requests, representations with S.O. management/governance.

3 Acceptance & Changes

Ensure **capability, suitable/available criteria, useful scope/description**. **Justify scope changes**

4 Assessing Suitability of Criteria

Assess appropriateness for system description/controls, and effectiveness (Type 2).

5 Determination of Materiality

Consider for **system description, control design, and control effectiveness** (Type 2).

6 Understanding the Service Organization's System

Obtain **clear understanding** of S.O. system/controls in scope.

7 Obtaining Evidence

For **system description, control design, and operating effectiveness** (Type 2).

8 Written Representations

Obtain confirmations from S.O. on **assertions, information access, non-compliance, fraud, deviations, design deficiencies, control failures, subsequent events**.

9 Identifying Subsequent Events

Inquire about **significant events impacting report**.

I. S/A Assurance Report

- Title
- Addressee
- Identification of:
 - S.O.'s system description & assertion (Type 1 & 2)
 - Excluded parts - Complementary user entity controls
 - Subservice orgs & their roles

- Criteria used & entity defining control objectives
- States Type 2 report aids user entities & auditors

Service Organisation Responsibilities:

- System **description & assertion** (accuracy)
- Providing Service.
- Stating control objectives.
- Designing & implementing controls.

Service Auditor's Responsibilities:

- Opinion on description, controls, & Effectiveness (Type 2)
- SAE 3402 Audit: Ethical & Reasonable assurance
- Summarize Procedures; Confirm SAAE
- Acknowledge Control limitations

Opinion of Service Auditor:

Type 2 - Description fairly presented (throughout), Controls suitably designed, **Controls operated effectively**

Type 1 - Description fairly presented (as on date), Controls suitably designed

- Date: Date of S/A Report shall not be earlier than date of SAAE
- Place, Signature

J. Additional Reporting Requirements for Type 2 Reports**1 Separate Section**

Describes **tests of controls performed and their results**

2 Details

Which controls tested, **sample/all**, **nature of tests**.

3 Reporting Deviations

Specify **sample size, number**, nature of deviations.

4 Even if Objectives Met

Any deviations must still be reported

K. Modified Opinion & Documentation**1****Circumstances of Modified Opinion**

If system description **not fair**, controls **not suitably designed** or Type 2 **not effective**, or SAE **not obtained**. Reasons explained.

2**Documentation Requirements**

Must allow experienced auditor to understand **procedures, results, evidence, significant matters, conclusions, judgments**.



SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

A. Meaning & Scope**1 Scope**

Reasonable assurance engagements on **Pro forma FI** in a **prospectus**.

2 Practitioner's Role

Reports on responsible party's **compilation of pro forma FI**

3 Applicability

Required by **securities law** or **generally accepted practice**.

4 Pro forma FI

Financial Information with **adjustments to show the impact of an event/transaction on unadjusted FI**, as if it occurred at an earlier date.

5 Purpose

Illustrate **impact of significant event/transaction**.

6 Not Actual Position

Does **not reflect entity's actual financial position**, performance, or cash flows.

B. Objective as per SAE 3420**1 Reasonable Assurance**

Ensure pro forma FI is **compiled by the responsible party**, in all material respects, based on the **applicable criteria**.

2 Reporting

Provide a report **based on findings**

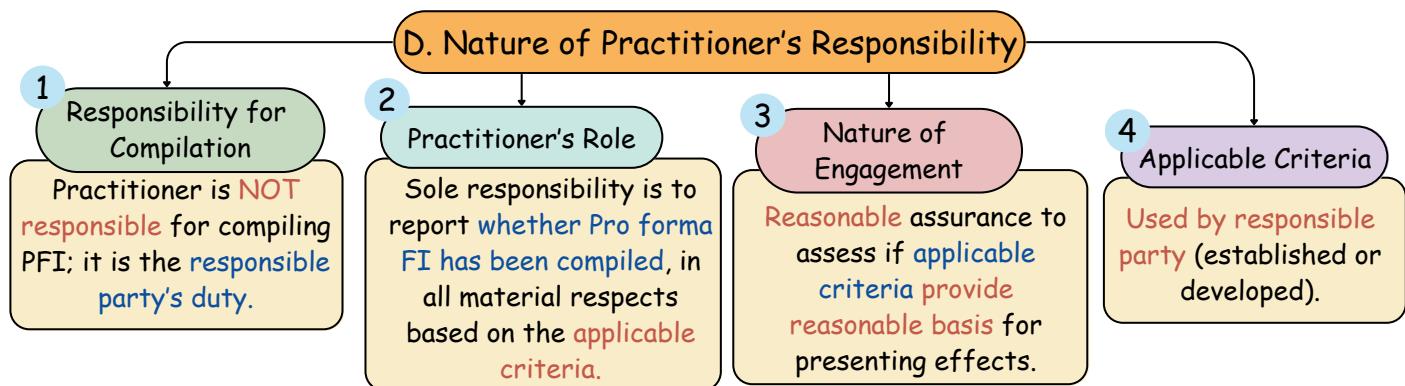
C. Compilation of Pro Forma FI**1 Process**

Responsible party **gathers, classifies, summarizes, presents FI to show impact**.

2 Steps

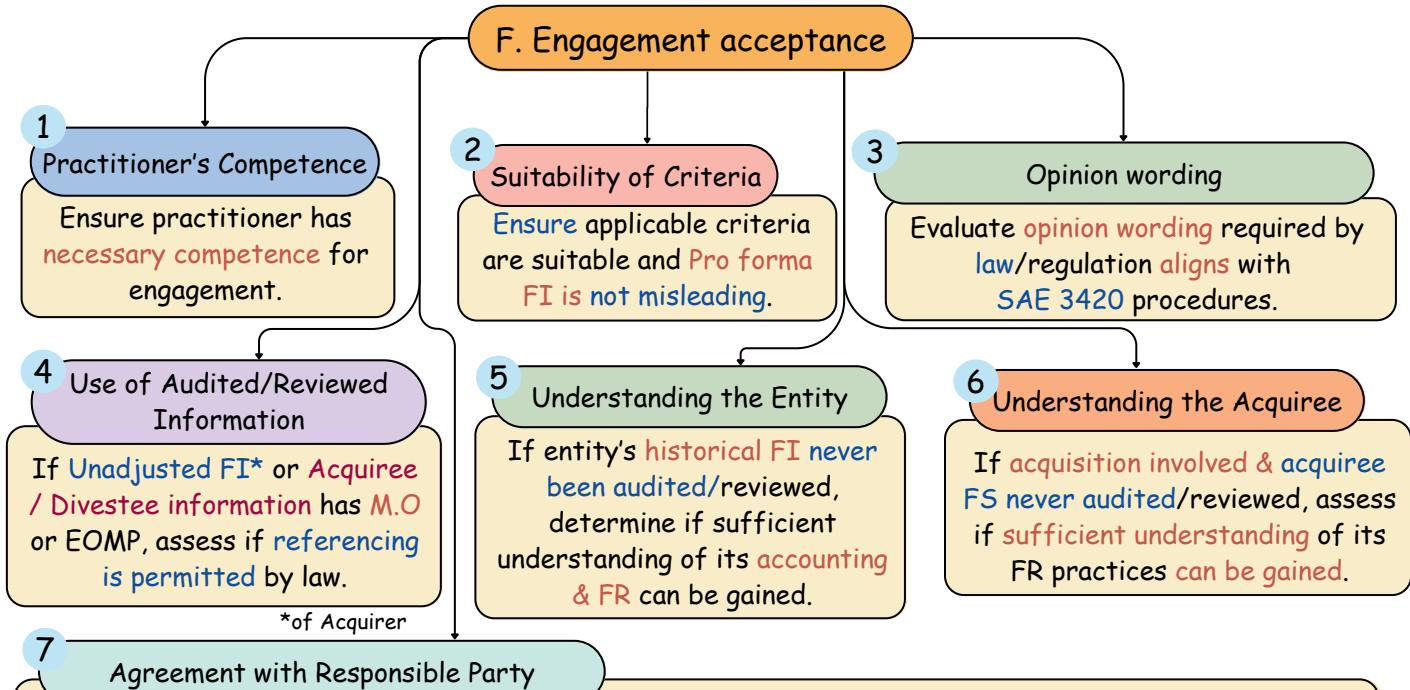
- Identify source/extract unadjusted FI,
- Apply pro forma adjustments,
- Present final pro forma FI with disclosures.

*Practitioner - SRSs, SRE 2400, SAE 3420
Auditor - SAs, SAEs, SRE 2410



E. Steps involved in an Engagement

Engagement **Acceptance**, Planning/performing, Obtain **Written Representations**, Forming the **opinion**, Preparing assurance report.



Obtain **agreement that responsible party acknowledges responsibilities**, including:

1. **Disclosure of Criteria:** If **not publicly available**, adequately disclose to intended users.
2. **Compilation Responsibility:** **Responsible party** is **accountable for compiling Pro forma FI.**
3. **Access to Practitioner:** Must provide:
 - o **Access to all relevant records**, documentation, and information.
 - o **Additional information requested.**
 - o **Access to entity personnel** and advisors.
 - o If required, **access to acquiree individuals** in business combination.

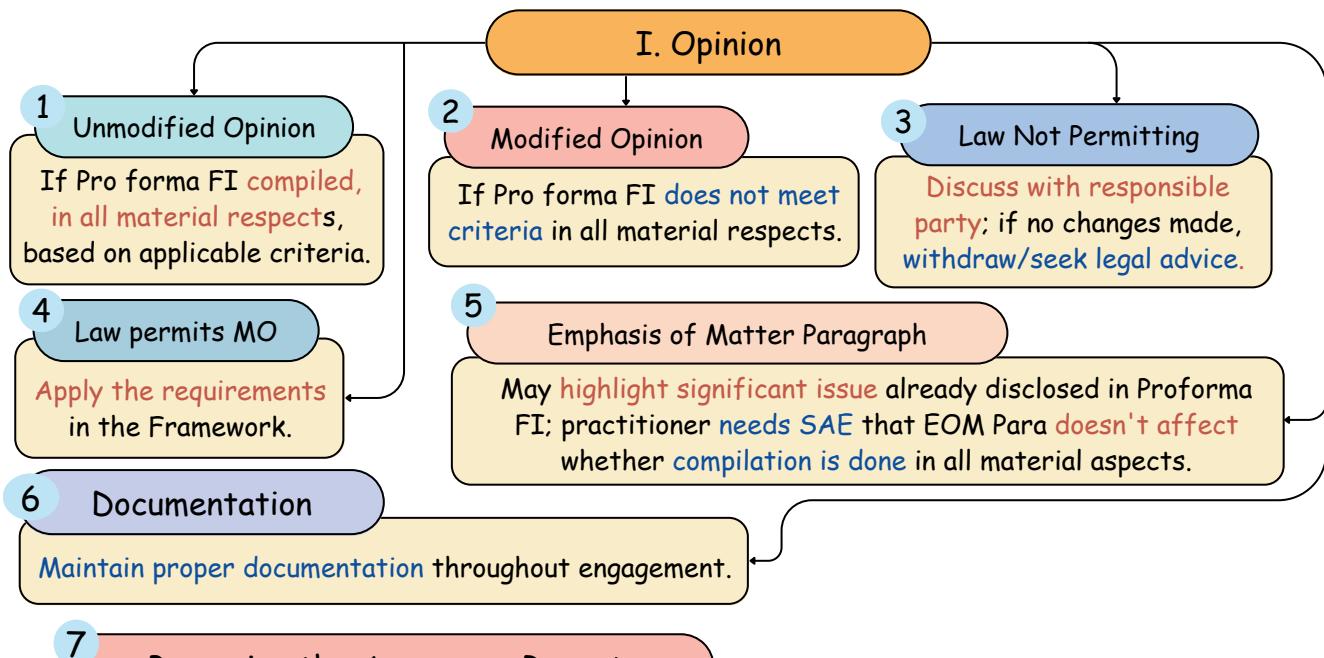
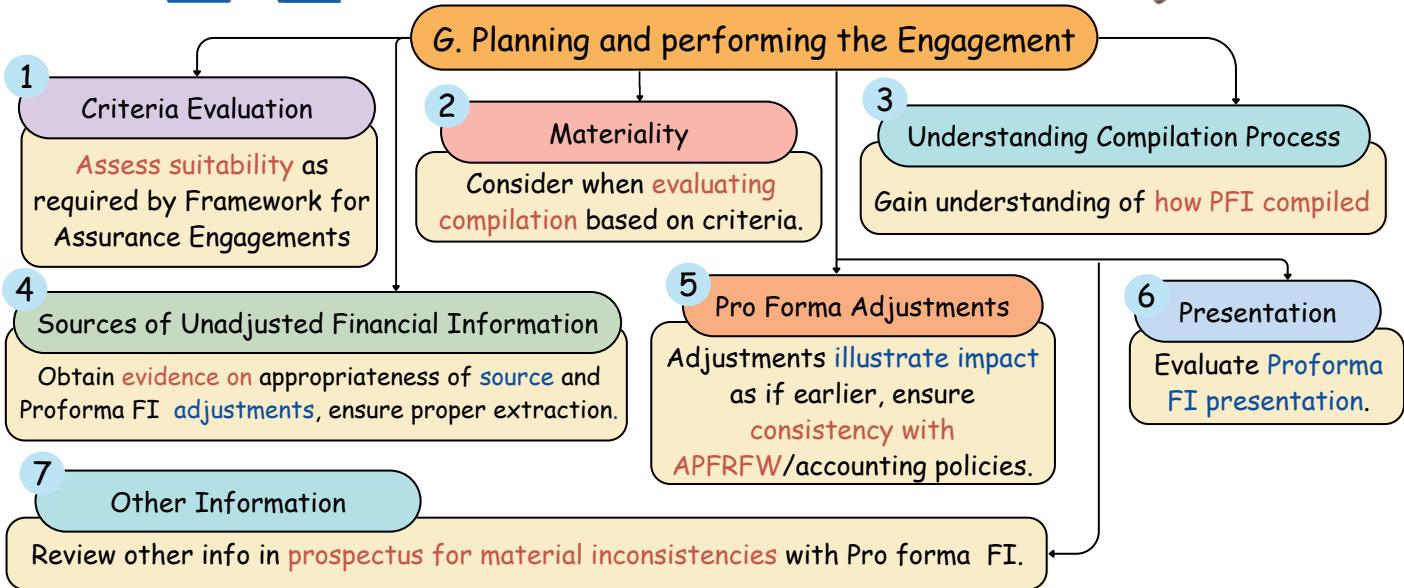


G. Planning and performing the Engagement

→ Refer Next Page

H. Written Representations

Responsible party **Identified all appropriate adjustments**; **Proforma FI compiled** based on **criteria**.



7. Preparing the Assurance Report
1. Title,
 2. Addressee,
 3. **Introductory Paragraphs** (Proforma FI, source, period / date, criteria),
 4. **Responsible party's responsibility**,
 5. **Practitioner's responsibilities** (opinion on compilation, not audit / review, illustrative purpose only),
 6. Statement that **engagement was performed** as per SAE 3420 & ethical compliance,
 7. Statement that
 - o **Reasonable assurance engagement**: Assesses criteria as reasonable basis for presenting significant effects of event/transaction.
 - o **Procedures selected by practitioner's judgment considering**: entity nature, event/transaction, engagement circumstances.
 - o **Evaluating overall Pro forma FI presentation**.
 8. **Practitioner's Opinion Phrases** (unless required by law):
 - o "Pro forma FI compiled, in all material respects, on basis of applicable criteria."
 - o "Pro forma FI properly compiled on basis stated."
 9. **Signature**,
 10. **Date**,
 11. **Place of signature**

Chapter 12 Digital Audit

A. Meaning & Features of DA

1 Meaning of Digital Audit

- Ensures **IT system effectiveness**.
- Review tech controls to identify **gaps, risks**, ensure compliance.
- Strong controls & security** build stakeholder trust..

2 Key Features of Digital Audit

- Encourages **tech adoption**.
- Improves **opinion quality, reliable report**.
- Saves **time, cost, human effort**; real-time operations.
- Standardizes processes**, mitigates risks.
- Comprehensive **overview of end-to-end processes**, tech use / control /optimization.
- Helps **create future digital strategy** (AI, Robotics, Analytics, Automation).
- Helps auditee make **informed decisions**.

3 Advantages of Digital Audit

- Enhanced Effectiveness & Efficiency**: Automation, tools save time & costs.
- Better Audit Quality**: Tech evaluates massive data, detects misstatements.
- Lower Costs**: Automation reduces manual tasks.
- Better Analytics**: AI/analytics identify trends, patterns; aids fraud detection.
- Improved Risk Assessment**: Automates processes, focuses testing on high-risk areas.

B. Considerations for Using Digital Techniques & Automation

1

- Know **desired business benefits** from automation.
- People first**: Change is difficult.
- Target right processes** for success.
- Automation is part of **broader digitalization strategy**.
- Ensure **process is working** & standardized before automating.
- Governance & data security critical**; include in risk framework.

2

Auditor's Focus on Technology Changes

- New activities/process changes** due to new technology (e.g. revenue streams, automation, personnel roles impacting internal control).
- Changes in system development**: Assess new risks, required controls.
- Impact of new technology** on information generation & use for internal controls.

2. Considerations in Auditing Digitally

A. Concept of Audit Digitally

1

Auditing Digitally

- Using technology for **effective & efficient audits**; crucial in growing IT environment.
- Digitizing audits via **automation / innovation**; focus on **real client risks**.
- Opportunity**: Understand **how technology helps** with auditing challenges.

2

Expectations from an Auditor

- Audit teams **need software/tech experts** (RPA, AI, blockchain) for quality.
- Upskilling people digitally** essential for quality audits.
- Tech investment for **data analytics, collaboration tools**; AI/drones impact scope (e.g., fraud identification with machine learning).
- Auditor **reviews final results** file for exceptions (e.g., changes without approvals).
- BOTs reduce manual intervention**, provide accurate results, save time, aid quick exception review.

B. Key Features / Advantages of Auditing Digitally

- 1 Improved Quality of Audits
 - Automation/data analytics move from sample to full transaction review.
 - Better information analysis, business understanding.
 - Upfront investment but undeniable value.
- 2 Decreasing Human Dependency
 - Tech reduces manual intervention, lowering manual errors.
 - Streamlines testing, reduces individual judgment errors.
- 3 Increases Transparency
 - ERPs/tools with audit trails trace transactions end-to-end.
 - Review date, creator, changes for enhanced transparency.
- 4 Automation and Ease
 - Automating tasks (data extraction, recording, sampling) improves quality, reduces errors.
 - Dashboards (e.g. Power BI) help auditors form opinions.
- 5 Improved Efficiency
 - Tech/digital upskilling makes auditors more efficient.
 - Tasks require simple training; fewer errors, higher efficiency, better talent retention.
- 6 Better Risk Assessment
 - Automation/tech allows focus on real challenges, precise risk assessment.
 - Dashboards/visuals identify risks and attention areas.

C. Considerations in Auditing Digitally

A. Understanding IT's Role in Business

- 1 What problems are you trying to solve?
 - Continuously evaluate emerging tech for audit benefits.
 - What makes audit easier/better & how to measure ROI.
- 2 Which technology can help you?
 - Vendors offer data acquisition, manipulation, visualization tools.
 - Consider integration into current processes; flag issues early.
- 3 How will you upskill your people to use the technology?
 - Tech effective only if used properly.
 - Training/development essential for effective use.
 - Continuous training overcomes change reluctance.
- 4 Range of automated solutions

1. Automation solutions standardize tasks, optimize efforts.
2. Techniques: Robotics/automation for data gathering, data analytics for planning / budgeting / reporting by dashboards.
 - Macros & Scripts: Rules-based automation
 - Business Process Automation (BPA): Reengineering business processes:
 - Robotic Process Automation (RPA): Automating repetitive activities across systems:
 - Intelligent Process Automation (IPA): RPA + AI:



3. Understanding of the IT Environment

A. Understanding IT's Role in Business

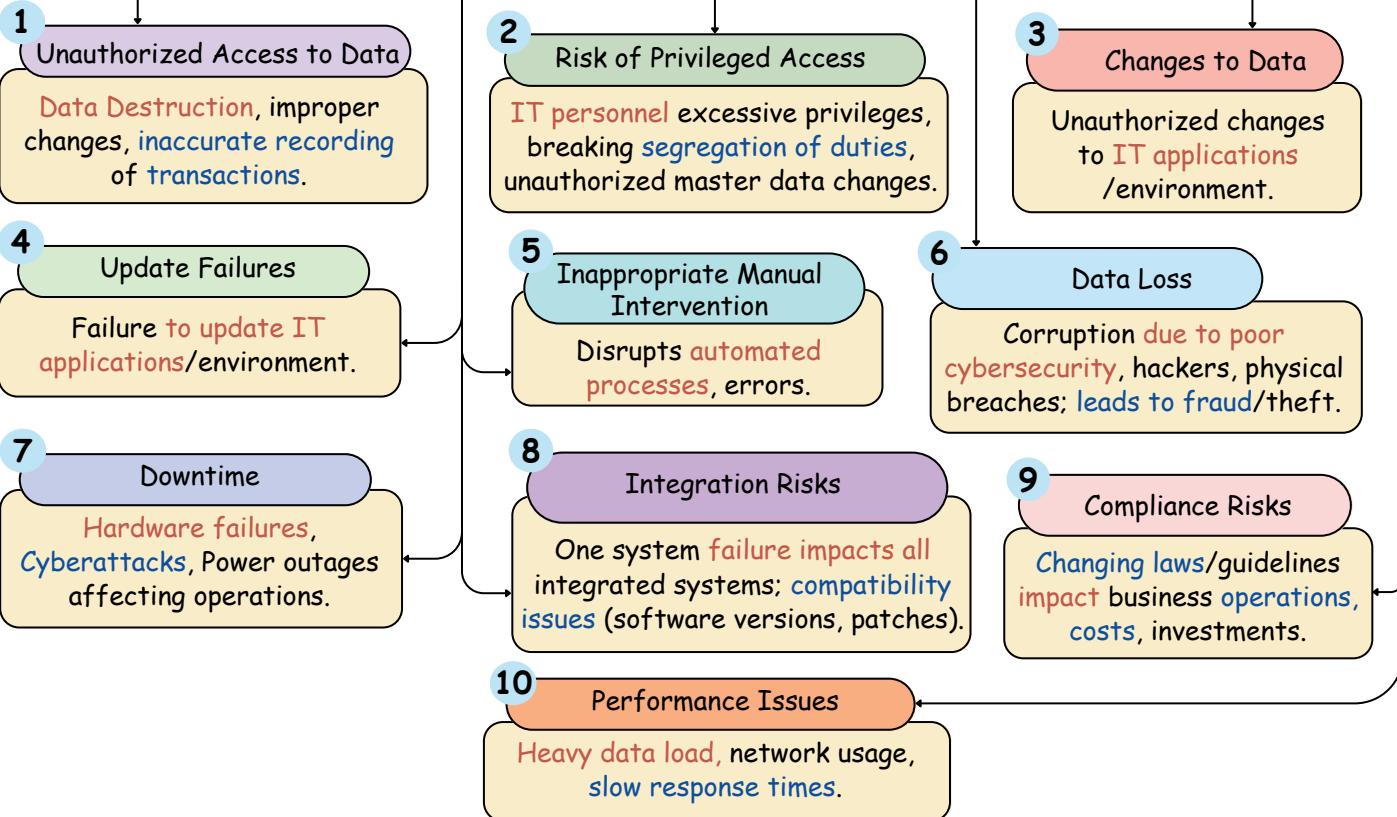
- Understanding IT reliance helps identify IT usage risks (SA 315). Assessing IT complexity determines need for IT specialists.
- Auditor's Understanding of Automated Environment: Applications used, IT infrastructure details, Co's org. structure, Policies & Procedures, Extent of IT integration, use of S.O., Understanding IT risks and controls.

B. Key Features / Advantages of Auditing Digitally

- Understand Flow of Transaction through IT systems.
- Identify IT applications affecting account balances.
- Identification of Manual & Automated Controls in IC system to assess MMS risk.
- Consider emerging tech - Blockchain, Robotics, AI, IoT, Biometrics, Drone.
- Factors to assess complexity of IT Environment: Automation, reliance on system reports, customization, business model, significant changes, tech implementation.

4. Identifying the Risks arising from usage of IT

A. Risks arising from use of IT



B. Importance to identify IT Dependencies

1 Identifying IT Dependencies

Identifying IT Dependencies helps identify IT support for business, potential risks, ITGCs, and effective audit approach.

2 How IT Dependencies Arise

IT used to initiate, authorize, record, process or report financial data in FS.

C. Types of IT Dependencies

1 Automated Controls

Enforce business rules (e.g PO approvals, existence & reasonableness checks).

2 Reports

System-generated reports for manual controls, performance reviews, substantive testing (e.g vendor/customer reports).

3 Calculations

IT systems perform accounting calculations (e.g depreciation, invoice amounts).

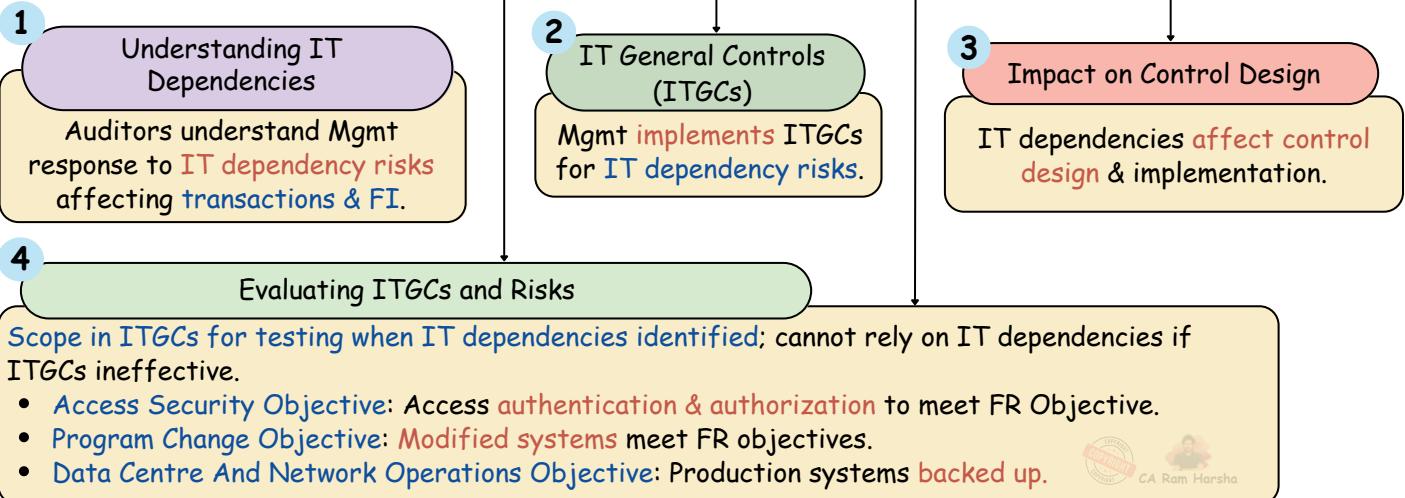
4 Security

IT controls security/segregation of duties to restrict access, prevent fraud/errors.

5 Interfaces

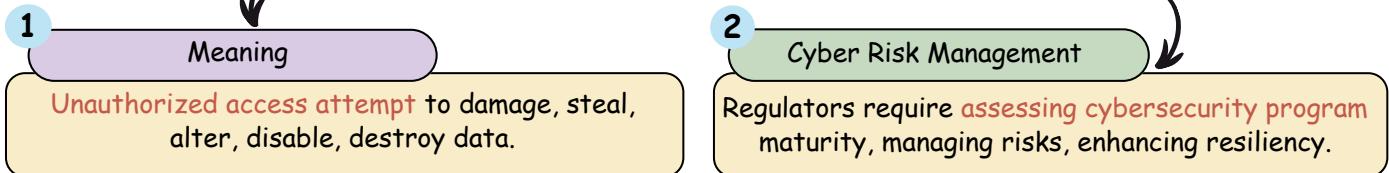
Transfer data between IT systems (e.g payroll to GL).

D. Understanding & responding to risks arising from IT Dependencies

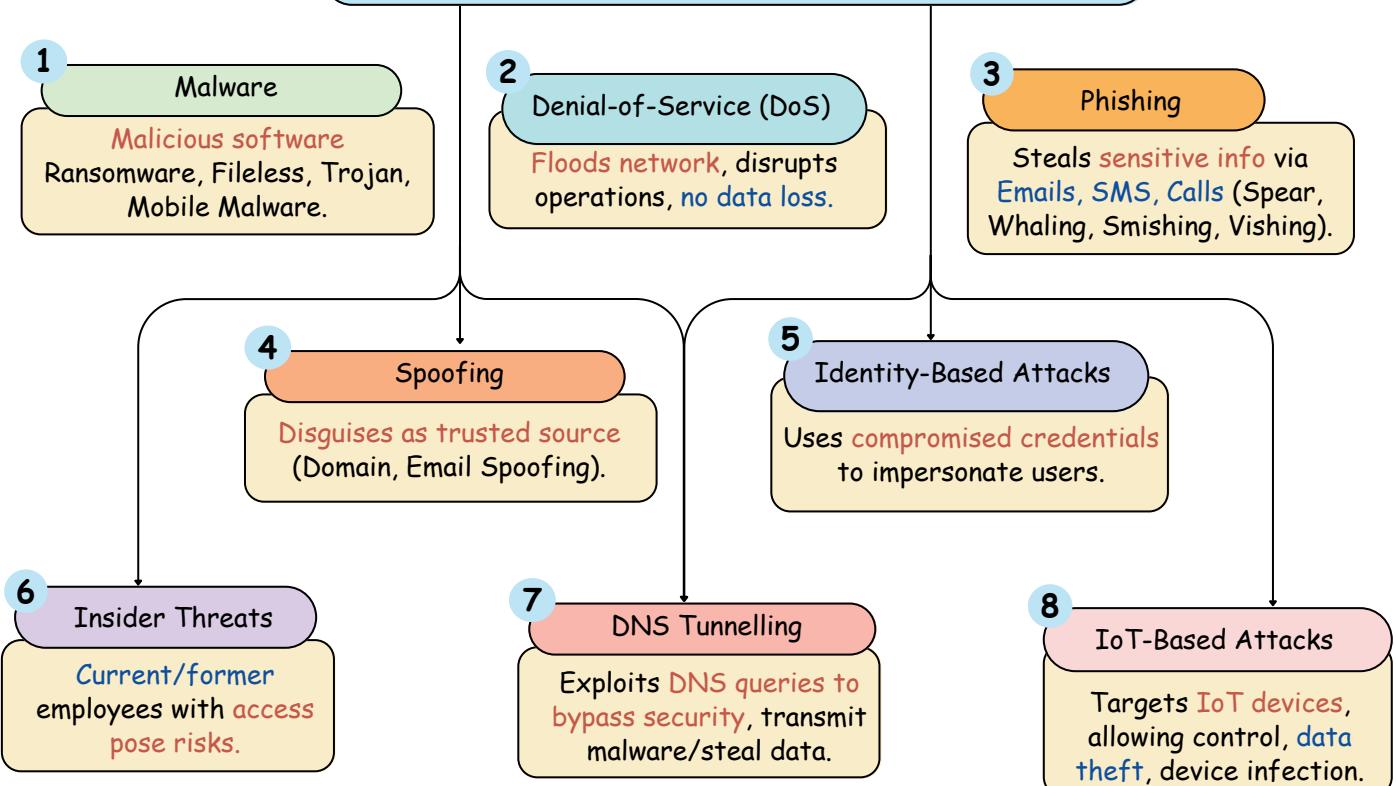


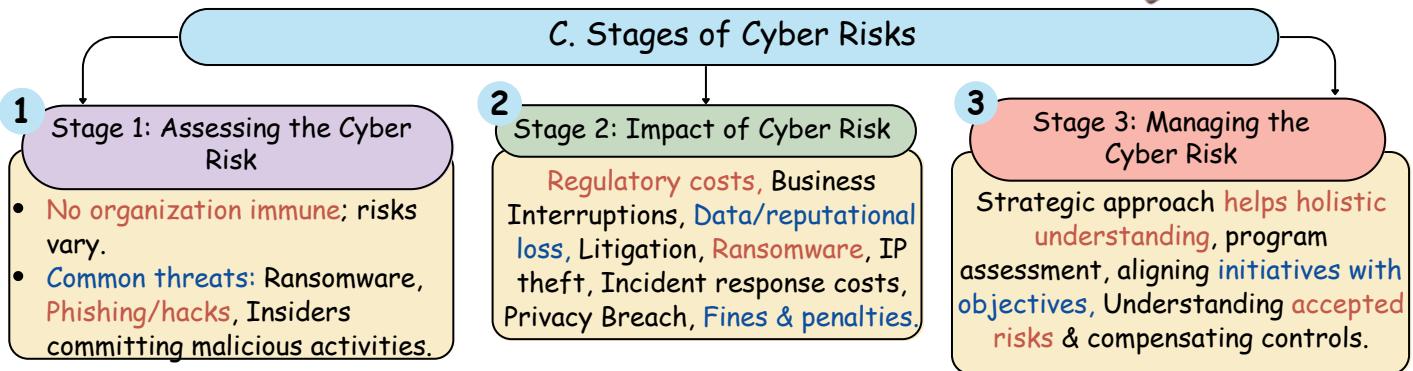
5. Assessing Cyber Risks

A. Cyber Risk



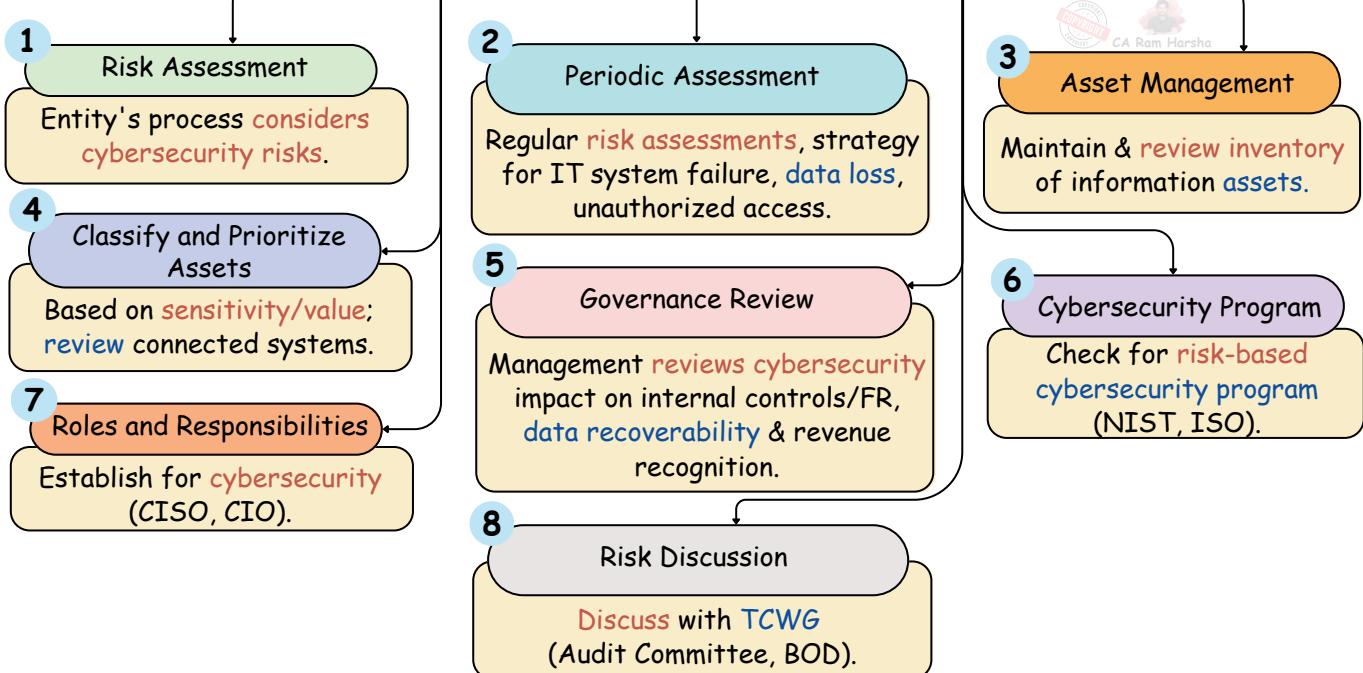
B. Common Cyber-Attacks - Regenerate



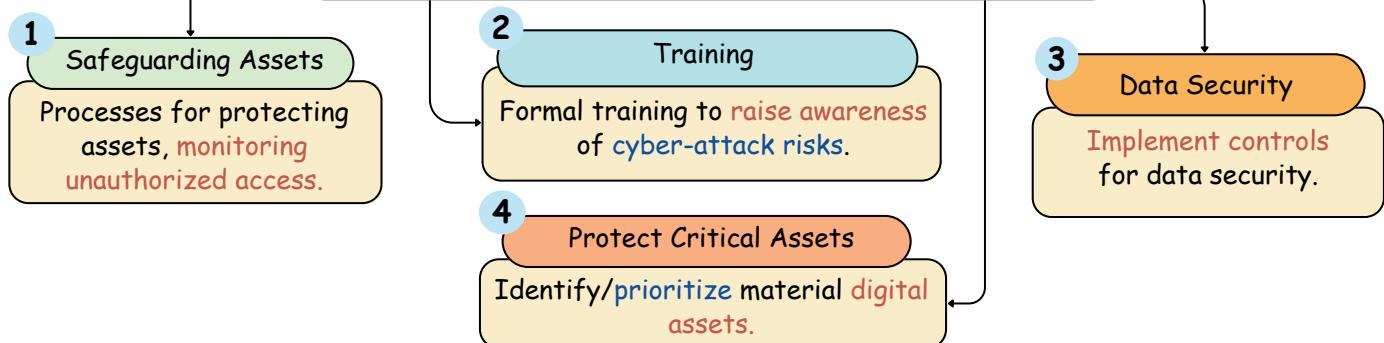


6. Cyber Security Framework

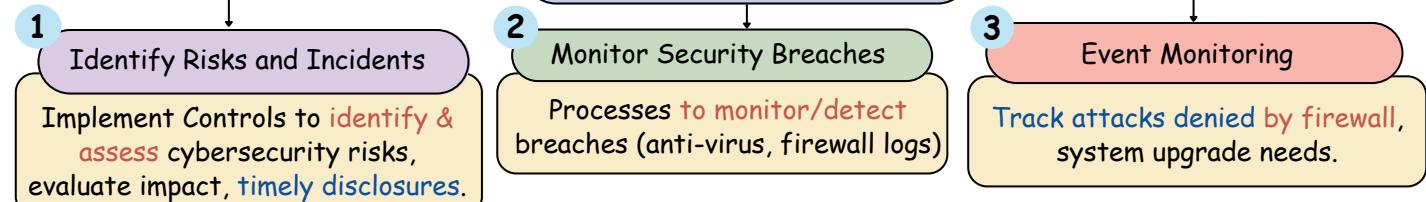
A. Identify the Risk

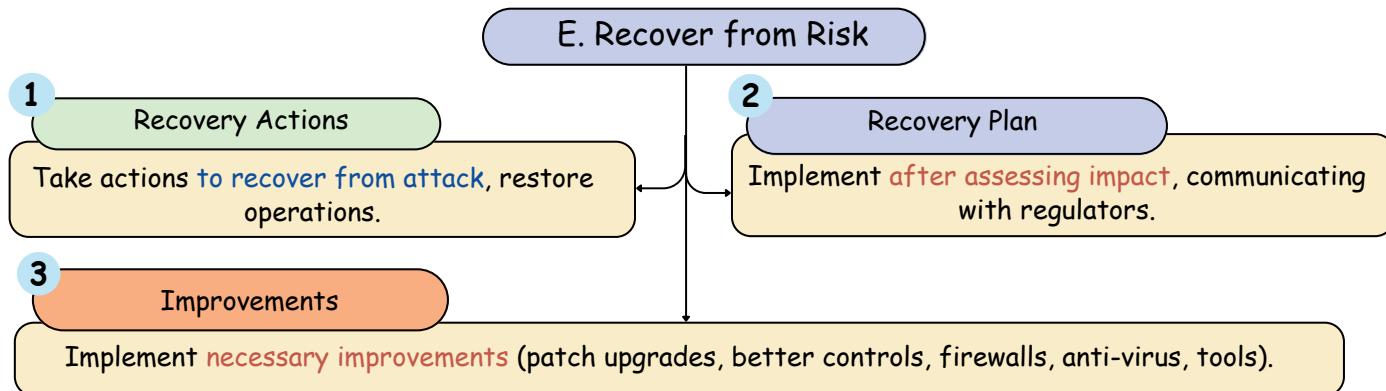
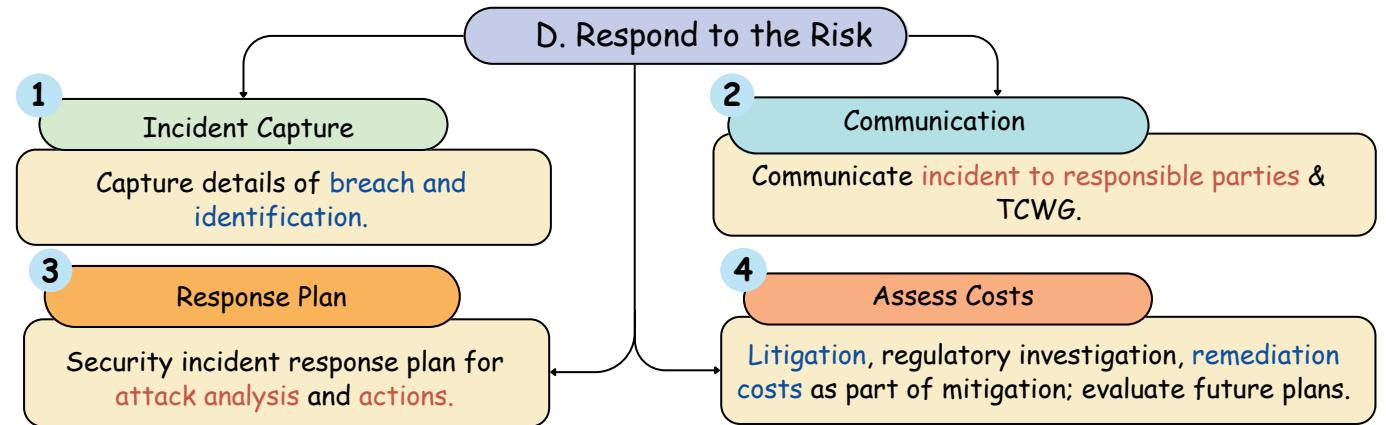


B. Protect the Risk



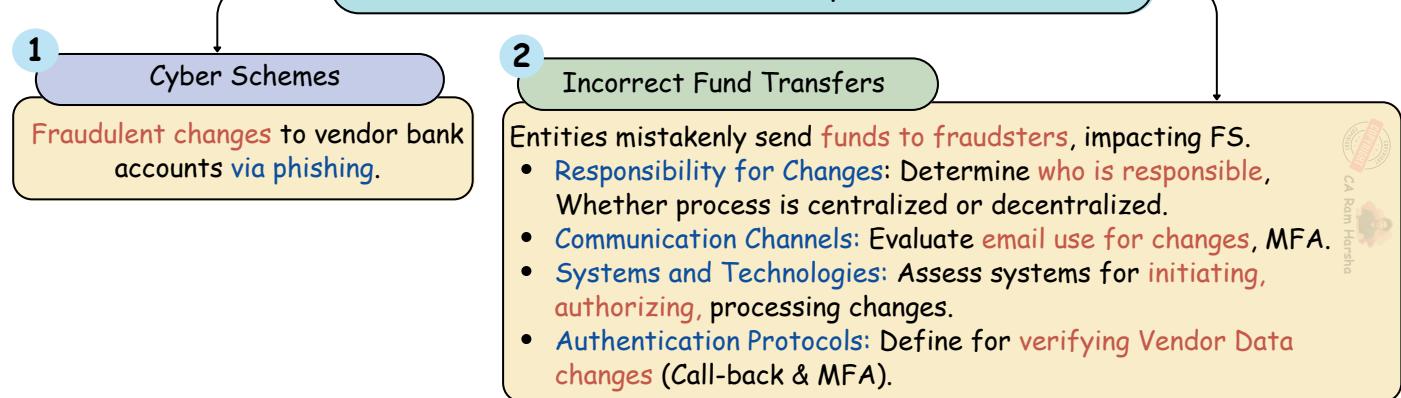
C. Detect the Risk



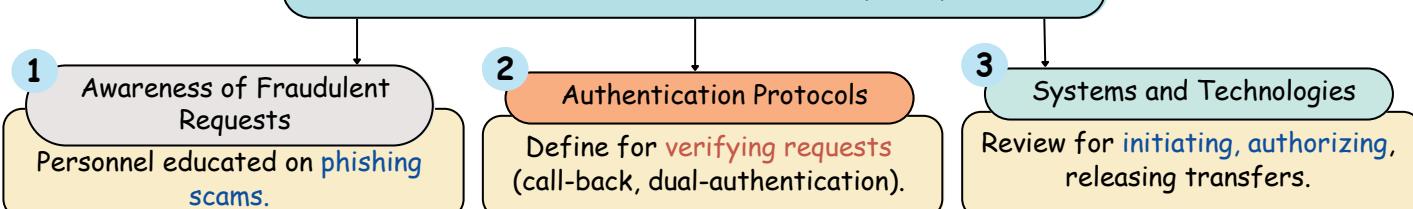


7. Control considerations for Cyber Risks

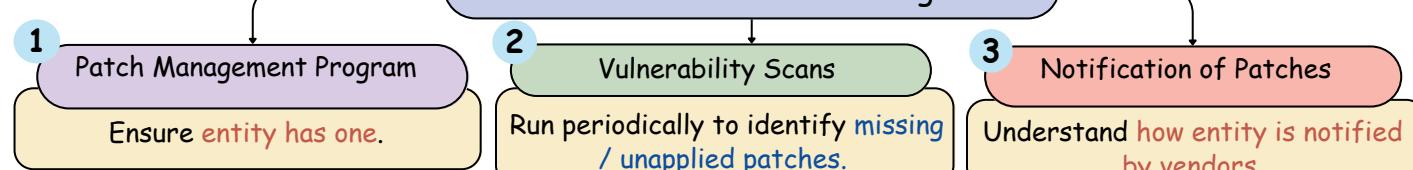
A. Controls around Vendor Setup and modifications



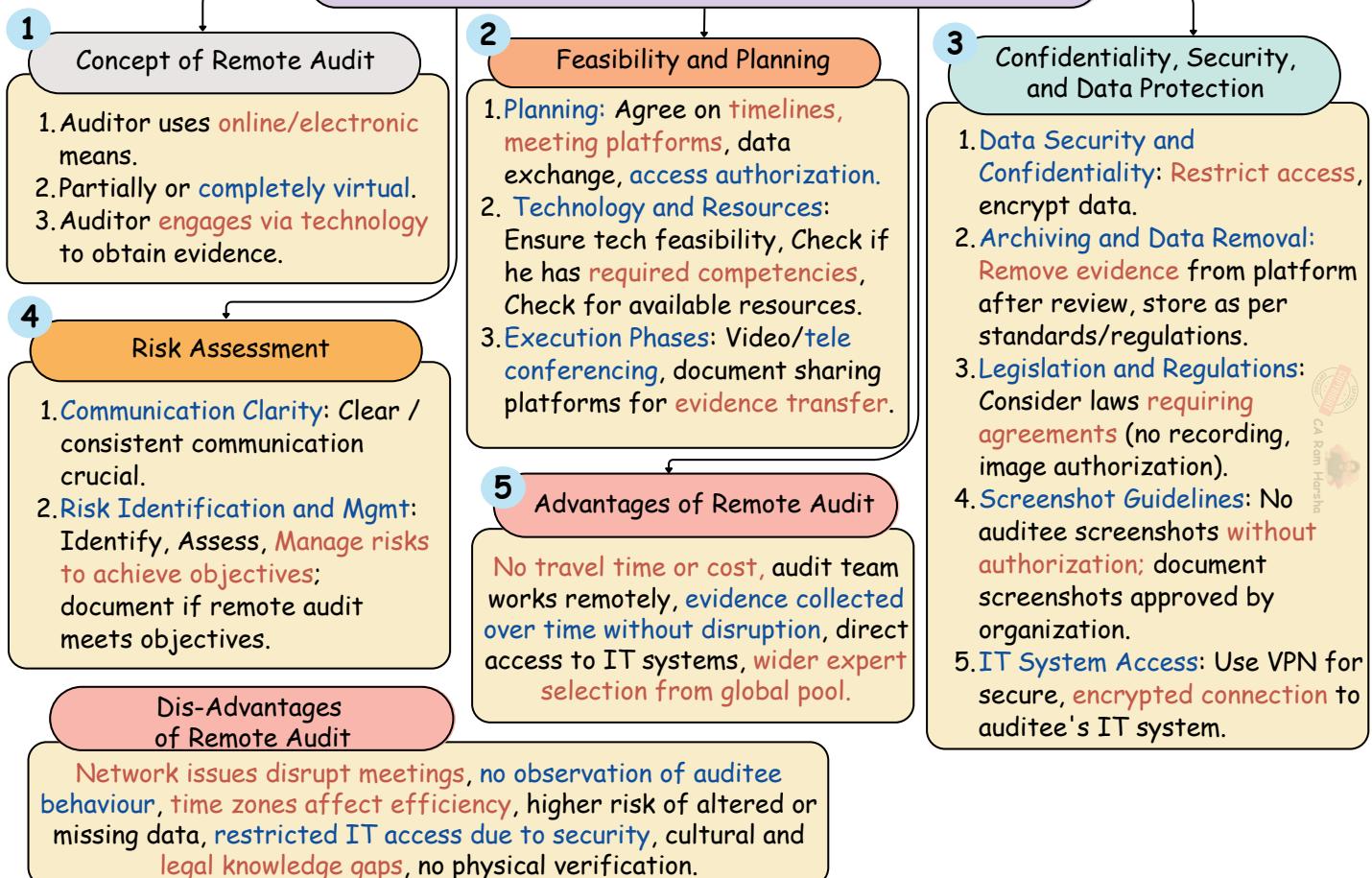
B. Controls around Electronic Transfer of Funds



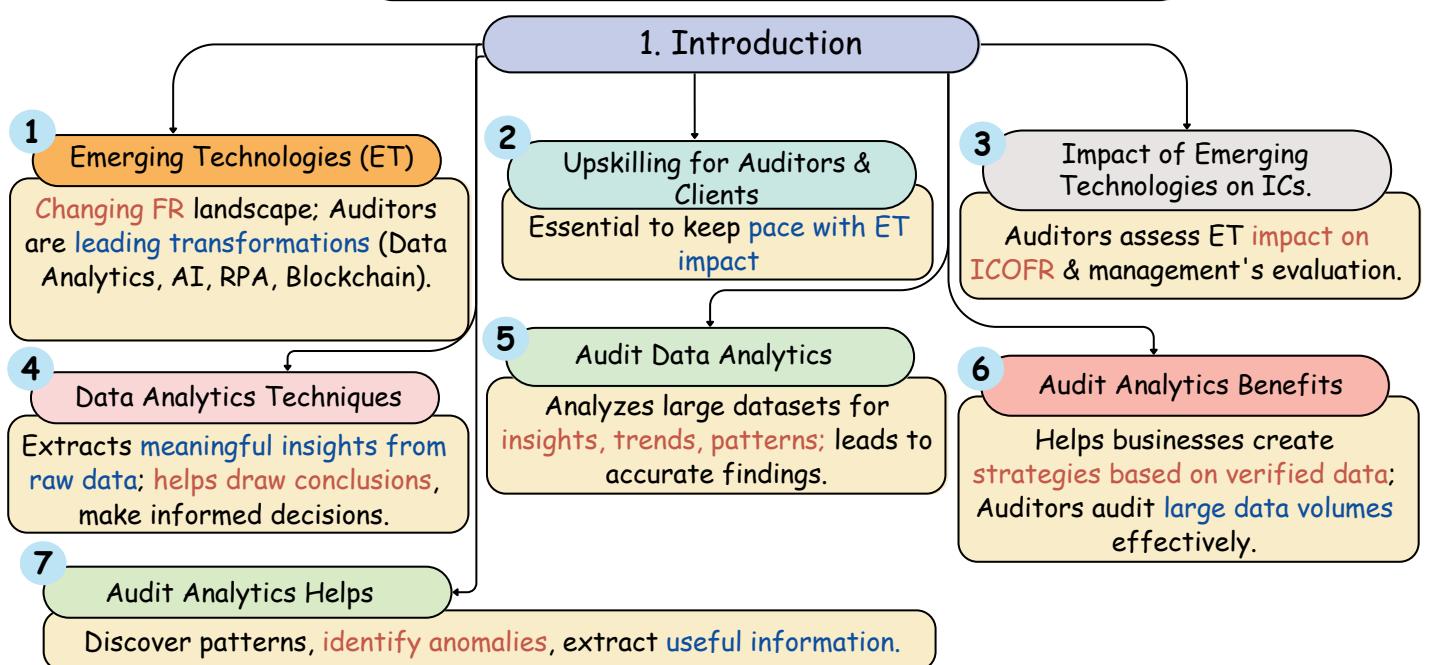
C. Controls Around Patch Management



8. Considerations for Remote Audit



9. Emerging Technologies in Audit



2. Meaning & Examples of various tools of CAAT

1

ACL (Audit Command Language)

1. **Data extraction/analysis software** for fraud detection, risk management, large datasets.
2. **Finds irregularities/patterns** indicating control weaknesses/fraud.
3. **Example:** TB reconciliations, data completeness (record count, sum, pivoting) beyond Excel capacity.

2

Alteryx

1. **Consolidates financial/operational data**, automates analytics, performs **ML for fraud/irregularities**.
2. Automates **periodic processes** (reconciliations, consolidations, continuous audits).
3. **Example:** Recomputing **revenue entries**, analyzing large datasets to focus on actual risk.

3

Power BI

1. Business intelligence platform for **aggregating, analyzing, visualizing**, sharing data.
2. Auditors use to identify **outliers**, create **interactive dashboards** for reporting.
3. **Example:** **Analyzing sales trends**, identifying untimely sales using dashboard.

4

CaseWare

1. **Data analysis tools** for **audit engagements**; work quickly, **accurately, consistently**.
2. Streamlines processes, **eliminates routine tasks**, integrates for assurance/reporting.
3. **Example:** Turns documents/FS into **client-ready reports**, integrates with client data, **real-time communication**.

10. Automated Tools in Audit

A. Internet of Things (IoT)

1

Key Concepts

Connects devices to internet; data collection, analytics, connectivity.

4

Example

Connected Cars, Smart Homes, Predictive Equipment Maintenance (Eg. refrigerators ordering eggs).

Audit Implications

Auditors **evaluate automated controls**, new systems; **review consumer-facing tools** affecting transactions; **train auditors on IoT controls**.

3

Common Risks

Device hijacking, **data breaches**, hacking, **new risks** from connected systems.

B. Artificial Intelligence (AI)

1

Key Concepts

Learns, makes decisions based on data/algorithms;

Audit Implications

Review AI algorithms for **biases**; ensure AI outputs reviewed / approved; consider AI **impact on transaction flows / decision-making**.

3

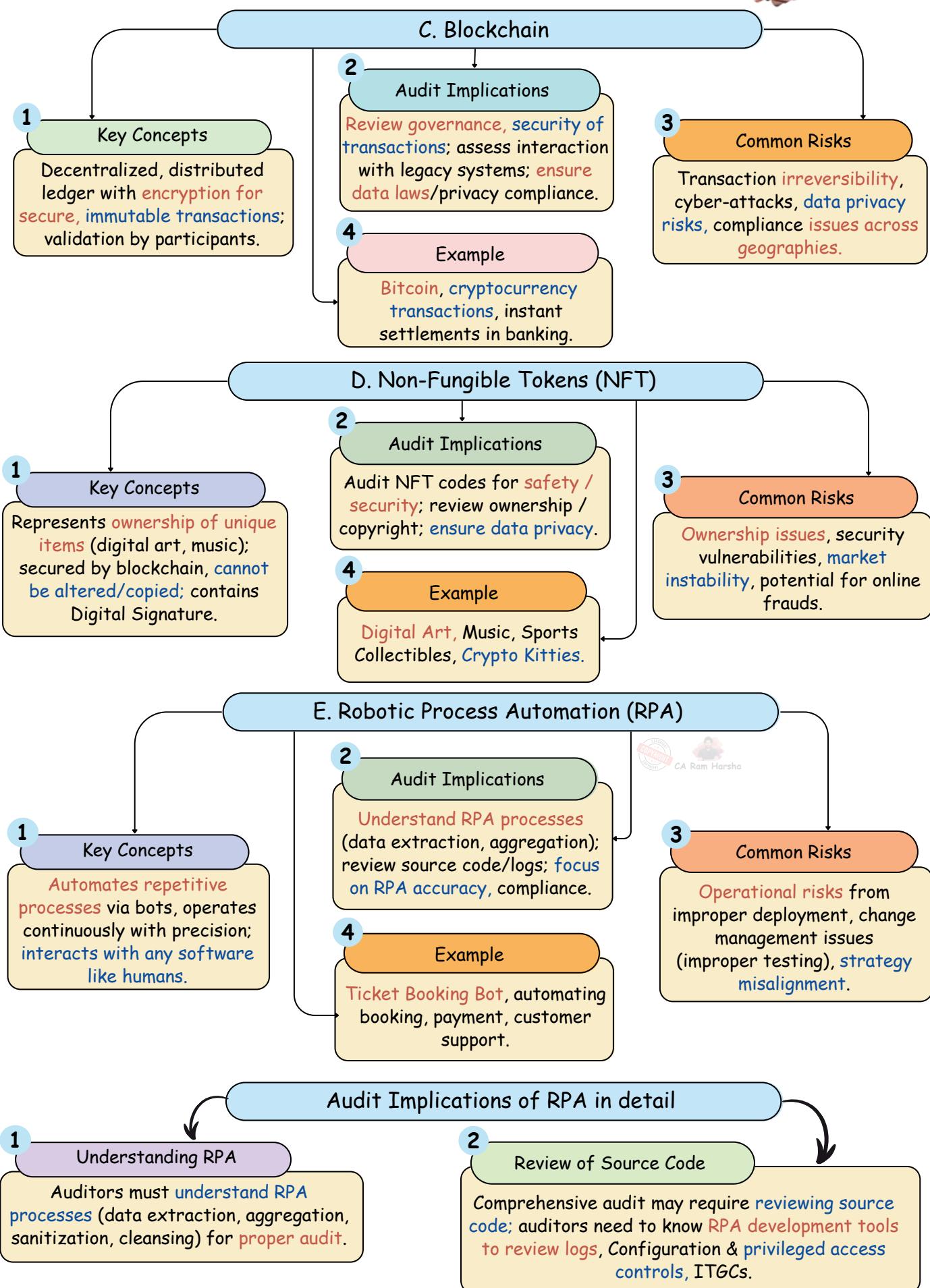
Common Risks

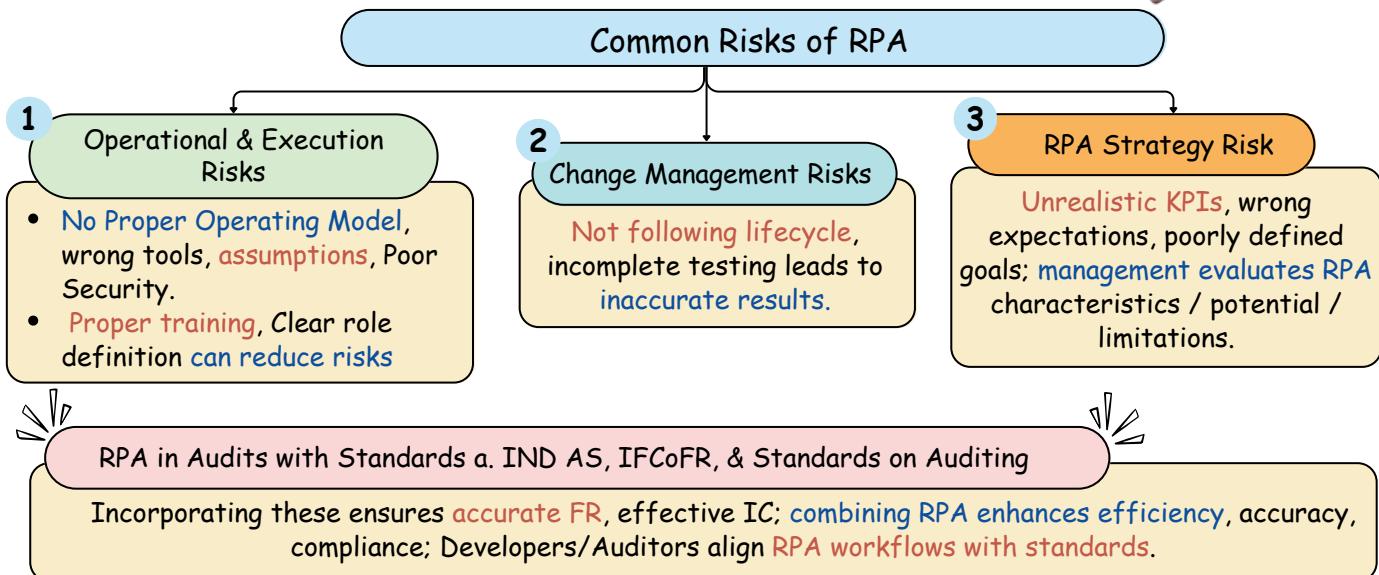
Security vulnerabilities, improper configuration, data privacy, **potential bias in algorithms**.

4

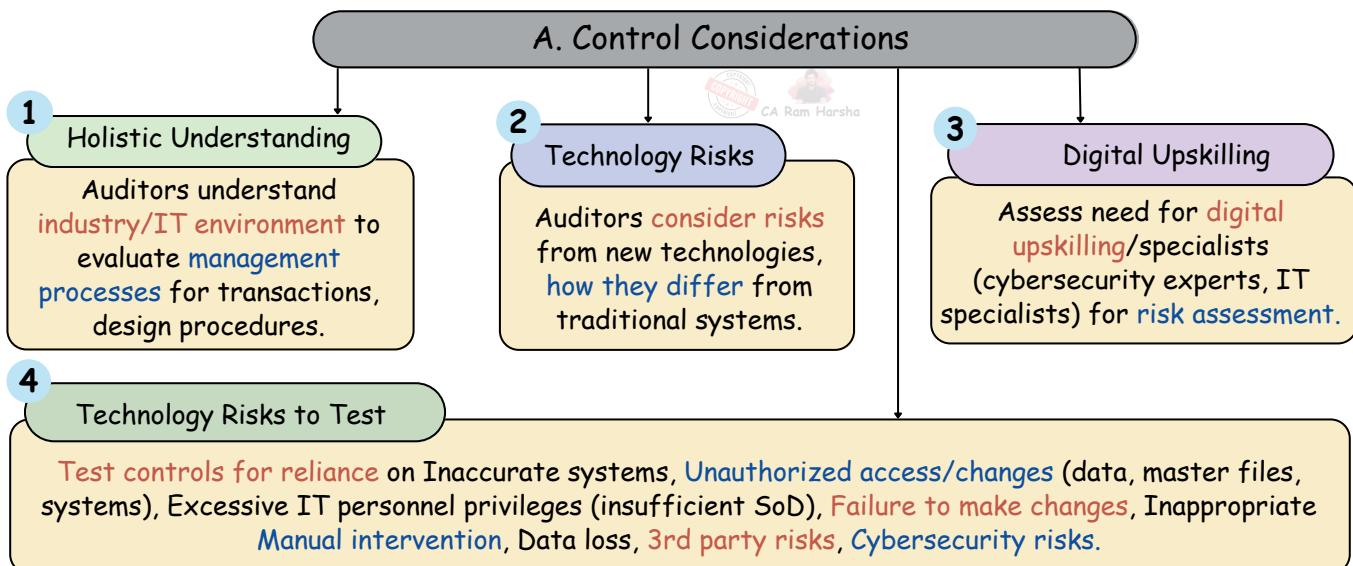
Example

Self-Driving Cars, Smart Assistants, AI suggesting flight bookings.

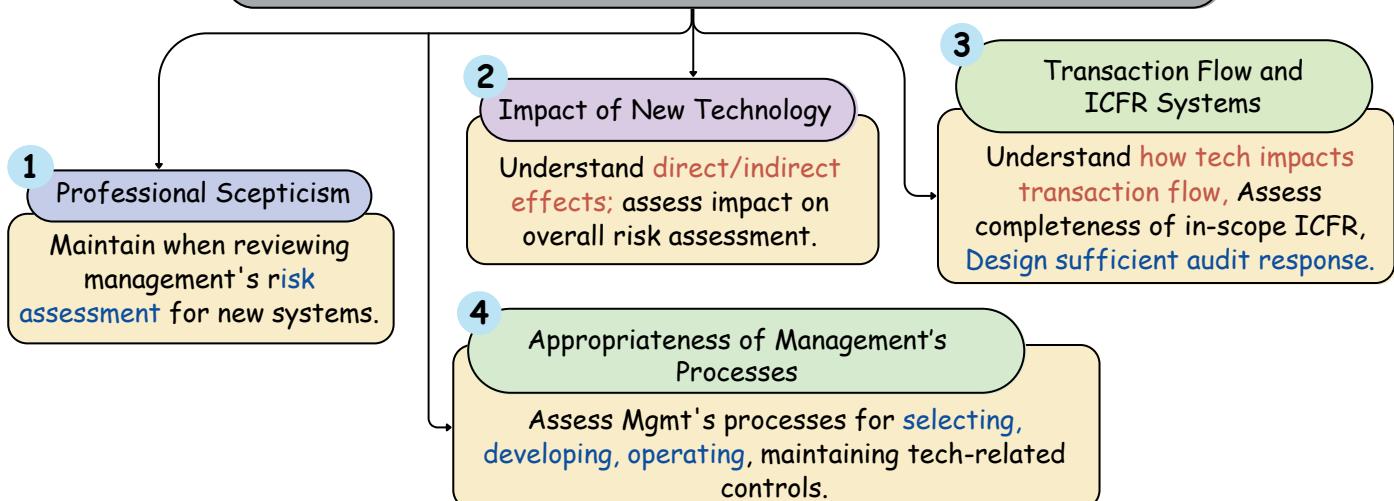




11. Control considerations or objectives of Auditing Digitally



B. Key steps for auditors in a changing technology environment



12. Next Generation Audit

A. NG Audit & its usage



B. New Technologies



3 Metaverse

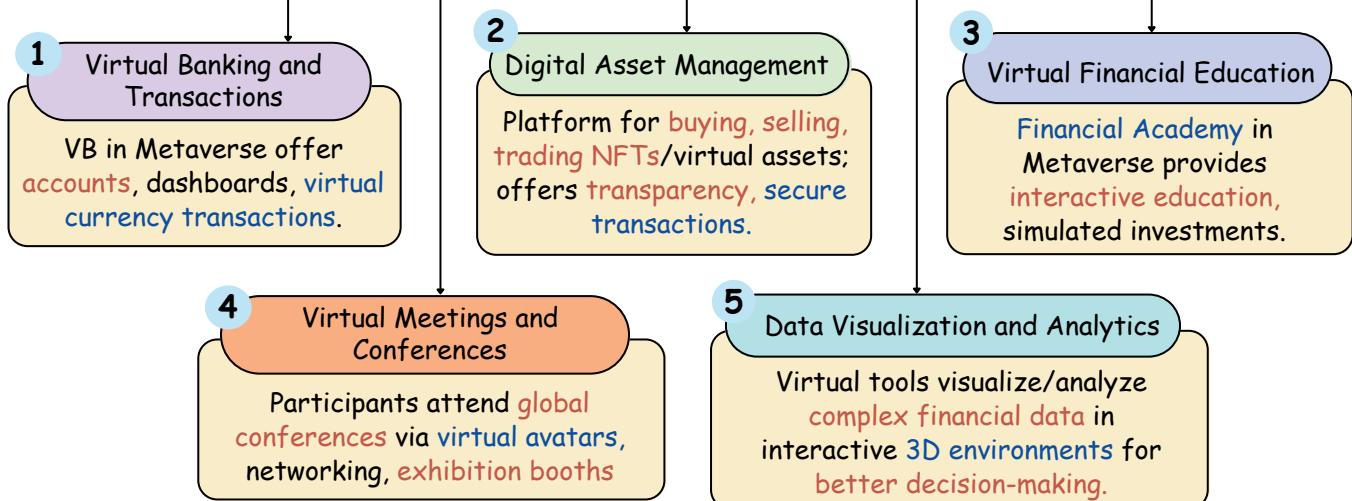
3D digital space combining AR, VR, AI, Cryptocurrency for lifelike online experiences.

- Future Considerations for Metaverse: Building digital monetary systems/economic Principles for virtual land; balancing governance with user input; handling digital identity (KYC); ensuring synchronicity in real-time interactions / transactions.



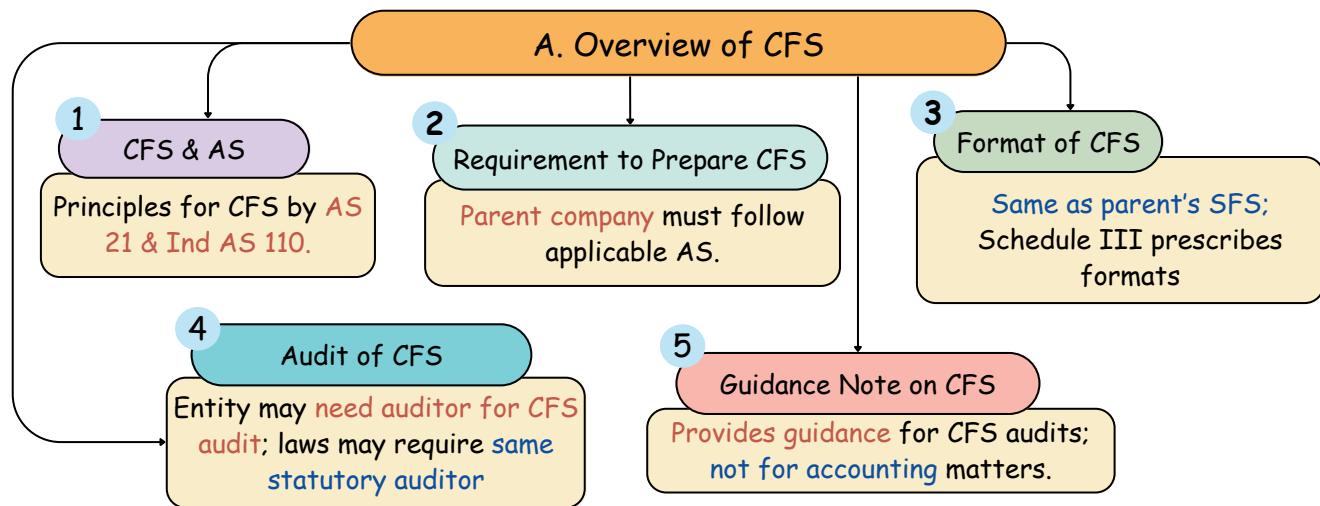
CA Ram Harsha

C. Potentials application of Virtual Reality

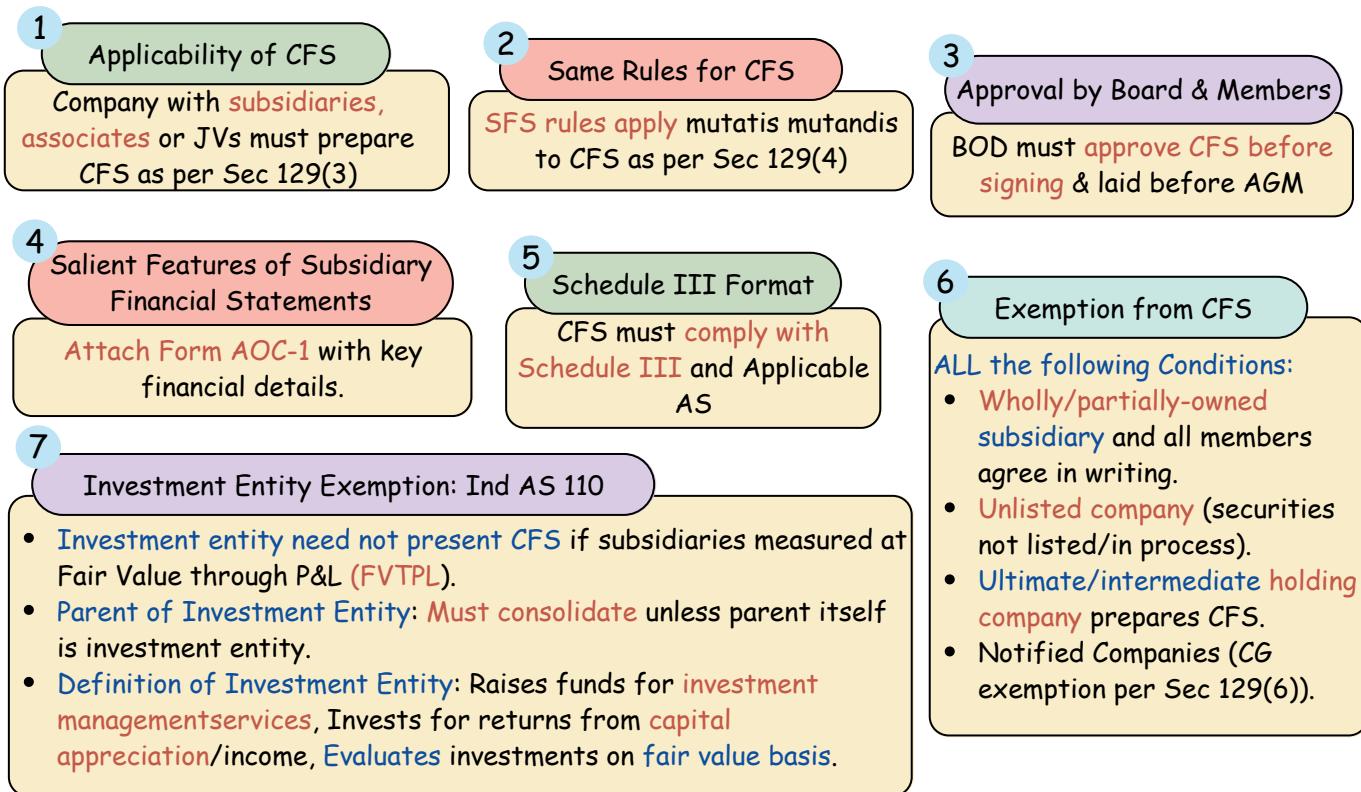


13. GROUP AUDIT

1. Introduction



B. Preparation of CFS - Mandatory under Companies Act 2013



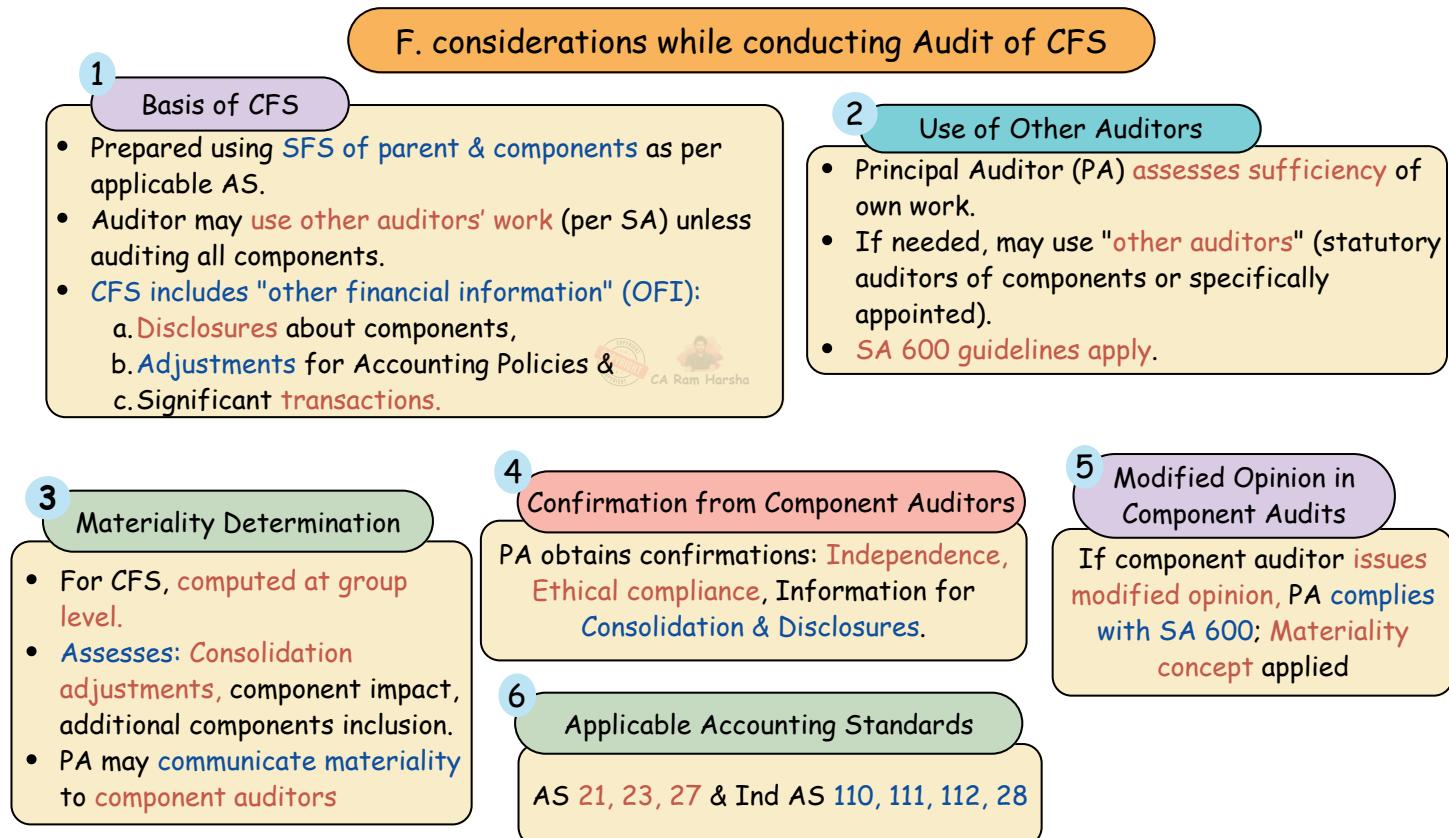
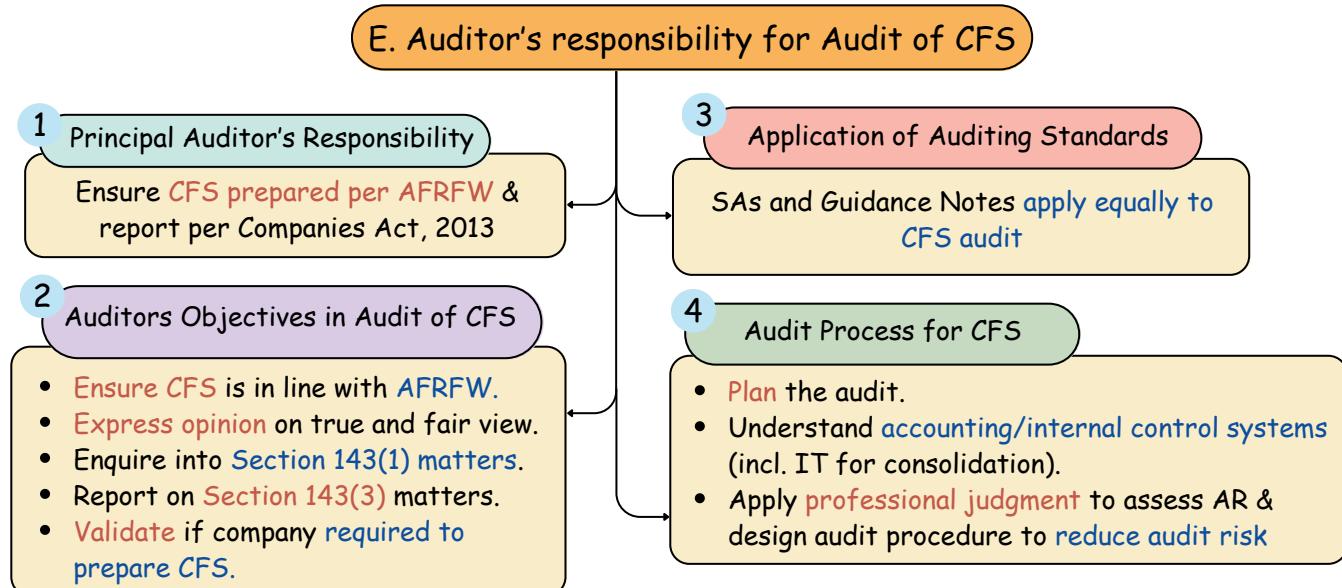
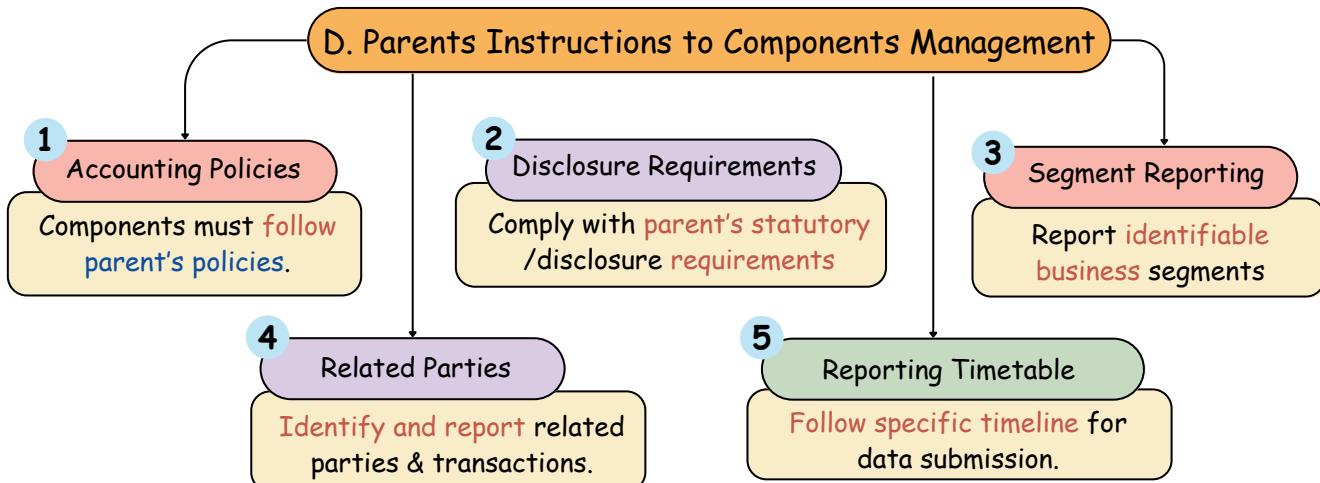
C. Management's Responsibility for CFS



Parent's management is responsible.

- Includes: Identifying components, reportable segments, related parties, collecting accurate data, making adjustments, harmonizing accounting policies, GAAP conversion.





G. Audit process for Audit of CFS

1 Audit Planning Before starting the Audit

- Understand group structure & group-wide controls (incl. IT systems used).
- Review accounting policies of parent & components; translation of foreign components.
- Determine N.T.E of audit procedures based on risk of MMS in consolidation.
- Evaluate need for other auditors and coordinate.

2 Audit Process

- Obtain list of components;
- Verify completeness of information by reviewing prior year WPs, investment details, JV records, shareholding changes.
- Document audit procedures for completeness.
- Verify control/joint control /significant influence means (BM minutes, shareholder agreements, post-year-end transactions).

3 Excluded Components from CFS

- Auditor assesses if exclusions comply with AS & Companies Act.
- Reasons for exclusion:
 - AS 21: Temporary relationship, severe long-term restrictions on fund transfer.
 - Companies Act, 2013: Intermediate subsidiaries meeting specific conditions (wholly-owned, unlisted, holding company filing CFS).
 - Ind AS 110: Temporary control must be justified and disclosed.
- Verify exclusion reasons mentioned in CFS.
- Modify opinion if excluded for reasons not allowed by AFRFW.

4 Changes in Status of Components

- Check if subsidiary becomes associate/JV; verify correct accounting.

5 Method of Consolidation

Under AS:

- Subsidiaries (combined line by line, adjustments for goodwill, NCI, intra-group per AS 21);
- Associates (Equity Method per AS 23);
- Joint Ventures (Proportionate Consolidation per AS 27).

Under Ind AS:

- Subsidiaries (combined as per Ind AS 110, adjustments for goodwill, capital reserves, intra-group elimination);
- Associates & Joint Ventures (Equity Method as per Ind AS 28);
- Joint operations (recorded in SFS as per Ind AS 111);
- Business combinations in stages require revaluation at fair value as per Ind AS 103.



7 Off-Balance Sheet Entities & De-Facto Control

- Check for off-balance-sheet entities (risk transfer); consider de-facto control (SI over decision-making, even <50% voting rights).

6 Other Adjustments:

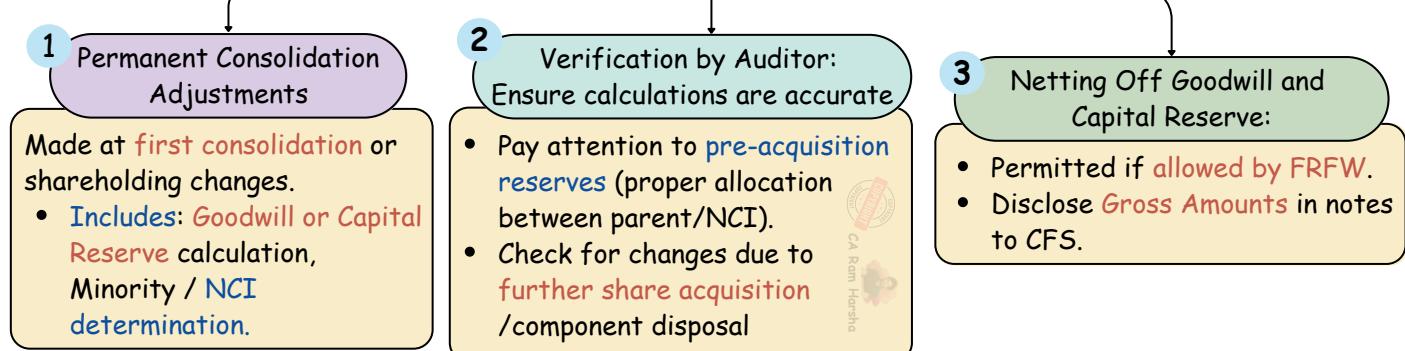
- Verify all AS/Ind AS required adjustments correctly made and approved.

Adjustment Includes:

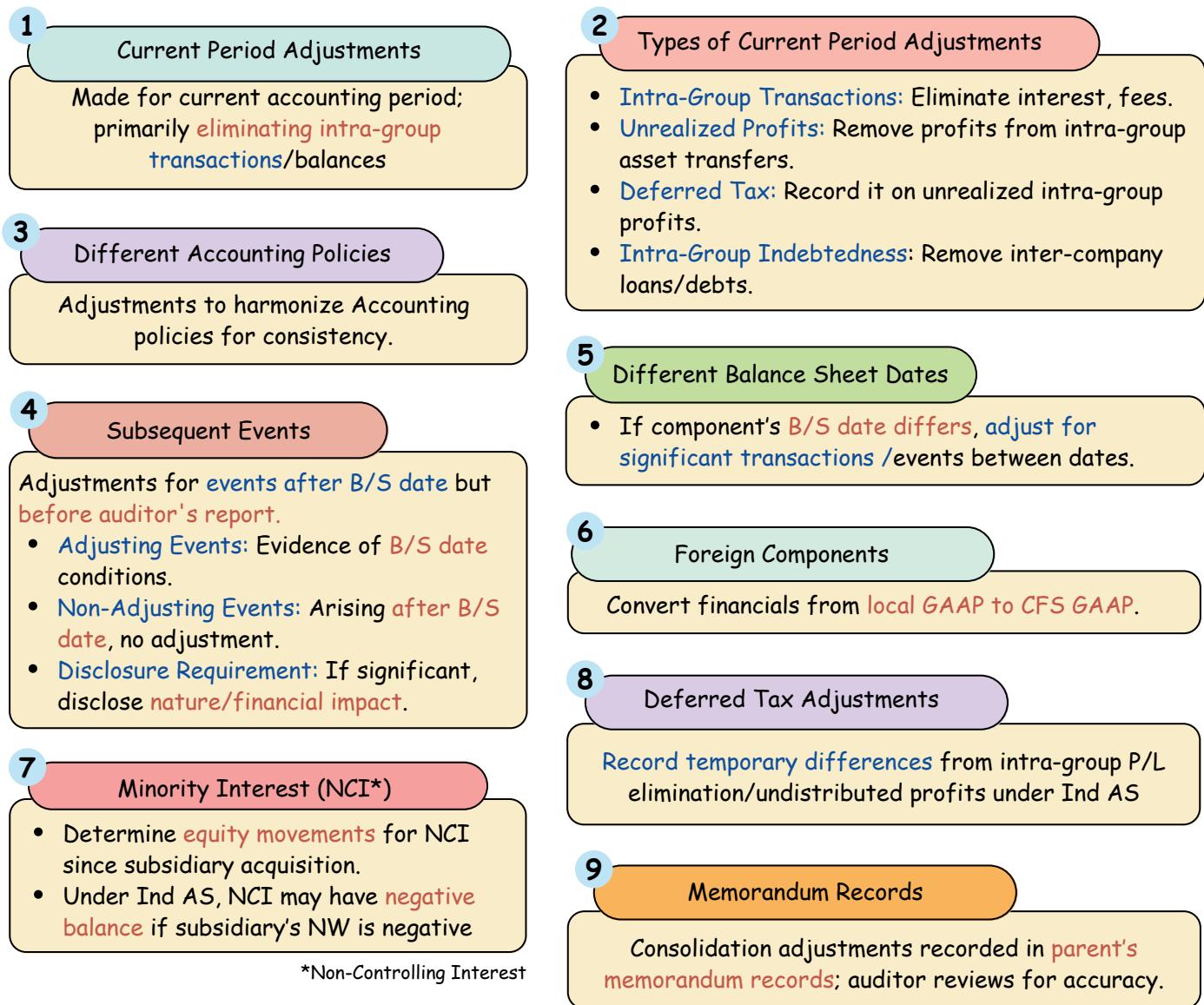
- Permanent consolidation adjustments (e.g. inter-company elimination);
- Current period adjustments (e.g. unrealized profits, deferred tax).

2. Special Considerations

A. Permanent Consolidation Adjustments



B. Current Period Consolidation Adjustments



*Non-Controlling Interest

C. Audit Process for CFS

1 Audit Process Overview

Auditor reviews memorandum records and verifies key aspects.

2 Verification of Intra-Group Transactions

Ensure elimination of intra-group transactions/balances.

3 Uniform Accounting Policies

Verify CFS follows uniform accounting policies

4 Disclosure of Different Accounting Policies

If harmonization impracticable, adequate disclosures as per AS 21 & Ind AS 110.

5 Adjustments for Different GAAP

Ensure conversion of component's GAAP to match CFS GAAP.

6 Minority Interest (Non-Controlling Interest - NCI)

Verify NCI calculation and inclusion of losses exceeding equity.

7 Deferred Tax Adjustments

Verify deferred tax adjustments from intra-group transactions under Ind AS.

8 Income and Expenses

Ensure subsidiary's income/expenses included from date of control until disposal.

9 Audit Procedures for Adjustments

Understand management's methods to reduce audit risk

10 Impairment of Goodwill

- Test annually for impairment.
- Verify impairment calculations/methodology.
- If in foreign currency, verify adjustments in currency translation reserves.
- Intra-group losses may indicate potential impairment.

11 Same Reporting Date for Components

- CFS should have uniform reporting date.
- If different, adjustments needed.
- Reporting difference not to exceed 6 months (AS) / 3 months (Ind AS).
- Review significant transactions & events between component/parent reporting dates.

12 Consistency in Reporting Periods

Ensure consistency across components; disclose changes

14 Disclosures in SFS but Not in CFS

Ind AS 110 doesn't mandate all SFS disclosures in CFS (bonus shares source, unutilized public issue funds, MSME Act details, CIF imports, foreign currency expenditure)

13 Disclosures in CFS

- Verify all relevant disclosures made.
- CFS must separately disclose for each component: Net assets (amount & %), Profit/loss (amount & %),
- Other Comprehensive Income (amount & %).
- Consolidation adjustments separately disclosed.

3. Management Representations

1 SA 580 - Written Representations

Auditor must obtain from **Management and TCWG**

2 Parent's Responsibility

Auditor ensures parent management acknowledges **responsibility for true & fair CFS presentation** and approves CFS **compliant with FRFW**.

3 Written Representations from Parent Management

Obtain written confirmations on **key material matters**

4 Examples of Written Representations

Ensure **all components included**, identify reportable segments/related parties, verify **appropriateness / completeness of permanent & current period adjustments** (incl. intra-group elimination).



4. Reporting

1 When the Parent's Auditor audits All Components

Audit Report Should Include:

- Whether CFS **principles/procedures follow relevant Accounting Standards** (modify opinion if not, per SA 705).
- Opinion on true and fair view** of group's financial position/performance.
- Opinion on cash flow statement's true and fairness** (if included).

2 When the Parent's Auditor is Not the Auditor of All Components

- SA 706 - Other Matter Paragraph:** If relying on other auditors, **apply SA 600** and disclose magnitude of **portion audited by others**.
- Quantification:** Specify **rupee amount or percentage** of **total assets, revenues, cash flows**.
- Unaudited Components:** Disclose **total assets, revenues, cash flows** before consolidation adjustments.
- Mentioning other auditors' work is **not a qualification** but shows **divided responsibility**.

3 When Component Auditor Uses a Different Accounting Framework

- Different GAAP:** Foreign components may use local **GAAP** (US GAAP, IFRS); parent's management converts to parent's **GAAP**; parent's auditor **verifies conversion adjustments**.
- Group Accounting Policies:** Some components prepare FS directly under parent's **GAAP** using **Group Accounting Manual**.
- Principal Auditor's Role:** Ensures group accounting **policies comply with parent's GAAP** and determines **reliance on component auditors' reports/reference in report**.

4 When Component Auditor Uses a Different Auditing Framework

- Component Audits should be under **Indian GAAS for consistency**.
- If different framework, it should **align with Indian GAAS** for parent's auditor to rely on it.

5 When Some Components Are Not Audited

- Ideally, **all components** should be audited.
- If unaudited, parent's auditor must **evaluate modification to CFS audit report** due to non-availability of S&A Audit evidence.
- Assess **qualitative & quantitative impact of unaudited balances** to decide on opinion modification

14A. BANK AUDIT

1. Special Considerations by the Auditor

a Nature of Risks

Transactions, scale, rapid exposures, IT reliance, statutory/regulatory impact

b New Products/Services

May not align with accounting principles & auditing practices

c Operational Risks

Net Banking, mobile services expose banks

d Audit Approach

Auditors need in-depth knowledge of products/risks to design plan, prevent misstatements

e IT Interface

Understand interface controls between applications

2. Legal Framework

Key Acts

Banking Regulation Act, SBI Act, RBI Act, Companies Act, RRB Act, IT Act, PMLA, SARFAESI

3. Form and Content of Financial Statements

a Balance Sheet & P&L Account

As per 3rd Schedule, Banking Regulation Act, 1949 (Form A/B)

b Accounting Standards

Comply with Companies Act, 2013 AS; Ind AS deferred by RBI.

c Consolidating Branch Accounts

Standalone FS by consolidating branch accounts for nationalized / public banks.

d Private Banks

Accounting centralized, no mandatory branch audit per RBI

e SEBI Regulations

Listed Banks comply with SEBI reg. including (LODR).

Audit of Accounts & Appointment of Auditor

a Audit Requirements

Balance Sheet & P&L audited by qualified auditor

b Appointment of Auditors

Most banks appoint 4+ firms of CAs as SCAs (RBI guidelines)

c Appointment Letter

Includes period, other/previous auditors, work division (joint).

d Letter of Acceptance

- Confirms no disqualification
- How audit will be conducted
- Fidelity & secrecy declaration.
- Restriction on other assignments.

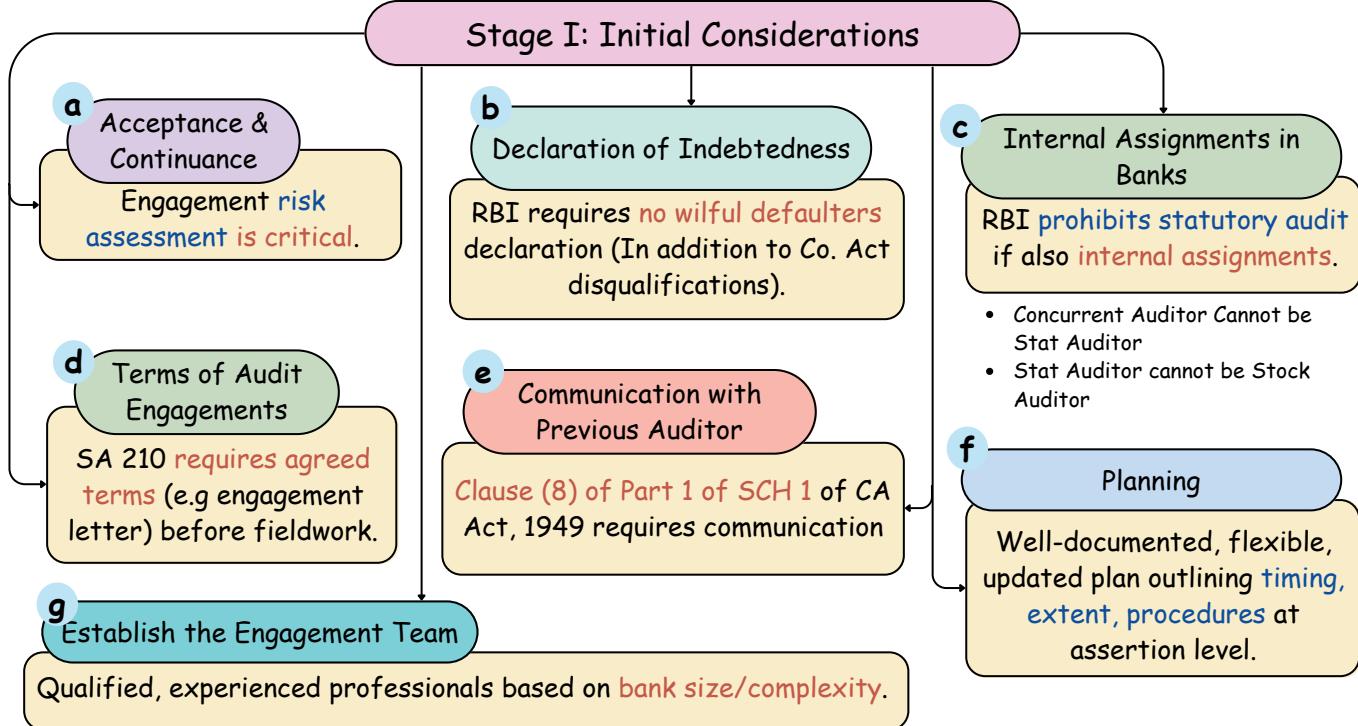
e Statutory Branch Auditors

Similar guidelines, 1 firm of CA.

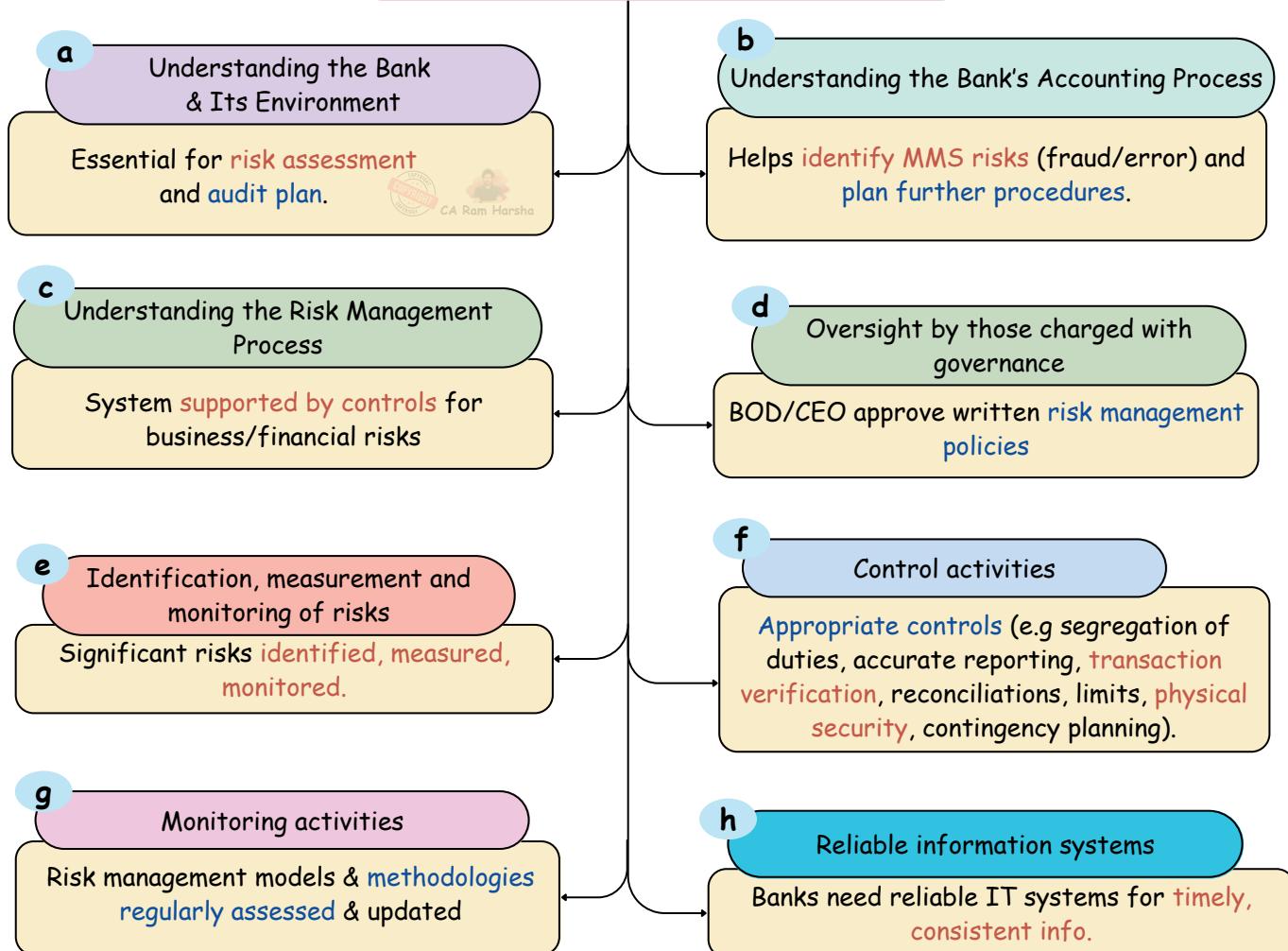
f Authority for Appointment

- Banking company: AGM (shareholders).
- Nationalized banks: Board of Directors, RBI approval required.

4. Conducting an Audit



Stage II: Understanding



Stage III: Risk Assessment

a Identifying & Assessing Risks of MMS

SA 315 requires identifying ROMM at FS & Assertion levels

b Assess the Risk of Fraud & Money Laundering

SA 240 focuses on fraud risks; auditors need professional skepticism

c RBI Guidelines on Money Laundering

KYC/AML guidelines: banks must set policies /procedures /controls to recognize/report ML activities

d Specific Risks Assessment

Auditor should Identify/assess specific MMS risks at FS Level (banking industry, IT use).

e Outsourcing Related Risks

Outsourcing introduces specific risks.


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Stage IV: Execution

a Engagement Team Discussions

Discuss to understand bank/environment /controls; assess potential MMS in FS.

b Response to Assessed Risks

SA 330 requires designing / implementing responses to MMS risks; nature, timing, extent of procedures based on risks.

c Establish Overall Audit Strategy

SA 300 emphasizes establishing overall strategy before audit involving Key Team Members & Specialists

d Audit Planning Memorandum

Prepare memo to describe scope / extent, highlight issues / risks, evidence planning / responses

e Determine Audit Materiality

By professional judgment, bank knowledge, engagement risk, reporting requirements; influenced by size/nature of misstatement.

f Going Concern

Assess events/conditions raising doubt about bank's GC ability.

Stage V: Reporting

Refer Reporting Concept

Refer to Auditor's Report section; Guidance Note on Audit of Banks

5. Special Considerations in IT Environment

a Changes in Banking Technology

CBS, payment systems, Aadhar Integrations; Auditors must audit through these systems

b Information to be shared with Auditors

Bank must share IT policy, Data processing / interfaces, Data integrity / security, BCP / DRP, Accounting manual /entries, Controls (account heads, e-banking), MIS reports, Exception reports.

c Review of IT Environment

Review at HO; Branch auditors rely on SCAs



5. Special Considerations in IT Environment

d Auditors' Responsibilities

- SCAs understand IT environment & ctrls, Evaluate effectiveness;
- Design procedures via IT department discussions.

e Key Security Control Aspects to be verified

- Ensure authorized / accurate / complete data for processing,
- System restarts w/o distortion, Prevents unauthorized amendments
- Access controls match responsibilities, Segregation of duties,
- Authenticated parameter changes,
- Manual charge accounting & authorization,
- Daily exception report verification, A/c Master alteration control,
- GL/Subsidiary book matching.



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6. Internal Audit and Inspection

a Central Audit & Inspection Dept

Centralized/decentralized, headed by Chief Audit Executive; conducts Risk-Based Internal Audit

b Responsibilities

Identify revenue audit branches, Appoint concurrent auditors & define scope, Meet/train/review concurrent auditors

d Risk-Based Internal Audit

RBIA based on risk assessment (business/control risks at branches): identify inherent business risks, assess control system effectiveness, assess overall risks.

a Internal Control in Banks

Implement/maintain ICs to mitigate risks, ensure governance, meet regulatory needs.

b General Internal Controls

Staff rotation, independent checks, daily proofing, secure bank forms, mail opening verification, signature book security, insurance, defined financial powers, surprise inspections.

d Cheque Clearing

CTS for quicker processing, confirm with customer through call for ₹5L+ inward cheques, signature verification, send unpaid cheques to customers.

c Cash Controls

Joint custody, daily test-checking, No access for cashier to ledgers, officer signing vouchers, authorized payments, high-value verification, excess cash remittance.

g Loans & Advances

Evaluate creditworthiness of borrowers, execute documents before advancing loans, maintain security margins, joint custody of securities, register securities in bank name, within sanctioned limit/drawing power, report excess, review operations annually.

e Bills for Collection

Documents entered in register, accounts credited only after collection, no double entry for inter-branch bills.

f Bills Purchased

Verify document assignment, adequate margin, immediate recovery steps if uncollected, report irregular accounts, apportion discount for year-end outstanding bills

h Demand Drafts

Signature verification, confirmation to paying branch, immediate action if no confirmation.



7. Internal controls in certain Selected Areas

i Inter Branch Accounts

Adjust accounts based on official advice, prompt action on unresponded entries.

j Credit Card Operations

Effective application screening, strict storage/issuance control, merchant verification of limits, regular merchant reporting, reimbursement after verification, regular customer statements, monitor overdues/stop credit, periodic account reviews.

8. Compliance with CRR And SLR Requirements

A. Compliance & Reporting

a Cash Reserve Ratio (CRR)

Minimum fraction of deposits as reserves (cash/RBI deposits)

b CRR Compliance

Auditors review the liquidity position & refer to RBI master circulars.

c Statutory Liquidity Ratio (SLR)Function

Banks maintain liquid assets (gold, cash, govt. securities) before lending

d SLR Compliance

RBI requires SCAs to verify on 12 non-Friday dates; Goal: maintain liquid assets for sudden increase of depositor demand

e Reporting to

Sent to Top Management & RBI

f Reports

Correctness of DTL compilation & Maintenance of liquid assets.

B. Audit Procedures for CRR and SLR

a Understanding RBI Guidelines

Obtain understanding of DTL composition.

b Trial Balance Verification

Request weekly trial balances from branch auditors; verify correctness & cash balances.

c DTL Consolidation

Examine DTL consolidations (including security valuation)

d Exclusion from Liabilities

Paid-up capital, reserves, P&L credit, RBI/FI loans, discounted bills, Net IT provision, DICGC/ECGC/Insurance claims, court receiver, unrealized derivative P/L, advance income flows, BAF limits, bad debt recoveries, import bill sundry deposits, un-adjusted agency business deposits, margins for funded facilities.

e Inclusion in Liabilities

Net Credit Balance in Branch Adjustment Accounts, Interest Accrued on deposits, Cash collaterals (derivatives), Foreign Borrowings, Reconciliation of Nostro accounts.

f Exempted Categories for DTL Computation

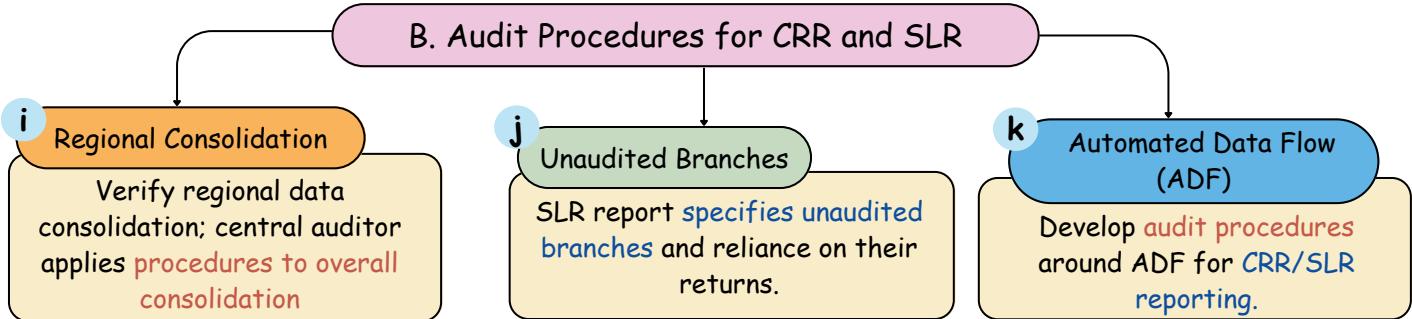
Minimum Eligible Credit, Long-term infra bonds, Affordable Housing Loans, Incremental FCNR(B) / NRE deposits (3+ yrs), Foreign currency asset/liability conversions

h Form A and Form VIII Verification

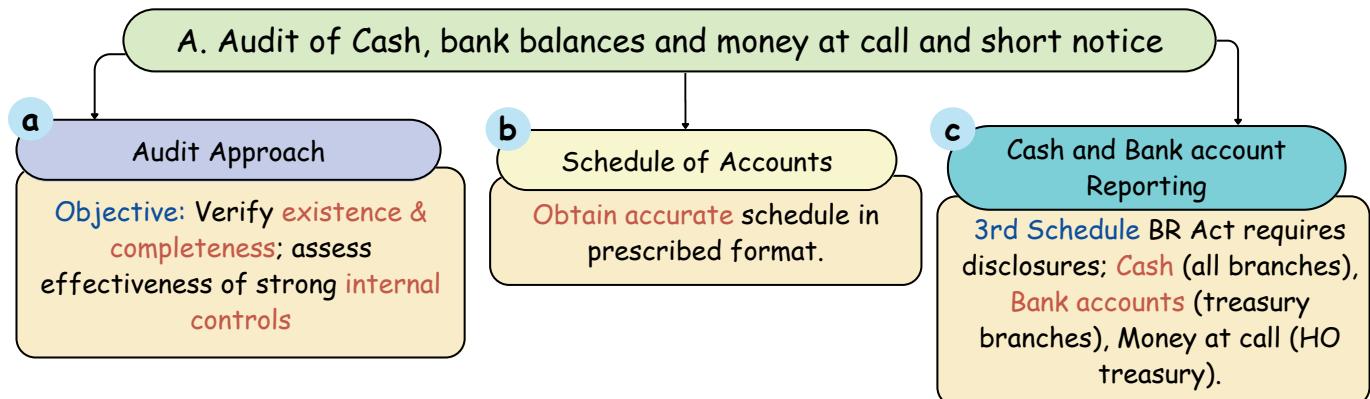
Examine correctness of CRR (Form A) and SLR (Form VIII) returns

g Branch Data Consolidation

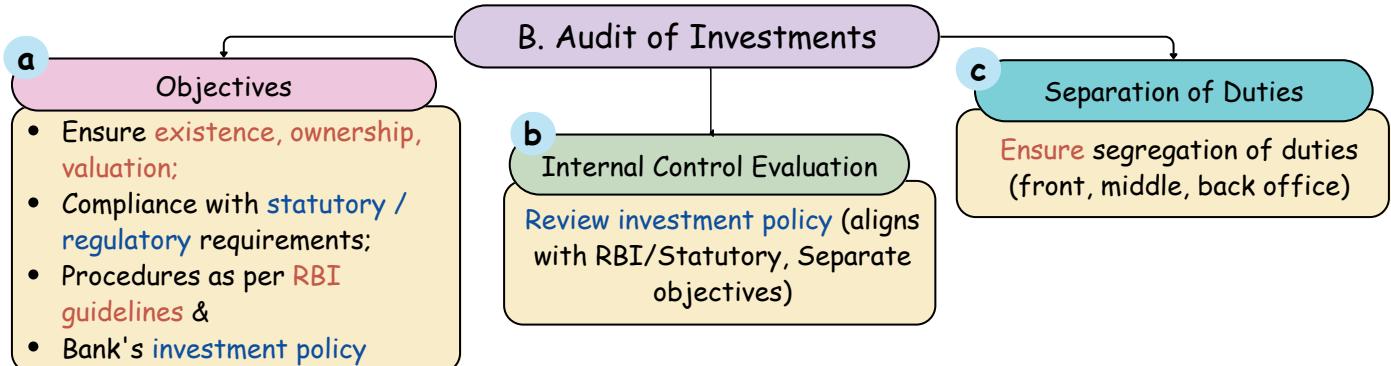
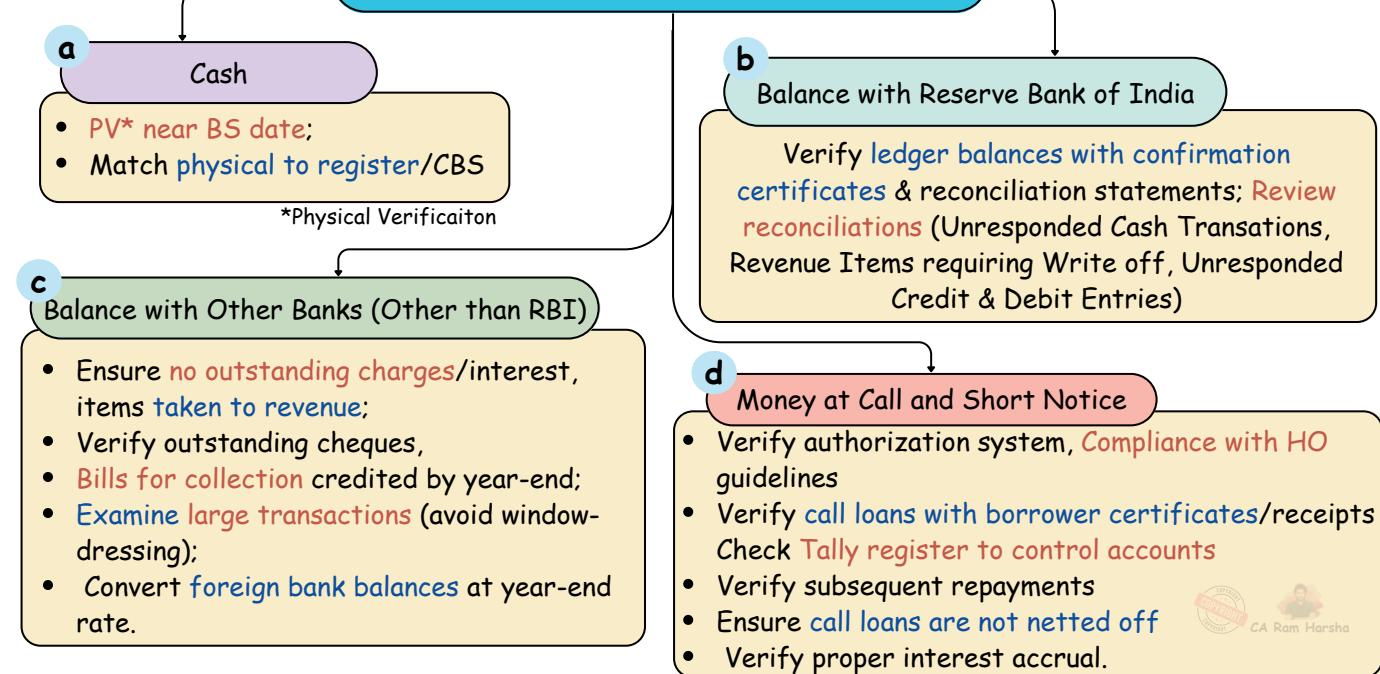
Ensure consolidation from all branches (incl. foreign)

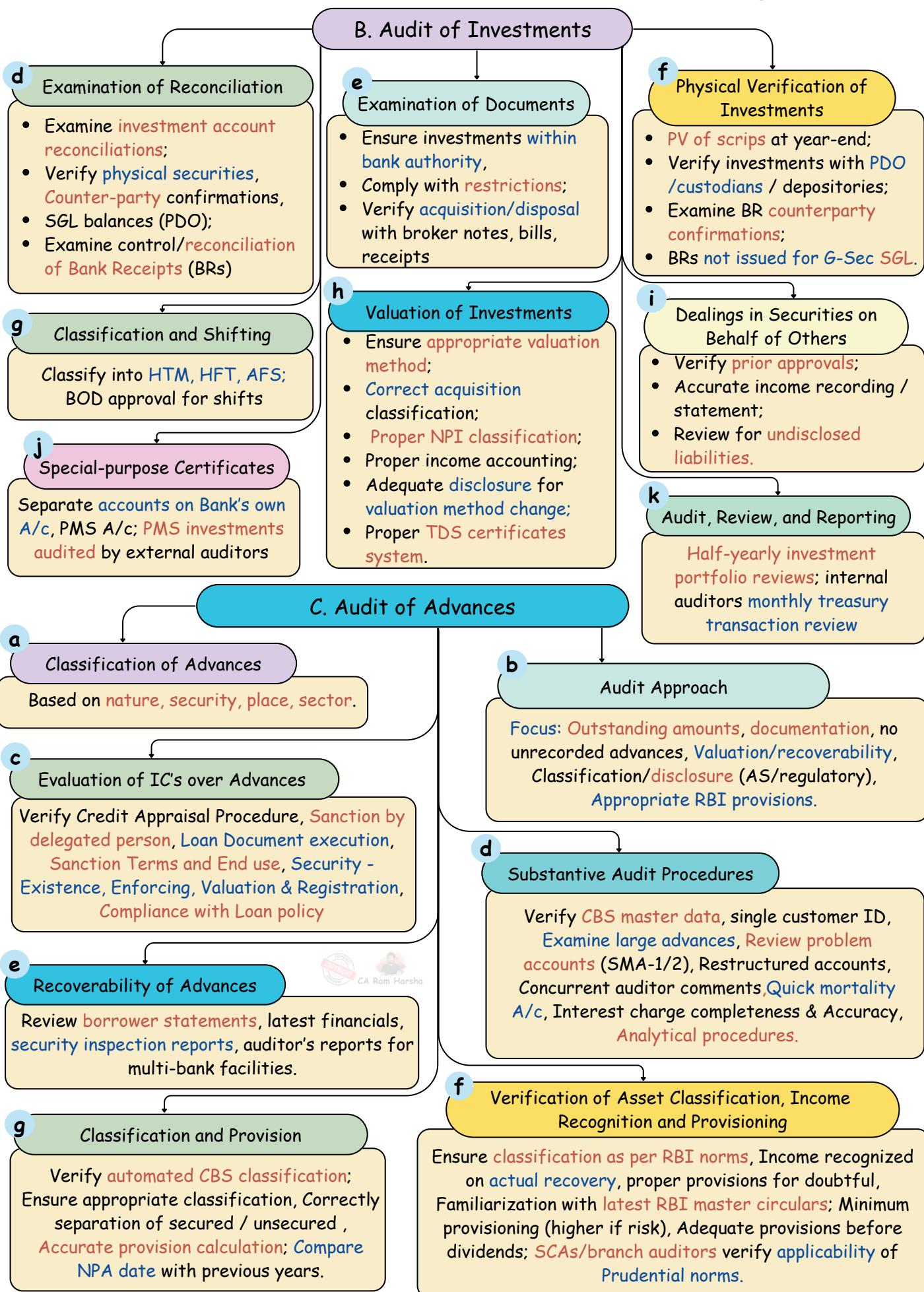


9. Verification of Assets

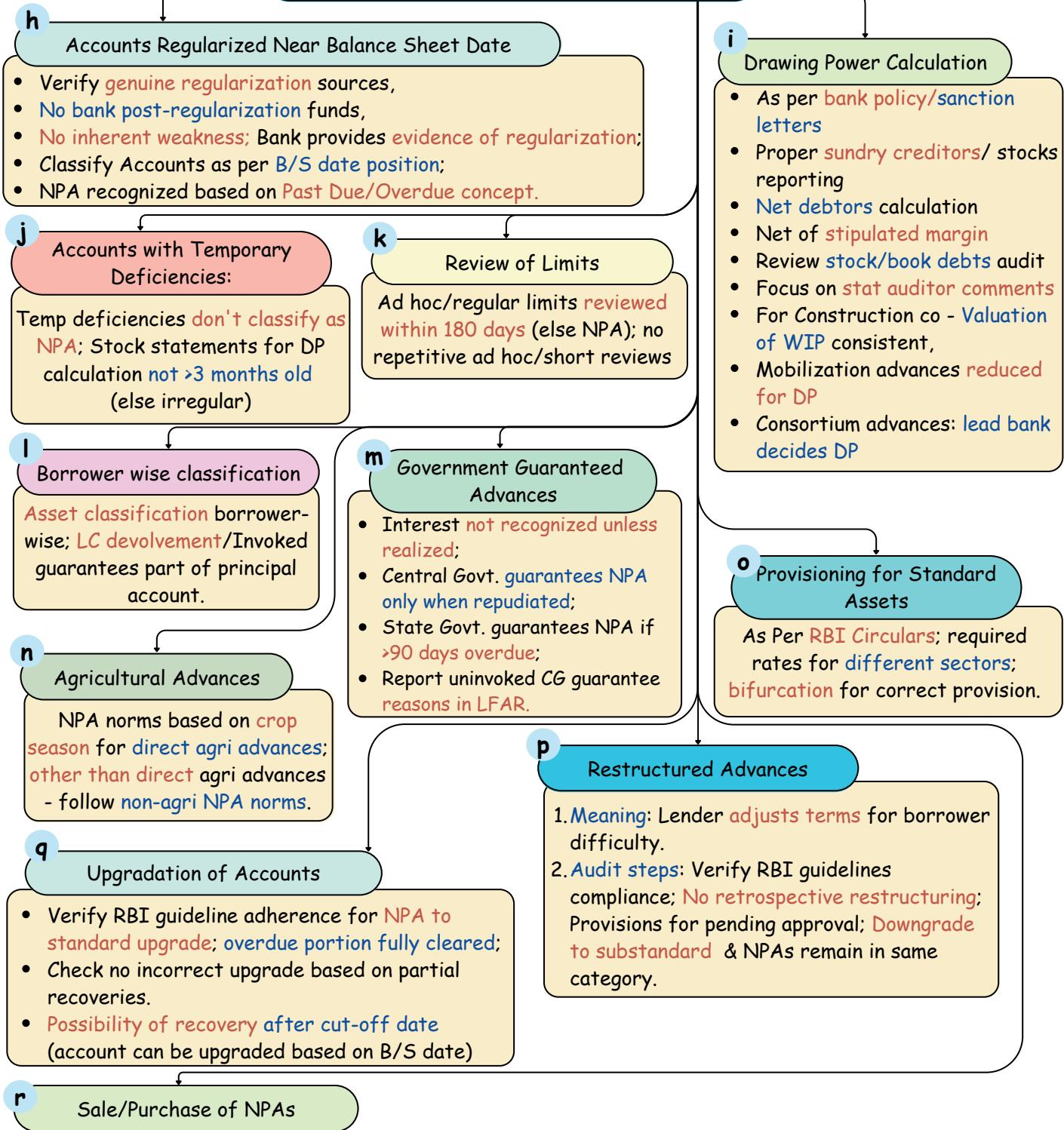


Detailed Audit Procedures





C. Audit of Advances



Defined policy; without recourse; not purchase the originally sold NPA.

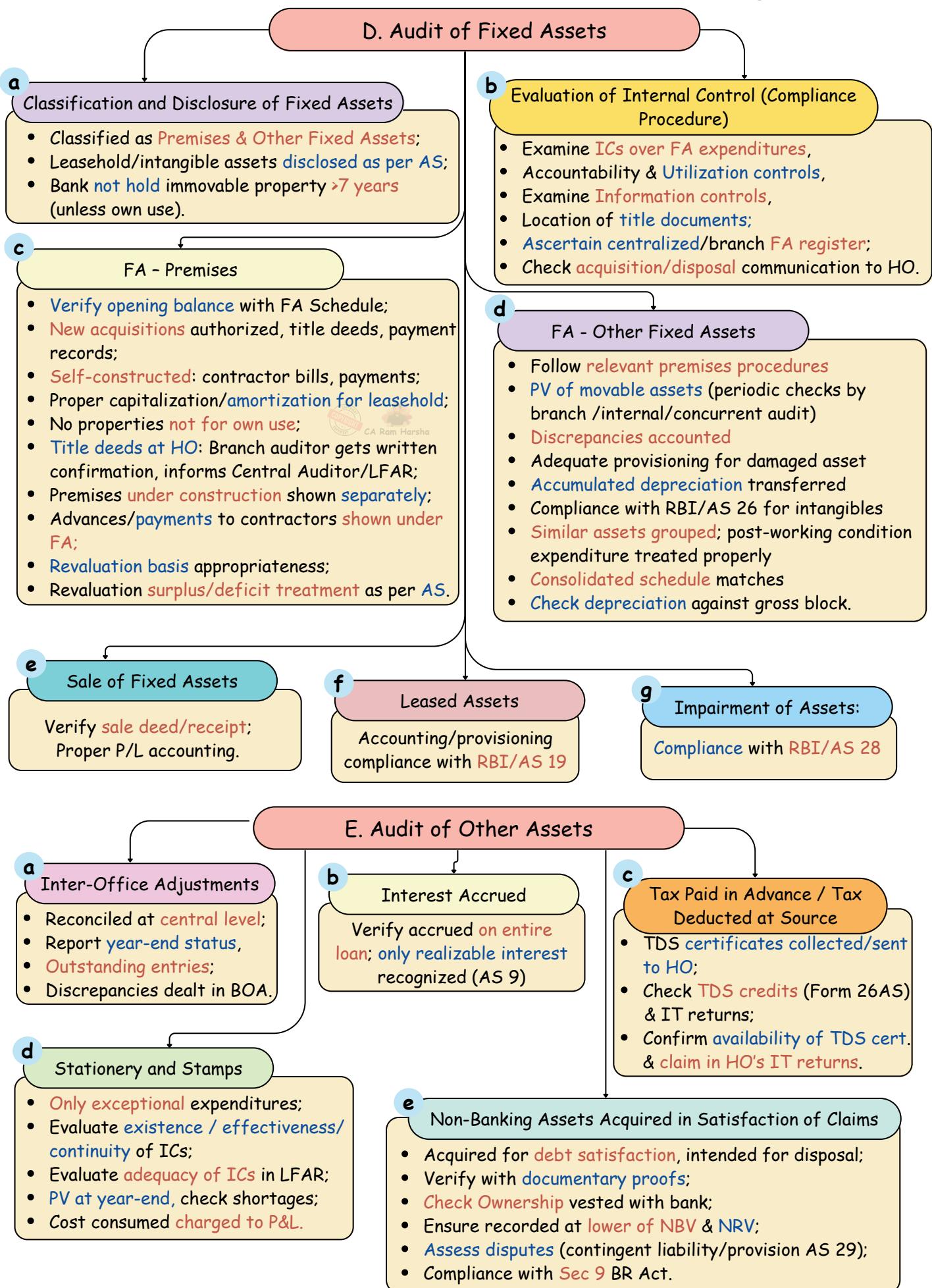
Sale of NPA: Removed from books; NPA for 2 years in BOA; Sale consideration upfront cash;

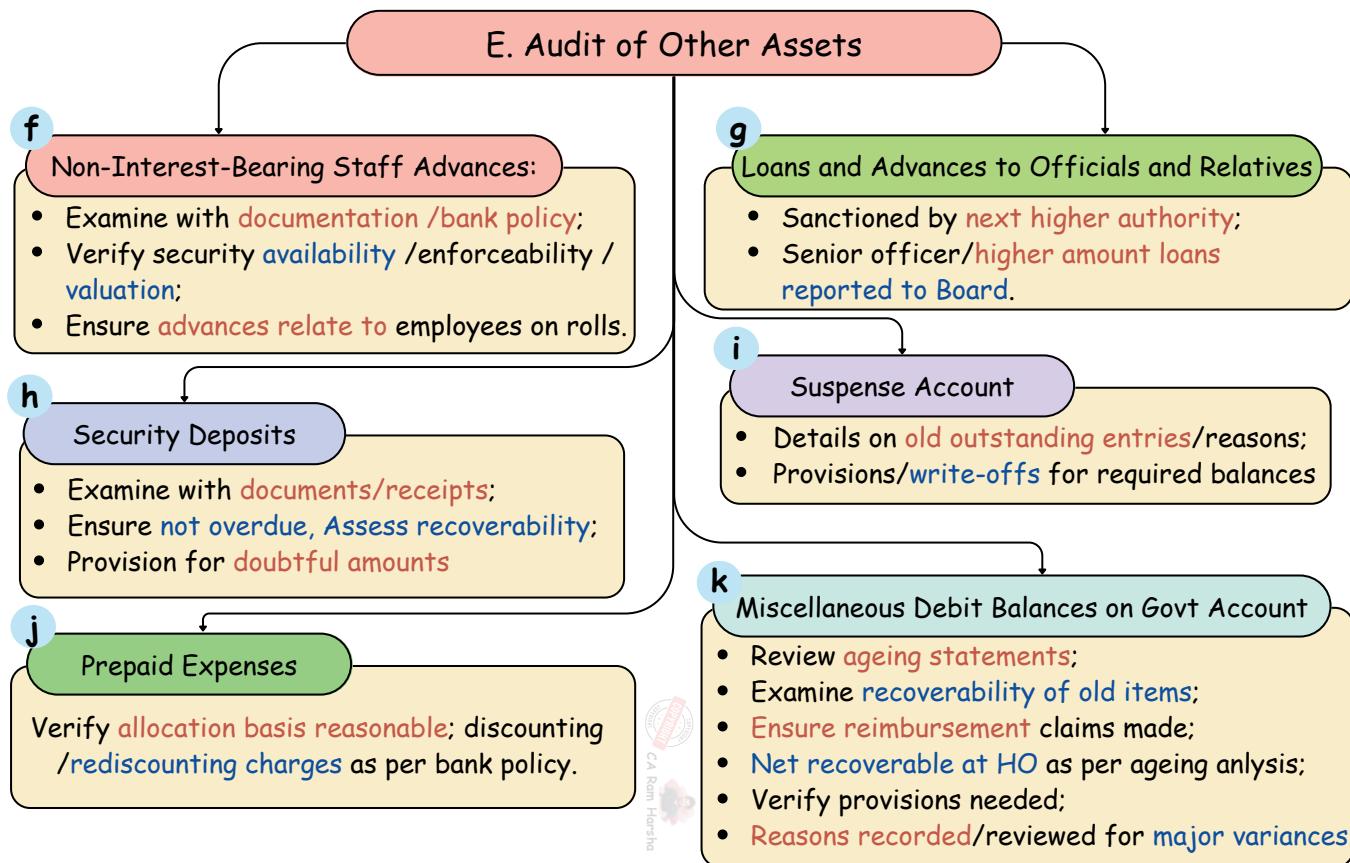
- If sold below NBV: Shortfall to P&L;
- Sold Above NBV: Excess provision not reversed;
- Verify that Bank has no legal /operational /other risks.

Purchase of NPA:

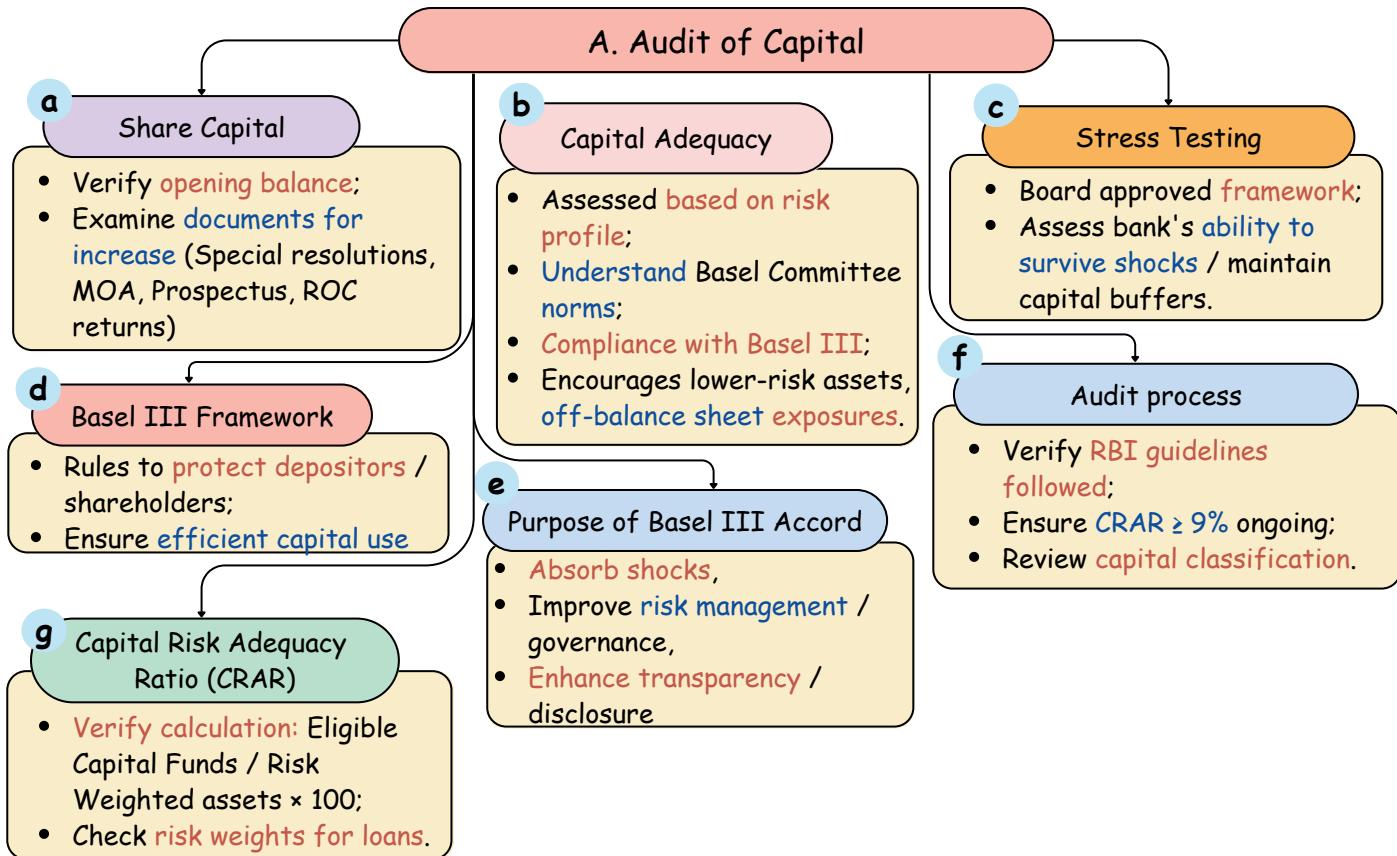
- Provisioning as per classification;
- Recoveries - 1st adjust against acquisition cost, excess is profit;
- Capital adequacy adjusted with 100% risk weights.







10. Verification of Capital & Liabilities



B. Audit of Reserves & Surplus

- Verify opening balances; check additions/deductions documented;
- Ensure legal compliance for statutory reserves/share premium;
- Verify prescribed % of profits transferred;
- Check exemption from transfers;
- Ensure share premium appropriations comply legally;
- Verify foreign laws compliance for overseas branches.



- "Reserves & Surplus" include:
- Statutory Reserves,
 - Capital Reserves,
 - Share Premium,
 - Revenue & Other Reserves,
 - P&L Balance.

C. Audit Procedures for Deposits

a Current and Saving Accounts

- Verify new accounts for KYC compliance;
- Saving accounts for individuals/HUF/approved institutions;
- Verify balances, interest calculation
- Balance confirmation procedure
- Debit balances in current A/c under advances NOT netted out as Liability;
- Compliance with RBI guidelines on inoperative/dormant A/c
- Check inoperative A/c for revival authorization

b Term Deposits

- Ensure receipts / cash certificates serially issued /registered;
- Verify bulk deposits (₹2cr+) & term deposits for interest rate correctness;
- Ensure foreclosure penalties applied;
- Verify RD accounts opened during the year.

c Deposits in FCNR

- Verify new accounts/RBI compliance;
- Check credits/debits for RBI compliance;
- Ensure conversion to INR at HO notified rates, resultant P&L impact;
- Verify interest calculated on 360 days.

d NRE and NRO Accounts

Verify Credits/Debits for RBI compliance; Check repatriability of A/c's.

e General Deposits Compliance

- Ensure deposits not inflated;
- Qualify main report if window dressing suspected;
- Interest accrued but not due under "other liabilities & provisions";
- KYC/AML framework formulated & put in place

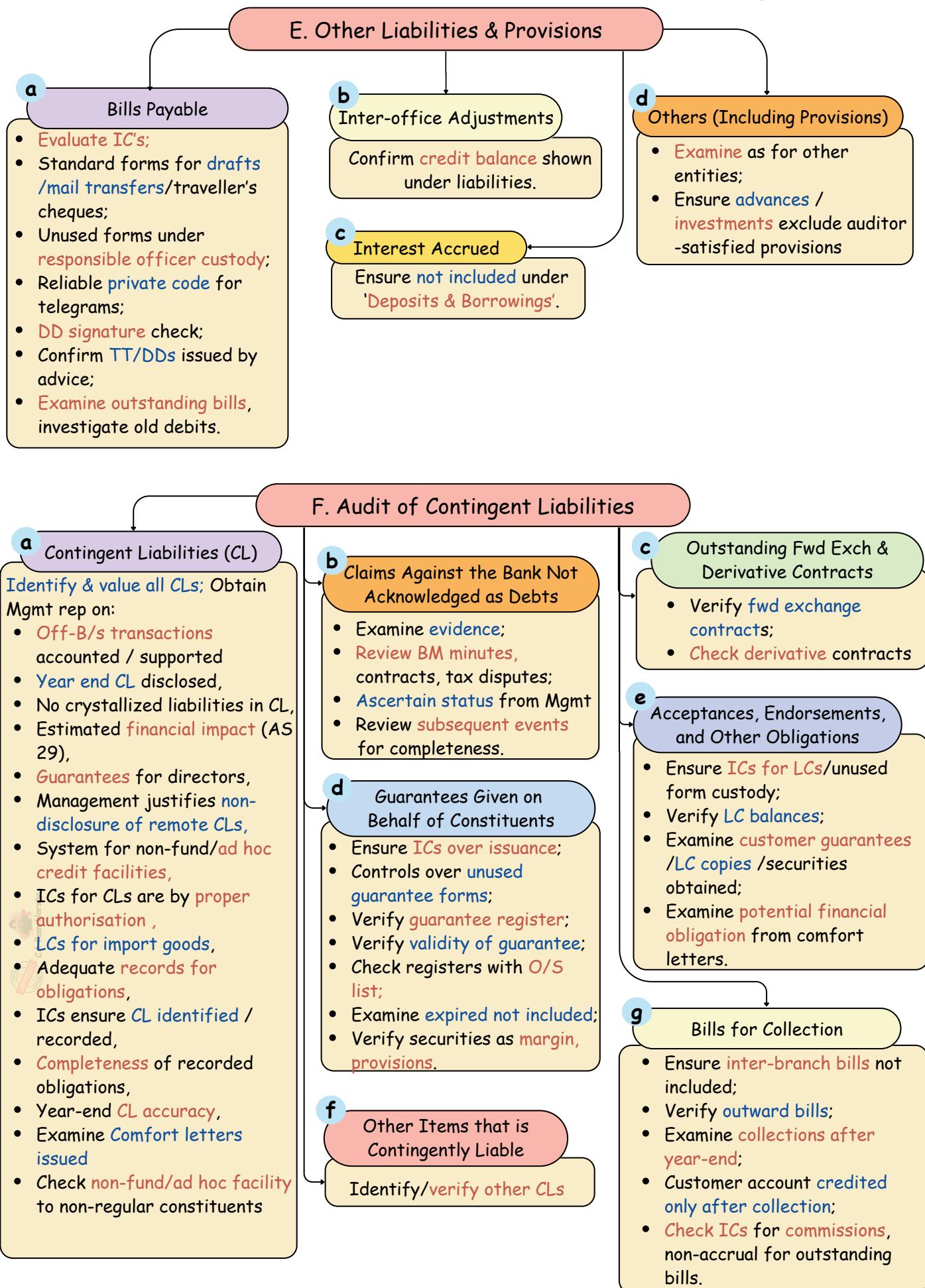
D. Audit of Borrowings

a Secured Borrowings

- Total amount disclosed in notes;
- Inter-office transactions are not borrowings.

b Borrowings

- Obtain/Verify confirmation certificates, supporting documents;
- Use external confirmations (SA 505);
- Clear distinction 'rediscount' vs. 'refinance';
- Verify call/short notice borrowings authorized, interest rates & duration;
- Ensure branch has HO authorization, terms as per authorization.



11. Auditor's Report

A. Format of Auditor's Report

a Audit Report Compliance

- Comply with SA 700, 705, 706, 710, 720;
- Include **unaudited branch disclosures**;
- Report as per **Sec 143** Companies Act, 2013;
- **CARO 2020** not applicable.

c Other Matters

Bring any **other matter** to CG notice

d P&L Account

True balance of profit/loss

*Indicates - Report to CG

b Rule 11 of the Companies (Audit and Auditors) Rules, 2014

- Report on **pending litigations impact**;
- Provisions for **material foreseeable losses**; transfer to IEPF;
- **Obtain management representations** (no funds advanced/received for intermediaries/ultimate beneficiaries),
- **Confirm accuracy** of these representations without MMS;
- Ensure dividend complies with **Sec 123** Companies Act;
- Verify **accounting software audit trail (EDIT LOG) feature**, no tampering, preserved.

e Returns Adequacy

Adequacy of **returns from offices/branches**

f Transactions within Powers

Transactions within **bank's powers**.

g Explanation/Information

Given & satisfactory

h Balance Sheet View

Full, fair, true, and fair view

B. Long Form Audit Report

a Inclusion

For **public, private, foreign banks**.



b Requirement

SCAs & Branch Auditors provide LFAR

c LFAR for Branch Auditors

Questionnaire; submit to SCAs.

f

Submission to RBI:

Copy with Board's views submitted to RBI **within 60 days** of submission of LFAR.

C. RBI Circular on Bank Frauds and Other reporting Requirements

a Guidelines

RBI **circular on Bank Frauds** recommendations; liabilities of accounting & auditing professions

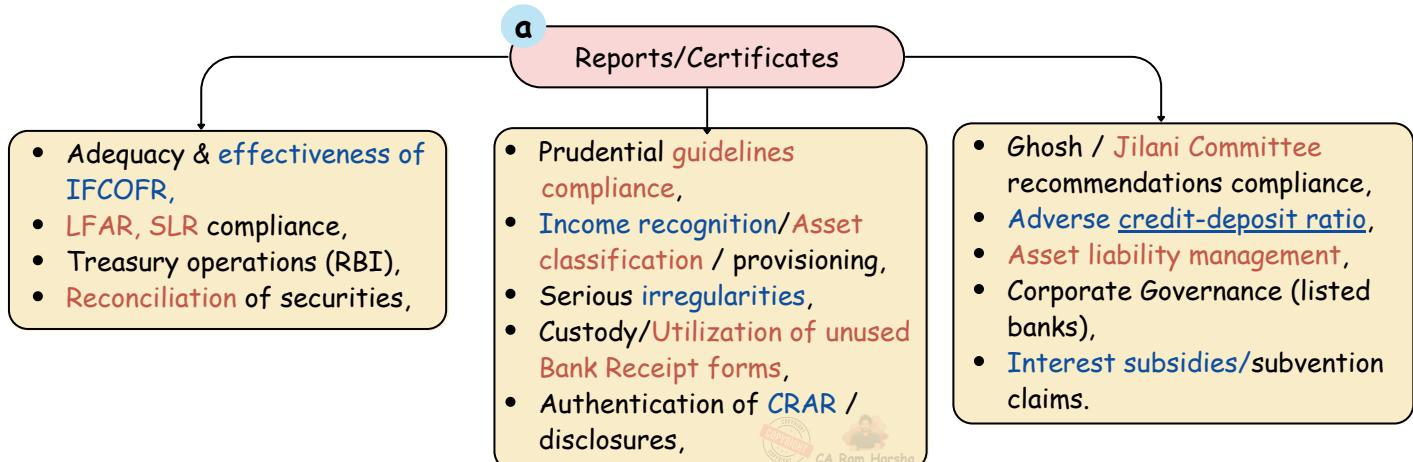
b Compliance

Auditor ensures **SA compliance**.

c Reporting Fraud

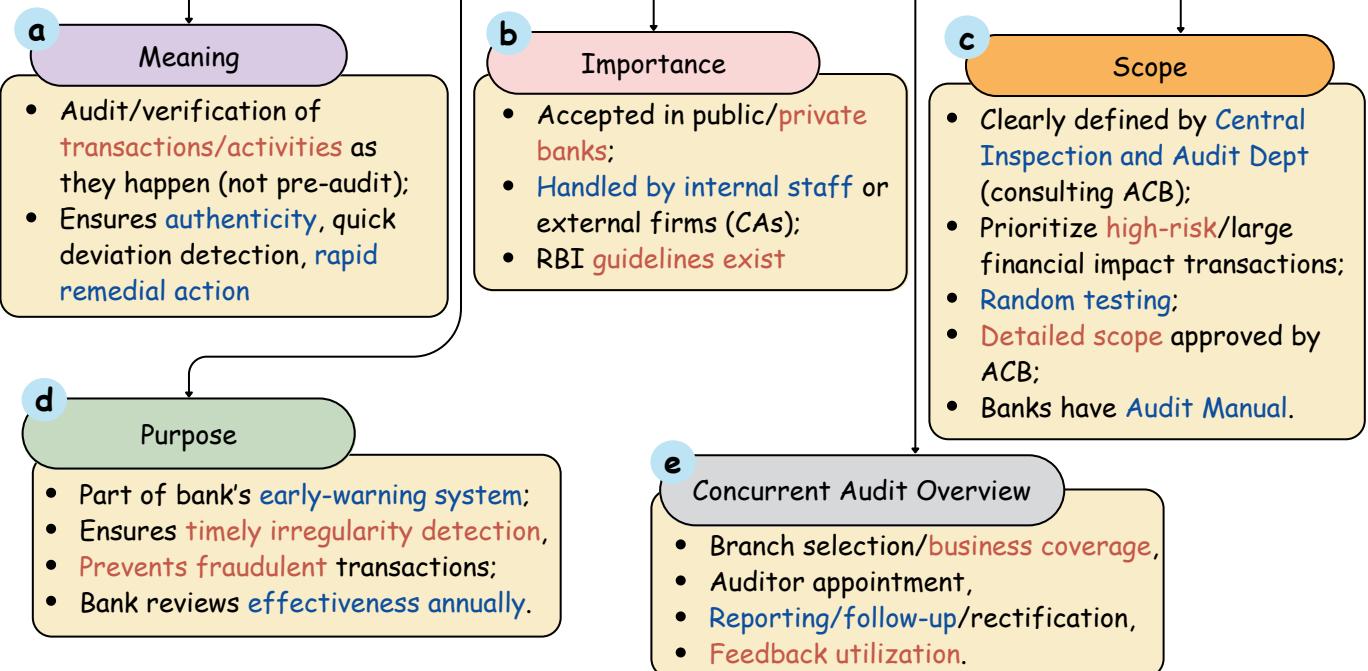
If fraud (prescribed amounts) believed occurred, **report to CG** (Sec 143(12) Companies Act); if suspected during routine duties, **report to RBI and Chairman / MD / CEO**

D. Reports & Certificates by Central Statutory Auditor

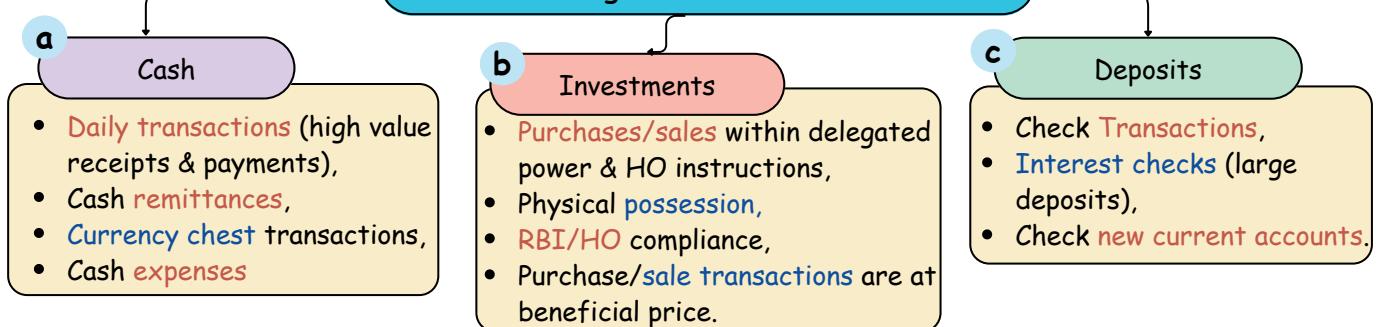


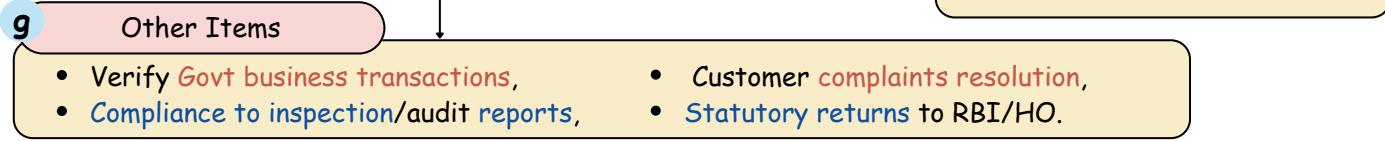
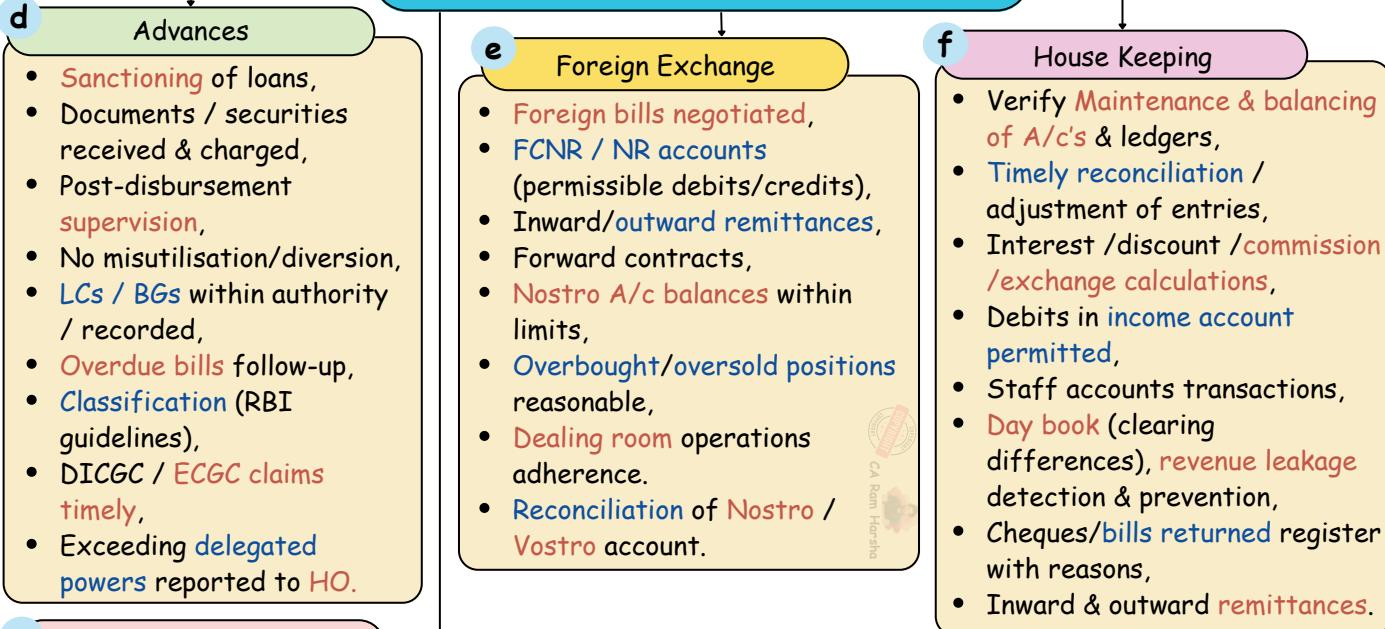
12. Concurrent Audit

A. Scope & Purpose

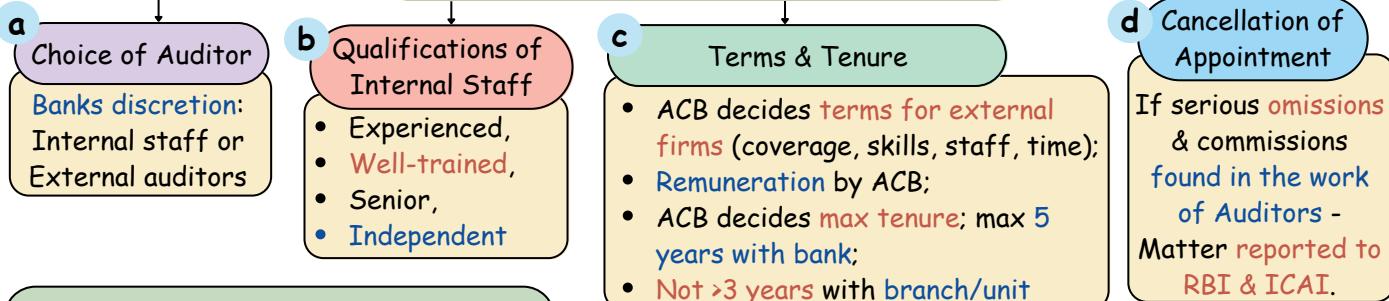


B. Coverage of Concurrent Audit

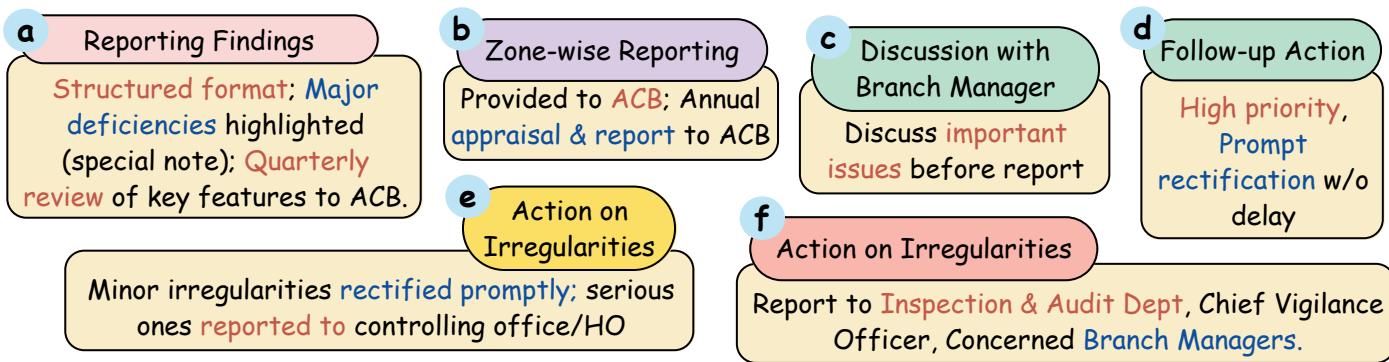




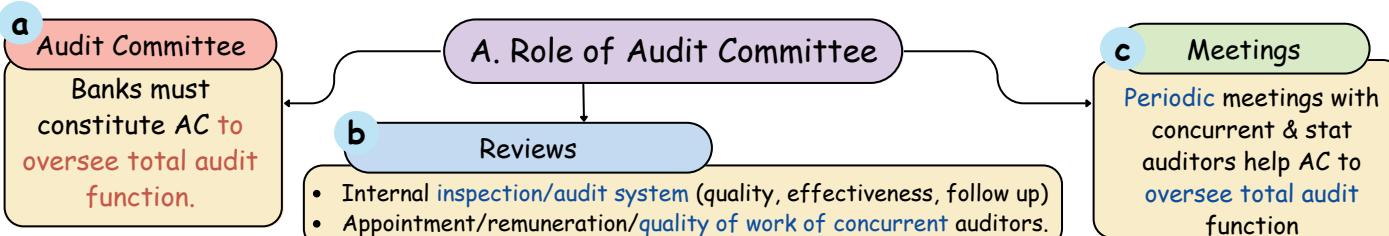
C. Appointment of Concurrent auditors



D. Reporting Systems

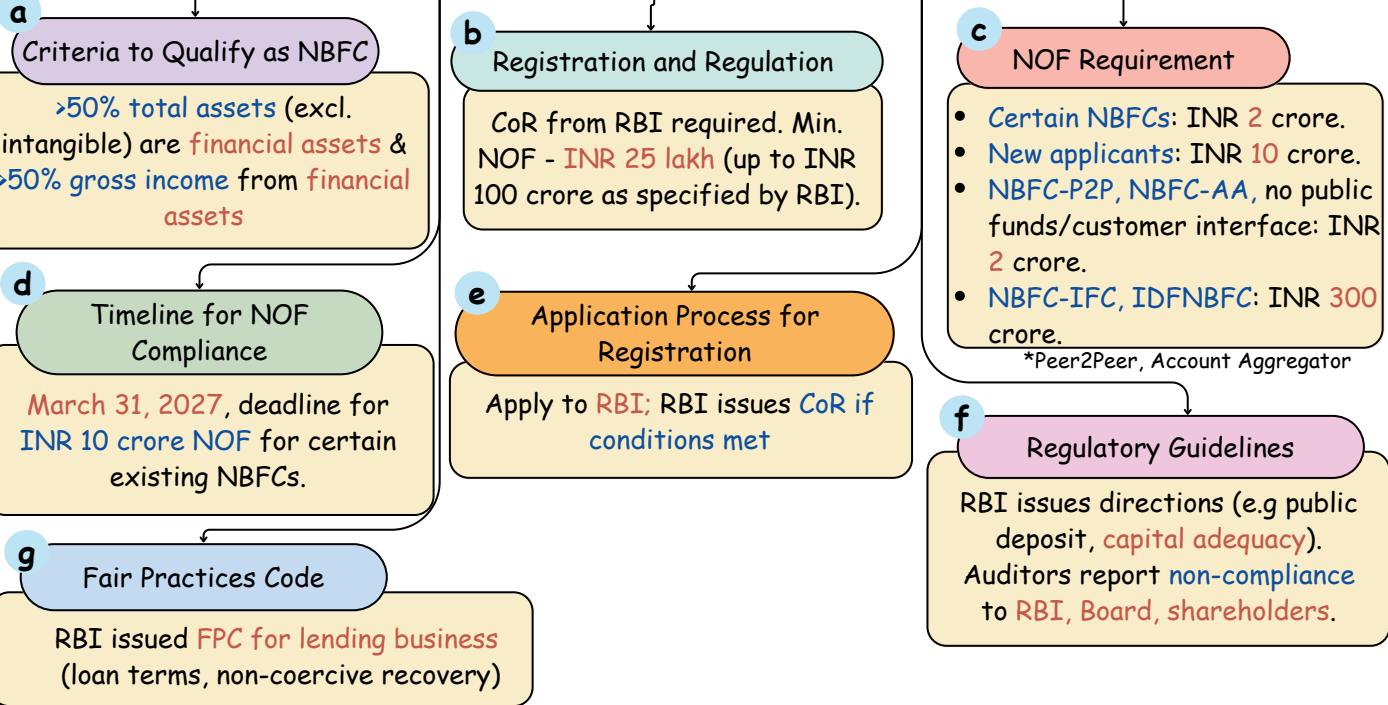


13. Audit Committee

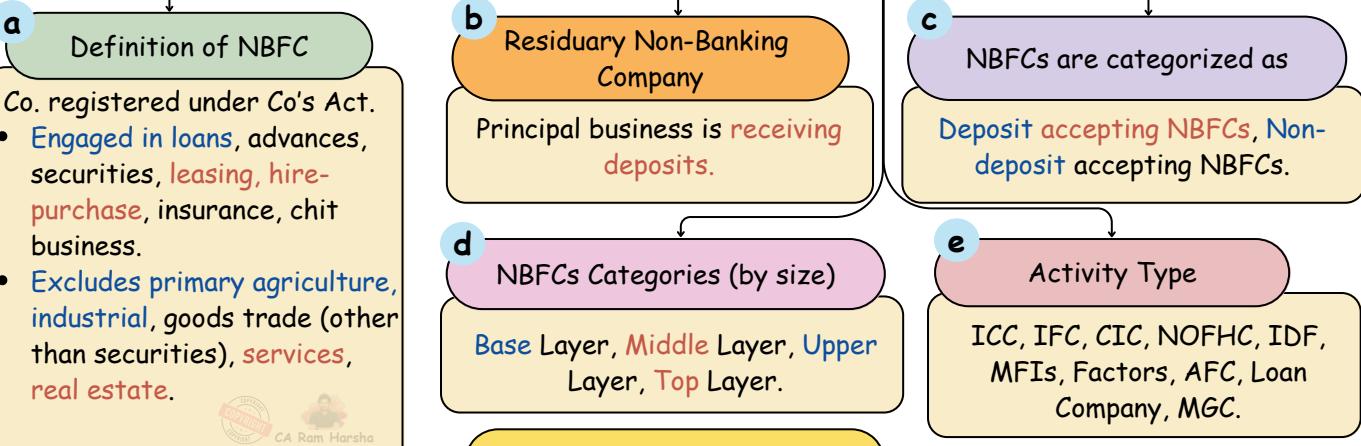


14B. AUDIT OF NBFC's

A. Criteria for Registration



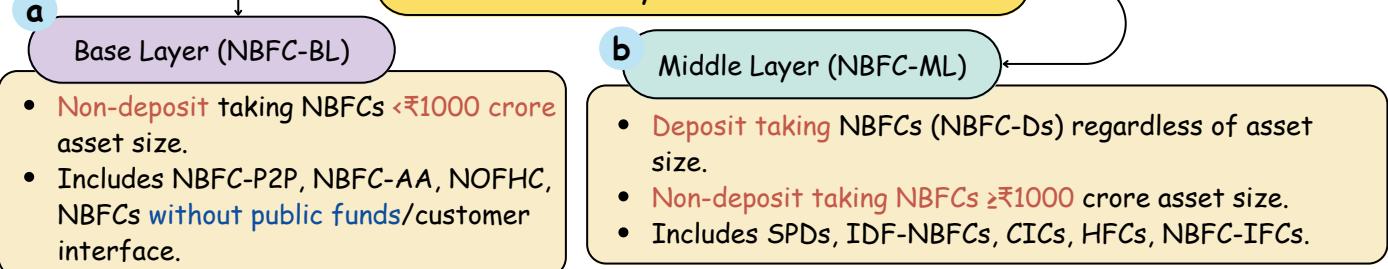
B. Types of NBFC



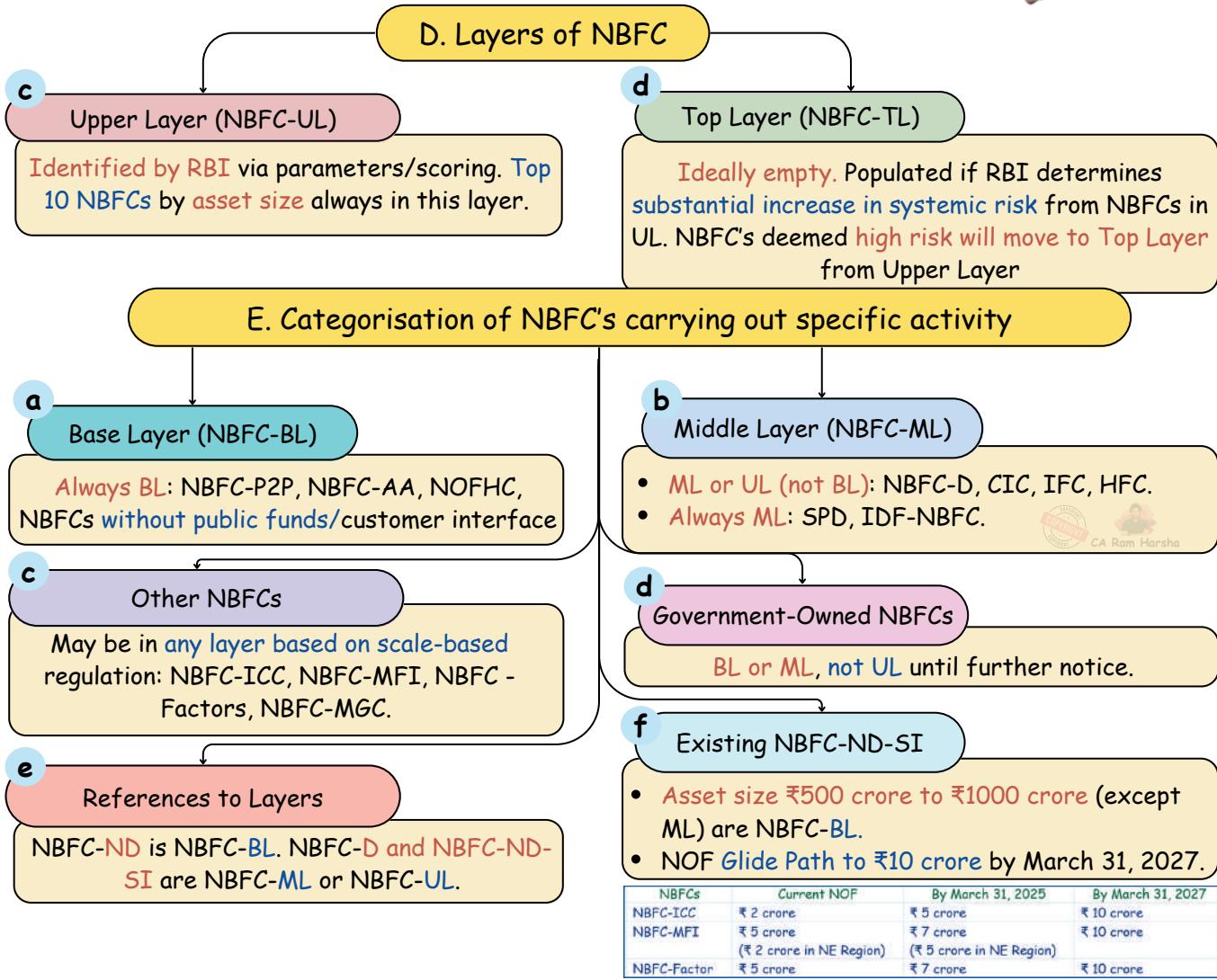
C. Exempted NBFCs

- Regulated by other regulators (e.g., HFI, Merchant Banking Co., Insurance Co., Nidhi Co., certain CICs).
- CICs < ₹ 100 Cr asset size and CICs > ₹ 100 Cr asset size not accessing public funds are exempted from registration.

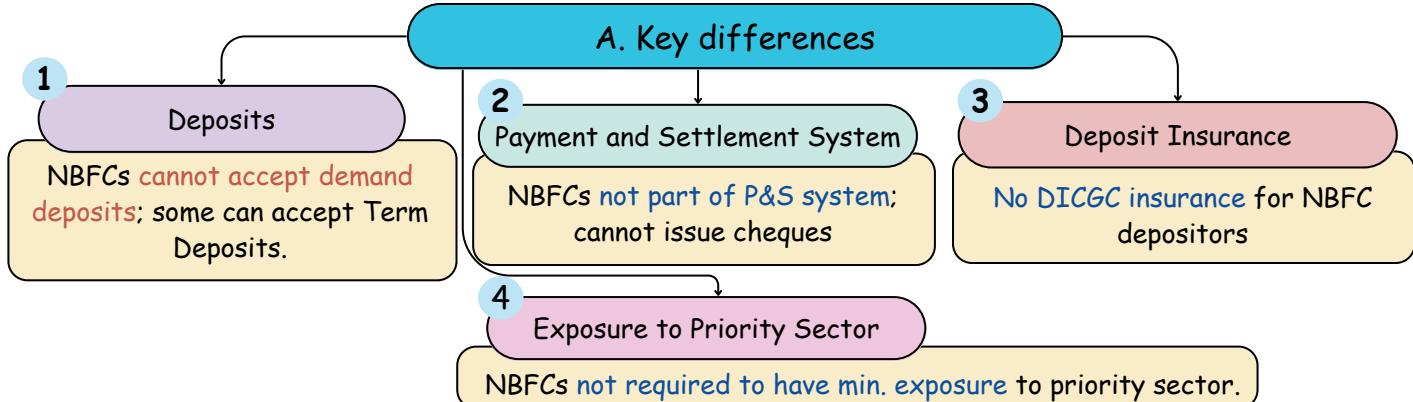
D. Layers of NBFC



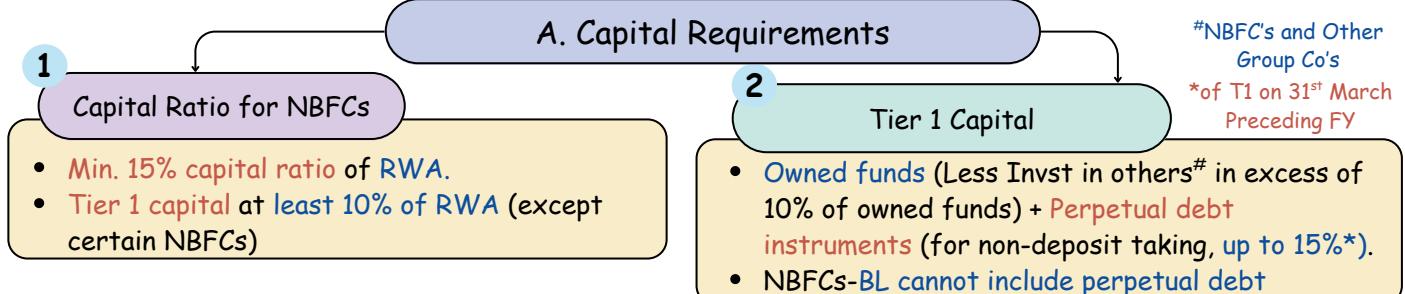
*Standalone Primary Dealers, Infra Debt Fund, Housing Finance Co's, Infra Finance Cos

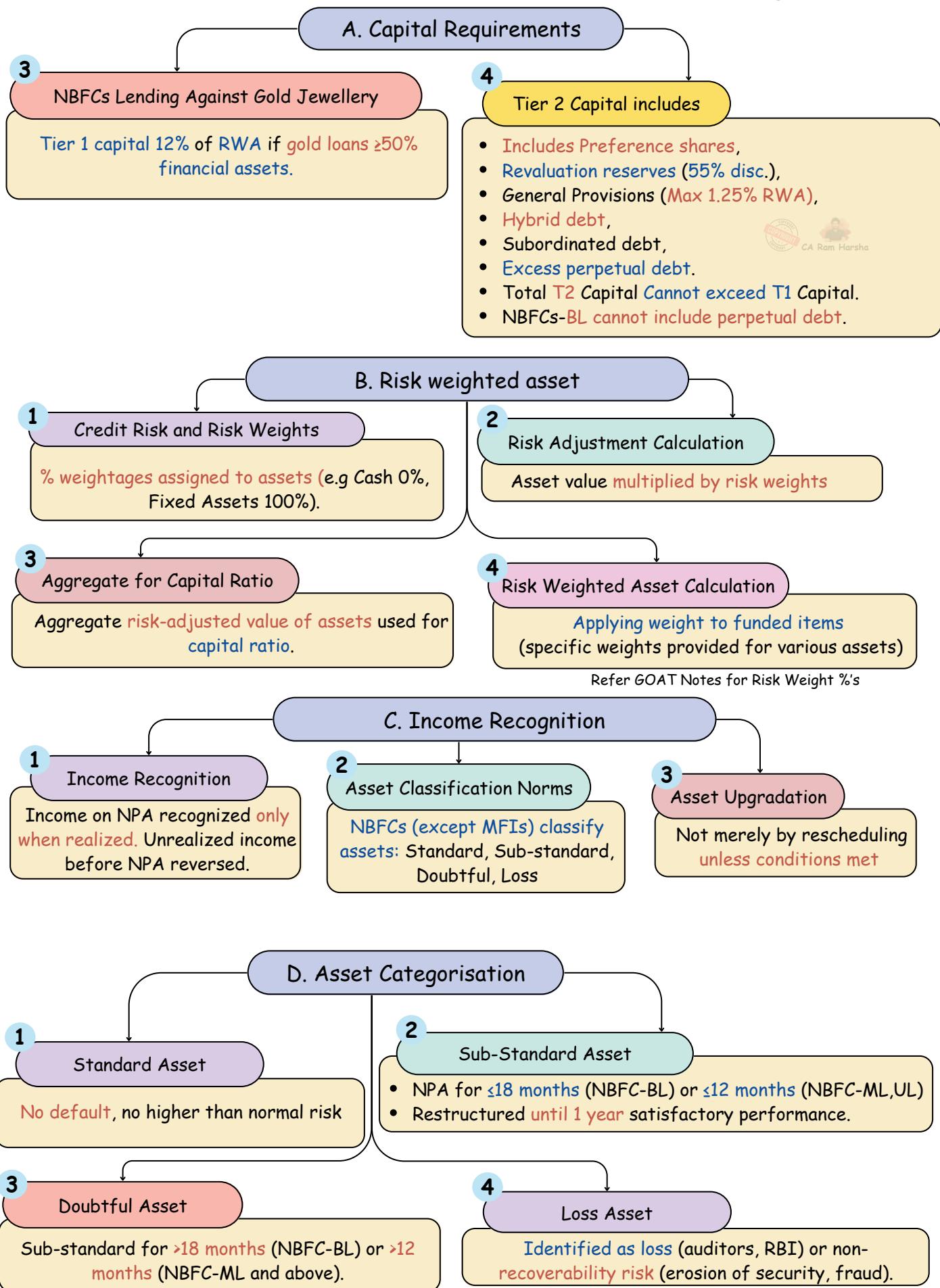


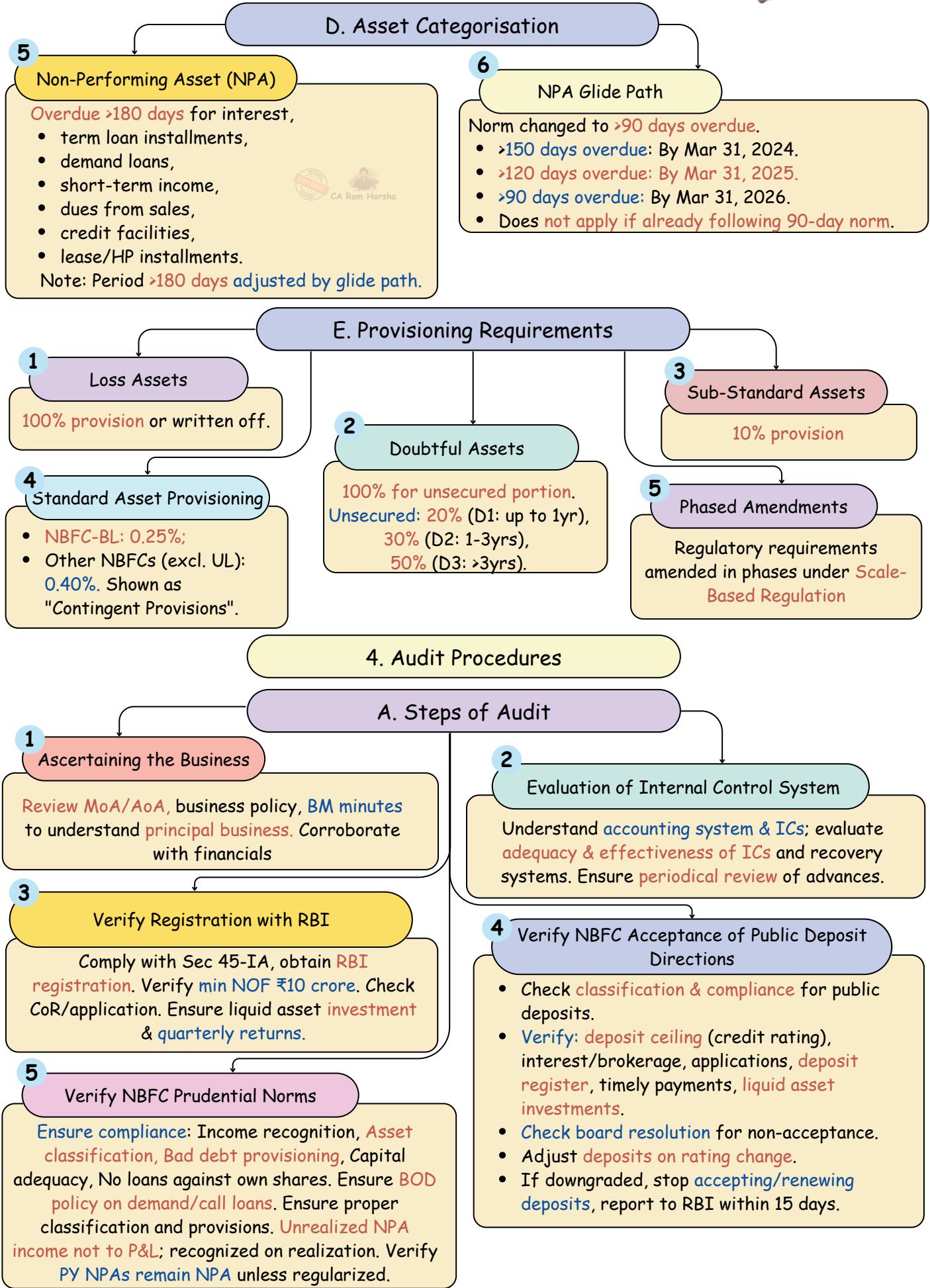
2. Difference between Banks & NBFC's



3. Prudential Norms







5. Classification of Frauds by NBFC

A. Types of fraud

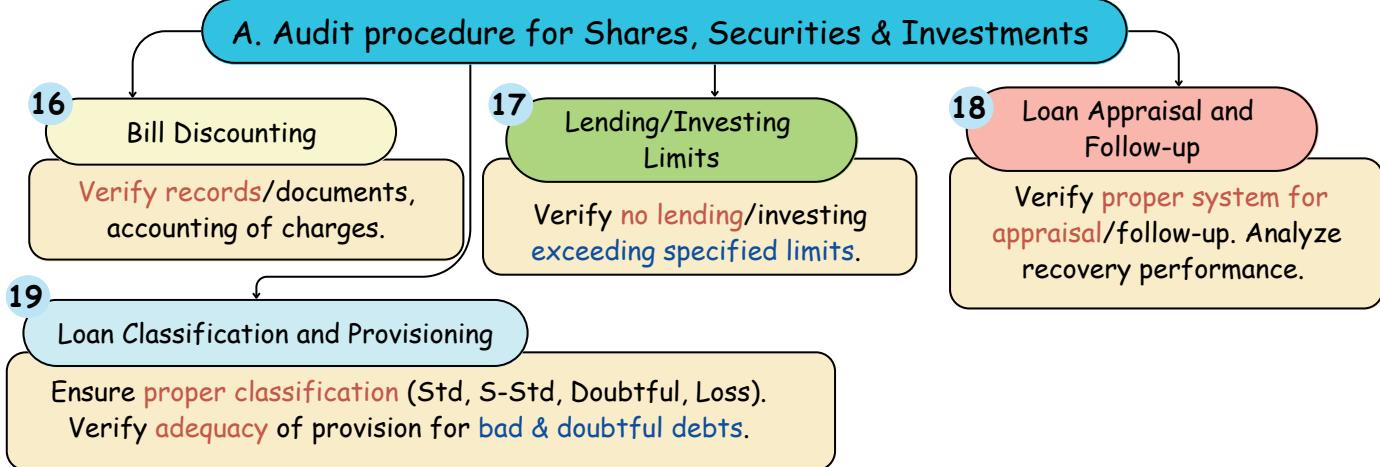
1. **Misappropriation and Criminal Breach of Trust.**
2. **Fraudulent Encashment through Forged Instruments, Manipulation of BOA, Creation of Fictitious Asset**
3. **Unauthorized Credit Facilities.**
4. **Negligence and Cash Shortages:** Not fraud unless suspicion of fraudulent intent/proved fraud. Always fraud if **>₹10,000 or >₹5,000 and not reported by cash handler.**
5. **Cheating and Forgery.**
6. **Irregularities in Forex Transactions.**
7. **Other Types of Fraud.**
8. **Fraud Reporting Requirement for Overseas Branches:** Report to **RBI** in prescribed format.



6. Audit Check-List [For NBFC-ICC]

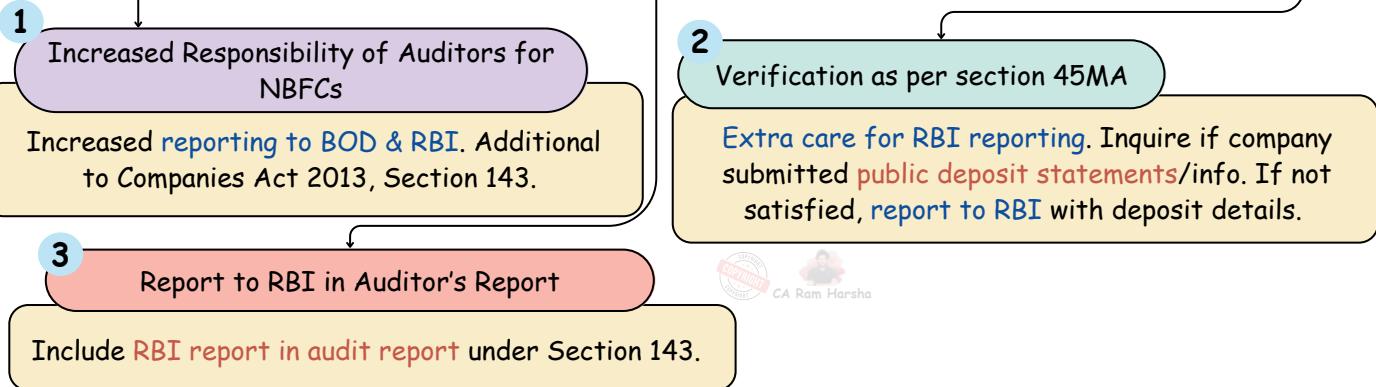
A. Audit procedure for Shares, Securities & Investments

- 1 **Verify Shares and Securities**
Physical verification. Obtain certificates for lodged securities
- 2 **Loans Against Own Shares**
Ensure **no loans against own shares**
- 3 **Dividend Income and Bond Interest**
Verify **dividend received, Interest accounted** (except **NPAs**). **Dividend on cash basis** (unless declared in AGM/right established). **Bond/debenture income** on accrual basis if **fixed rate & regularly serviced**.
- 4 **Test Check Bills/Contract Notes**
Verify **prices against market quotations**
- 5 **Board Minutes for Investment**
Review **purchase/sale decisions**. Ensure **classification** (current / long-term) based on **board resolutions**.
- 6 **Valuation of Investments**
Verify **valuation as per NBFC Prudential Norms**. Ensure **adequate provision for fall in market value**
- 7 **Investments in Subsidiaries / Group Companies**
Verify **investments, acquisition price basis**, valuation aligns with **prudential norms**.
- 8 **Unquoted Debentures/ Bonds**
Not investments, **treated as term loans/credit facilities** for **income recognition/asset classification**.
- 9 **Compliance with AS 13**
Ensure **compliance with AS 13** (or other AS) consistent with **NBFC Directions**.
- 10 **Confirmation from Depository**
Obtain **confirmation for holdings**
- 11 **Securities Lend/ Borrowed**
Verify **receipt/payment, corporate benefits, charges**.
- 12 **Confirmation from Approved Intermediary**
Obtain **confirmation for securities deposited/borrowed**
- 13 **Loan Sanction Verification**
Ensure **proper sanction with terms** (limits, security, interest, repayment).
- 14 **Security Verification for Loans**
Verify **security obtained, agreements, nature/value, borrower's net worth**.
- 15 **Balance Confirmations**
Obtain **confirmations for loans/advances**.



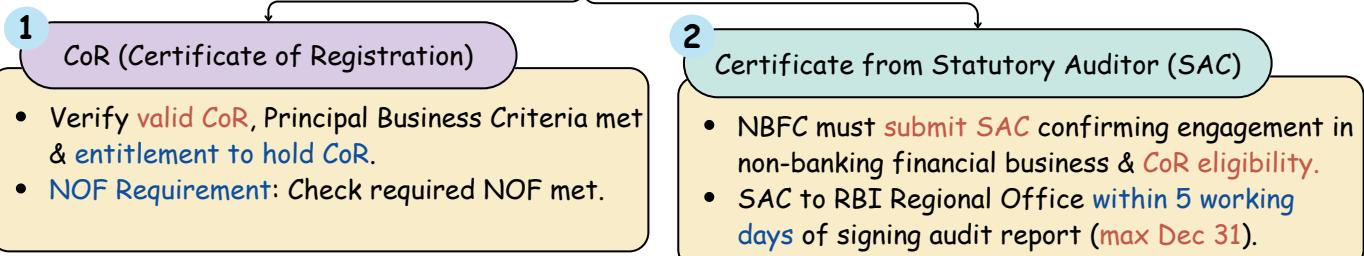
7. Auditor's Duty - Compliance with RBI Auditor Report Directions

A. Compliance with NBFC Auditor's report - RBI Direction

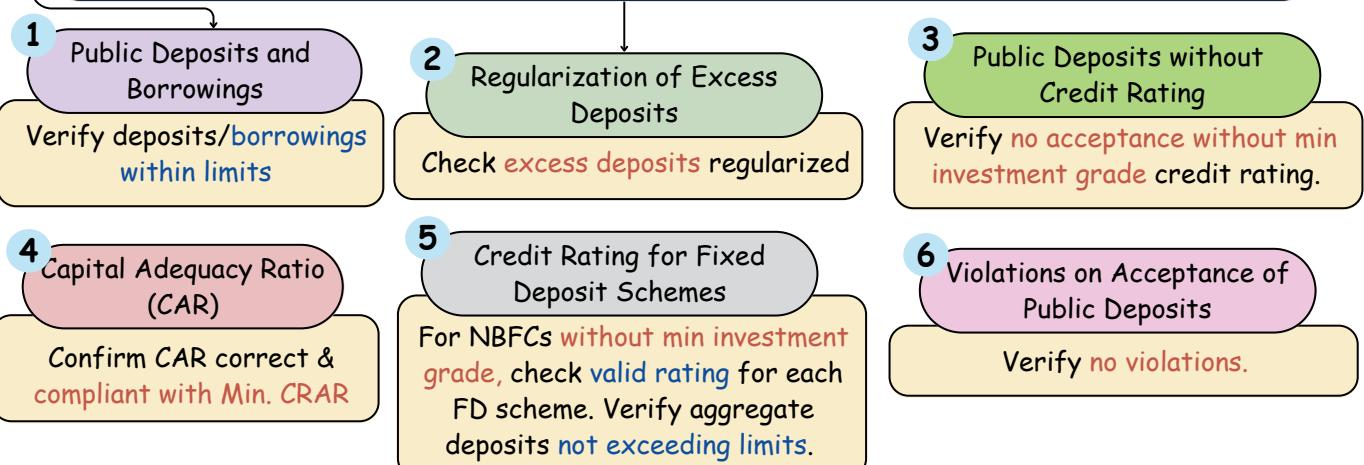


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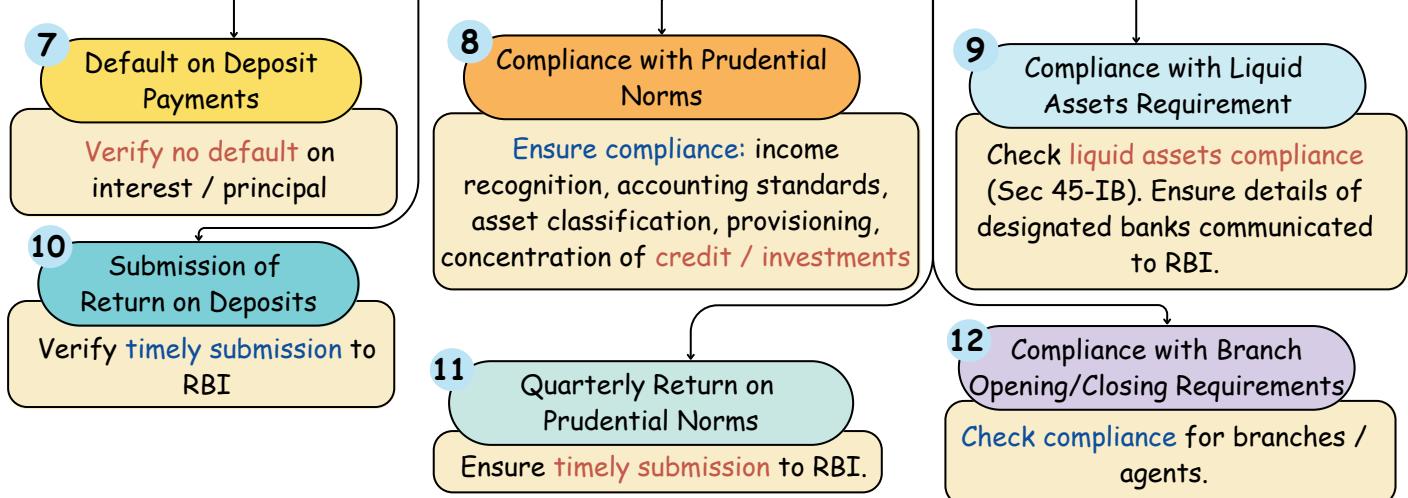
B. Matters to include in the Auditors Report to BOD - In the case of ALL NBFCs



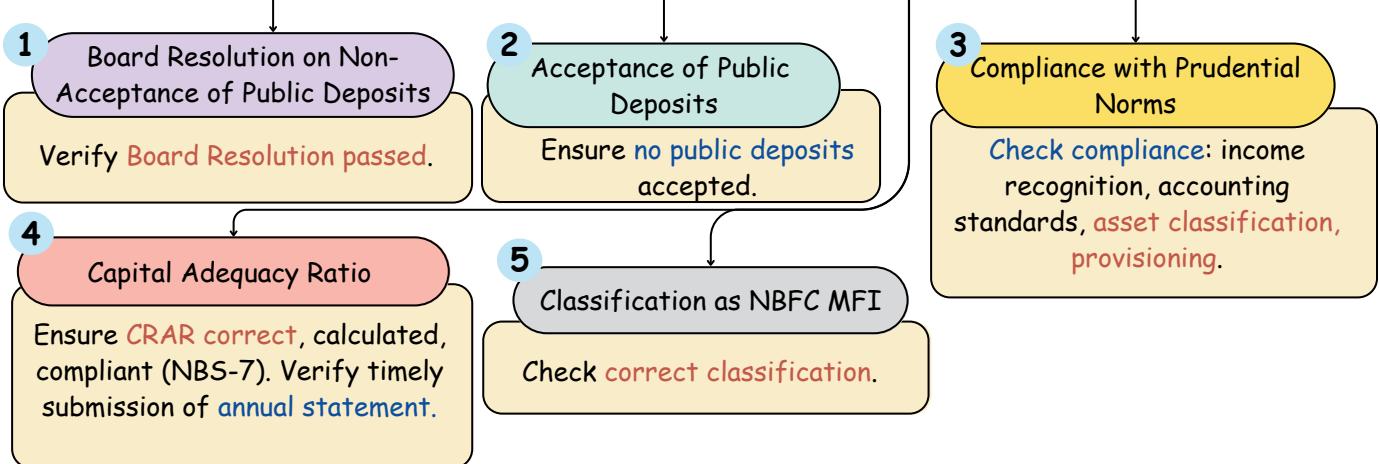
C. Report to BOD - In the case of NBFCs Accepting/holding public deposits



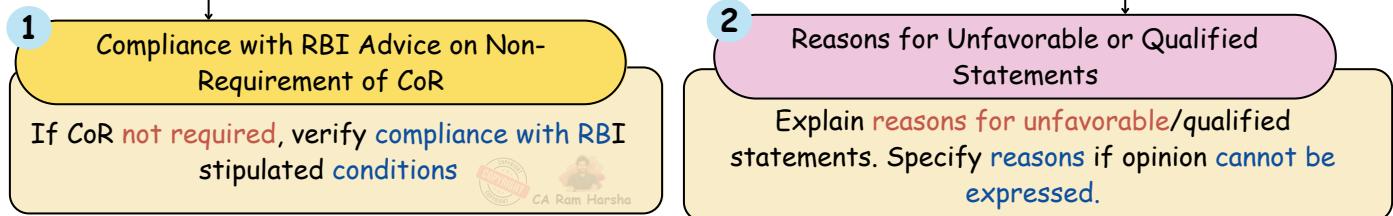
C. Report to BOD - In the case of NBFCs Accepting/holding public deposits



D. Report to BOD - In the case of a NBFCs NOT Accepting public deposits



E. Miscellaneous

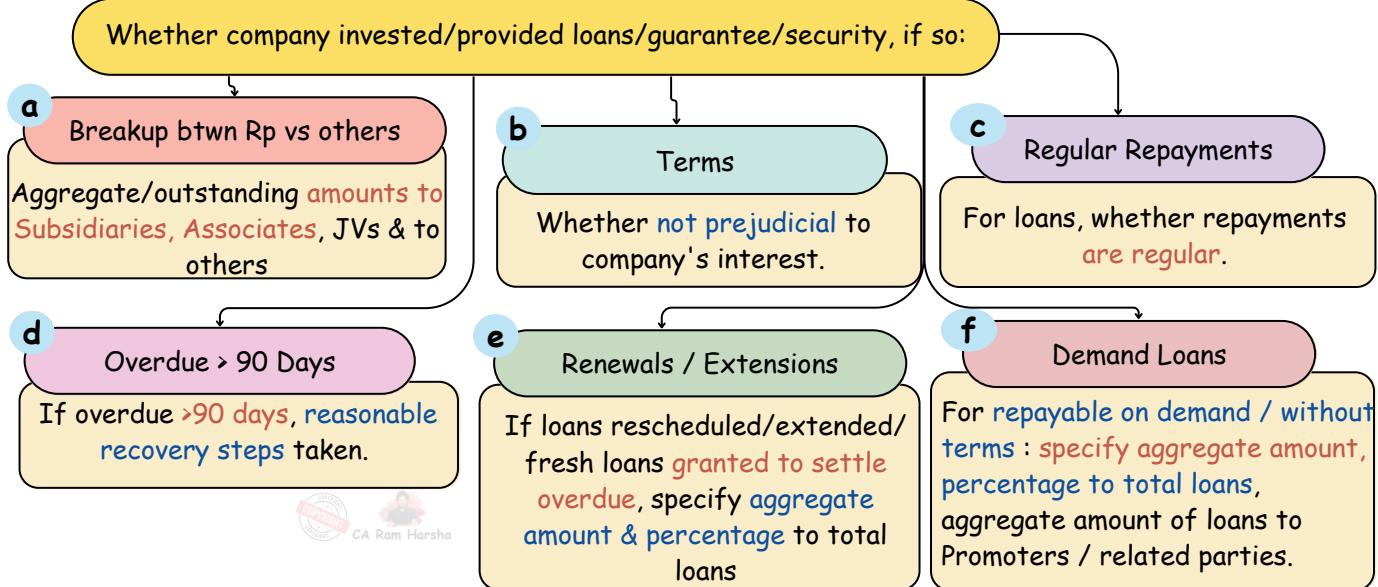


F. Exception Report to RBI

- If Non-Compliance with Chapter III B RBI Act, Public Deposits Directions (2016), SBR Directions (2023)
- Report details to RBI Regional Office. Report only covers contraventions.

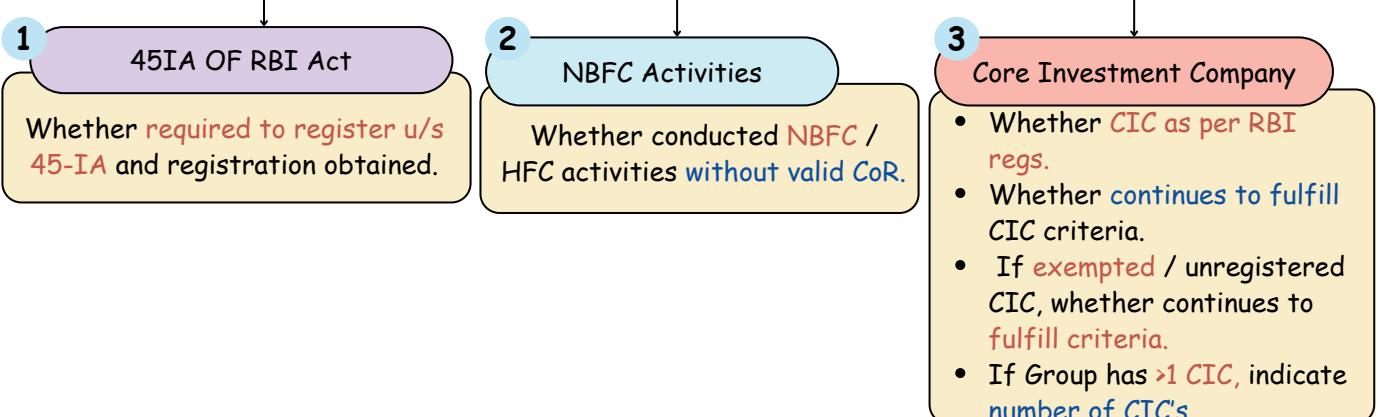
8. Auditor's Duty relating to Compliance with CARO 2020

A. Clause 3 - Investments, Guarantee, Security, Loans or Advances:



Note: Points (a) and (e) do not apply if principal business is lending.

B. Clause 16 - Non-Banking Financial Institution



9. Indian Accounting Standards (IND AS)

A. Compliance with IND AS

1 Compliance with Indian Accounting Standards (Ind AS)

NBFCs must comply with Ind AS. Format for Preparation of Financial Statements by NBFCs under Ind AS: Division III under Schedule III introduced for Ind AS compliant NBFCs.

10. Difference between Division II and Division III

A. Presentation requirement under Division III

1

Order of Balance Sheet Items

NBFCs can present items **in order of liquidity** (unlike Div II).

3

Disclosure of Debts due from LLPs:

NBFCs must **separately disclose debts** from LLPs where director is partner/member.

5

Disclosure of Trade Receivables with Increased Credit Risk

NBFCs must **separately disclose trade receivables** with significant **credit risk** or **credit impaired**.

2

Disclosure of Other Income or Expenditure:

NBFCs **disclose >1% of total income separately**

4

Disclosure of Revenue and Comprehensive Income

NBFCs disclose '**revenue from operations**' and '**other comprehensive income**' on face of P&L (unlike Div II).

6

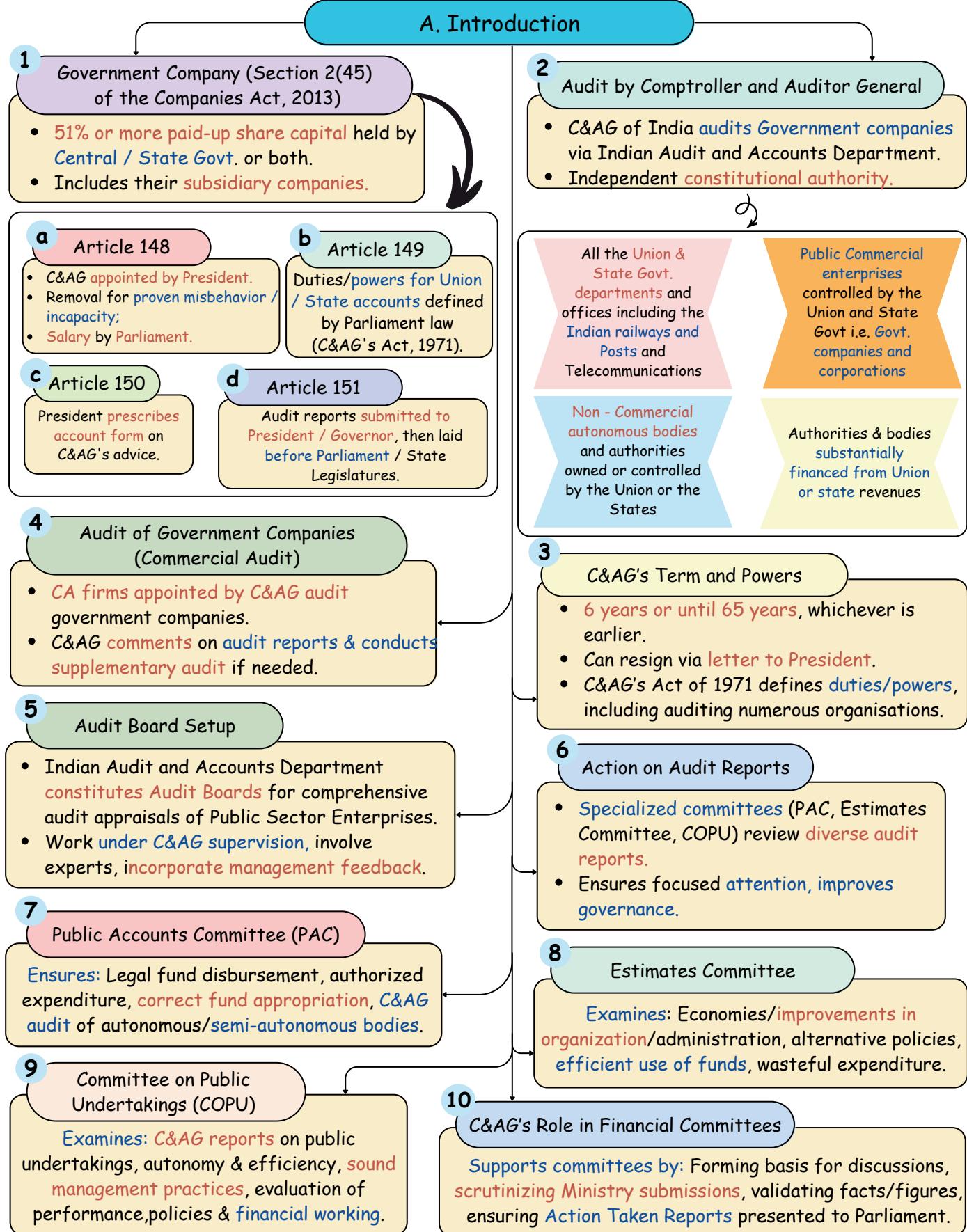
Disclosure of Conditions on Statutory Reserves

NBFCs must **separately disclose conditions/restrictions** on statutory reserves.

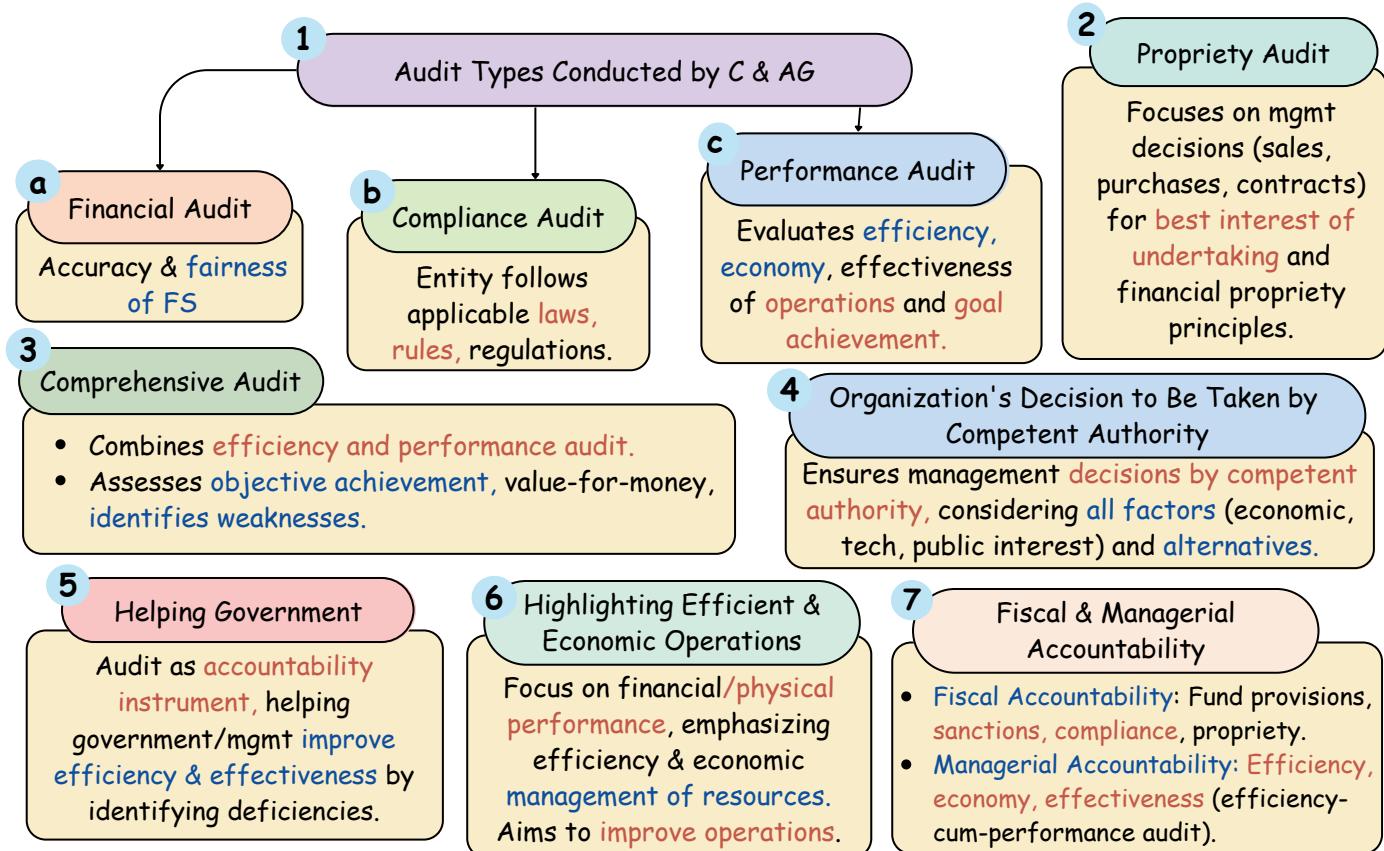


15. AUDIT OF PSU

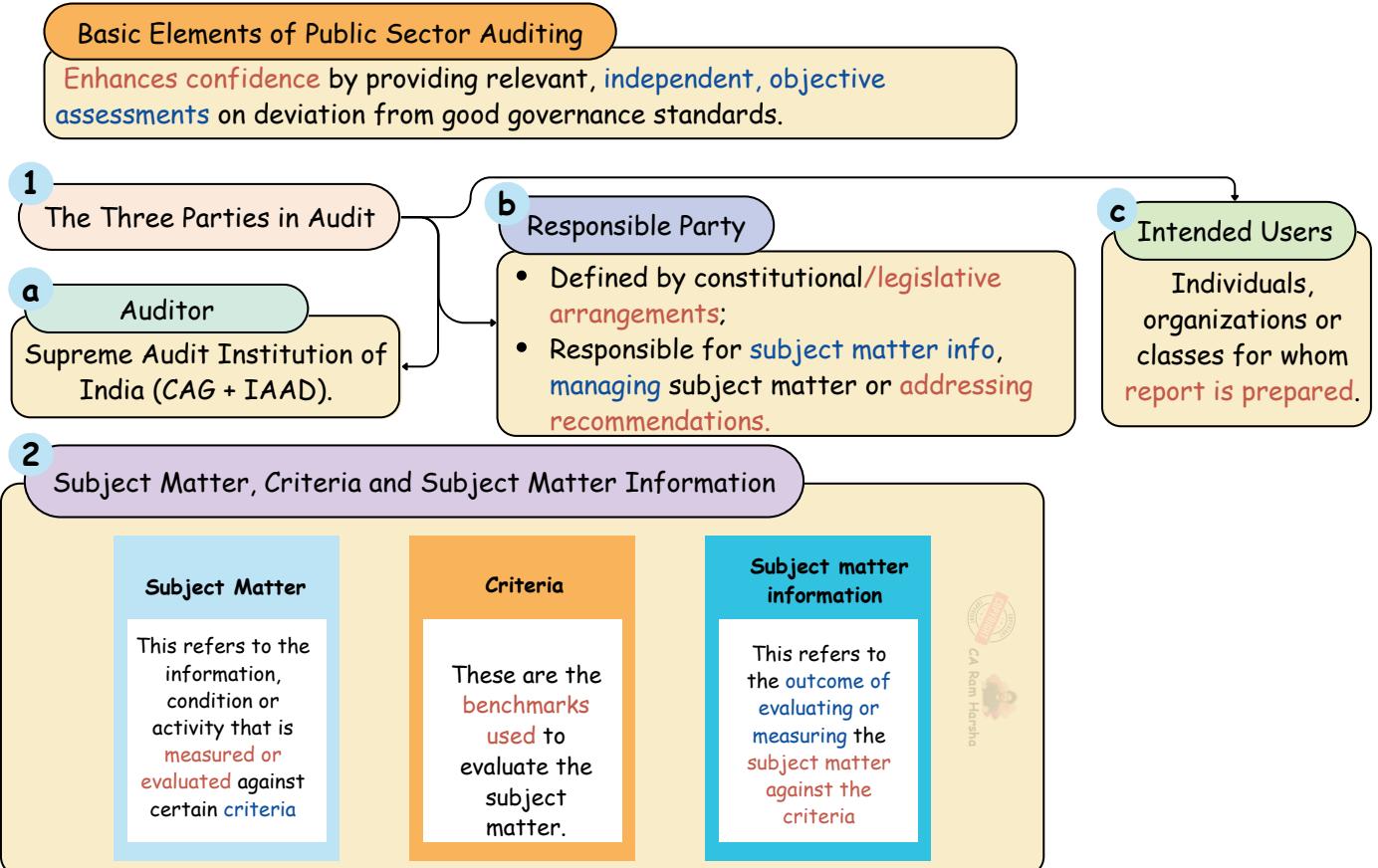
1. Broad Framework for Government Audit



B. Objective and Scope of Public Enterprises Audit



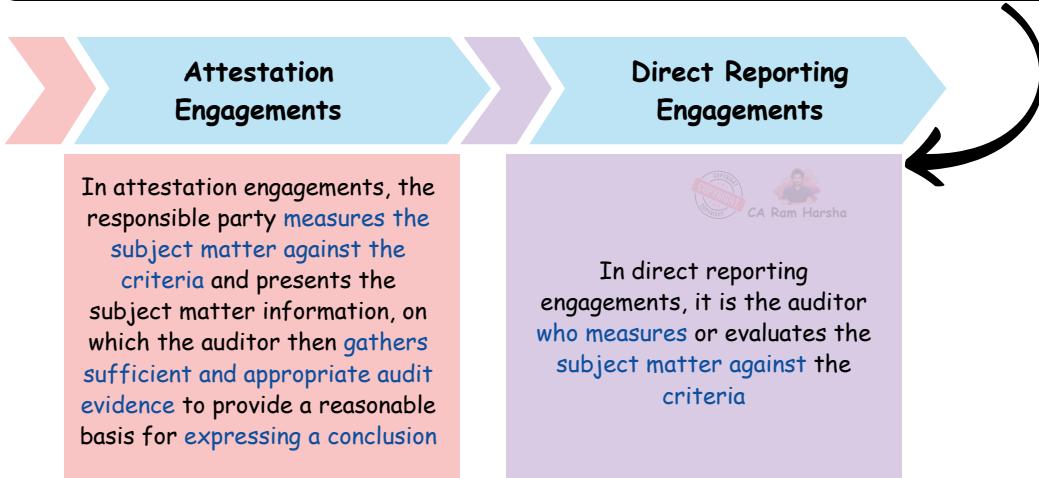
C. Elements of PSU Audits



3

Types of Engagement

- **Attestation Engagements:** Financial audits are always attestation based on responsible party's financial info.
- **Direct Reporting Engagements:** Performance audits & compliance audits are direct reporting; auditor directly reports findings.



D. Principles of PSU Audits

These principles guide SAI* personnel, fundamental to all PSU Audits.
*Supreme Audit Institute

1

General Principles

Apply to all auditors providing **foundation** for audit process.

2

Principles related to the Audit Process

Specifically focused on **how audits are conducted**, ensuring **quality & consistency** in results.

General Principles



Principles related to the Audit Process

Planning

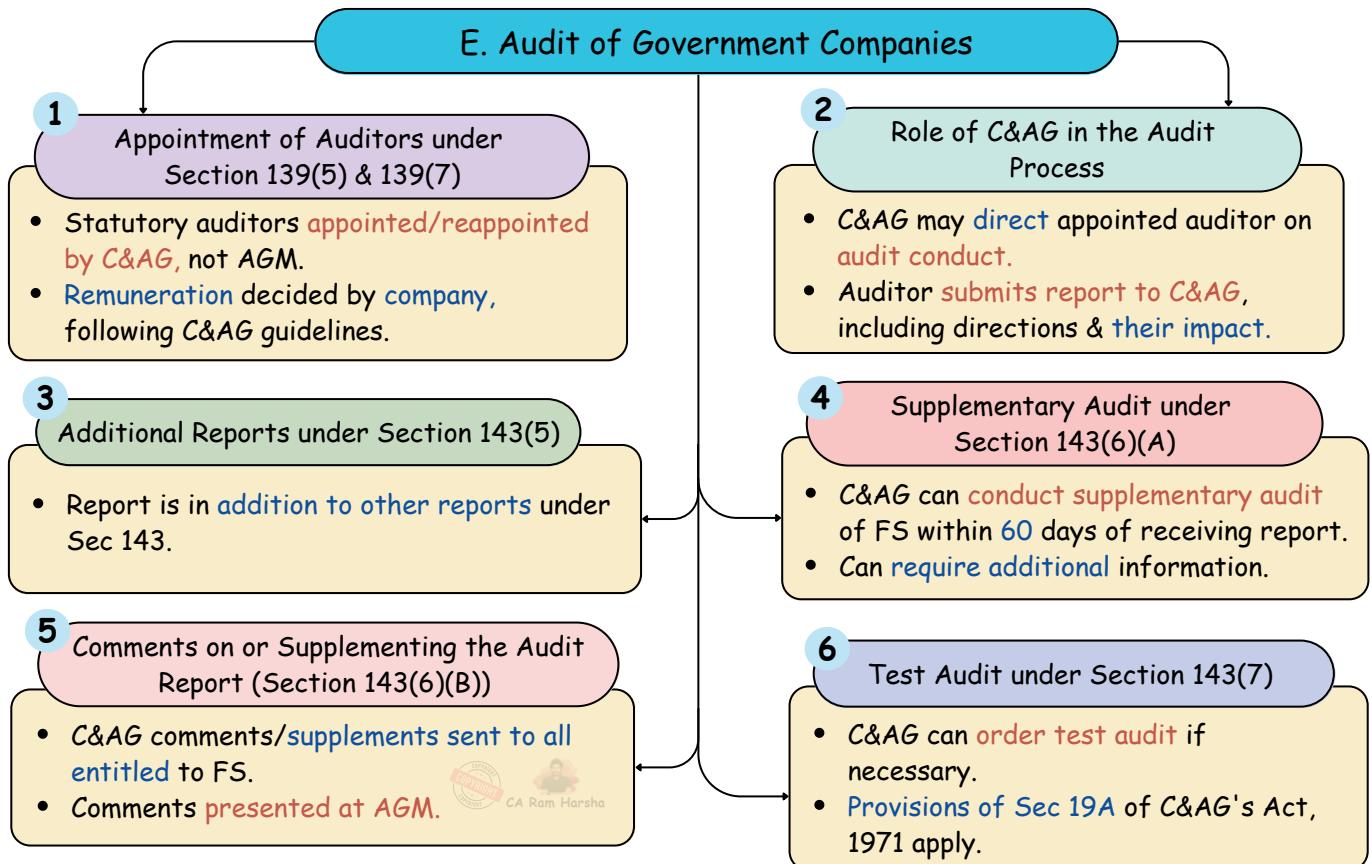
- Establish the **terms of the audit**.
- Obtain **understanding of the entity**.
- **Risk assessment** of problem analysis
- Identify **risks of fraud**.
- Develop an **audit plan**.

Conducting the audit

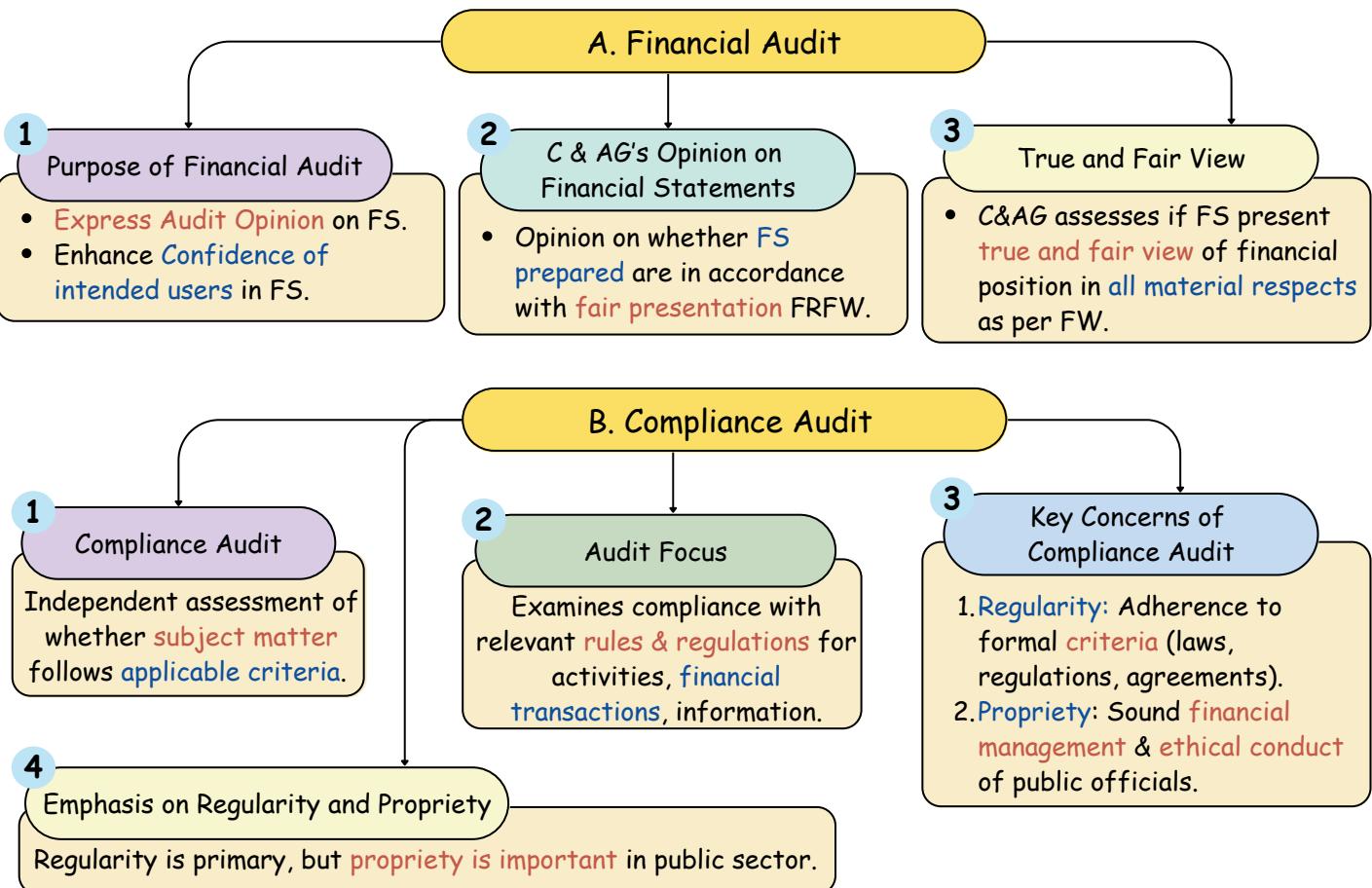
- Perform the **planned audit procedures** to obtain audit evidence. Evaluate **audit evidence** and draw **conclusions**

Reporting & Follow-up

- Prepare a **report** based on the **conclusions reached**. **Follow-up** on reported matters as relevant.



2. Various Types of PSU Audits



5
(Perspective of Compliance Audit)

Compliance Auditing is generally conducted either

i) with audit of FS, or

ii) Separately as individual compliance audits, or

iii) in combination with performance auditing

6
Compliance Audit in Performance Audit

Viewed in context of **economy, efficiency & effectiveness**. Non-compliance can explain/impact performance findings.

7
Compliance Audit Process
a
General principles and Annual Compliance Audit Plan

- Consider **principles with ethical significance**.
- Consider principles directly relating to **compliance audit process**.
- Determine **Auditable entities, audit & implementing units**.
- Develop **annual plan** for compliance audits.

b
Planning Compliance Audits

1. Determine compliance audit **objective & scope**.
2. Develop **audit strategy** and plan.
3. Identify **subject matter and criteria**.
4. Understand the **entity & its environment**.
5. Understand **IC**.
6. Establish **materiality for planning purpose**.
7. **Assess risk**.
8. **Plan audit procedures**

c
Performing the Audit and Gathering Evidence

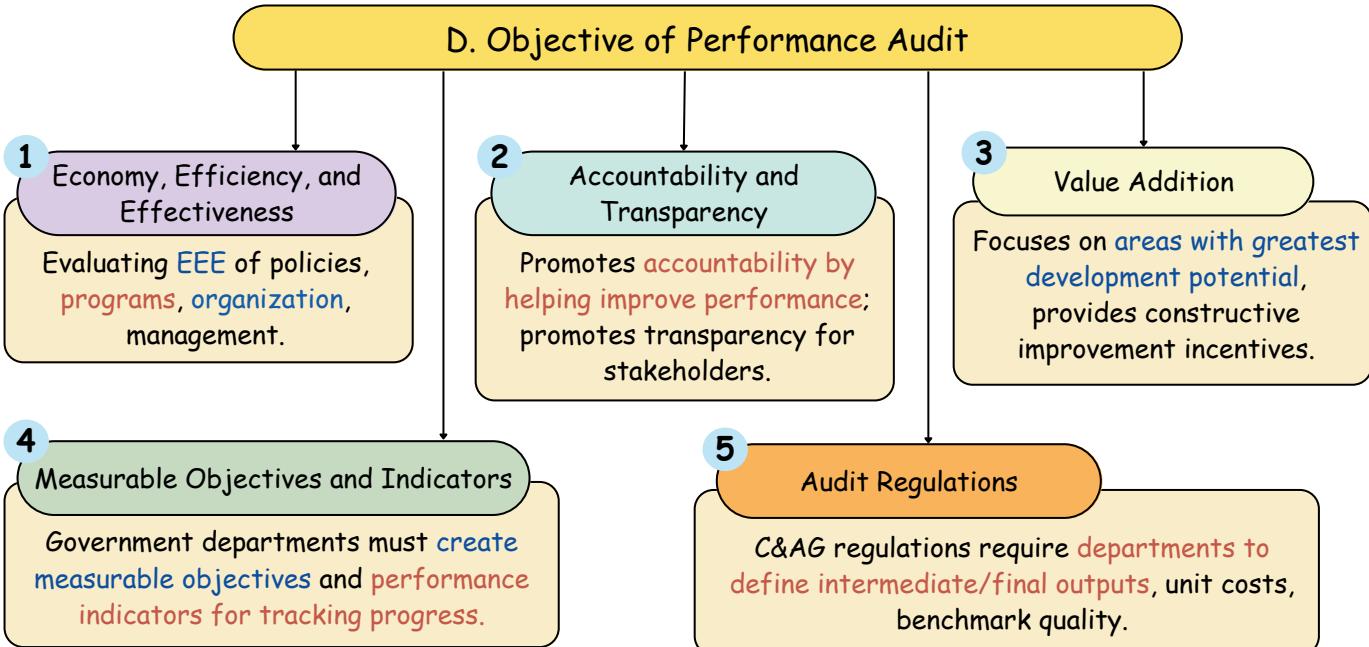
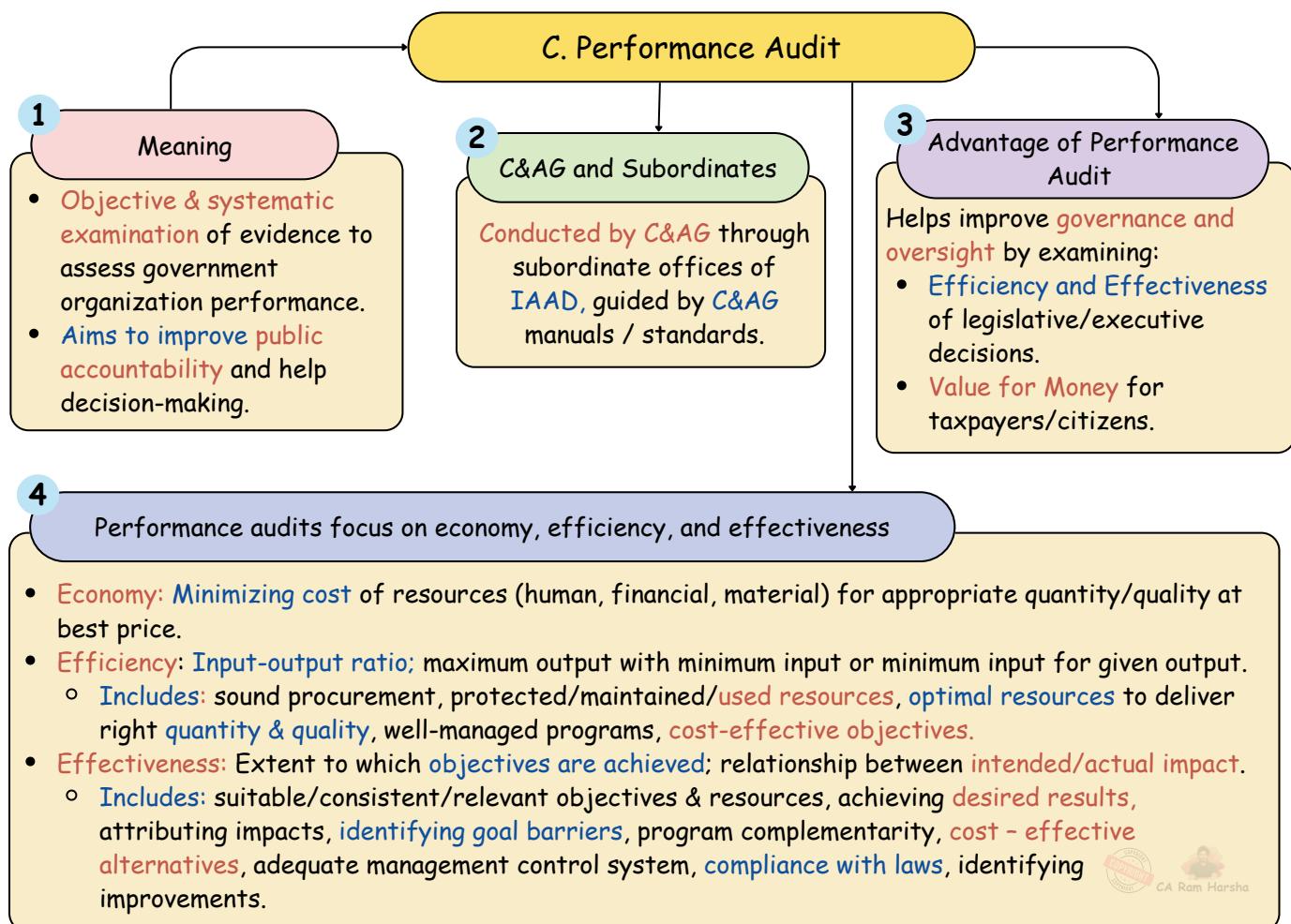
- **Gather evidence** through various **means**.
- **Continually update** planning & risk assessment.
- **Consider noncompliance** that may indicate suspected unlawful acts

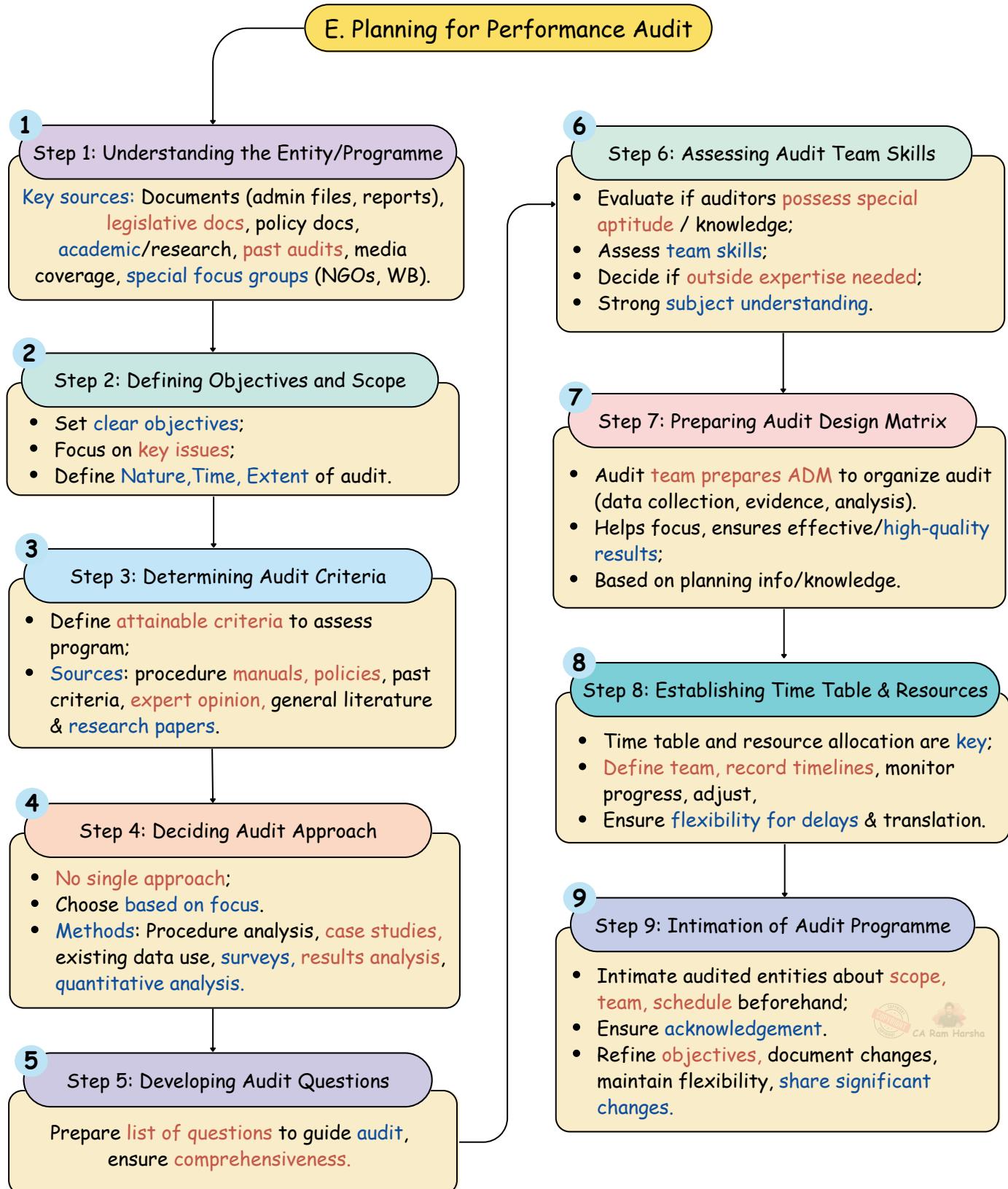
d
Evaluating Evidence, Forming Conclusions, and Quality Control

- Evaluate whether **sufficient & appropriate evidence** is obtained.
- Consider **materiality for reporting purposes** to form conclusions.
- Ongoing **documentation, communication and quality control**

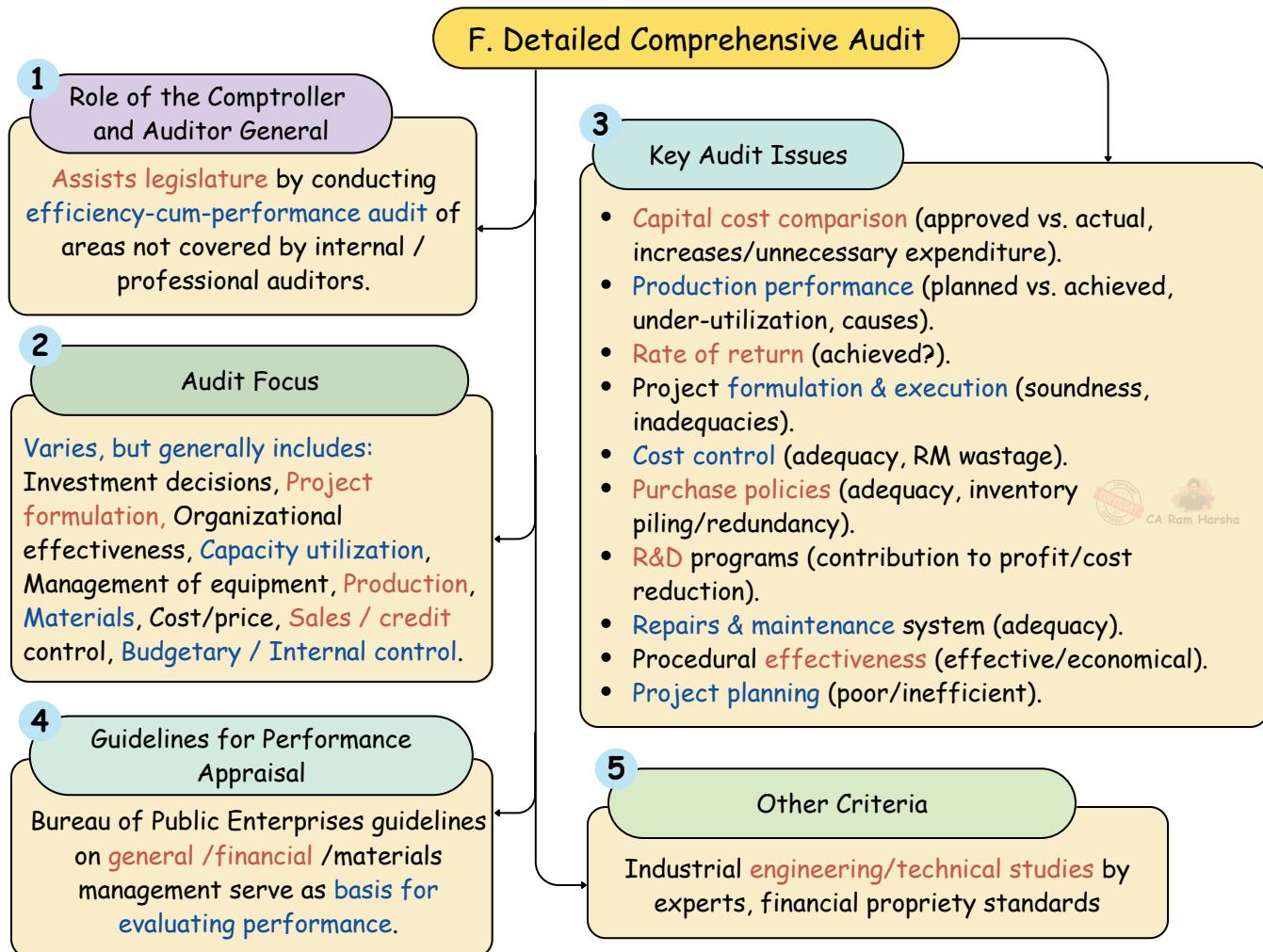
e
Reporting Procedures and Follow-Up

- **Prepare the report**.
- Include **responses from entity** as appropriate
- **Follow-up previous reports** as necessary.

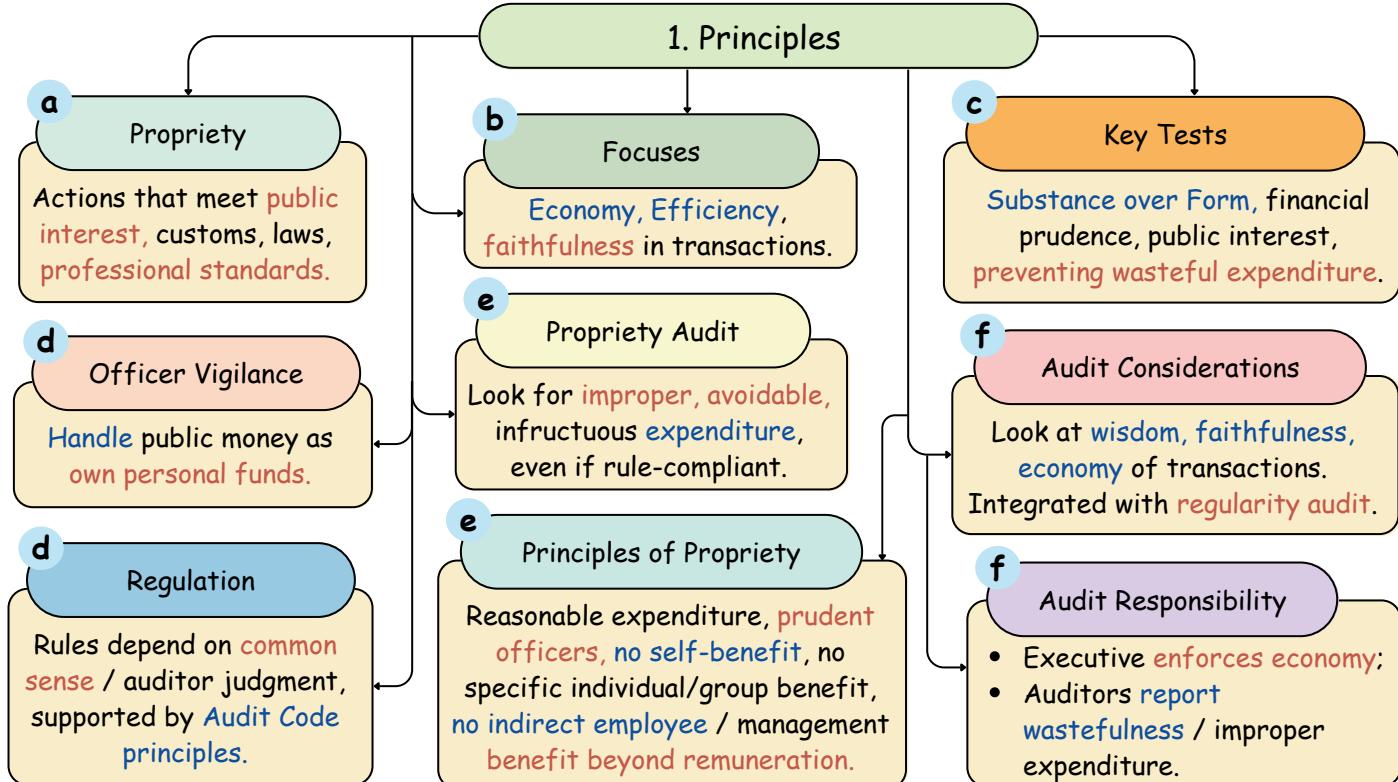


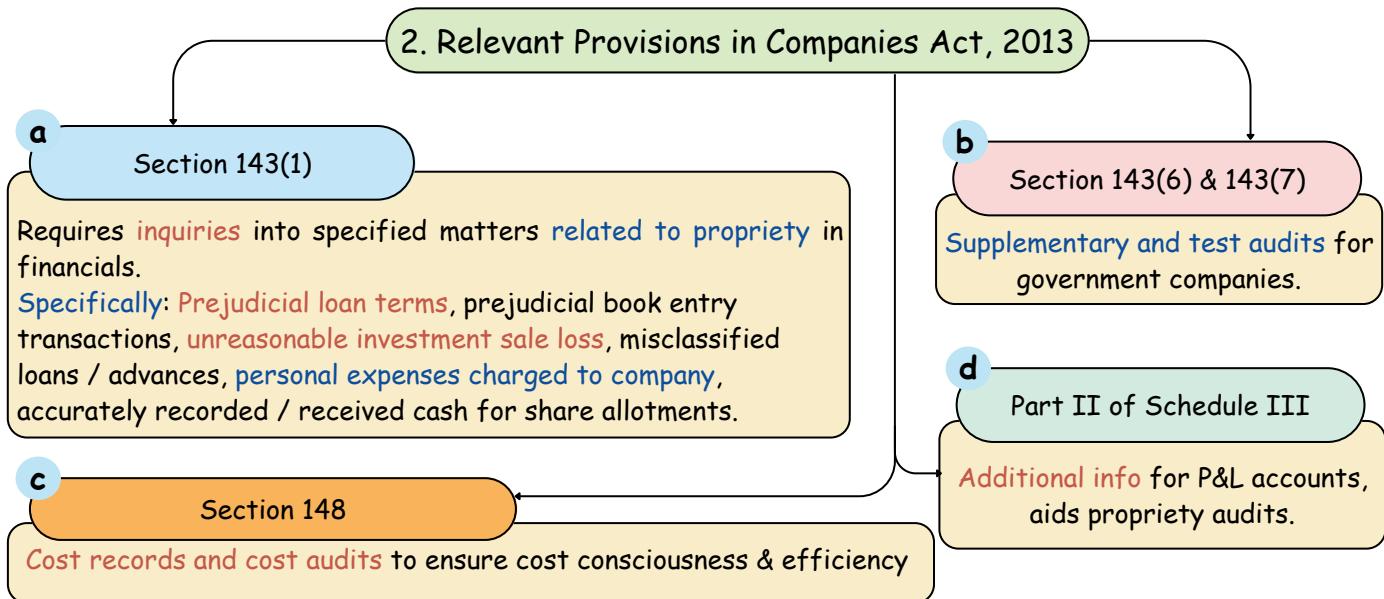


Note: Recommended to Read Full Text from GOAT Notes [In-depth Reading Required]



G. Detailed Propriety Audit



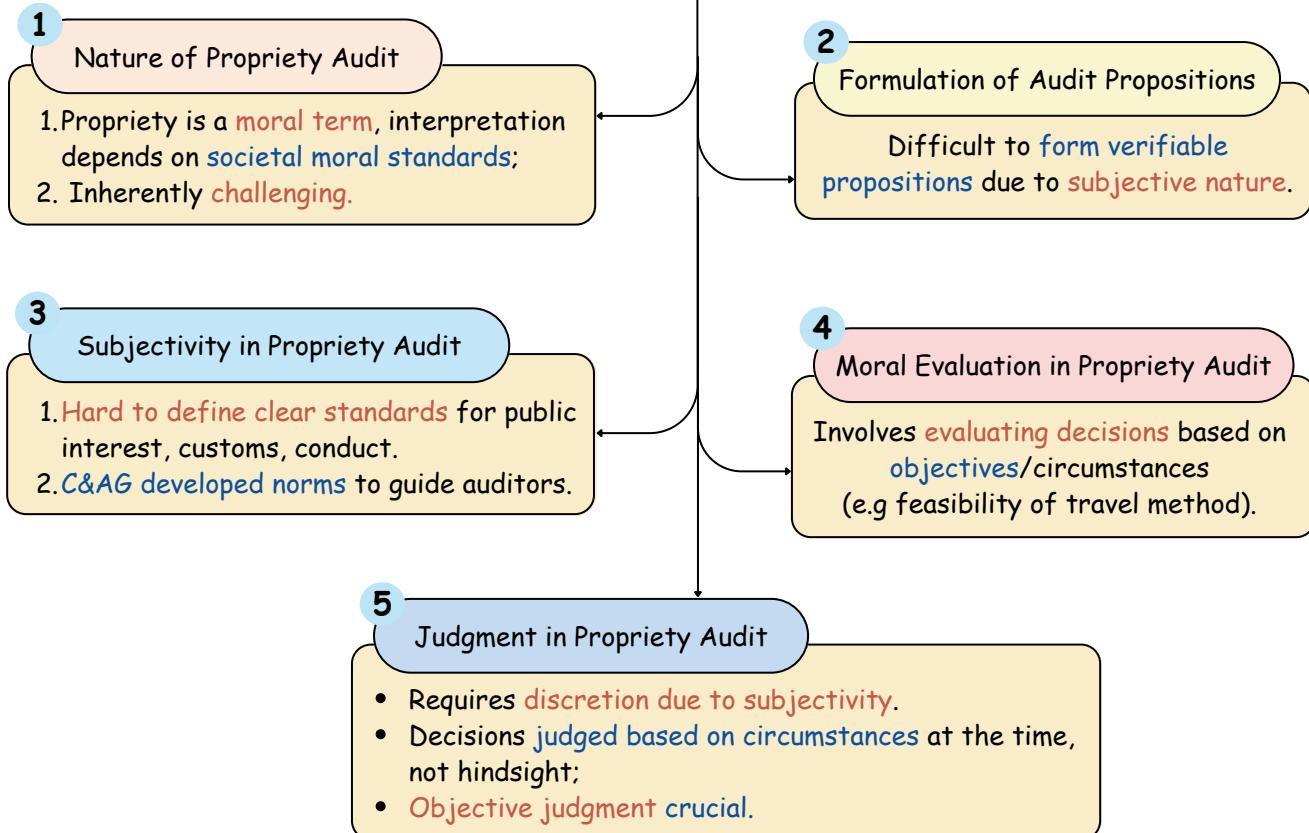


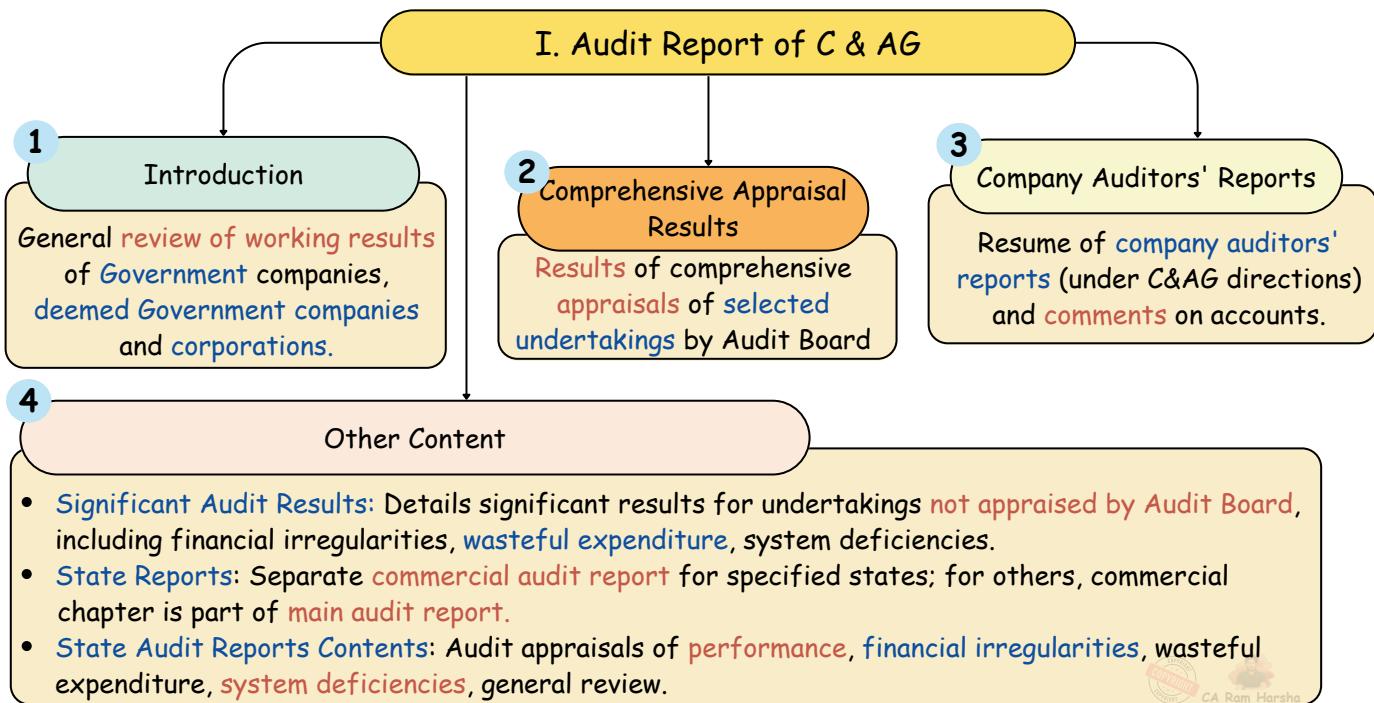
3. Propriety Elements under CARO, 2020

1. C&AG audits propriety in Government accounts.
2. CARO clauses focus on propriety and auditor judgment (e.g., FR, asset/revenue management).



H. Problems involved in Propriety Audit





16. INTERNAL AUDIT

A. Concept of Internal Audit and its applicability

1

Definition of Internal Audit

- Independent assurance on internal controls (ICs), risk management & governance to enhance organizational objectives.
- Can include an advisory/consulting role.
- Not confined to financial transactions.

Objectives & Scope (SA 610)

- Monitoring ICs,
- Examining financial/operating info,
- Reviewing operations
- Reviewing compliance,
- Risk management,
- Governance.



Indicative objectives & Scope of Internal Audit

Monitoring of Internal controls	Examination of financial and operating information	Review of operating activities	Review of compliance with laws and regulations	Risk Management	Governance
Example: Monitoring through exception reports of continuous control Mgmt Tool in ERP system	Example: Internal Audit for identifying reasons of year to year deviation in Profit & Loss Accounts Items	Example: Reviewing Store Management Practices vis - a-vis Industry's Best Practices	Example: Review of compliance with newly applicable tax regime	Example: Evaluation & management of Risk Exposure for complex financial instrument transactions	Example: Assessment of Governance process in the accomplishment of objectives on ethics and values

2

Applicability under Companies Act (Sec 138)

→ Listed companies.

→ Unlisted public companies (in PFY):

- Paid-up share capital \geq 50 crore OR
- Turnover \geq 200 crore OR
- Loans/borrowings \geq 100 crore OR
- Deposits \geq 25 crore.

→ Private companies (in PFY):

- Turnover \geq 200 crore OR
- Loans/borrowings \geq 100 crore.

3

Who Can Be Appointed as Internal Auditor

- CA, CMA or Board-approved professional.
- May or may not be an employee.
- Seen as part of Mgmt with authority to investigate all activities.

4

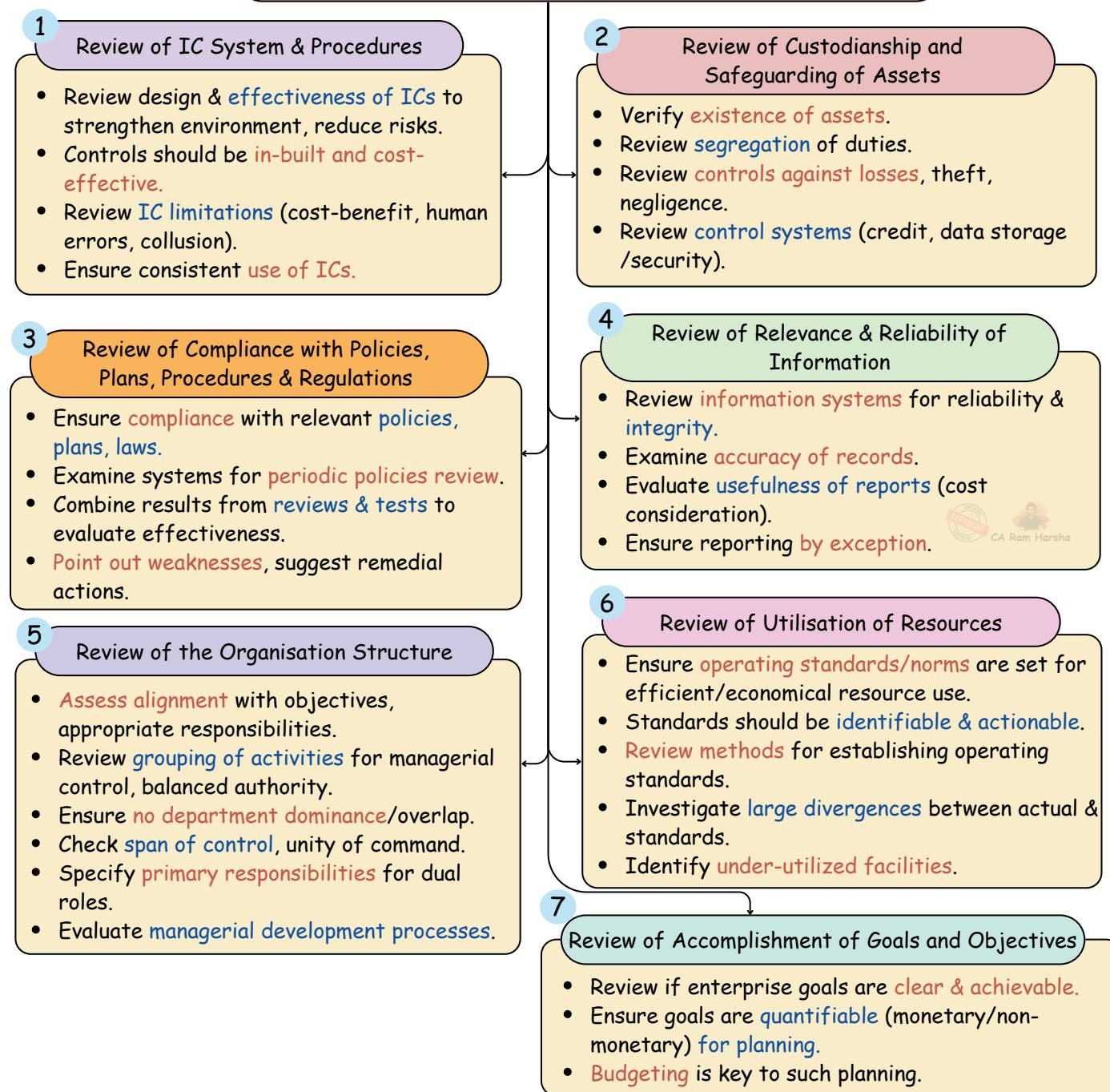
Responsibilities of Internal Auditor

- Maintain IC systems, safeguard assets.
- Operate independently from accounting staff.
- Identify issues, draw attention to deficiencies.
- Stay informed about business events/policy changes.
- Be independent.

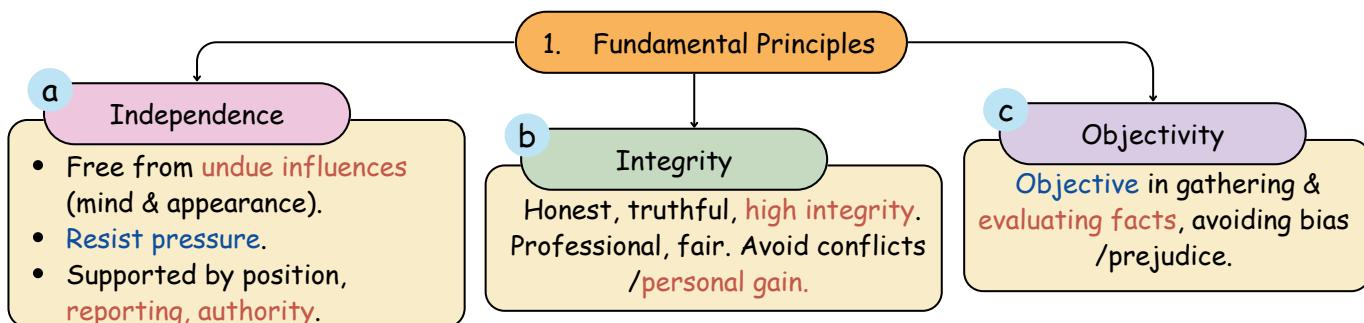
- If assigned operational roles (risk, compliance, re-engineering), must communicate limitations:
 - Cannot assume ownership or
 - take operational decisions
- Scope, methodology, periodicity defined by audit committee/board in consultation.



B. Management Functions and Scope of Internal Auditing



C. Fundamental Principles of An Internal Audit

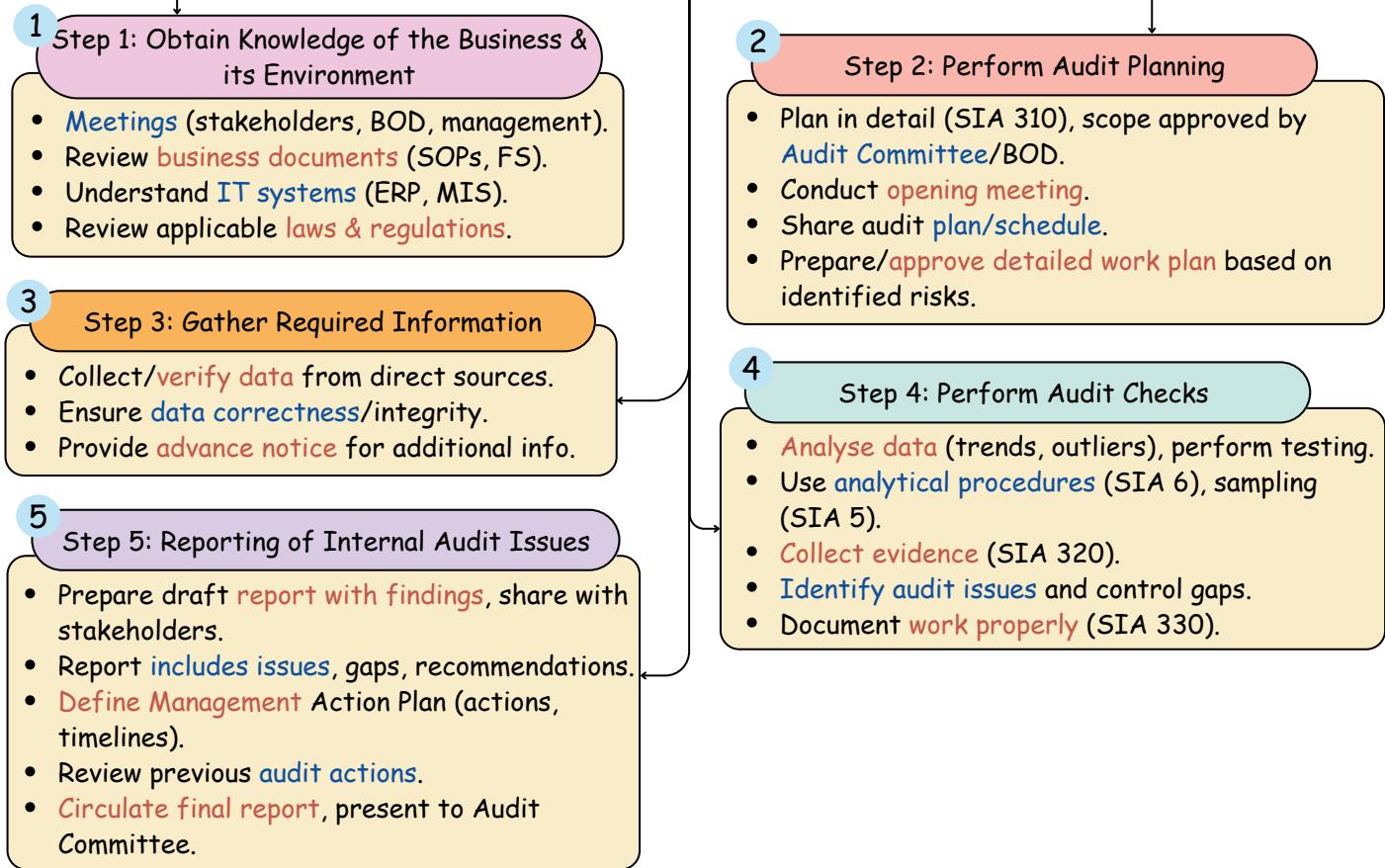


D. Qualities of an Internal Auditor

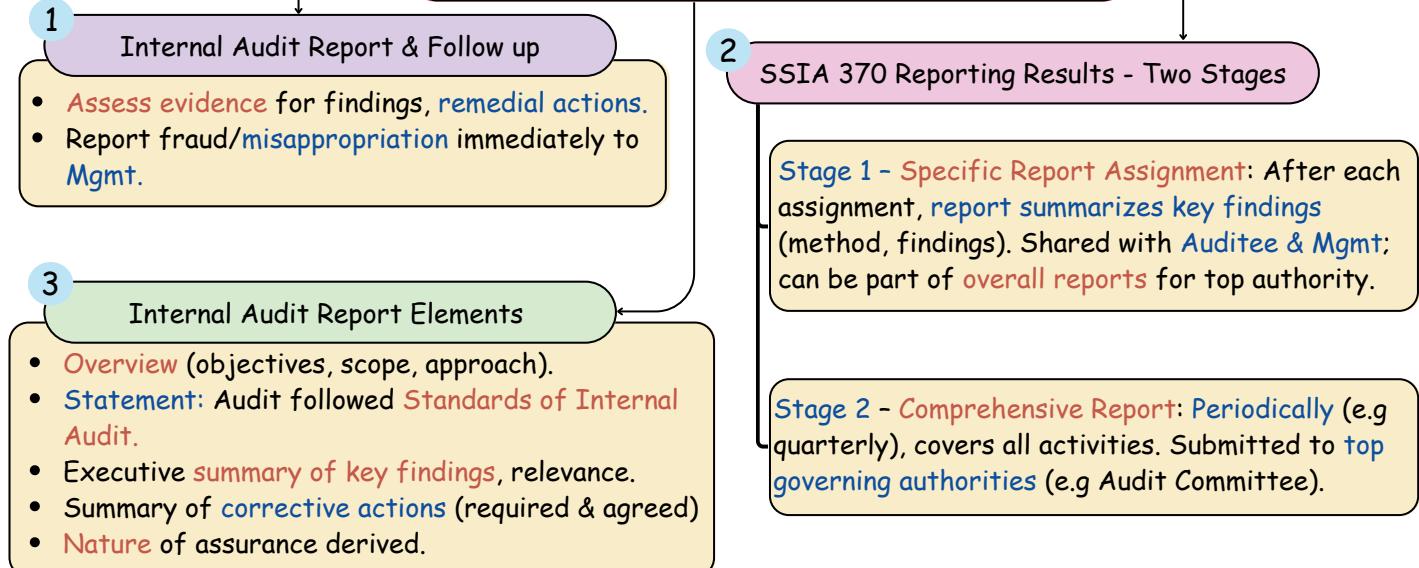
- Special expertise in **Mgmt control systems** (financial/accounting).
- Solid **understanding of accounting and finance**.
- Capable of evaluating **operational performance** and non-monetary controls.
- Basic knowledge of **commerce, laws, taxation, cost accounting, economics, quantitative methods, EDP systems**.
- Understand **Mgmt principles**, capable of effective interaction.
- Ensure **confidentiality**.



E. Performing Internal Audit Engagement Steps



F. Internal Audit Report & Follow up





F. Internal Audit Report & Follow up

4

Draft Report

- No final report without discussing draft with auditee.
- Final report issued **within reasonable timeframe**.

5

Principles for Issuing Internal Audit Reports

a

Basis of Report

Based on **audit procedures / evidence**; acknowledge controls & risks.

b Compliance with SIA

Report confirms if **SIA standards** followed.

c Content & Format

Auditor's freedom based on **professional judgment**, auditee preferences.

d Documentation

Maintain **draft/final copies**. Mgmt action plans **signed if needed**.

6

Follow-Up on Prior Audit Issues (SIA 390)

- Chief Internal Auditor monitors closure by tracking action plan implementation.
- Management is responsible for implementation.
- Follow-up usually via **Action Taken Report (ATR)**.
- Report if **no action taken** in reasonable time.
- Review **implementation**, highlight **unimplementable actions**.



G. Difference between Internal & Statutory Audit

1

Meaning

- **Internal:** Ongoing audit, performed within organization by **internal dept.**
- **External:** Audit by **independent body**, not part of organization.

2

Examination

- **Internal:** Operational efficiency.
- **External:** Accuracy & Validity of FS.

3

Appointment

- **Internal:** By Management.
- **External:** By Members.

4

Users of Report

Opinion

- **Internal:** On **effectiveness of operational activities**.
- **External:** On **truthfulness and fairness of FS**.

5

Period

5

- **Internal:** Continuous Process throughout the year.
- **External:** Once in a year.

6

Status of Auditor

- **Internal:** Could be an employee.
- **External:** Mandatorily **not an employee**.

7

Meaning of Audit Trail

- **Visible record** of changes made to data, traceable to original source.
- **Includes:** Date/time (timestamp), **User ID**, what Data changed (transaction reference, success/failure).

H. Audit Trail

2

Audit Trail in Accounting Software

- Enabled at **software level** or captured in underlying database.

3

Internal Controls for Audit Trail

IT-related controls **designed & implemented** for functionality.

Key controls:

- Audit trail feature is **Enabled** and not disabled.
- **Unique User IDs** (no sharing).
- Authorize **config changes**, keep logs.
- **Restrict access to trail/backups**, maintain access logs.

DUE DILIGENCE

17A. DUE DILIGENCE

A. Concept of Due Diligence

1 Investigation Process

Investors investigate potential investment (operations, management, material facts).

4 Pre-Acquisition Analysis

Verifies target business aligns with Info provided before acquiring controlling interest.

2 Information Disclosure

Ensures accurate, timely, sufficient disclosure of material information.

3 Financial & Non-Financial Analysis

Studies financial and non-financial aspects for restructuring feasibility.

5 Investment/Loan Recommendations

Applies to investment recommendations or advancing loans/credit.

6 Corporate Restructuring & Financing

Necessary for corporate restructuring, venture capital, lending, buyouts, public offerings, disinvestment or management team changes within a group.

B. Difference Between Due Diligence and Audit

1 Audit

Independent examination of financial statements for an opinion on accuracy.

2 Due Diligence

- Examines potential investment to confirm all material facts (financial & non-financial records);
- Careful review before entering into agreement

C. Importance of Due Diligence

1 Due Diligence Timing

Begins after parties agree in principle, before signing a contract.

2 Purpose

Gathers necessary information: strengths, weaknesses, critical success factors.

3 Identifying Problems

Uncovers problems/issues affecting price or addressed by contract clauses

4 Reasons for Due Diligence

1. Confirm business validity.
2. Avoid 'deal killer' defects.
3. Gather info for valuing assets, representations / warranties, price negotiation.
4. Ensure transaction meets investment criteria.

D. Classification of Due Diligence

1 Commercial/Operational Due Diligence

- Evaluates commercial, strategic, operational aspects.
- Focuses on operational synergies in mergers.

2 Financial Due Diligence

Analyses financial records (books of accounts); performed after commercial.

3 Tax Due Diligence

Reviews tax implications (often part of financial DD)

4 Information Systems Due Diligence

Focuses on computer systems and IT infrastructure compatibility.

5 Legal Due Diligence

Reviews legal aspects (property ownership, compliance)

6 Environmental Due Diligence

Assesses environmental impact, adaptability, sustainability.

7 Personnel Due Diligence

Evaluates personnel policies for alignment or integration changes.



E. Financial Due Diligence

1 Scope of Financial Due Diligence

Focuses on **financial implications**, not overall unless specified.

4 Key Areas of Verification

1. Business History.
2. Promoter Background.
3. Accounting Policies.
4. Management Information Systems.
5. Management Structure.
6. Trading Results (past and recent).

2 Timing of Financial Due Diligence

Begins **after price agreed** or restructuring plan set.

3 Objective of Financial Due Diligence

Verify and analyze information to evaluate costs/benefits of acquisition/merger.

7 Assets and Liabilities (latest balance sheet).

8 Current Income Tax Status (appeals & pending assessments).

9 Cash Flow patterns.

10 Commercial Activities.

11 Future Profitability projection.



F. Full Fledged Financial Due Diligence

1 Brief History & Promoter Background

- Understands **key events**, market share, survival strategies, regulatory impact.
- Aspects: **Nature**, Employment, Products /services, market, Patents, Licenses, R&D

2 Accounting Policies

- **Assesses policies and changes**, focusing on inappropriate policies, effect of policy changes, **materiality** of changes.
- Report **summarizes policies followed and differences** with acquirer.

3 Review of Financial Statements

- Ensures **compliance with statutes / standards**.
- Reviews **operating results/profit**, identifies **extraordinary items**, compares **budgeted vs. actual**, benchmarks.
- Analyzes **net worth**, asset valuation (including intangibles), looks for **hidden liabilities** /**overvalued assets**.

4 Taxation

Focuses on **tax compliance** (payments, pending liabilities) and **implications of merger / acquisition**.

5 Cash Flow

- Reviews **historical patterns** to assess cash-generating abilities.
- Focuses on meeting **payables / debts**, converting receivables / inventories to cash, idle funds / investments.

6 Financial Projections

Evaluates **5-year projections** including assumptions (optimistic, pessimistic, likely), **unrealistic assumptions**, arithmetical accuracy, **achievability of targets**.

7 Management & Employees

Evaluates **workforce / management**, potential **labor law issues/litigation**, employee benefits / obligations, **key employee compensation**, identifies **employees likely to leave**.

8 Statutory Compliance

Reviews **Compliance** with relevant **L & R**,

- Create **Check list of Laws**,
- **Assess compliance history** to identify **Penalties**.

G. Work Approach to Due Diligence

1 Importance of Due Diligence

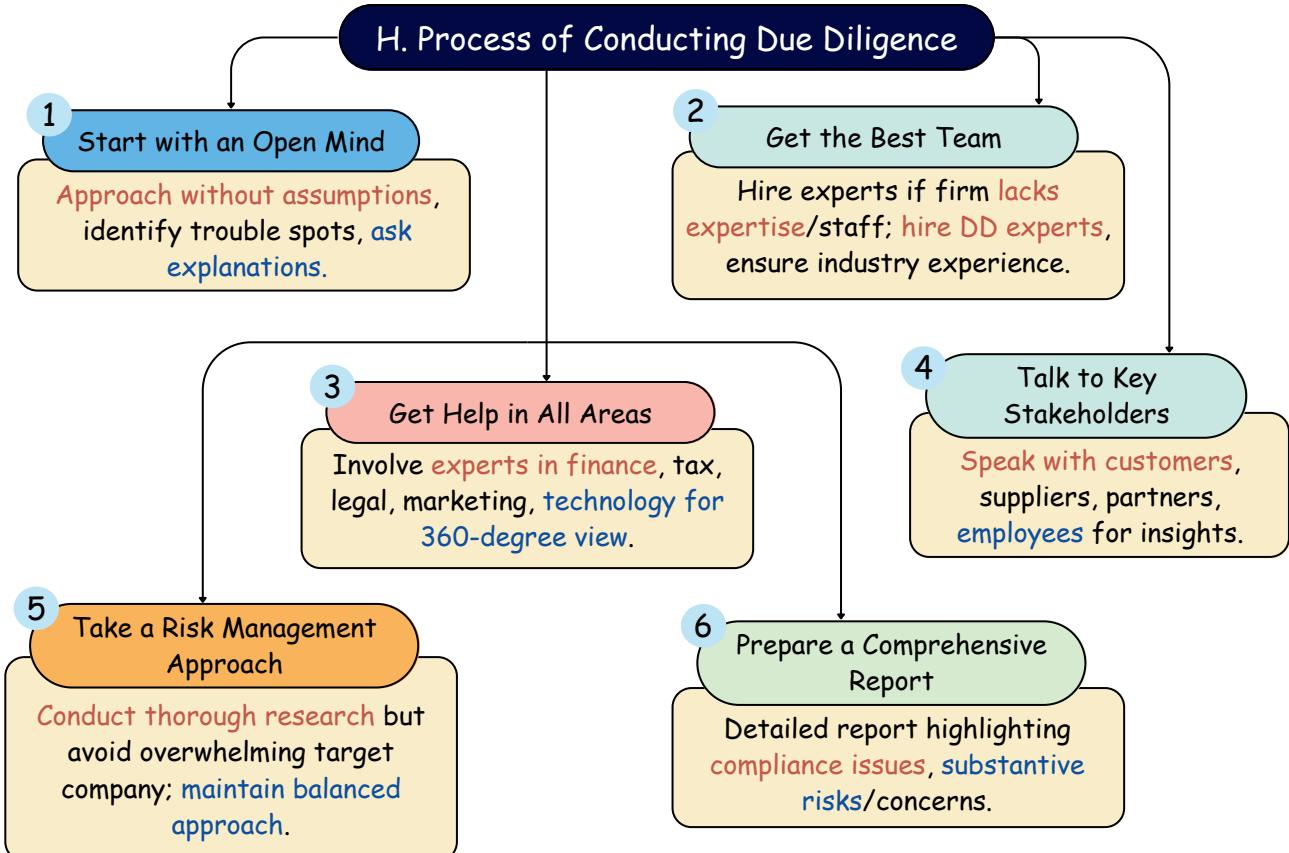
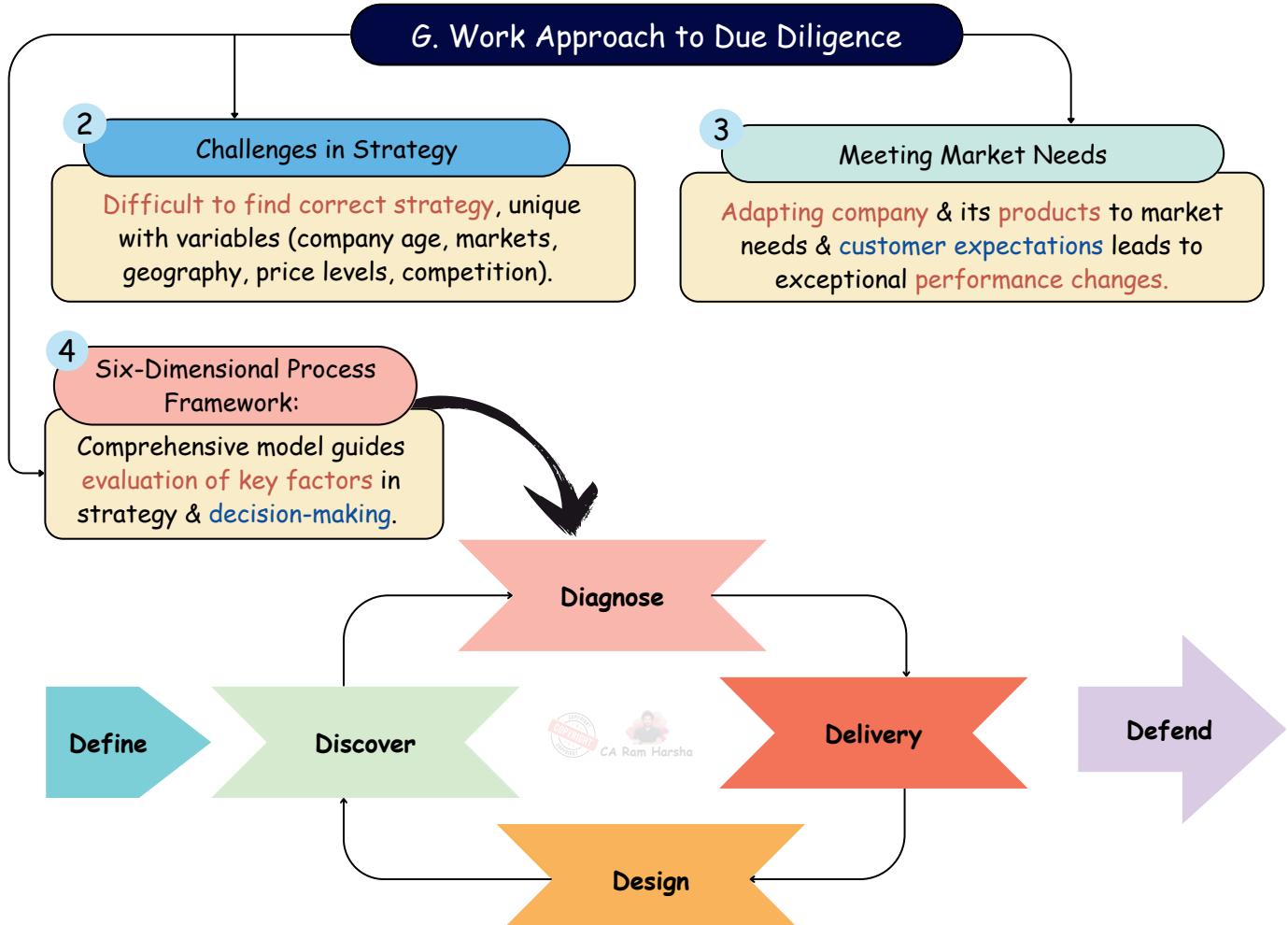
Caution is essential for largest asset purchase to **assess Business's fair value**.

a Reviewing & reporting on financials submitted by the target company

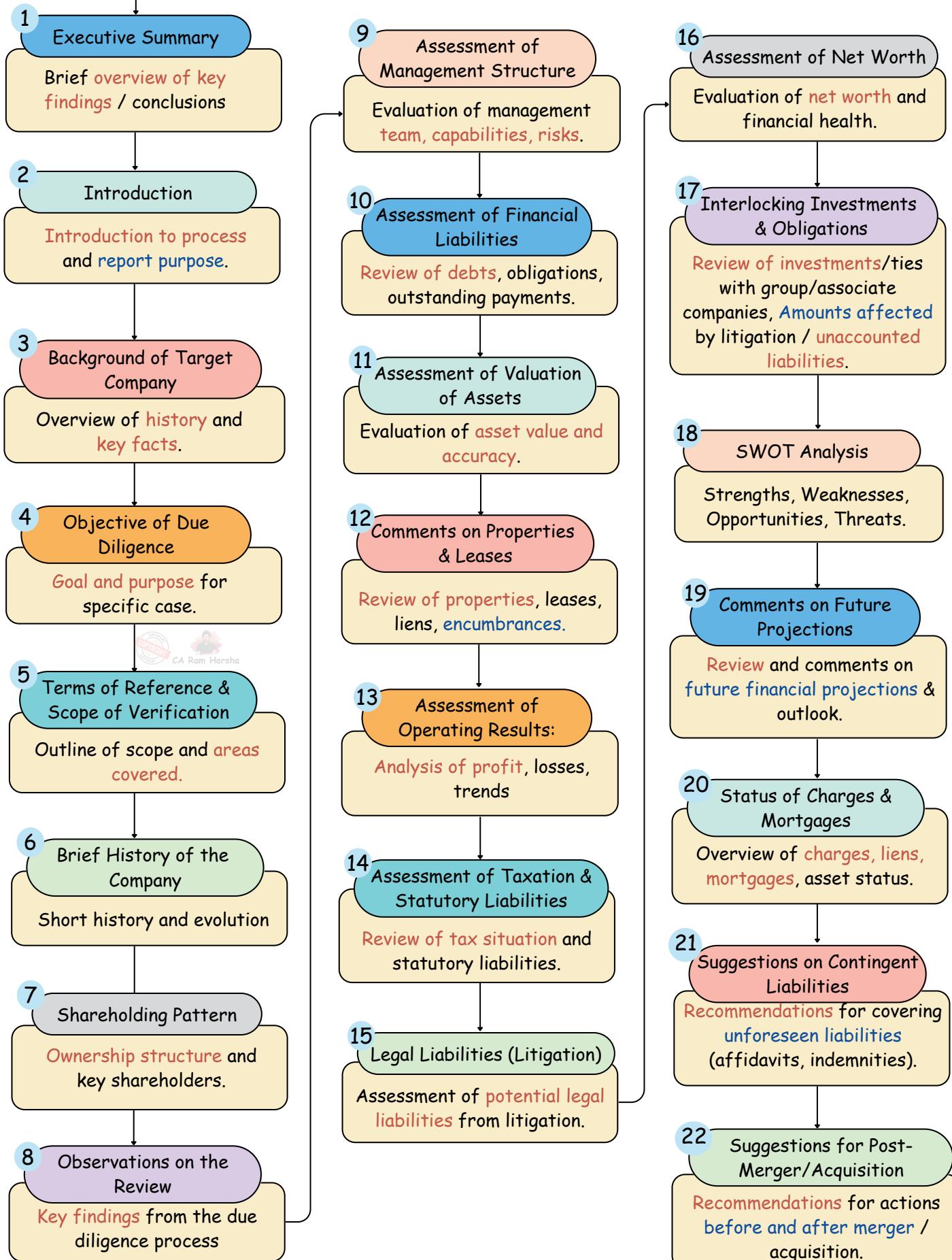
b Assessing the business first hand by a site visit

c Working through the due diligence process with the acquiring company or investor by defining the key areas

d Helping prepare an offer based on completion of due diligence

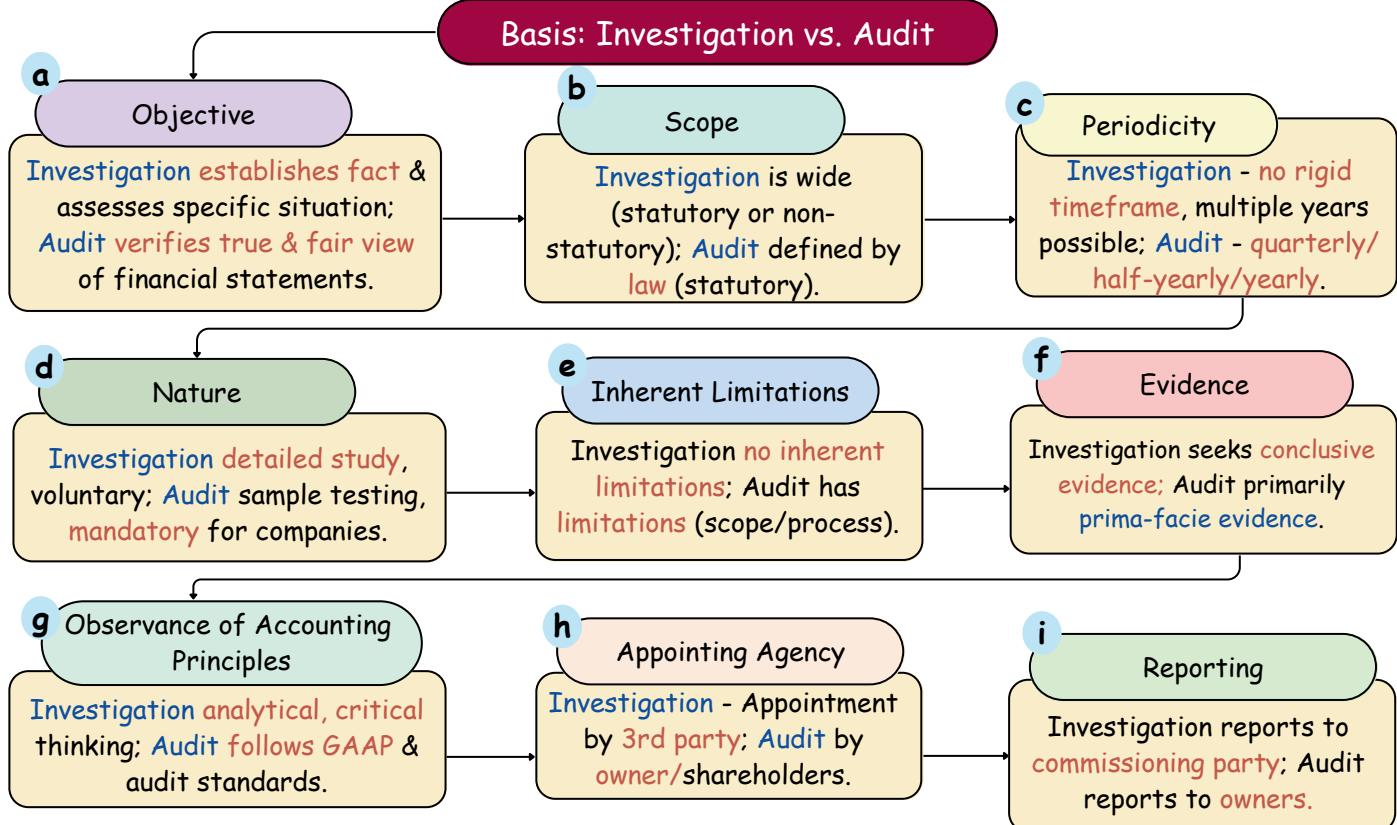


I. Contents of Due Diligence Report

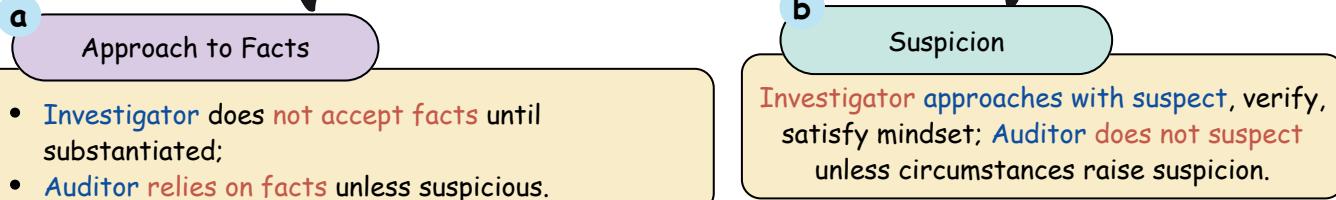


17B. FRAUD INVESTIGATION

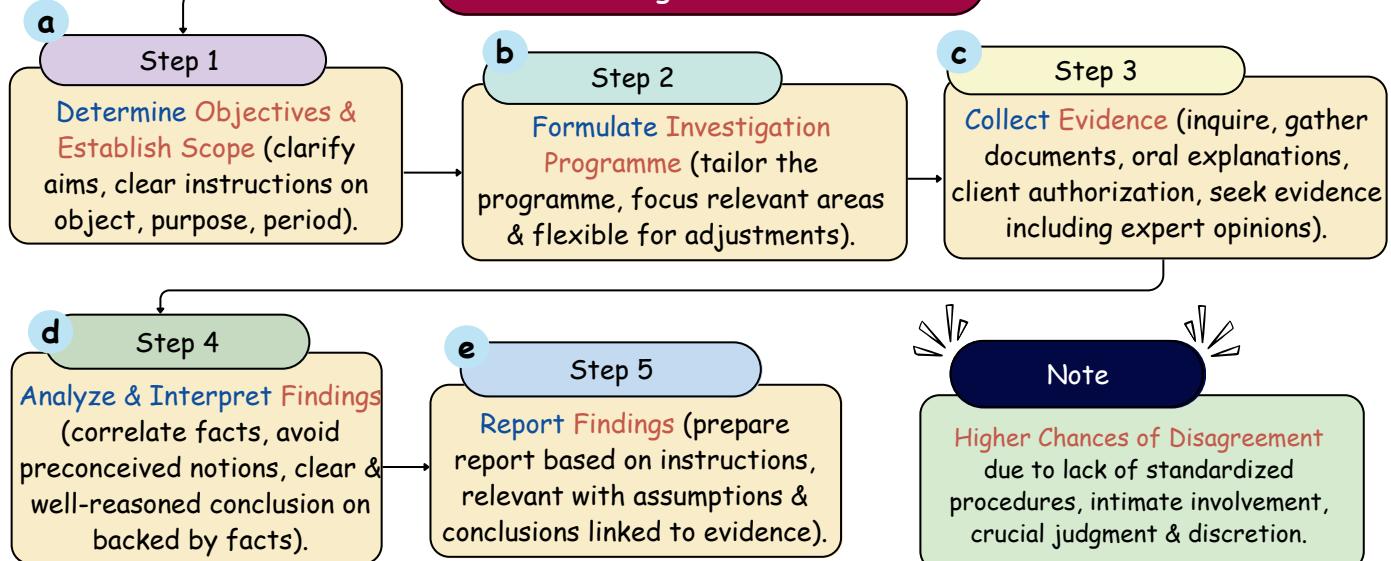
1. Introduction to Concept of Investigation

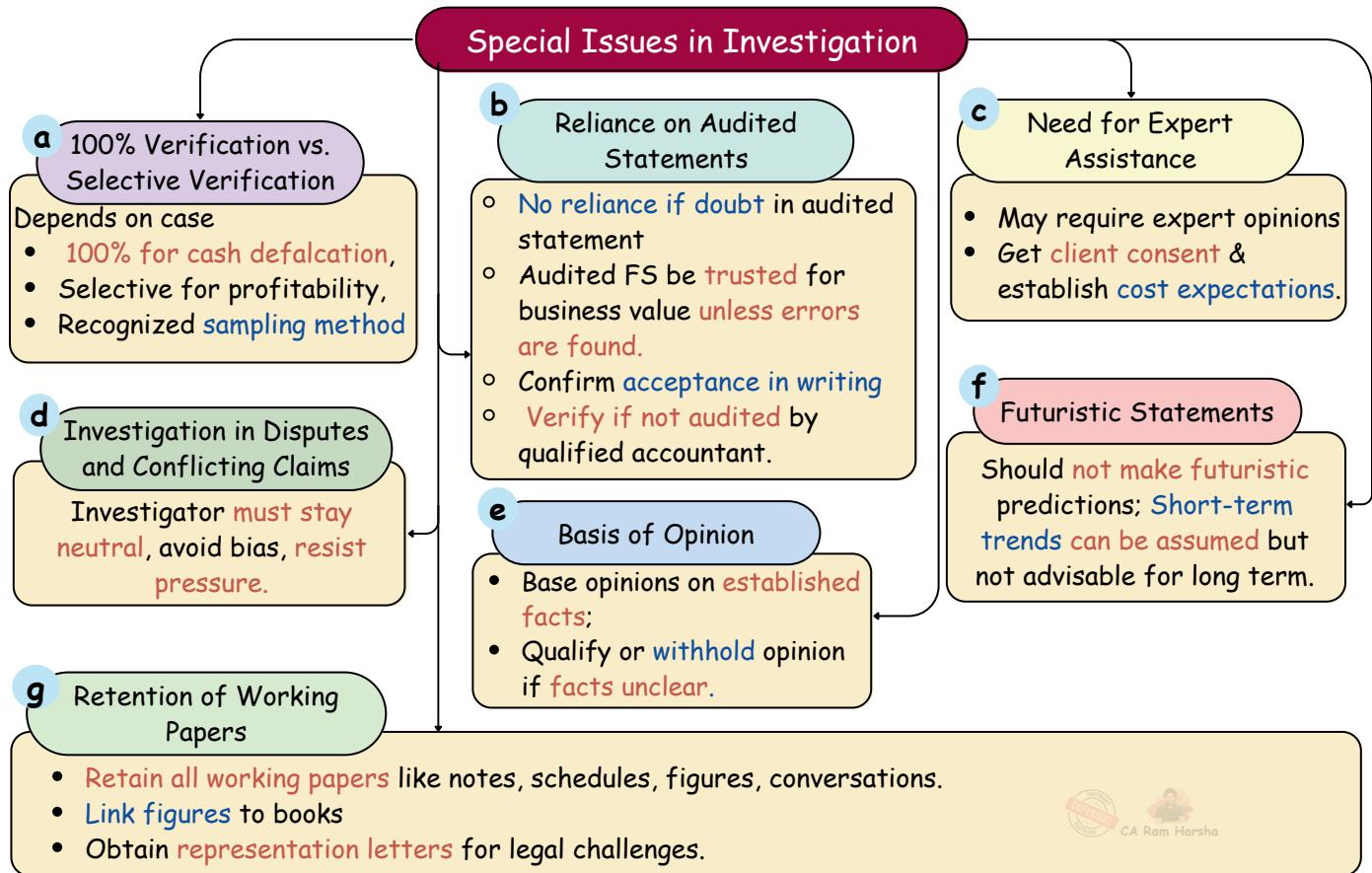


Investigator vs Auditor



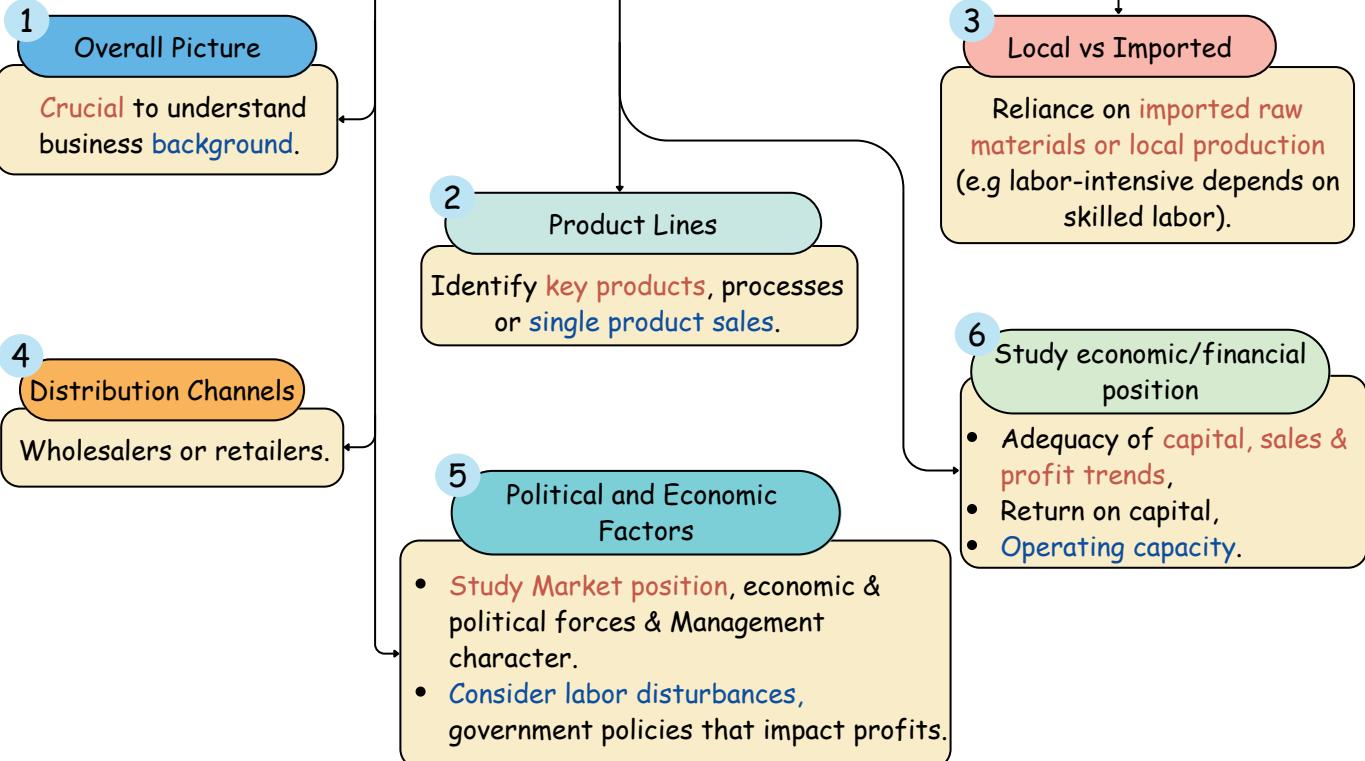
Investigation Process





2. Special Aspects in Business Investigation

A. Studying the Overall Picture



B. Statement of Profit and Loss

1 Multiple Years Data

Compare across 5-7 years for trends.

2 Inventory Valuation

Verify consistency; Adjust for changes; Review gross profit ratios.

3 Key Areas to Examine



a Turnover - Product Wise

Break down sales figure product wise to identify trends.

b Expenses - Product Wise

Split expenses for multiple activities.

c Key Customer Analysis

Check if Dominance by few vs. spread across many customers.

d Fictitious Sales

Look for fake sales to boost profits.

e Wage Structure

Verify wages, especially if higher than industry norms or impacted by disputes.

f Depreciation & Maintenance

Ensure consistency and adequacy; verify revaluation adjustments.

g Leases

Check provisions for dilapidation; compliance with AS.

h Managerial Remuneration

Confirm remuneration is not excessive compared to profits.

i Exceptional & Non-Recurring Items

Adjust it to show true profit trend.

j Income Tax Disputes

Review tax assessments for abnormal adjustments.

k Repairs and Maintenance

Check fluctuations; Correct allocation (capital vs. rev)

l Unusual Year

Examine past results (up to 9-10 years) to smooth fluctuations for better profit estimation.

C. Balance Sheet

1 Fixed Assets

Age analysis (obsolescence), Verify ownership & impairment

2 Investments

Classify (long/current), Verify permanent declines, correct valuation.

3 Inventories

Consistent valuation, Adjustments for damaged/ slow-moving stock.

4 Trade Receivables

Provisions for bad debts, credit period, debt classification by age, Debtors to Sales Ratio.

5 Other Liquid Assets

Confirm realizability

6 Idle Assets

Identify and exclude from net worth unless value added.

7 Liabilities

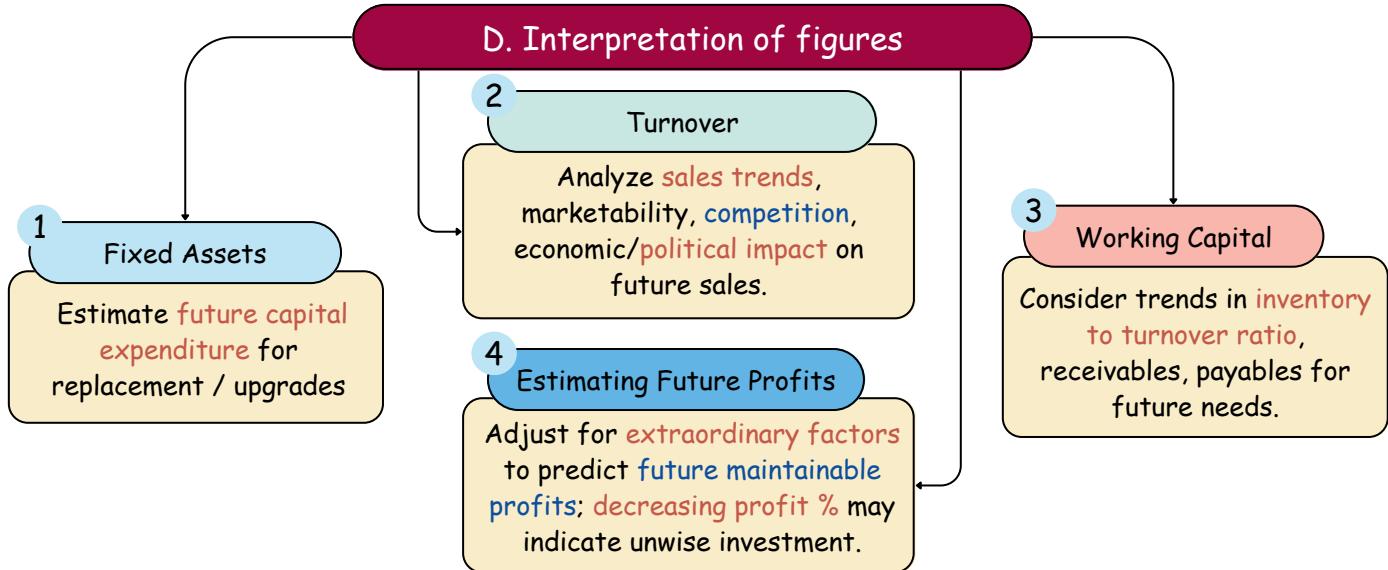
Ensure accuracy, not understated/inflated; examine long outstanding ones

8 Taxation

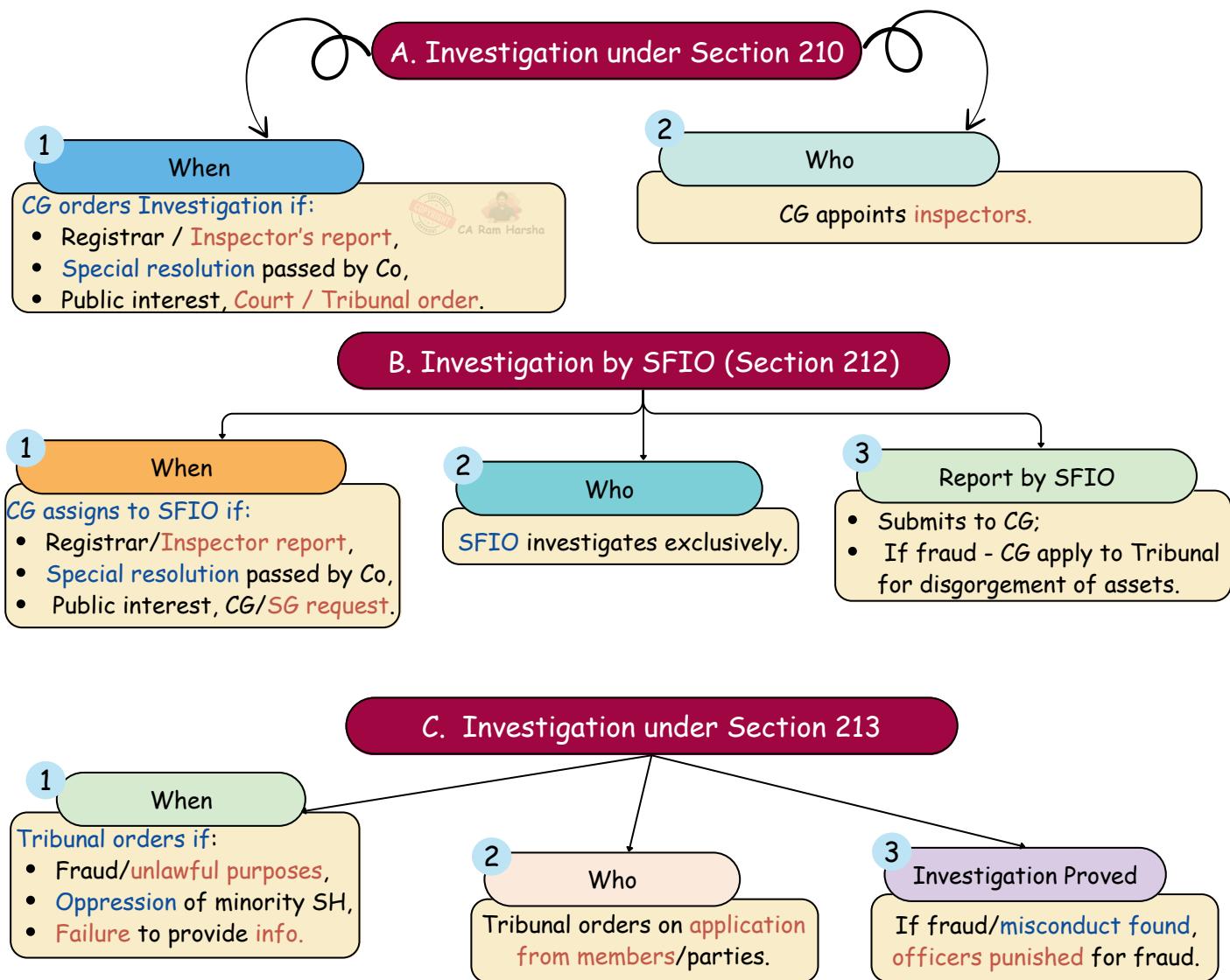
Verify adequate tax provisions; avoid temporary benefits or penalties.

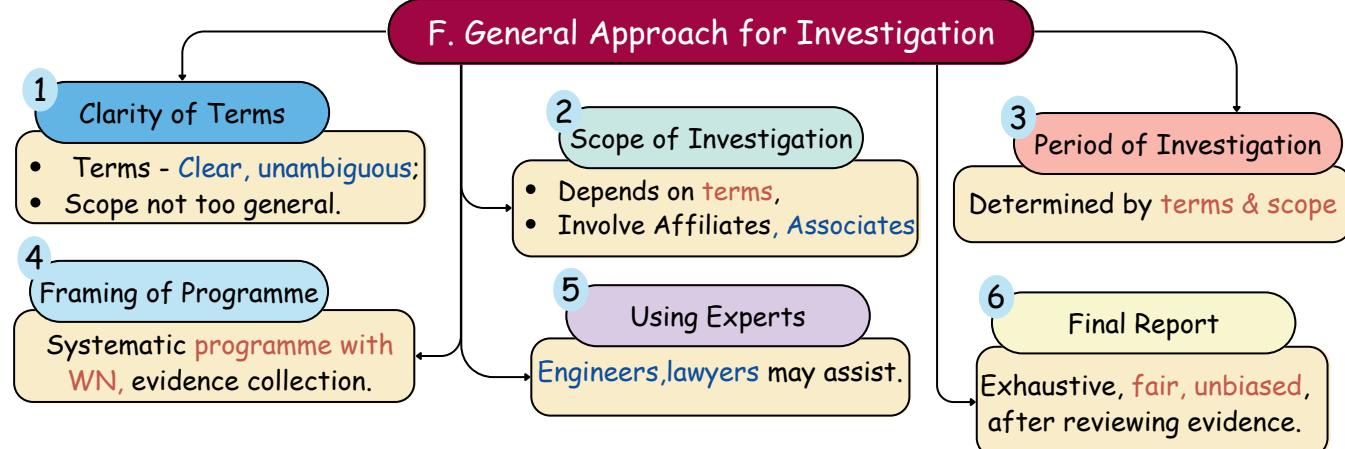
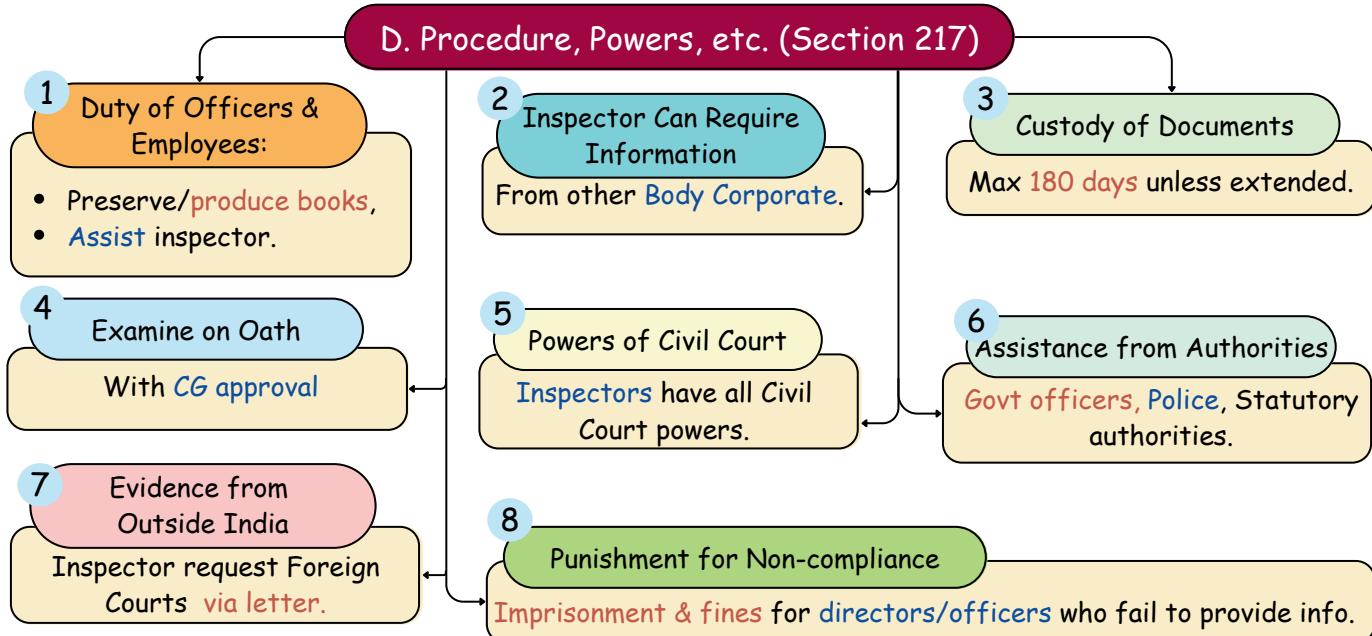
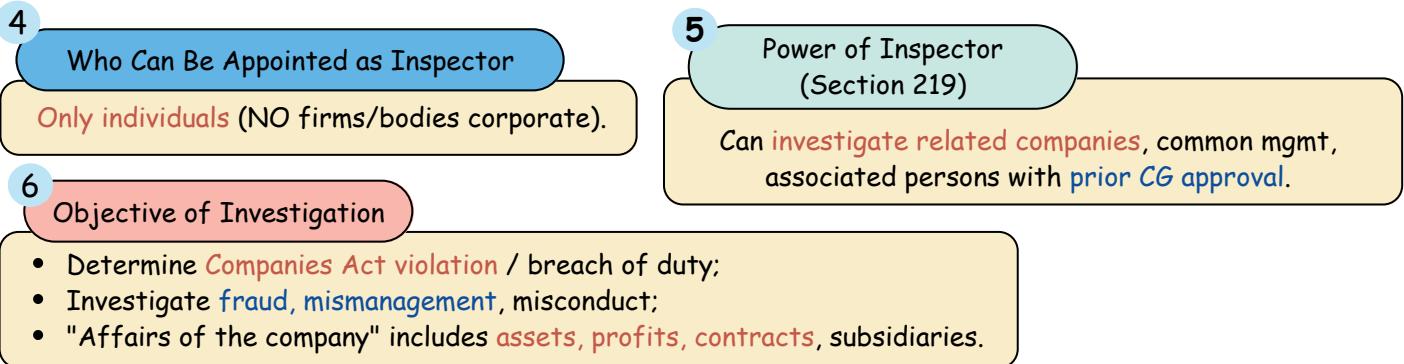
9 Capital

Confirm well-balanced structure (equity capital vs. fixed asset & working capital); Excessive debentures/preference shares affect business value



3. Statutory Investigations that requires a Chartered Accountant







G. Section 216: Investigation into ownership of the Company

1 When

CG appoints if investigating:

- Financially interested persons,
- Persons able to control/influence policy,
- Beneficial owners.



2 If Tribunal directs

CG appoints inspectors.

H. Scope and extent of investigation for above types

1 Scope of Investigation

- CG defines scope/period, can limit to specific matters.
- Inspectors can investigate arrangements.

4 Subsidiaries & Director's Interests

Scrutinize all transactions with related concerns that indicate illicit profit transfers.

2 CA's Role

- Enquiry/Objective specified in order;
- CA determines areas requiring investigation, approach to take.

5 Breach of Duty

- Relevant if it results in loss
- Examine factors/Amt of loss.

3 Example of Investigation

If alleged to violate Co's Act:
Nature of transactions, Parties involved, Amounts of transactions, Investigate if; Deliberate / Ulterior motive; Loss to company & gains by directors.

6 Negligence

Considered if relates to duty under Co's Act, Articles, Board resolution.

7 Director's Negligence

- Negligence - Broadly interpreted;
- Not responsible if proper decisions made / Co's best interest.

8 Interrogation of Key Persons

- May interrogate directors, officers, agents;
- Legal assistance before conclusions.

9 Reporting on Management Efficiency

- Investigator must be careful;
- Indicate general limitations;
- Ensure fairness &
- Provide opportunity to explain.

4. Non-Statutory Investigations

A. Investigation on Behalf of Incoming Partner

a History

Firm's inception & growth.

d Assets & Liabilities

Assess position - Tangible asset backing, intangibles value, contingent liabilities, tax assessments.

g Employees

Key personnel composition, quality, likelihood of leaving.

b Deed

Partnership deed - Composition, capital, drawings, retirement, job allocation, FM, goodwill.

e Customers & Clients

Evaluate orders, client range / quality.

h Legal Obligations

Contractual/legal obligations (salaries, bonuses, gratuity).

c Profitability

- Examine multiple years & make necessary adjustments
- Check partners' remuneration & its reasonableness.

f Loans & Advances

Scrutinize finance, terms, impact on financial position

i Reasons For New Partner

Understand reason, e.g., retirement of senior partner.



g. Return On Capital

Assess capital employed, rate of return; compare with alternatives.

h. Firm's Specialization

Firsthand knowledge of specialization.

i. Goodwill Computation

Understand calculation method

B. Investigation for Valuation of shares

a. Necessity for Share Valuation

Private companies **restrict transfer**, so **no market value**.

b. Methods for Valuation of Shares - Equity Shares

- Net Worth Basis:** Net Worth ÷ Number of equity shares. Includes goodwill & non-trading assets.
- Profit Capitalization:** Average profit (5-7 years) capitalized by reasonable interest rate.

c. Preference Shares

Value based on yield of **similar preference shares**; Adjust for **transferability & dividend rates**.

d. Special Features in Valuation

Networth Basis:

- Assets** revalued based on utility;
- Replacement cost** - CMP less depreciation;
- Revaluation results** in higher/lower values compared to BV
- Original Purchase cost**/suitable substitute.
- Goodwill depends on **super-profits capacity/duration**.
- Analyze **economic /social /political forces**.



Yield Basis: PV of **future dividends** depends on future profits/dividend policy. Capitalization rate determined by **risk of future dividends**, past performance, reserves, **future prospects**.

Control Premium: Add separate value for control when shares transfer.

C. Investigation on Behalf of a Bank/ Financial Institution

a. Purpose of Loan

Why loan needed, how borrower plans to invest.

b. Projections

Repayment schedule, Assumptions about future profits; lenders **focus on annual profits** & mortgaged asset values.

c. Credibility

Financial standing, business integrity of directors/officers.

d. Authorization under Byelaws

Whether Co' **authorized** to borrow by **MOM/AOA**.

e. History

Company growth/**performance** over last 5 years.

f. Economic Position

Impact of economic / political / social changes during loan period.

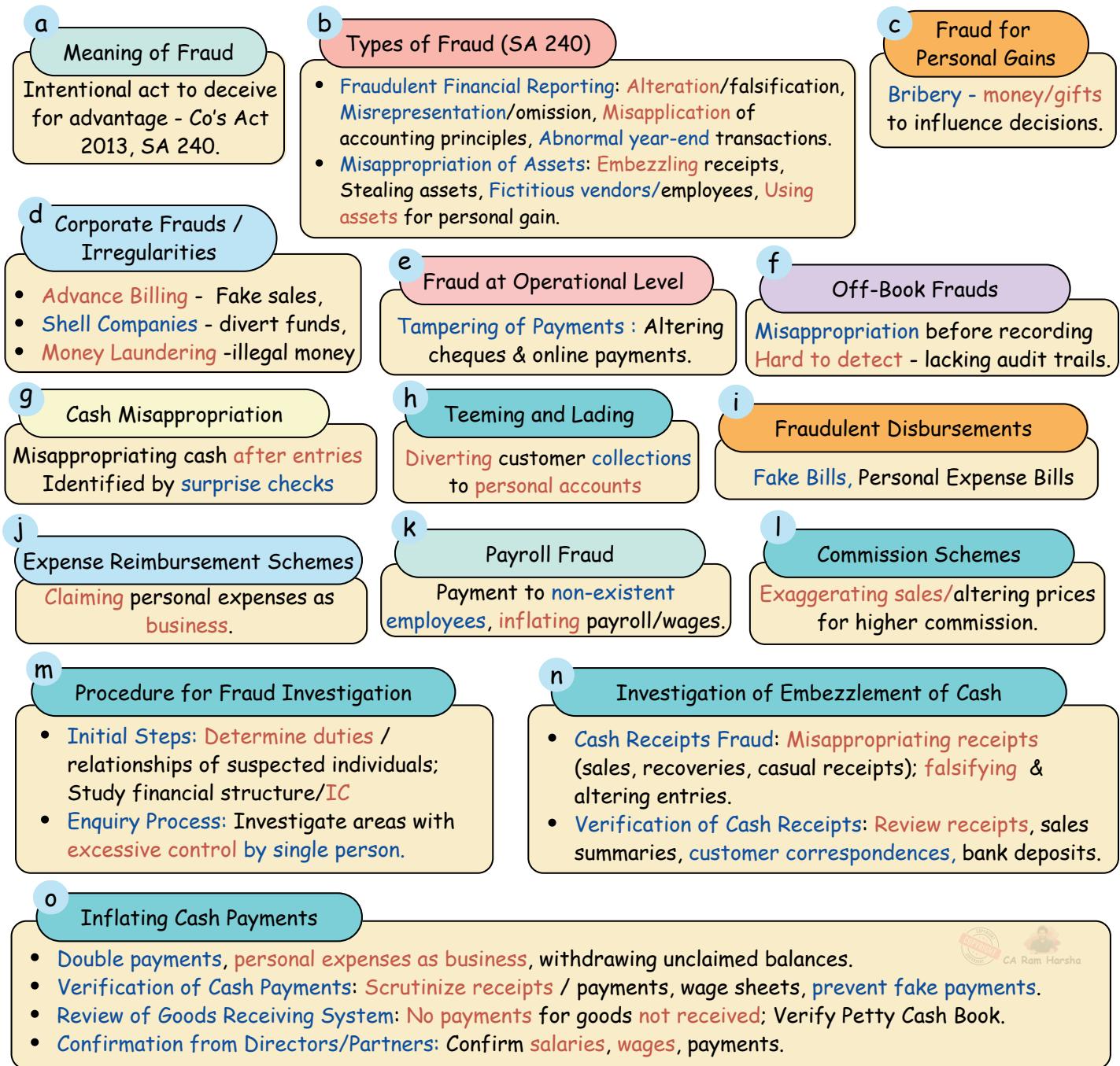
g. Previous Loan Applications

Any **prior rejections** & its reasons.

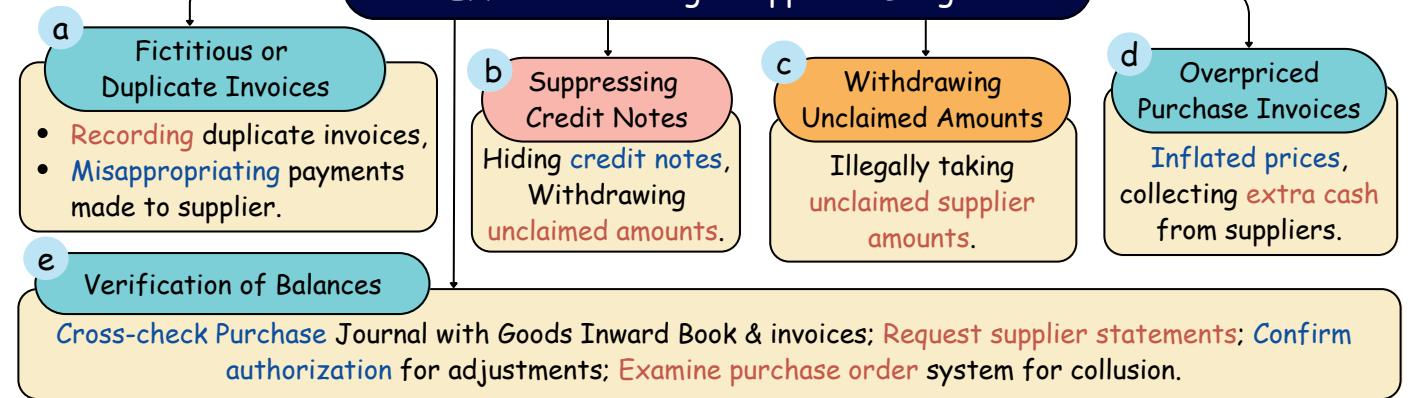
i. Other Factors

Any additional relevant factors.

D. Investigating Fraud in The Context of SA 240



E. Frauds Through Suppliers' Ledger



F. Frauds Through Customers' Ledger

- a Teeming and Lading
Misappropriating customer payments, covering up by crediting only when another customer pays.
- b Misappropriation with Adjustments
Taking customer payments & falsely adjusting account as allowance or rebate.
- c Wrongful Crediting and Withdrawing
Crediting payment to wrong account, withdrawing later.

d Verification of Balances

- Check adjustments (returned goods, price differences, bad debts);
- Cross-check Sales Records (Order Book to Sales Day Book);
- Obtain direct customer confirmations;
- Verify zero-balance accounts.

G. Inventory Frauds

- a Theft of Goods
Employees directly removing goods.
- b Concealing Theft
Misreporting stolen goods as damaged.
- c Manipulating Inventory Records
Adjusting records to match stolen goods, false balance.
- d Inflating Issued Quantities
Overstating RM issued.

e Unrecorded Dispatches

Sending goods without recording sales/debtor accounts.

f Verification Procedure

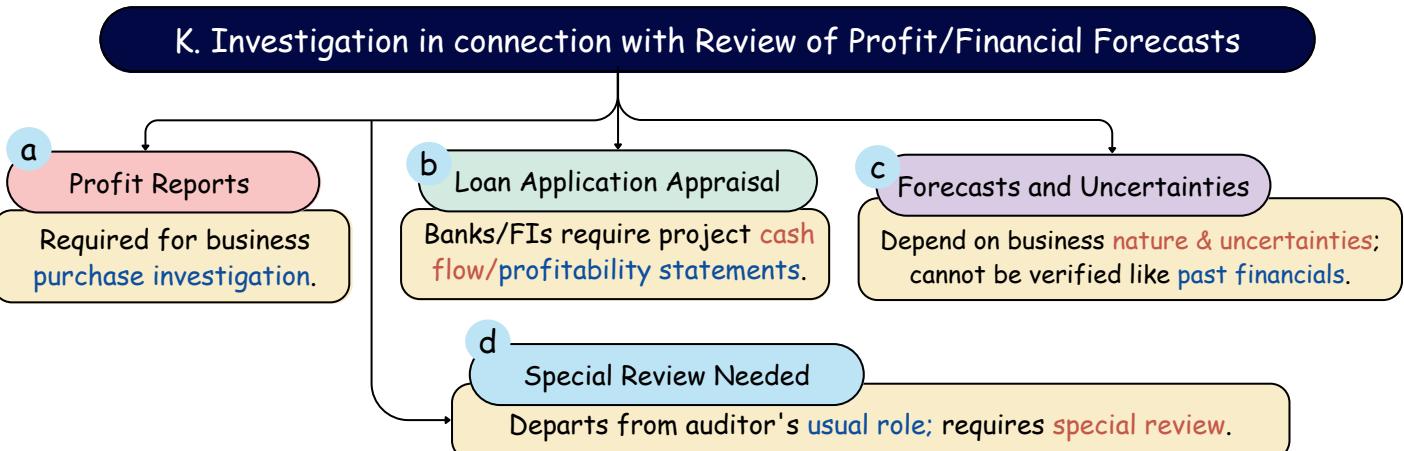
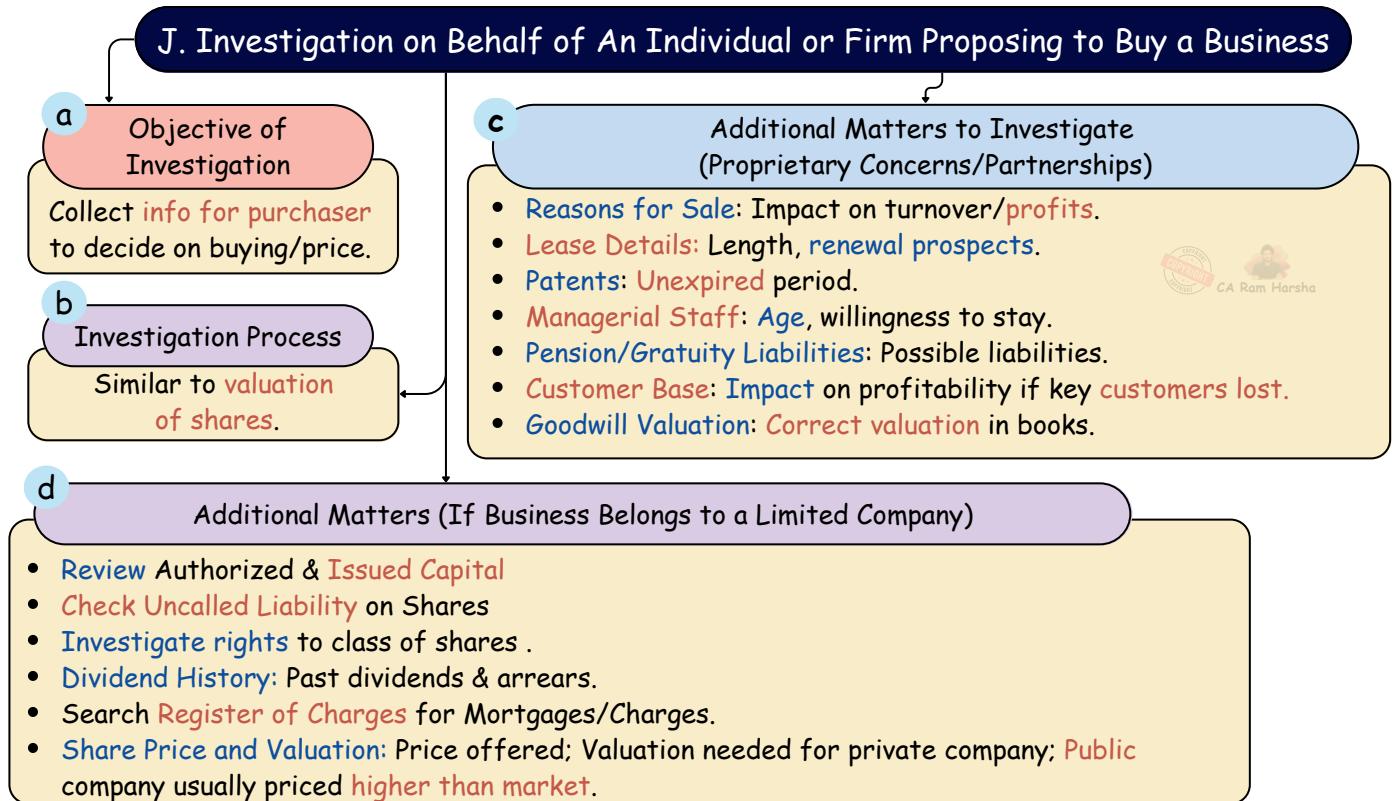
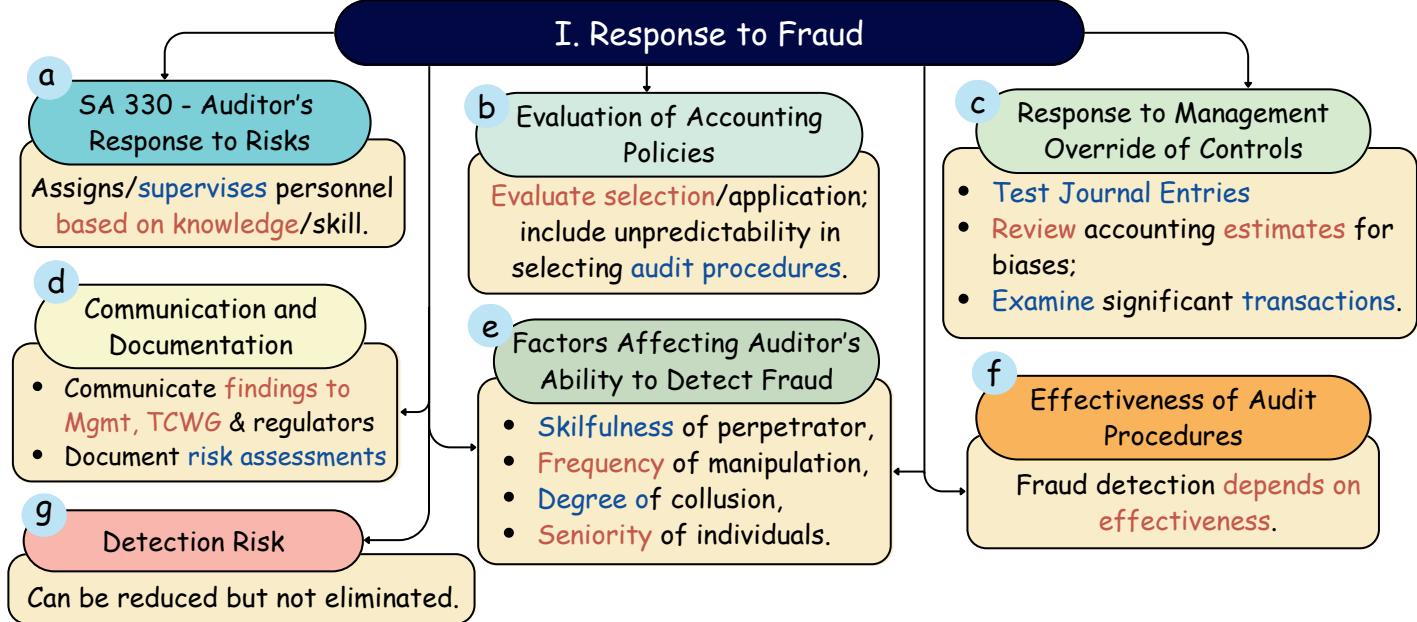
- Identify system weaknesses
- Ensure inventory control tracks movement;
- Compare physical stock with records;
- Check receipts / issues against documentary evidence;
- Investigate production shortages using engineering assessments.



CA Ram Harsha

H. Indicators of Fraud

- a Discrepancies in Accounting Records
Non-recording, partial / incorrect / delayed recording, misclassifications
- b Conflicting or Missing Evidence
 - Missing/ altered documents,
 - Discrepancies - records vs confirmations.
- c Unacceptable Management Responses
Denial of access, undue time pressure, delays, denial of audit tools, failure to address control deficiencies.
- d Other Indications
Variance in accounting policies, Frequent changes in Accounting estimates.
- e Fraud Diamond: Four Elements of Fraud
 1. Incentive: Person wants/needs to commit fraud.
 2. Opportunity: System weakness allows fraud.
 3. Rationalization: Fraudster justifies actions.
 4. Capability: Person has skills/traits to commit fraud.



17C. FORENSIC ACCOUNTING

1. Meaning & Scope of Forensic Accounting

1 Meaning of Forensic Accounting

- Combines **financial expertise** & **investigative skills** to resolve fraud and embezzlement.
- "Suitable for use in a court of law".

2. Forensic Accounting

- Integrates accounting, auditing, investigative skills to study / interpret accounting evidence.
- Applies **accounting methods** to **track** & collect forensic evidence for crime investigations / prosecution.

3 Red Flag

- Warning signs** of potential danger
- Signal caution**; don't necessarily mean fraud.
- Categorized**: financial performance, accounting system, **operational** & **behavioral**.

2. Forensic Accounting vs Financial & Statutory Audit

i Financial Audit

1 Purpose

Detect **MMS**, not immaterial frauds.

2 Detection Ability

Frauds **not always detectable**; relies on **sampling**, audit trail, not underlying events.

ii Forensic Accounting

1 Purpose

Detect **fraud**, investigate financial crimes in detail.

2 Detection Ability

Investigates **fraud** by examining events & activities behind documents;

3 Audit Scope

Relies on **sample of transactions** for conclusions.

4 Resources & Time

Limited time & costs

5 Primary Focus

Focused on **FS and MMS**.

3 Primary Focus

Scope

Thorough investigation; goes beyond standard procedures to **track suspicious activities**.



iii Statutory Audit

1 Basic Overview

- Legal mandate.
- Conducted by a **CA**.
- Measures compliance with reporting standards.
- Reasonable assurance.
- Independent opinion on **FS**.
- Follows ICAI's **SA**.

2 Objective Focus

True and fair picture

3 Approach

Control tests of transactions and **substantive tests** of balances

4 Target

Identify **MMS** in **FS**.

5 Skills

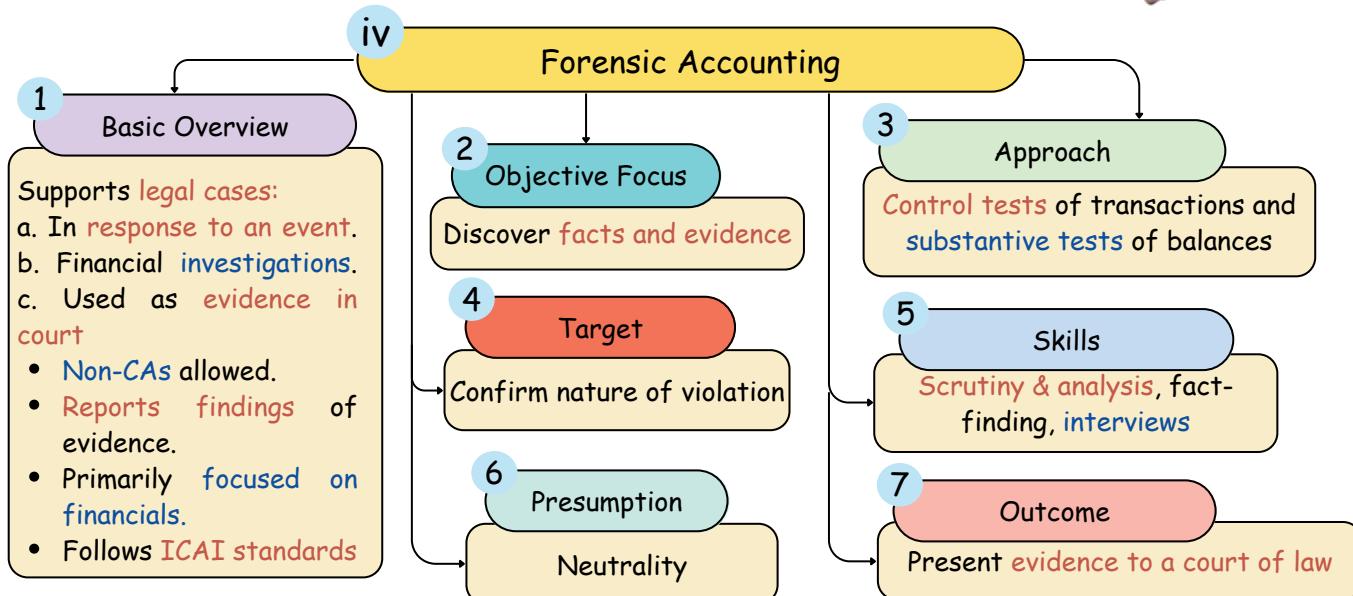
Testing & checking, analysis, inquiry & observation

6 Presumption

Professional **skepticism** & professional care

7 Outcome

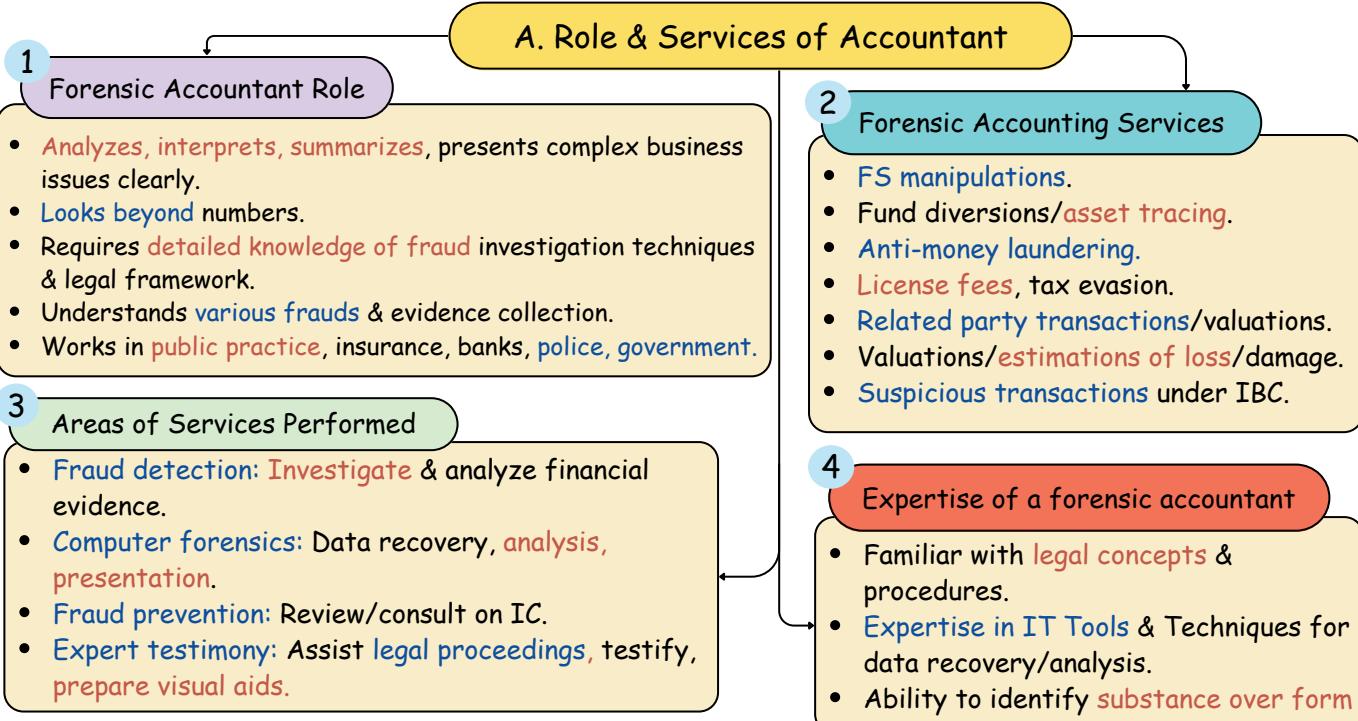
Audit report opinion



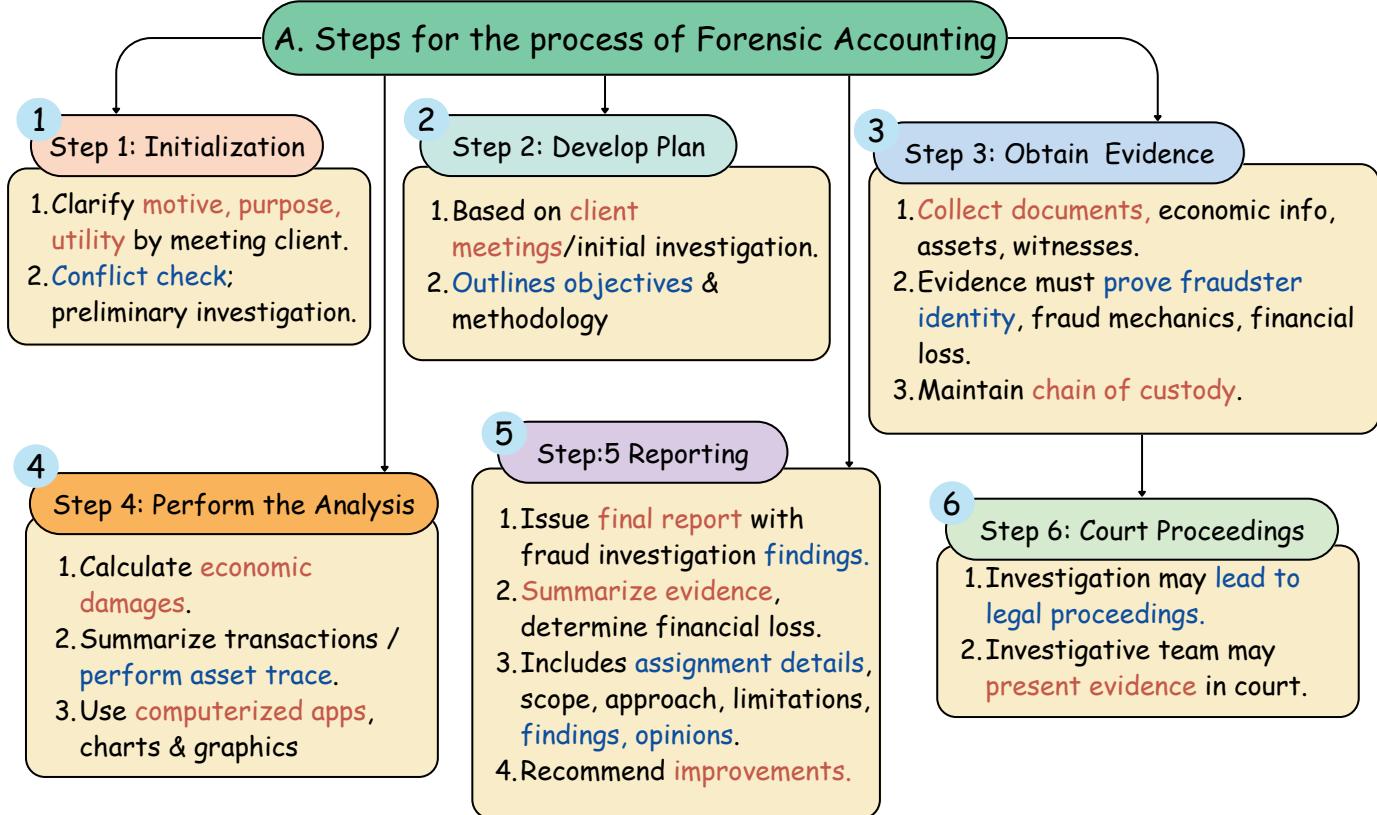
3. Forensic Accounting vs Other Audits

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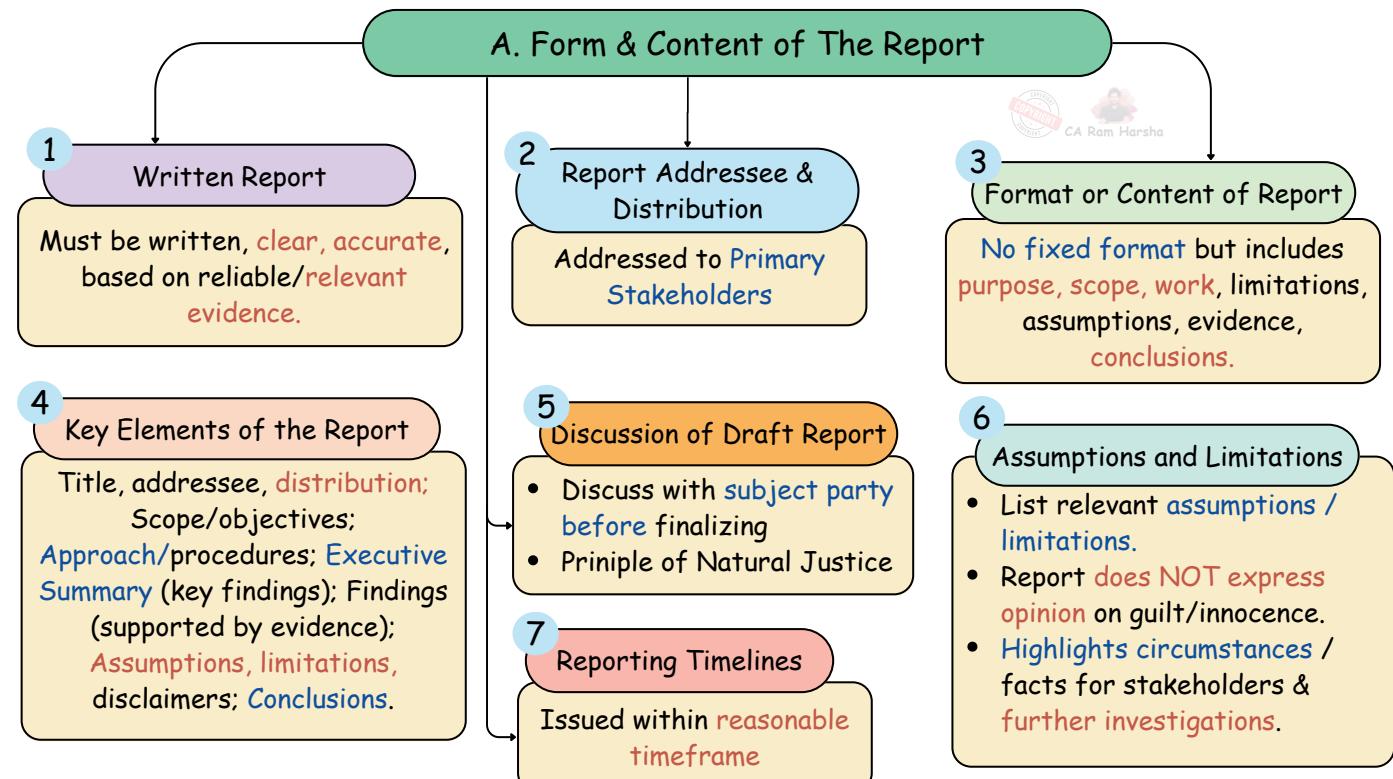
4. Forensic Accountant & List of services



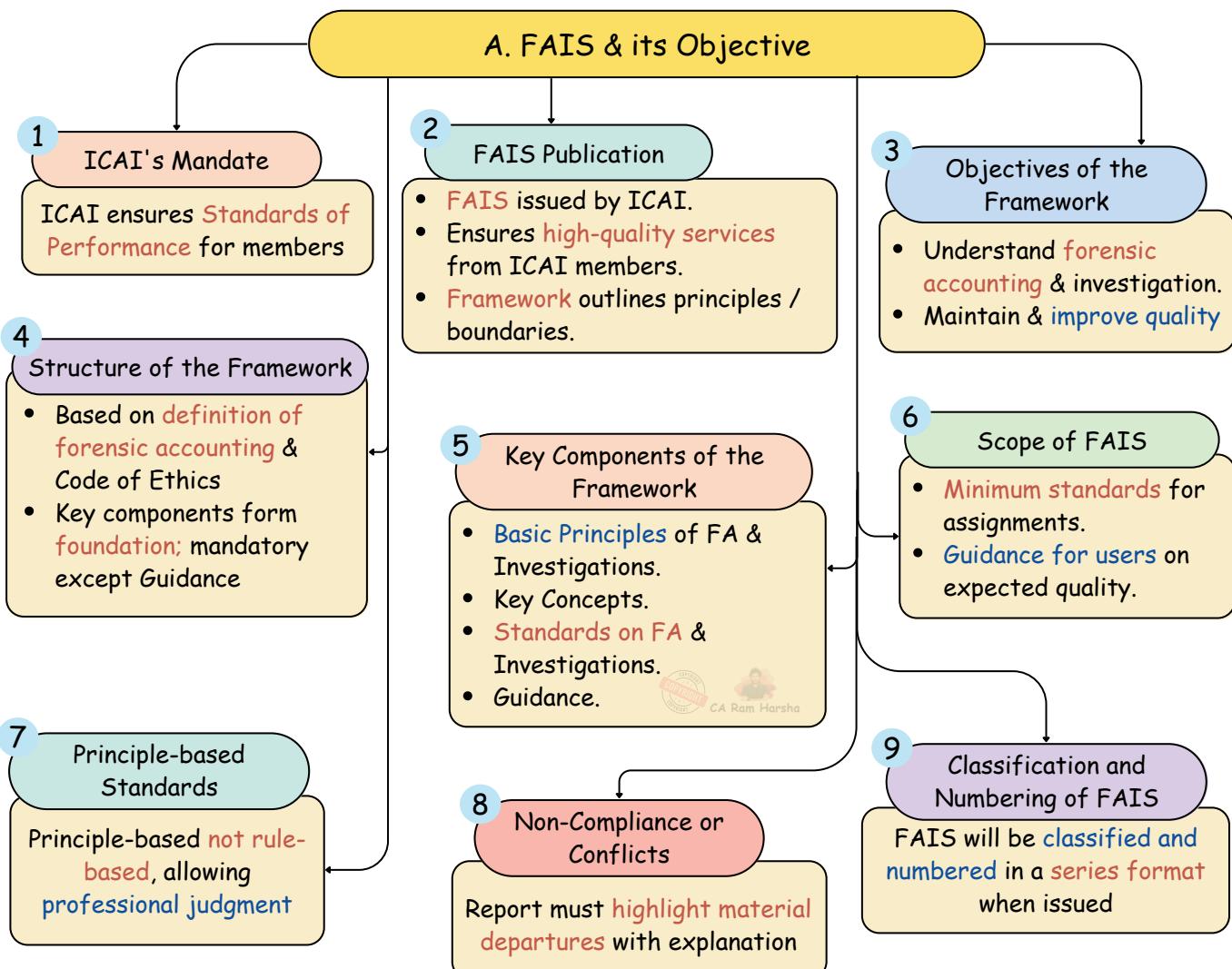
5. General steps involved in the process of Forensic Accounting



6. Forensic Accounting and Investigation Report



7. Forensic Accounting and Investigation Standards



18. SDG & ESG ASSURANCE

A. SDG as per Brundtland Report

1 Origin

From Brundtland Report; highlights **sustainable consumption** in **Developed Countries**.

3

Pillars of Sustainable Development

- Economic Sustainability:** Long-term economic growth without negative social, environmental, cultural impact.
- Social Sustainability:** Equity, human rights, social well-being, community stability.
- Environmental Sustainability:** Protect natural resources, reduce carbon footprints, eco-friendly practices.

2 Definition

Meet **developing countries' needs**; balance present without compromising future generations' lifestyles.

B. Three Pillars & its Elements

1 Environment (E)

Corporate **climate policies**, energy use, waste, pollution, natural resource conservation, animal treatment. Includes **resource use & waste** (e.g carbon emissions)

2 Social (S)

Entity's **relationships / reputation** with people, communities, institutions in **value chain**. Encompasses labour relations, diversity.

3 Governance (G)

Entity's **internal systems**, controls, procedures to govern, make sound **investment decisions**, comply with law, meet stakeholder needs. Requires **effective governance**.

C. Approach of Reporting on ESG

1 ESG Reporting

Disclosure of **information, data, metrics** demonstrating value in Environmental, Social, Governance areas.

3 Qualitative Approach

Describes company's **strategy & policies** on relevant ESG topics.

2 Types of ESG Reporting

Qualitative & Quantitative.

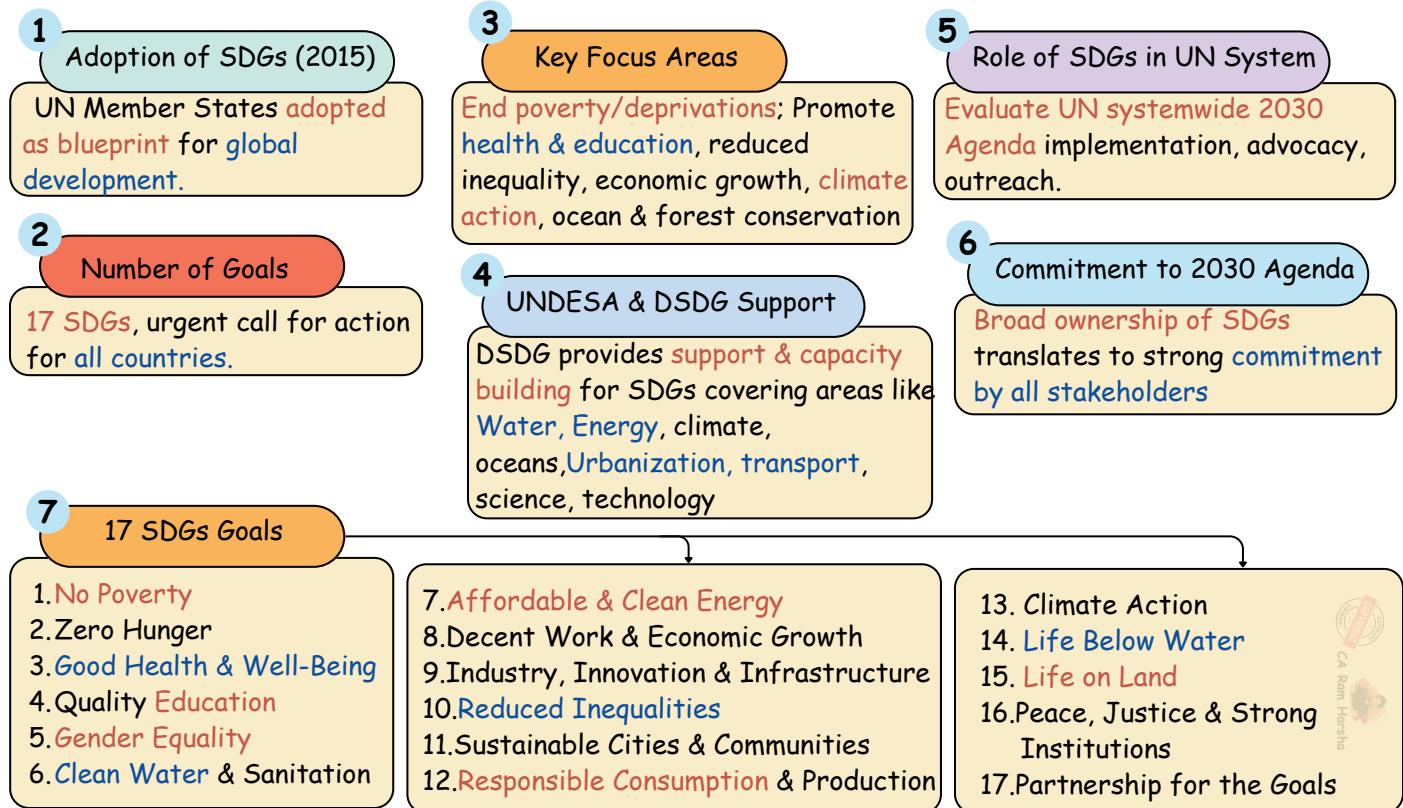
4 Quantitative Approach

Uses **Metrics, Key Performance Indicators** to measure progress achievement.

5 Mixed Approach

Combination of qualitative and quantitative reporting provides **maximum value**.

D. SDG Goals



E. Global Trends

- 1 Mandatory Reporting Requirements**
Primarily for public sector, government, large corporations, listed companies.
- 2 Global Reporting Initiative (GRI)**
Most widely used sustainability reporting framework worldwide (93% of top 250 corps, 100+ countries).
- 3 GRI Headquarters & Hubs**
Based in Amsterdam, Netherlands; Hubs in Brazil, China, Colombia, India, South Africa, US.
- 4 Purpose**
Enhance transparency & accountability in sustainability reporting via multi-stakeholder contributions.



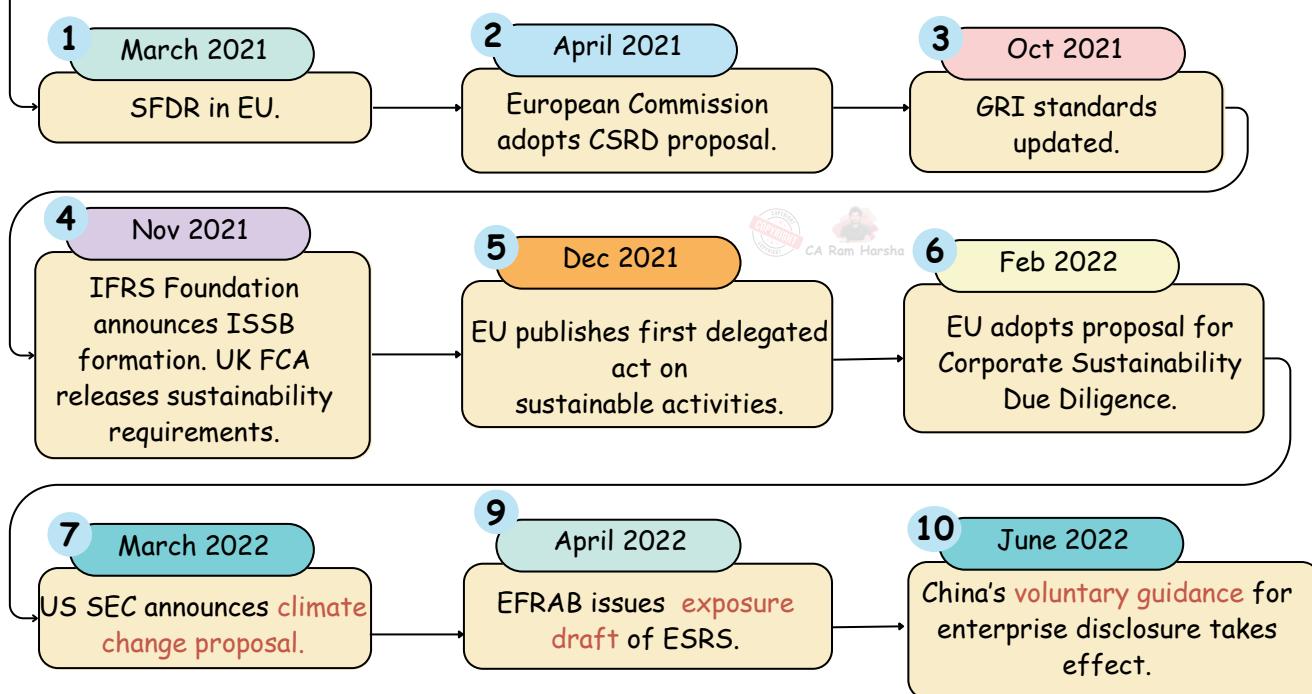
F. Global Trends in Sustainability Reporting

- 1 Global Reporting Initiative (GRI)
Helps organizations report **economic, environmental, and social impacts**. **Target: All stakeholders.**
- 2 Carbon Disclosure Project (CDP)
Captures **environmental performance data** (GHG emissions, water, forests, supply chain). **Target: Investors, Buyers, Stakeholders.**
- 3 International Integrated Reporting Framework (IIRF):
Establishes **guiding principles / content elements** for integrated reports (eg. **Org overview, Governance, Business model, Risks, Strategy, Performance, Outlook**).
- 4 Comprehensive Corporate Reporting (Sept 2020)
Framework/standard-setting institutions collaborated to **create a coherent system**. **Objectives:** Joint market guidance, **Integration with Financial GAAP**, Commitment to Collaboration.
- 5 IFRS Foundation's Revised Constitution (Nov 2021):
Accommodating an ISSB.
- 6 Growing Demand for ESG Reporting
International investors demand **high-quality, transparent, comparable ESG reporting**
- 7 Creation of ISSB (Nov 2021)
To establish a **global baseline of sustainability disclosure standards** for investors.
- 8 Task Force on Climate-Related Financial Disclosures (TCFD)
Evaluate UN systemwide 2030 Agenda **implementation, advocacy, outreach**.
- 9 Climate Disclosure Standards Board (CDSB)
International group **promoting climate related disclosures**; Helps report **climate risks & opportunities**.
- 10 ISSB's Sustainability Disclosure Standards
ISSB takes **technical guidance** for developing IFRS **Sustainability Disclosure Standards**.
- 11 Value Reporting Foundation (VRF)
Non-profit from **SASB Foundation + IIRC merger**.
- 12 IASB & ISSB Collaboration
Agreed to build an **Integrated Reporting Framework**
- 13 ISSB's March 2022 Consultation
Launched **IFRS S1 (General sustainability)** & **IFRS S2 (Climate-related)**.

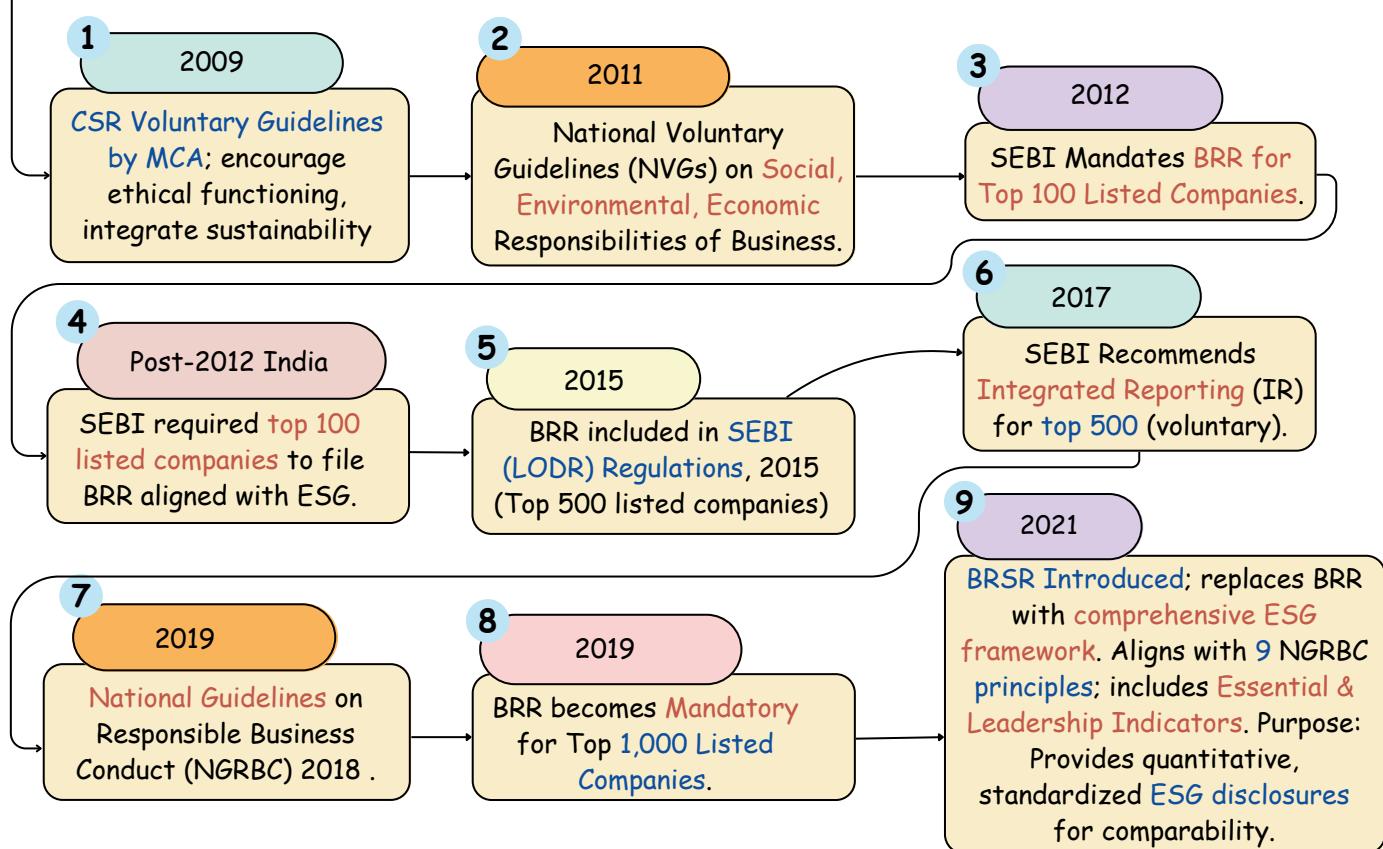
G. Integrated Reporting (IR)

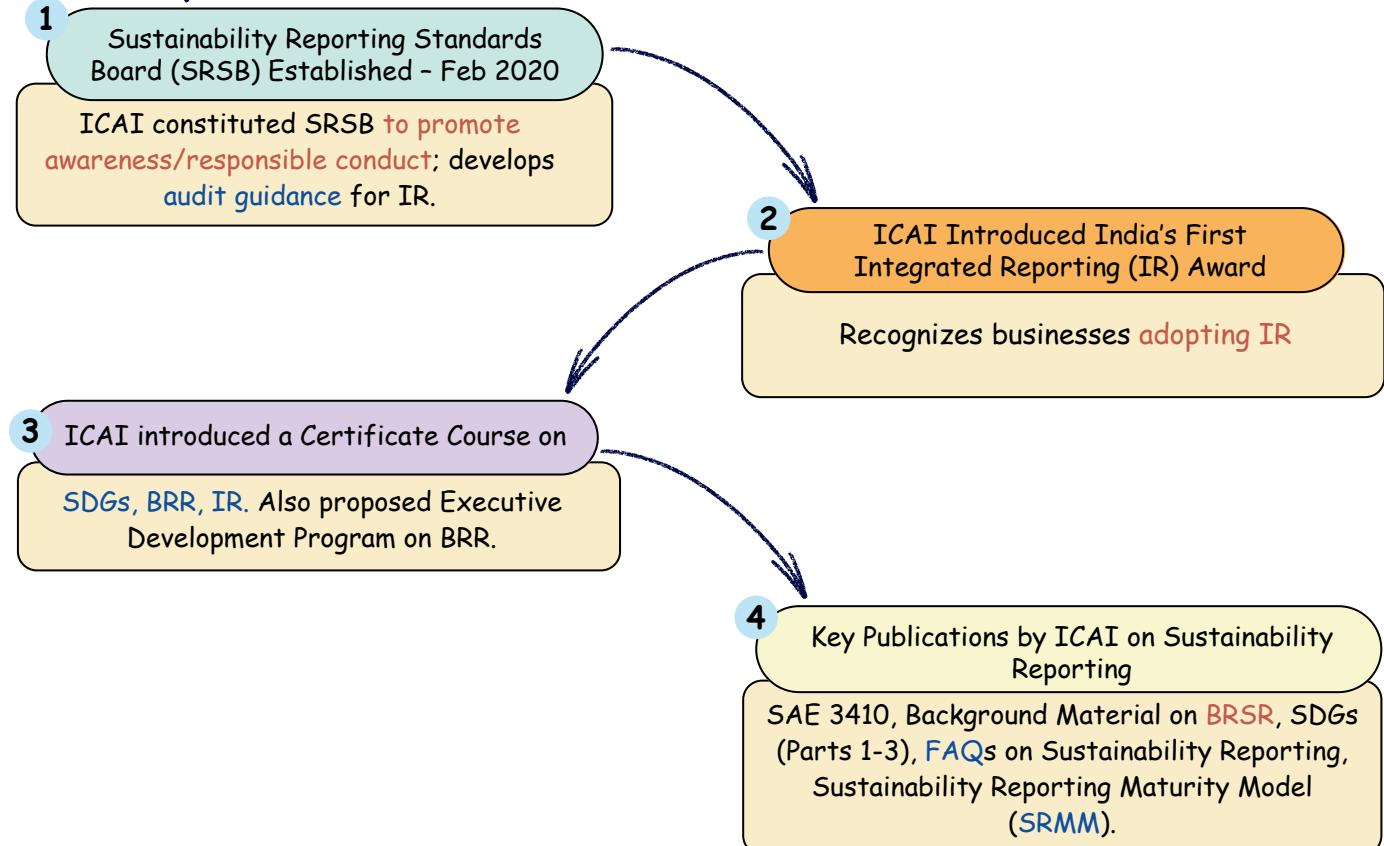
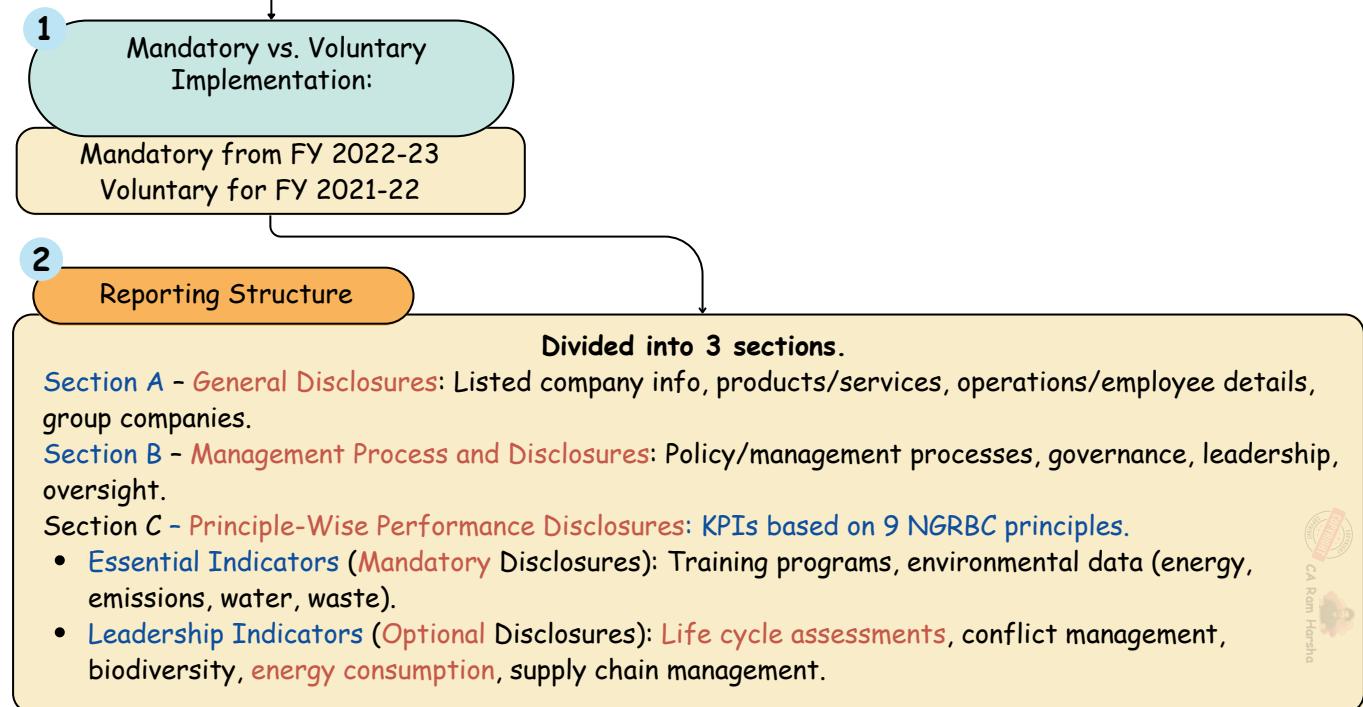
- 1 Financial Capital
Pool of funds for goods/services production (Sourced from debt, equity, grants, operations).
- 2 Manufactured Capital
Human-created, production-oriented assets (buildings, equipment, infrastructure).
- 3 Natural Capital
Input for goods/services (water, land, minerals, forests, biodiversity, ecosystem health).
- 4 Human Capital
People's skills, experience, capacity, motivations to innovate & support strategy. Includes **alignment with values, loyalty, leadership, collaboration**.
- 5 Social Capital
Institutions & relationships within communities, stakeholders, networks to enhance well-being. Includes common values, key relationships, **trust, social license** to operate.
- 6 Intellectual Capital
Future earning potential linked to R&D, innovation, HR, external relationships; Determines competitive advantage. **Asia-Pacific:** Leads in sustainability reporting. **Middle East:** Strong adoption of IR.

H. Global scenario on Sustainable Reporting in various countries



I. Evolution of ESG in India

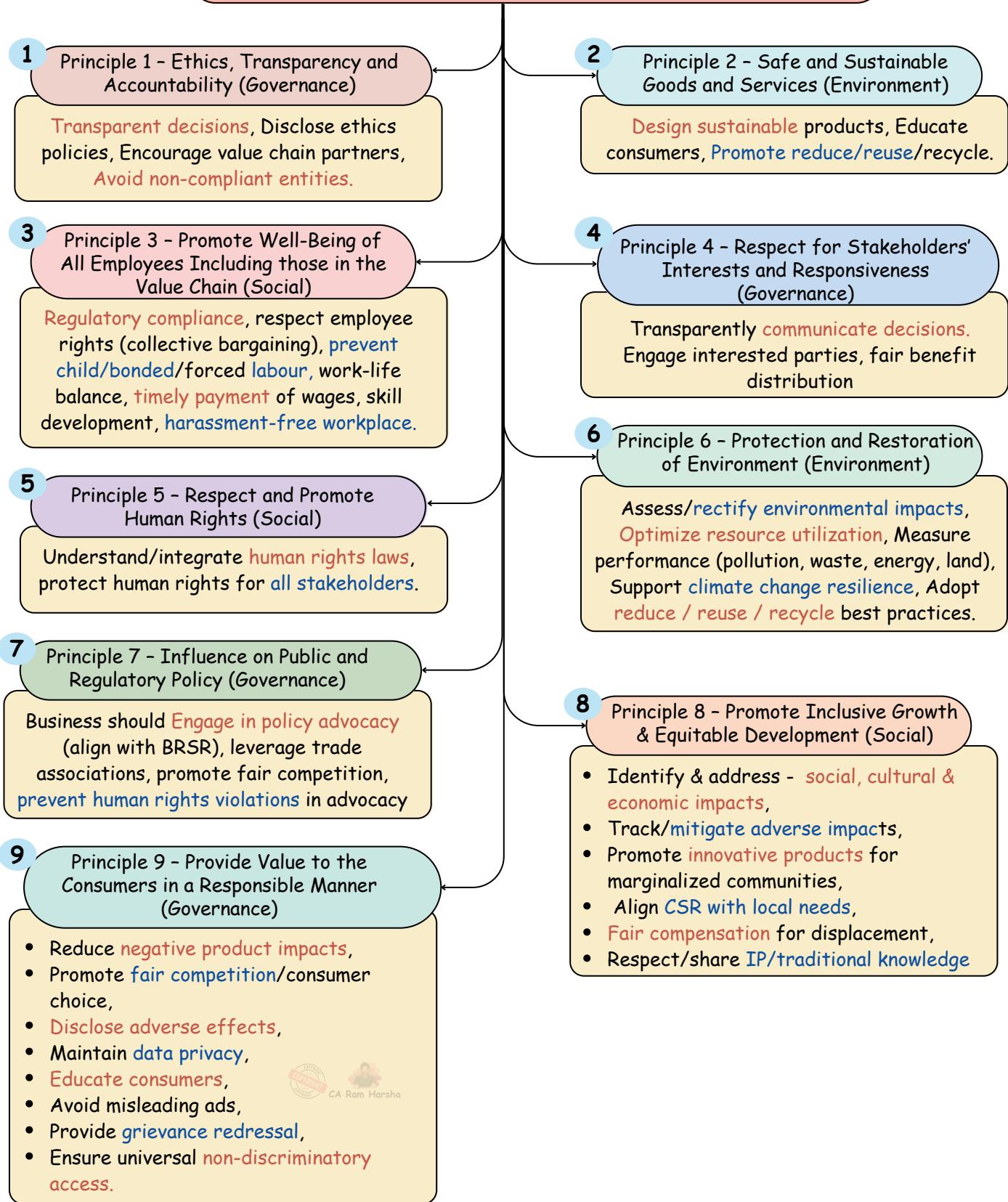


J. Initiatives by ICAI relating to BRSR

K. Business Responsibility and Sustainability Report




L. Principles of BRSR

9 Principles of BRSR is categorized into ESG Components



M. Assurance in BRSR

1 Expansion of BRSR Compliance

Currently **Top 1,000** listed companies; expected to extend to all

2 BRSR as the Primary Sustainability Disclosure Document

India's **primary framework** for sustainability disclosures; **used by stakeholders/investors**

3 Need for Assurance in BRSR

Critical for **credibility & transparency**

4 ESG Audit Importance

Evaluates **environmental & social risks** (products, services, operations); Assesses **supply chain risks**, risk management & transparency.

5 Standard on Sustainability Assurance Engagements (SSAE 3000)

Framework for assurance engagements on sustainability information. **Users:** Assurance providers, entities, regulators, investors, stakeholders

6 Scope of SSAE 3000

- Provides **reasonable & limited assurance** on sustainability information.



7 Effective Date of SSAE 3000

Voluntary for reports ending Mar 31, 2023;
Mandatory from Mar 31, 2024

8 SSAE 3410 - Assurance on Greenhouse Gas Statements

Deals with **assurance on entity's sustainability information**, including BRSR assurance

N. Methodology for BRSR Assurance

- To be determined based on **best practices and regulatory requirements** for data accuracy, reliability, transparency.
- Steps:** Preliminary Review → On-site Assessment/Verification → Issuance of Assessment Report → Review responses → Submission of findings → Preparation of report

O. Social Audit Standards

1 ICAI's - SRSB

Issued Social Audit Standards (SAS 100 to 1600)

2 Purpose of SAS

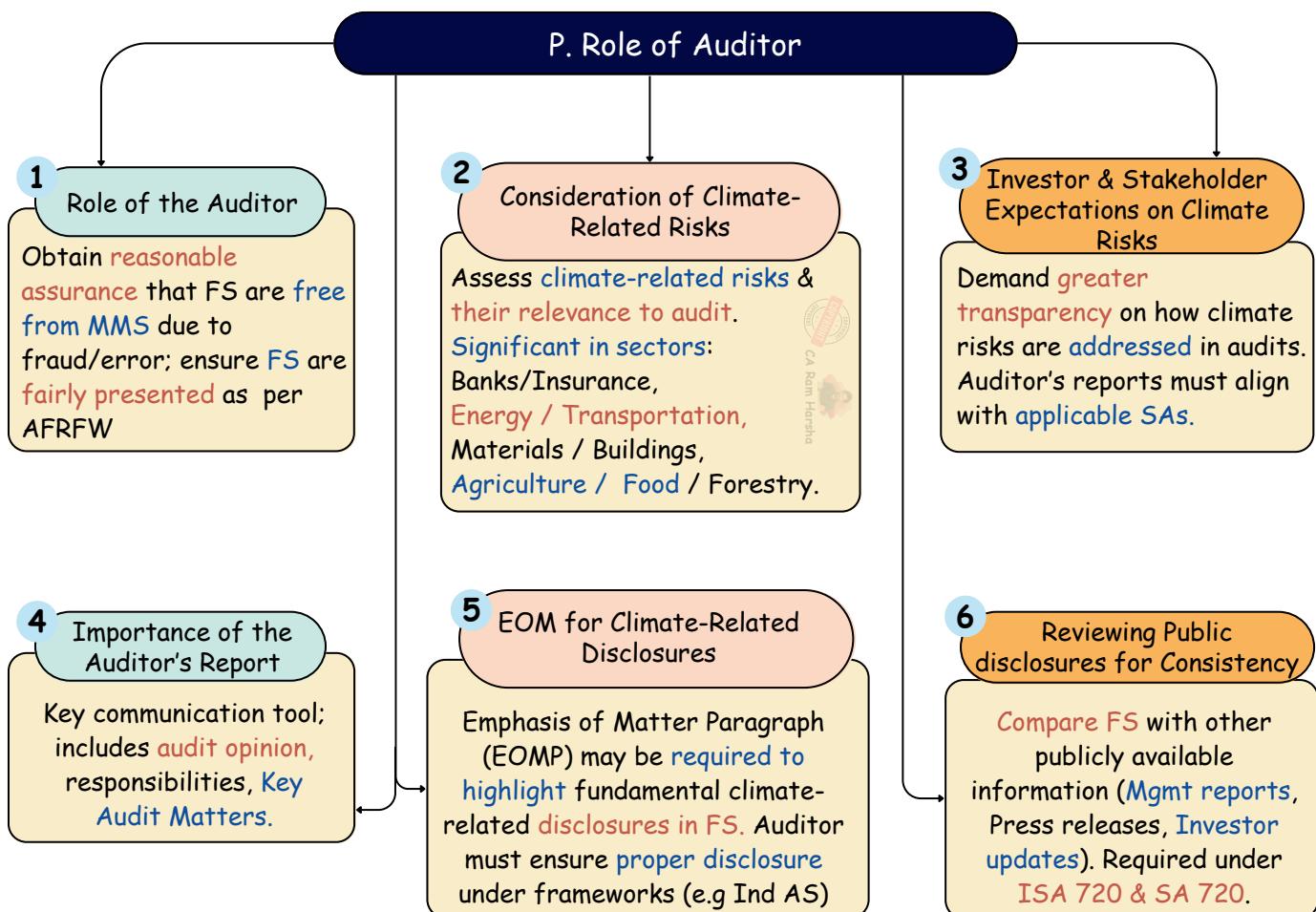
Guidance to Social Auditors on **independent impact assessments of Social Enterprises.**

3 Scope of the Standards

Outlines **audit steps and procedures** for Social Impact Assessment (SIA)

4 Minimum Requirements

Defines **minimum requirements for SIAs**; additional legal/regulatory requirements may apply.





19. PROFESSIONAL ETHICS

1. Fundamental Principles

A. Integrity

1 Honesty and Straightforwardness

In professional / business relationships.

2 Avoid Misleading Information

No materially false/misleading statements, recklessly furnished info, or omitted / obscured info that could mislead.

3 Modified Report

Not a breach of integrity if modified report expressed.

B. Objectivity

1 Professional Judgment (PJ)

Must not compromise PJ due to bias, conflict of interest or undue influence.

2

Avoid Biased Relationships

Relationships influencing judgment should be avoided.

C. Professional Competence and Due Care

1 Objective

- Maintain knowledge/skill for competent professional service (latest standards/legislation).
- Act diligently

2 Professional Competence

Attainment and Maintenance. Provide services with sound judgment, knowledge, skill. Continuous awareness of technical, professional & business developments.

2 Diligence

Act carefully, thoroughly, on time. Ensure appropriate training and supervision for staff.

D. Confidentiality

1 Objective

Comply with confidentiality of info acquired via professional / employment relationships (current / future).

2 Refrain From

Disclosing to outsiders without authority (unless legal / professional duty). Using for personal / 3rd party advantage.

3 Social Surroundings

Maintain even in social settings, including close family.

4 Post Relationship

Maintained after client/employer relationship ends.

6 Exceptions

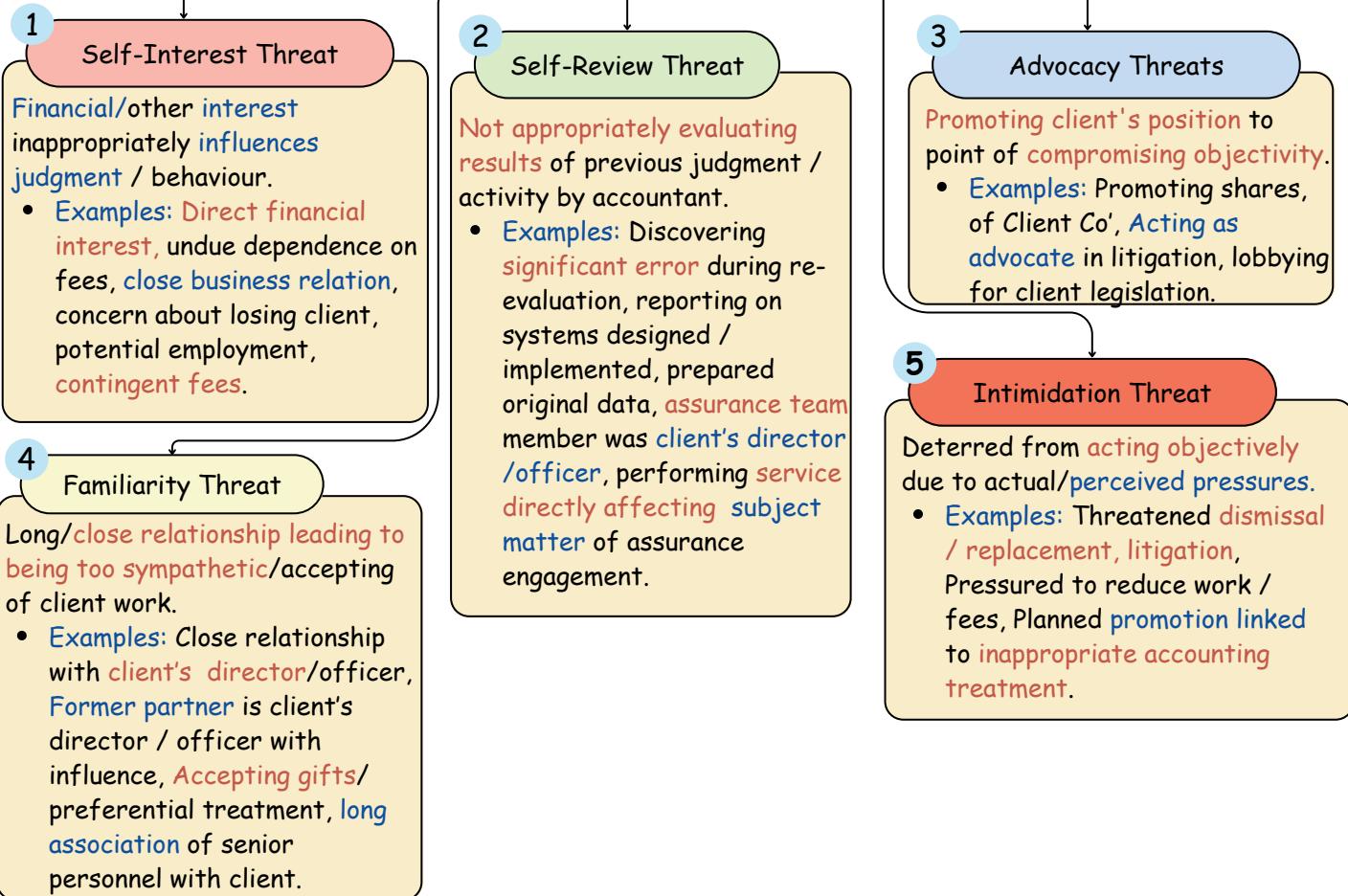
- Required by law (legal proceedings).
- Permitted by law & authorized by client.
- Professional duty / right
- Examples : Peer review, Regulatory Investigations, Technical standards compliance



2. Different types of threats to Independence of Auditors

1. Approach Specified by Conceptual Framework

- Identify threats to compliance.
- Evaluate identified threats.
- Address threats by eliminating/reducing to acceptable level.



B. Evaluation Of Threats

1 Acceptable Level

Professional accountant, using reasonable & informed 3rd party test, would conclude **compliance** with Fundamental Principles.

2 Reasonable and Informed Third-Party Test

Accountant considers if **another party** would reach **same conclusions**. This party weighs all relevant facts, possesses **relevant knowledge/experience** to **evaluate impartially**.

C. Addressing the Threats

1 Eliminate or Withdraw

If **threats not acceptable**, eliminate circumstances, **apply safeguards or decline / end** professional activity.

2 Compulsory Withdrawal

If threats **cannot be eliminated/reduced** to acceptable level, **decline or end activity is only** solution.

3. Safeguards to threats to independence

1 Meaning of Safeguard

Actions (individual/combination) to **reduce threats to acceptable level**. Depend on facts / circumstances.

2 Actions under various circumstances to address threat

- Assigning **additional time** and **qualified personnel** (Self-interest).
- Independent **review of work** (Self-review).
- **Separate partners/teams with separate reporting lines** for non-assurance/assurance (Self-review, advocacy, familiarity).
- Engaging **another firm to perform/re-perform** part of engagement (Self-interest, self-review, advocacy, familiarity, intimidation).
- **Separate teams** for confidential matters (Self-interest).

4. Non-Compliance with Laws and Regulations (NOCLAR)

A. Applicability of NOCLAR

1 Section 260: Professional Accountants in Service

Applicable to **senior professional accountants in service** (employees of listed entities). SPA = Directors, officers, senior employees with significant influence (KMP).

2 Section 360: Professional Accountants in Public Practice

Applicable to **audit engagements of listed entities** and those with **net worth ≥ ₹250 crores**. Audit means reasonable assurance engagement.

B. Meaning, Scope & Exclusions of NOCLAR

1 Meaning

Instances of **non-compliance/suspected non-compliance with laws & regulations** encountered while providing services.

2 Scope: Acts of omission/commission

Scope: Acts of omission / commission (intentional / unintentional) **contrary to laws & regulations** committed by: Client / Professional Accountants of Employing Org., Governance, Management, **Other individuals working for / under direction of Client/Entity**.

B. Meaning, Scope & Exclusions of NOCLAR

3

Exclusions

Does not cover Personal misconduct unrelated to business activities. Non-compliance by parties not listed in definition.

4

Examples

Fraud, corruption, bribery, money laundering, securities, banking, data protection, environmental, public health, tax/pension liabilities.

C. Objective & Key Facts of NOCLAR

1

Objective

- Emphasize roles of management and TCWG in addressing NOCLAR.
- Increase PAs awareness of legal/regulatory responsibilities.



2

Important Facts

- During Service:** Applies if encountered/made aware during service. Professional Accountants (PA) not required to investigate/ensure full compliance.
- Expertise Not Required:** PAs apply knowledge / judgment, not extensive legal knowledge.
- Out of Purview:** Inconsequential matters/personal misconduct unrelated to business.
- Disclosure Not Required Against Law:** Disclosure of NOCLAR to appropriate authority - Not required if contrary to law/ regulation.

D. NOCLAR VS SA 250

1

Applicability

SA 250 for audits only. NOCLAR for both PAs in service and practice.

2

Focus of Responsibilities

SA 250 on laws affecting material amounts & disclosures, or fundamental to operations. NOCLAR extends to non-compliance causing substantial harm (serious financial/non-financial consequences).

3

Stakeholders

SA 250 no definition. NOCLAR considers investors, creditors, employees, general public.

4

Exceptional Circumstances

NOCLAR allows disclosure to appropriate authority if non compliance causes substantial harm to mitigate consequences of breach - SA 250 does not include this provision.

E. Steps and Documentation for NOCLAR

1

Steps for Responding

Understand issue, address via professional judgment, seek external/legal advice, determine additional actions, decide on disclosure to appropriate authority, mitigate imminent breach, document all actions & decisions.

- Appropriate Authority:** Depends on issue (SEBI for fraudulent reporting).

2

Provisions of Confidentiality (Chartered Accountants Act, 1949)

- Members in Practice:** Guilty if disclose confidential info without client consent, except as required by law.
- Members in Service:** Guilty if disclose confidential info during employment except as required by law or permitted by employer.

3

Documentation Requirements:

Document management/TCWG response, actions/judgments/decisions (reasonable and informed third-party test), satisfaction of public interest, compliance with SA's, significant matters, discussions with management / TCWG, identified / suspected non-compliance and actions taken.

5. Membership of the Institute

A Register of Members

- **Name** entered on acceptance; certificate issued.
- **Details:** Full Name, DOB, Domicile, Addresses, **Date of Entry**, **COP** status, Qualifications, other prescribed details.

C Types of Members of the Institute

- **Associate Member (A.C.A.):** Name entered in Register.
- **Fellow Member (F.C.A.):** Associate with ≥ 5 years continuous practice in India OR ≥ 5 years membership with prescribed equivalent experience.

D Removal of Name from the Register

Council may remove if: **Deceased**, **Member's request**, Non-payment of fee, Subject to disabilities (Sec. 8), **Removal by Order**.

G Penalty for Falsely Claiming to be a Member (Sec.24)

- **Not a Member but Claims:** First conviction: Fine up to ₹1,000. Subsequent: Imprisonment up to 6 months or fine up to ₹5,000 or both.
- **Member without COP but Claims Practice:** Same penalties.

B Disqualifications for the Purpose of Membership

- **Below 21 years.**
- Unsound mind (adjudged by court).
- **Undischarged insolvent.**
- Discharged insolvent without court certificate of misfortune (no misconduct).
- **Convicted** (within/without India) of offence: moral turpitude with imprisonment OR non-technical offense in professional capacity.
- **Removed from Institute membership** for professional/other misconduct.

Note: Knowingly failing to disclose these disabilities = professional misconduct, can lead to permanent removal of membership by the council.

E Restoration of Name to the Register

For non-payment of fees: Re-entered upon payment of arrears, entrance fee, additional fee

F Restoration of Membership

- **Conditions:** Application, removed due to non-payment, pay arrears/fees.
- **Effective Date:**
 - **Removed for non-payment (same year):** Effective from removal date (No Break in Service).
 - **Disciplinary action:** As per order.
 - **Any other case:** From date of application/fee received (Break in Service arises).

6. CA in Practice

A Definition of Practicing CA

Member of Institute, holding a **COP** includes **deemed in practice**.

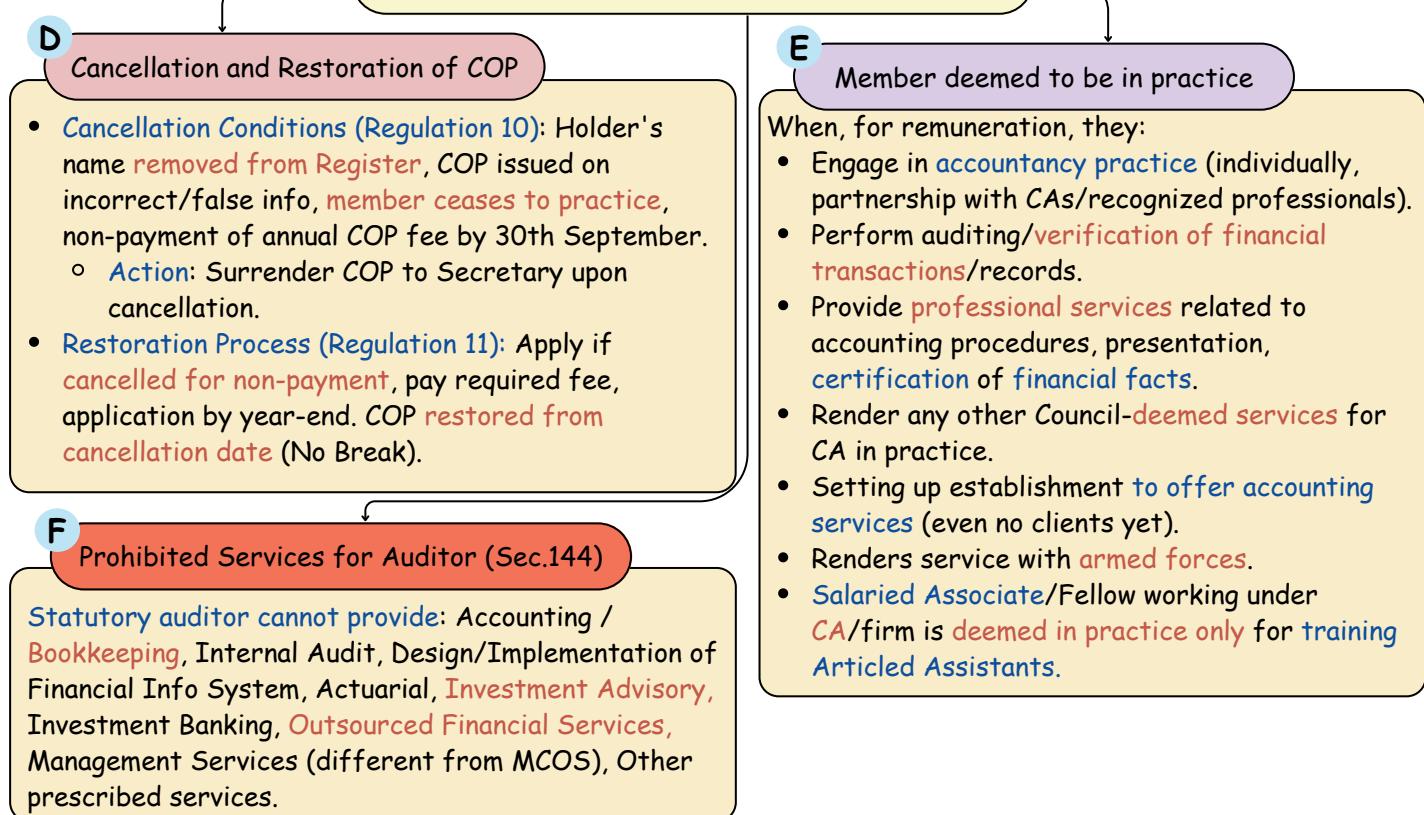
B Significance of Certificate of Practice

- **Requirement:** Cannot practice **without COP**.
- **Annual Fee:** Must pay by **1st April**.
- **Cancellation:** Council can cancel under prescribed circumstances.
- **Restrictions for Non-Practicing Members:** Cannot accept **engagements** usually performed by CAs.

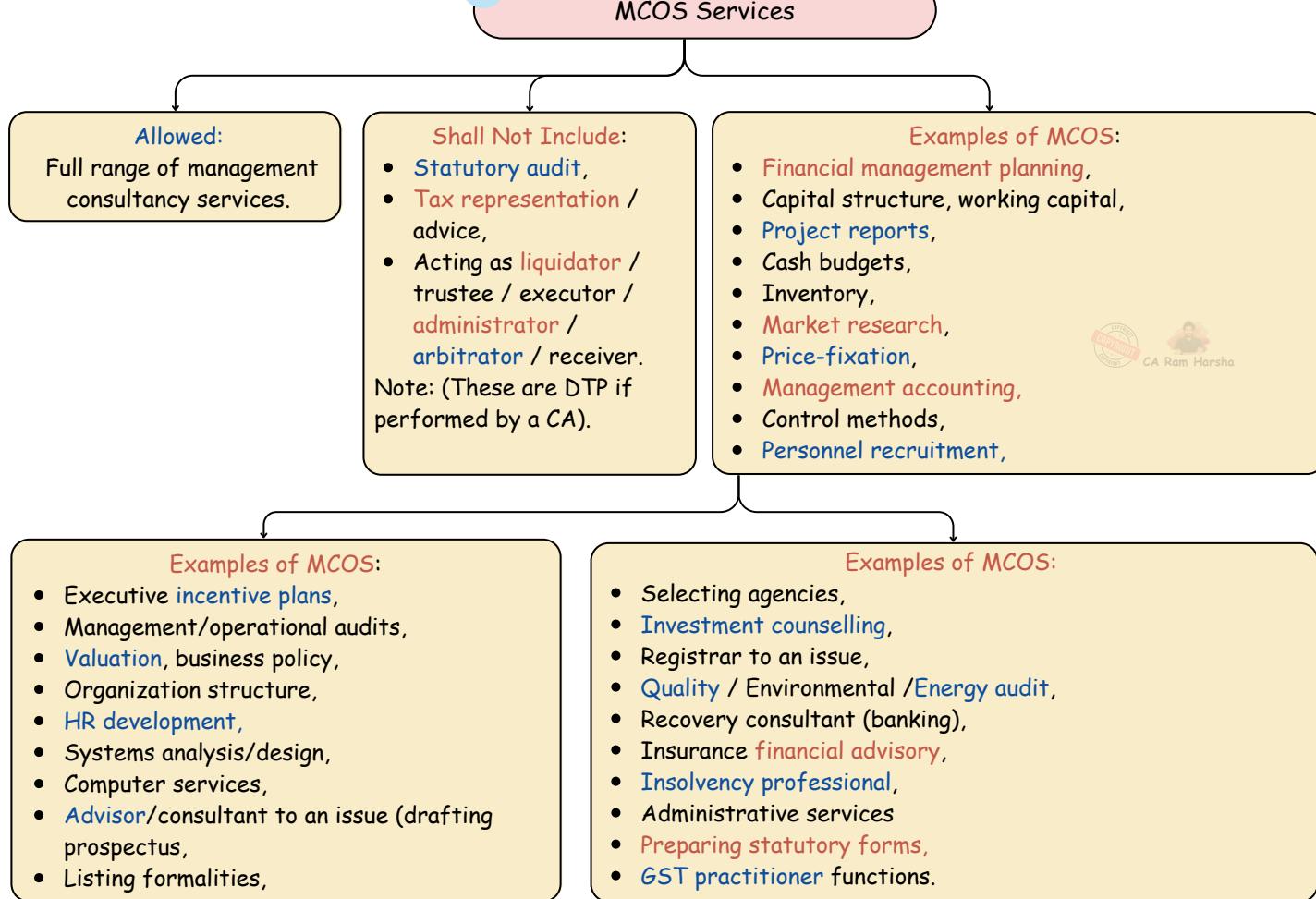
C Council's view on Practice

- **Bound by Act/Regulations:** Member **bound** by CA Act/Regulations.
- **No Dual Capacity:** Cannot practice in any other capacity apart from CA.
- **Impact of Removal:** Removed CA for misconduct cannot appear before authorities during removal period.

6. CA in Practice



G MCOS Services



Note:

- Cannot provide management services to a company if statutory auditor (Sec. 144 Companies Act, 2013).
- Management Services are different from MCOS Services.
- CA in full-time employment representing employer in tax assessment is not deemed in practice but representing colleagues is treated as deemed to be in practice.

6. Who Can Practice ?

Companies cannot engage in accountancy practice

- No company (including LLPs with company as partner) can practice as CA (Sec. 25 CA Act, 1949).
 - Penalty: Directors/managers/officers involved: Fine up to ₹1,000 (first), up to ₹5,000 (subsequent).
- Only Individual or Firm (Including LLP) can be appointed as Auditor.
 - Note: Only CA partners can sign for firm. LLP eligible if no company partner.

7. Member in Practice is prohibited using any other designation

A. Usage of Prefix & Designation

1

CA Prefix

Members can use "CA" as prefix (in/not in practice).



2

Designation Restrictions for Members in Practice

Only "Chartered Accountant". Can add qualifications from other recognized institutes/professional qualifications.

3

Merchant Banker/Advisor to an Issue

Can apply as Category IV Merchant Banker. Can act as advisor/consultant to an issue, but name/address not prominent in client ads/offer documents.

4

Prohibited Mentions

Cannot mention directorships, political positions, club memberships in violation of Section 7.

5

CS/CMA

Can practice as CS/CMA if eligible. Cannot use CS/CMA designations alongside CA. Allowed to use A.C.M.A/F.C.M.A or A.C.S /F.C.S after name if members of respective institutes.

6

Foreign Qualifications

Can mention membership of foreign accountancy institutes recognized by ICAI.

7

Improper Designations

Cannot use "Income-tax Consultant, Cost Consultant, Company Secretary, Cost Management Accountant, Management Consultant, Corporate Lawyer, Certified Public Accountant on professional documents.

8

Member not in practice

May use any other description if not using CA designation.

8. Maintenance of Branch Office

A. Requirement & Incharge for Branch Offices

1 Separate Incharge

Each branch office must be under charge of member of the ICAI.

Failure = Professional Misconduct

2 Member's Responsibility

In-charge must be a **partner** or a **full-time paid assistant**.

3 Active Association

- Residing or working there for ≥ 182 days/year.
- Executive Committee decides in other cases.

B. Temporary Branch Offices

1 Exemption

Members in **hill areas** can open temporary offices in **plain areas** for **up to 3 months/year**.

2 Conditions

- Office **open ≤ 3 months**. Regular office open, correspondence directed there.
- Temporary name board only** during permitted period. **Not listed on letterheads/visiting cards**. Inform **Institute before opening, send notice after closing**.

C. Member In-charge more than One Office

Second office without separate in-charge permitted if:

- Located in the **same premises** (one accommodation).
- Located in the **same city**.
- Located **within 50 km** from municipal limits of **first office city**.



D. Name Board

Name-board with "Chartered Accountant" can be displayed at **member's residence** (individual, not firm's).

9. Chartered Accountant in Service

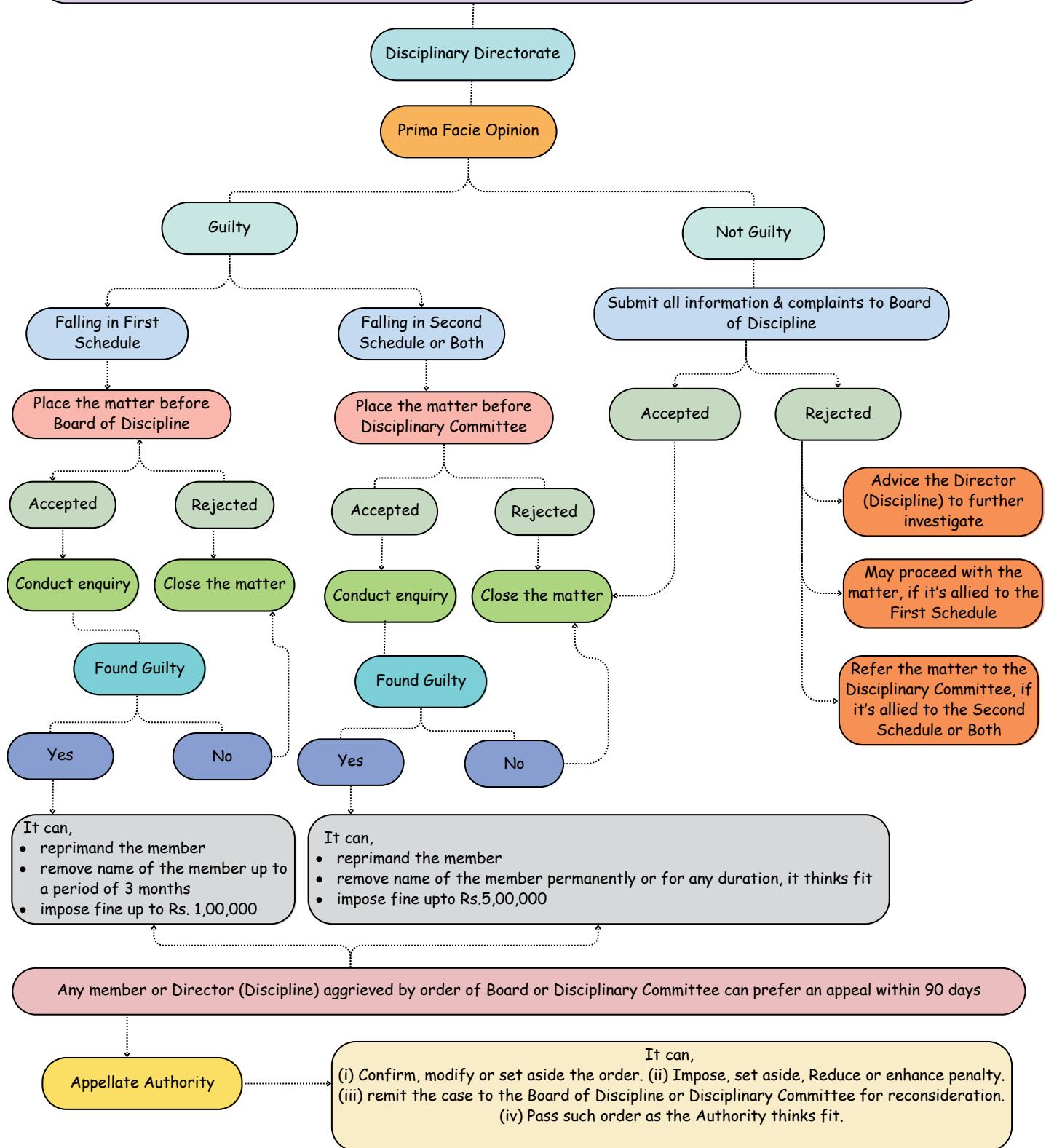
1 Definition

Professional accountant **employed/engaged** in executive/non-executive capacity in **commerce, industry, service, public sector, education, non-profit, regulatory/professional bodies** or contracted by such entities.

Disciplinary Procedure



Receipt of (i) Complaint along with prescribed fee, or (ii) Information, against member of ICAI of alleged misconduct



10. Schedules to the CA act

Acts / omissions constituting professional misconduct defined in First Schedule and Second Schedule.

First Schedule

- Part I: Misconduct of member in practice (12 Clauses).
- Part II: Misconduct of members in service (2 Clauses).
- Part III: Misconduct of members generally (3 Clauses).
- Part IV: Other misconduct applicable to all members (2 Clauses).

Second Schedule

- Part I: Misconduct of member in practice (10 Clauses).
- Part II: Misconduct of members generally (4 Clauses).
- Part III: Other misconduct applicable to all members (1 Clause).

11. Part 1 of First Schedule - Professional Misconduct for CAP

Clause 1 - Allows any person to practice in his name as a Chartered Accountant

- Guilty if allows another person to practice in his name.
- Exceptions: Person is a CA in practice AND is a partner/employee of the CA.



Clause 2 - Share of profits to non-members

A

Guilty

Guilty if pays/allows/agrees to pay/allow share, commission or brokerage in fees/profits to any person

b

Permitted to share with

Member of Institute, Partner, Retired Partner, Legal Rep of deceased partner, Member of other professional bodies or Qualifications (ICSI, ICWAI, Bar Council, Engineers, Technology, Architects, Actuaries, MBA).

c

Not a Violation

Sharing fees as deposit with SG treasury for cooperative societies' audit administrative expenses.

d

Treatment on Share of Profit/ Goodwill

Partnership:

Sharing with legal rep of deceased partner allowed if specified in partnership deed.

Proprietorship:

Sharing fees with legal rep of deceased CAP and buyer of goodwill - strictly prohibited. Sale of Goodwill permitted under specific conditions.

Clause 2 - Share of profits to non-members

e

Conditions for Sale of Goodwill

Death of Proprietor on or after 30.08.1998:
 Legal heir obtains Council permission within 1 year of demise. **Sale complete within 1 year of death.** Firm's **name not removed for 1 year.**
 Purchaser can use firm name.



Not Relevant for Exams

Death of Proprietor on / before 29.08.1998:
Sale must be completed and obtained council permission **within 1 year** of demise and Firm name **still available** with Institute.

Note

In partnership firm - If all partners die - Same Treatment as Sole Proprietor

Clause 3 - Accepting share of profit or fees from non-member

a

Guilty

Guilty if accepts/agrees to accept share of profits/fees from professional work of a non-member.

b

Permitted to Accept from

Member of Institute, Partner, Member of other professional bodies or Qualifications (ICSI, ICWAI, Bar Council, Engineers, Technology, Architects, Actuaries, MBA).

Note

Allowed to charge **referral fees** from another CAP for referring a client.

Clause 4 - Prohibiting a CAP to enter into Partnership with Non-members

a

Guilty

Guilty if enters into partnership (in/outside India) with anyone **other than CAP**.

b

Permitted to partner with

CS, CMA, Advocate, Engineer, Architect, Actuary (members of respective bodies).

c

Prohibition on Multi-Disciplinary Partnerships

Not permitted unless other regulators allow and Council permits such partnerships.

Clause 5 - Prohibition on Securing Professional Business unauthorised manner

a

Guilty

Guilty if secures professional business through **non-employee/non-partner** or by means not open to CAs.

b

Note

- CA must seek work via **talent, skill, reputation**, not agents/unethical methods.
- All forms of **canvassing** strictly prohibited.
- A man must **stand erect** and not to be kept **erect** by others.

Clause 6 - Prohibition on Solicitation of Clients or Professional work

a Guilty

Prohibited from soliciting clients/professional work directly/indirectly (Circulars, Advertisements, Personal Communication, Interview).

b Exceptions

Requesting/Inviting work from another CAP. Responding to tenders/enquiries (subject to ICAI Guidelines).

c Advertisement of Coaching/Teaching

Prohibited from advertising via hoardings / posters / banners (indirect solicitation). Signboard with name, contact details, subjects taught is permitted.

Permitted Advertisement

Announcements of partnership changes, address/phone changes (bare facts, appropriate area/no. of insertions).

Classified Advertisement

In ICAI's journal/newsletter for sharing work, seeking partnerships, salaried employment (Name, Address, Social Network site, Specialization).

d Empanelment

Permissible to apply to govt. depts., govt. companies, courts, cooperative societies, banks that prepare panels of CAs. NOT make roving enquiries. Permissible to quote fees on enquiries.

e Tender Guidelines

Cannot respond to tenders for services exclusively reserved for CAs (audit/attestation).

- Exception: Tender prescribes minimum fee that commensurate OR tender is open to other professionals.
- EMD/Security Deposit: Council doesn't interfere unless exorbitant [For Non Exclusive Areas]
- Cost Sheet: Must maintain and make available upon request by Institute.

h Publication of Books, Articles, Presentations

Not allowed to mention professional attainments of member/firm. Can include "Chartered Accountant" designation and firm name.

i Advertisement for Celebrations

- Firm cannot advertise events.
- Silver/Golden celebrations can be published in newspapers.

k Sponsoring Activities

- Firm cannot sponsor events.
- Can sponsor ICAI PoU events with approval. For CSR, member can mention individual name with "CA" prefix, but not firm name/logo.

m TV/Movie Credits

Display name/firm name in same manner like other entries.

n Soliciting Professional Work (Roving Enquiries)

Cannot send letters/emails/circulars to potential clients (advertisement).

o Seeking Work from Professional Colleagues

Not allowed via advertisement/circular (unless permitted).



Clause 6 - Prohibition on Solicitation of Clients or Professional work

p

Representation U/S 140(4)

Auditor **can make representation**. Must be dignified, avoid publicity/canvassing.

r

Public Interviews

Must **not result in publicity/highlight professional attainments**. Only factual responses allowed.

t

Educational Videos

No reference to firm, contact details, website address.

q

Acceptance of Work from Clients

Should **not accept original professional work** from client introduced by another member. If directly approached, ask client to go via original member.

s

Advertisements under Box Numbers

Prohibited



Clause 7 - Prohibition on Advertising Professional Attainments

a

Guilty

Guilty if advertises **professional attainments / services** or **uses any designation other than "Chartered Accountant"** on professional documents, visiting cards, letterheads, signboards.

c

Write-up

May advertise through write-up outlining services (subject to ICAI guidelines).

b

Permitted to mention

- University degrees,
- ICAI membership titles (ACA, FCA, DISA),
- Other CG / Council recognized institutions (CS, CMA).
- **Insolvency Professional/Registered Valuer**

d

Prohibited Designations

Income-tax Consultant, Cost Accountant, Cost Consultant, Company Secretary, Management Consultant, Corporate Lawyer. Cannot use public functionary titles (MP, Municipal Councillor) with CA.

e

Foreign Qualifications

Can **mention membership** of recognized foreign Institutes. [E.g., CPA Ireland, SAICA, ICAEW]

f

Date of Setting-up Practice

Should **not mention on letterheads/professional documents**.

g

Practice as Advocate

Can practice with **Bar Council permission**, but **cannot use "Chartered Accountant" title for cases as Advocate**.

h

Practice as CS/CMA

Can practice, but **cannot use "Chartered Accountant" designation simultaneously**. Still considered **full-time practice** under ICAI if **holding COP of sister institutes/Bar Council**.

i

Professional Documents

Firm uses "Chartered Accountant" designation. Individuals **can use "CA" prefix**.

j

Examination Success Notice

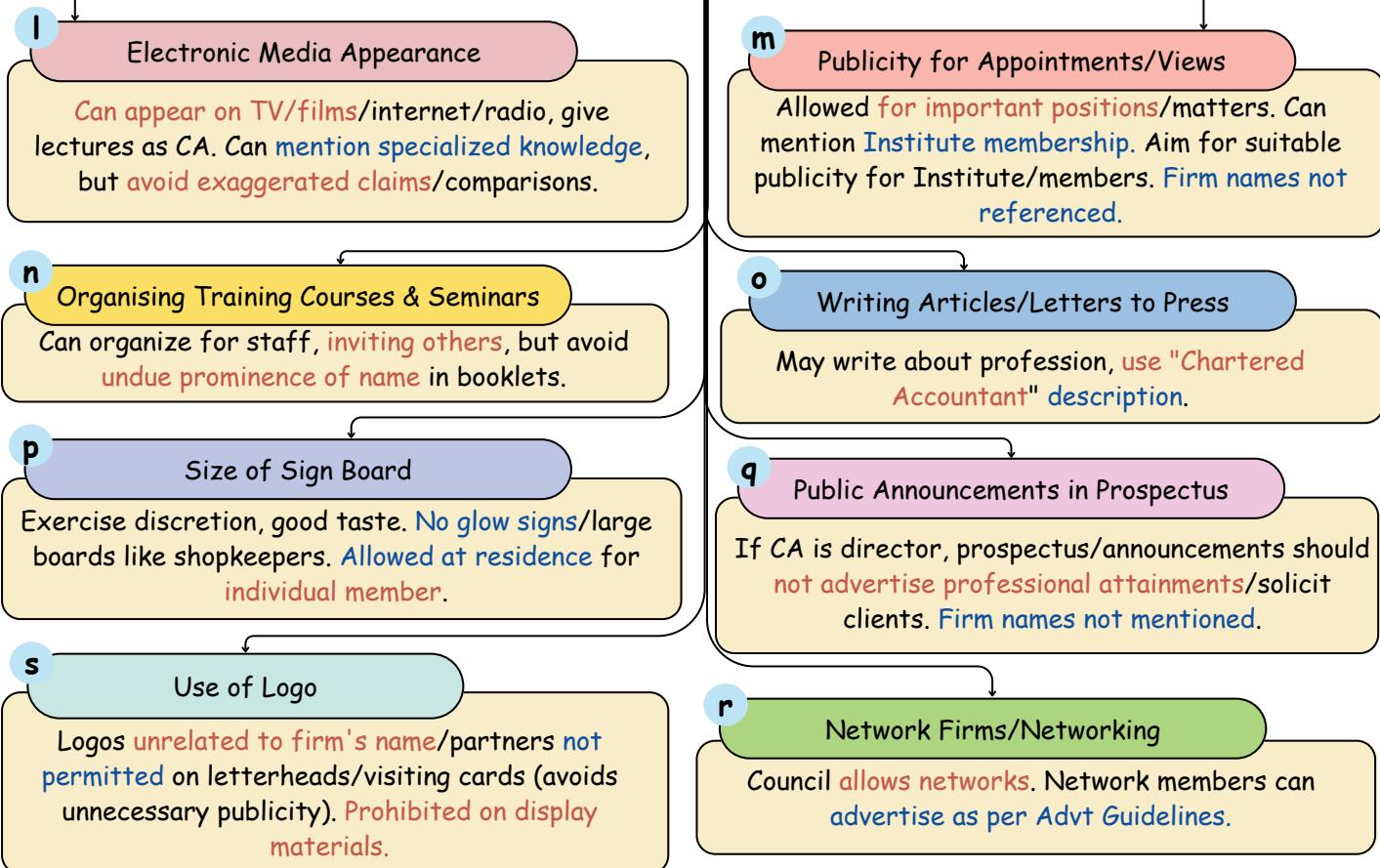
Avoid undesirable publicity. Basic details (name, exam, prizes, firm, town) acceptable.

k

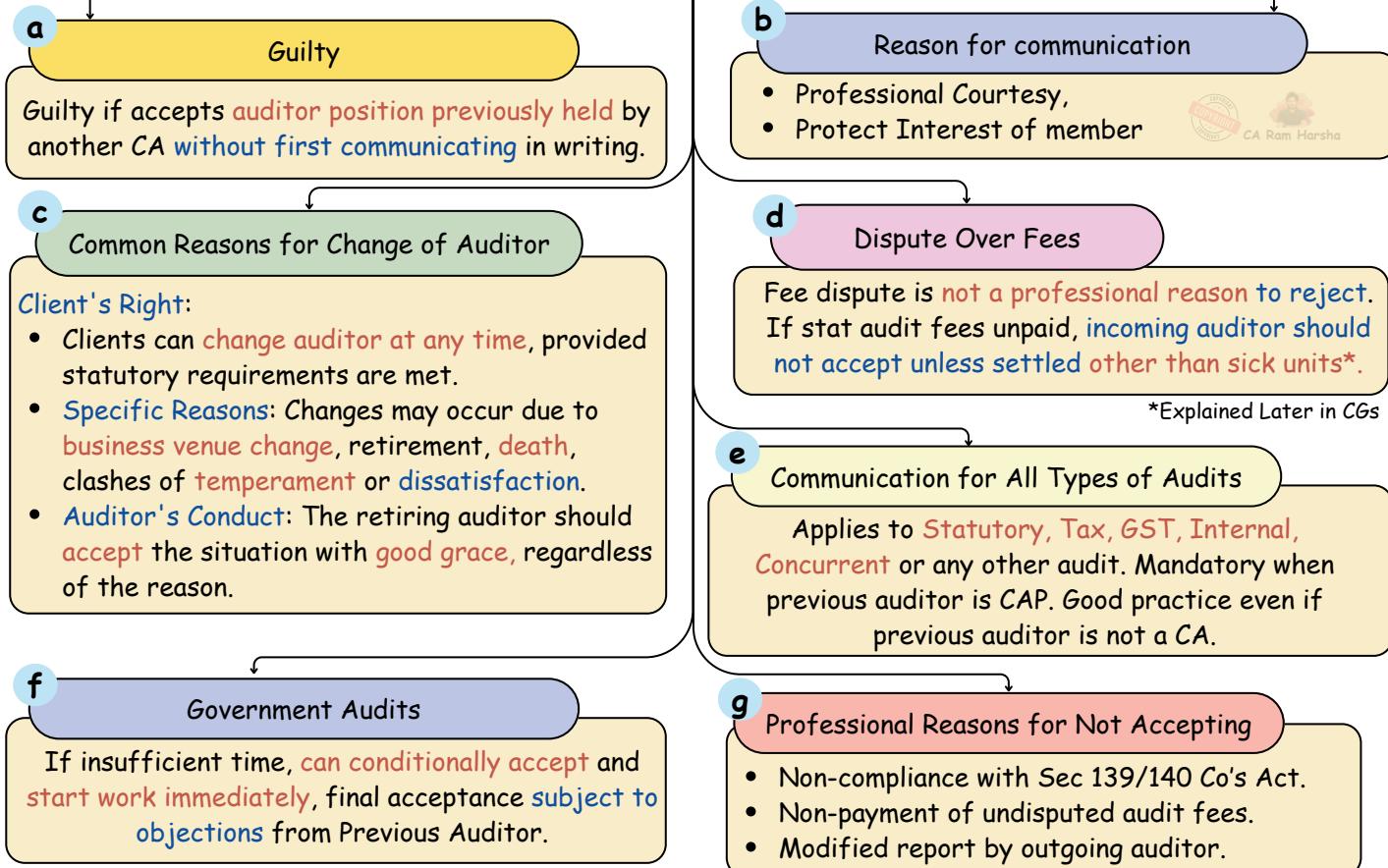
Reports/Certificates

Publication limited to purpose. Use **Firm letterhead**.

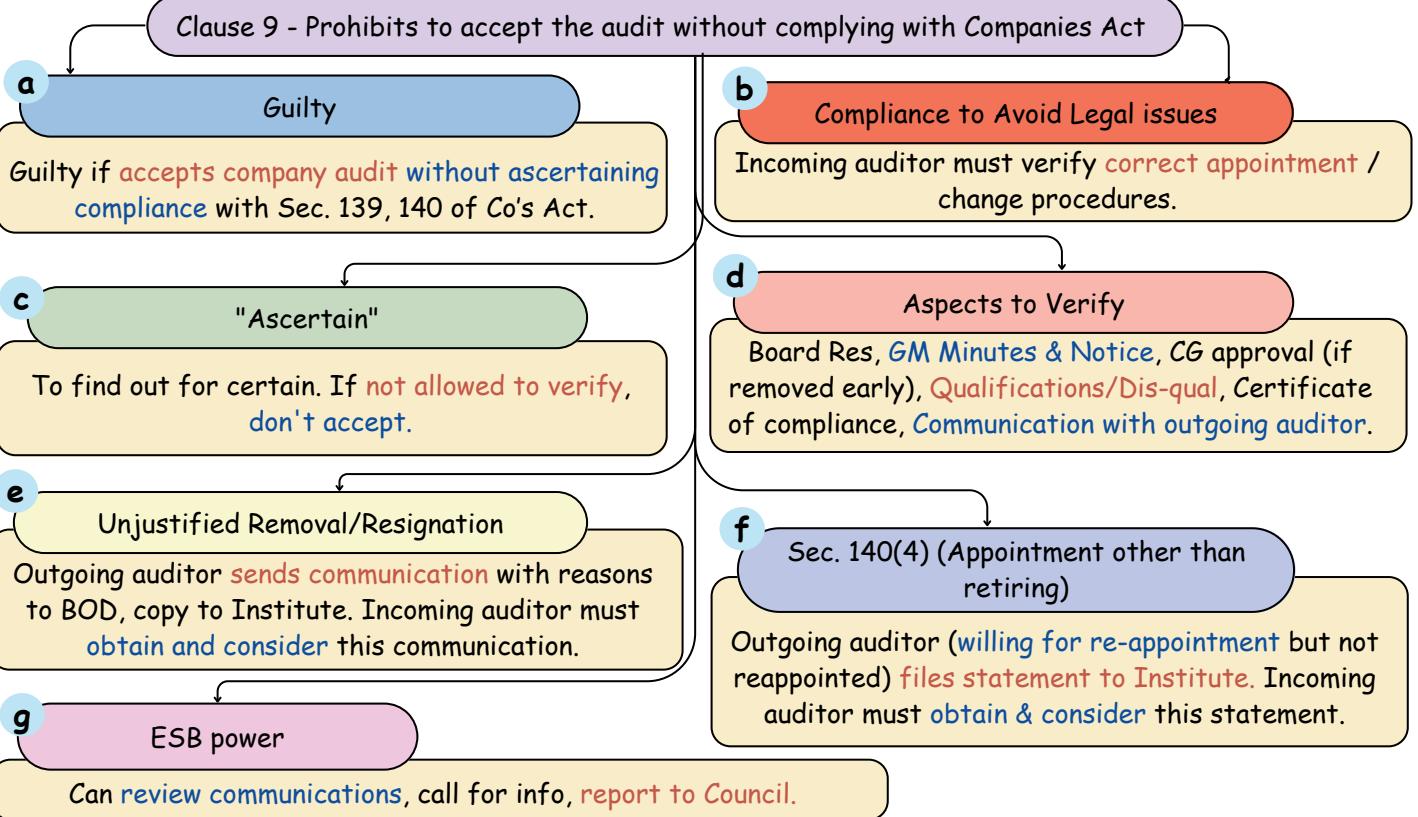
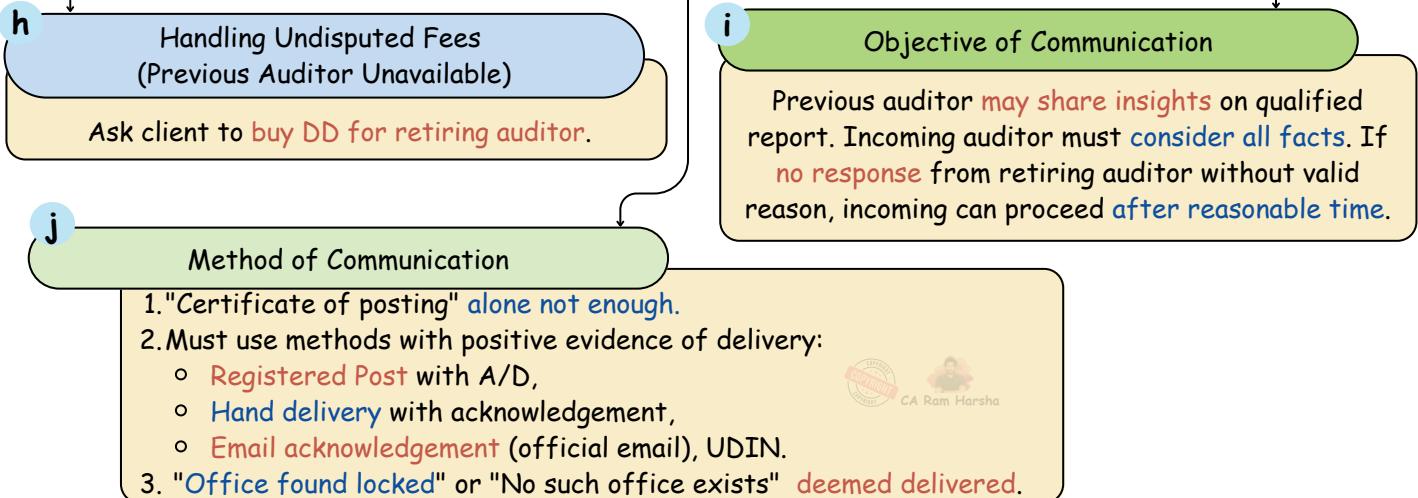
Clause 7 - Prohibition on Advertising Professional Attainments



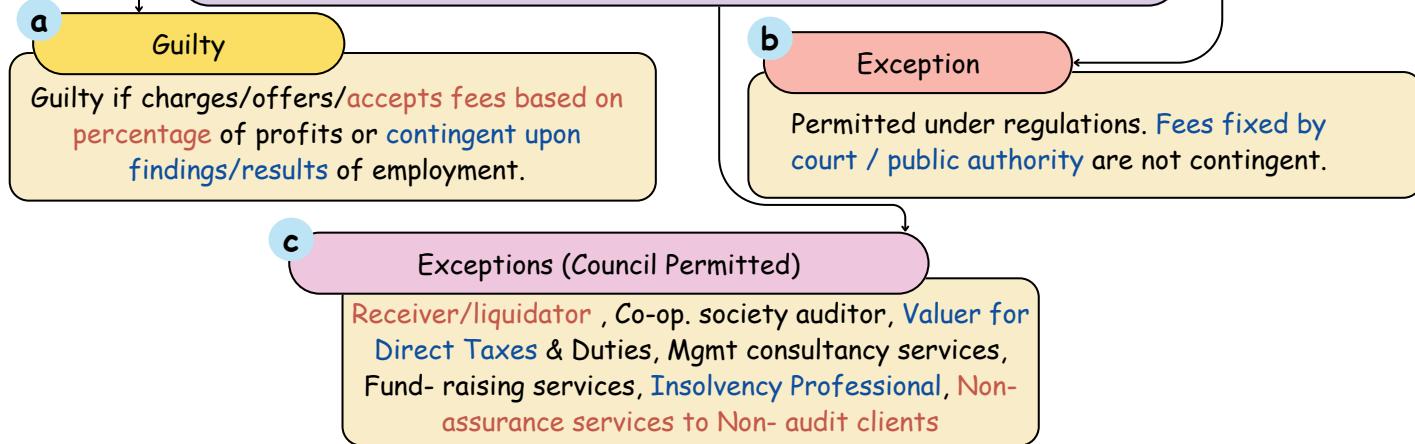
Clause 8 - Communication with previous auditor



Clause 8 - Communication with previous auditor



Clause 10 - Prohibited to accept fees as a percentage of profits of company



Clause 11 - Prohibited to engage in any other business

a

Guilty

Guilty if engages in **any business/occupation** in addition to CAP.

b

Exceptions

Business/occupation permitted by Council. **Can be director** (not MD/WTD) of a company.

c

Allowed (except Full-time employment)

Liquidator, trustee, arbitrator, receiver, advisor. Representative for costing/financial/taxation matters. Appointment by Govt/Court/legal authority. **Secretary in professional capacity.**

e

Special & Prior Permission [Exhaustive List]

- Full/part-time employment in business (**no substantial interest** for member/relatives).
- **MD / WTD office.**
- **Interest in family business** (inheritance/succession / partition)
- Interest in Education Institutes
- Part-time/full-time **tutorship** (other than Institute, ≤ 25 hrs/week).
- Part-time/full-time **lectureship** (other than Institute exams).
- **Editorship** of non-professional journals.

d

No Permission Required [Inclusive List]

- **Employment under CA firm,**
- **Private tutorship (≤ 25 hrs/week),** authorship,
- **LIC Agency (renewal commission),**
- Attending classes / exams,
- Public elective offices (**MP, MLA, MLC**), Honorary office, **Notary Public,**
- **Part time tutorship, Papers Valuation/Examiner,**
- **Editorship of professional journals,**
- **Surveyor/Loss Assessor, Recovery Consultant,**
- **Owning agricultural land & activity.**
- **Equity and Currency Derivatives***

*Commodity derivatives Not permitted

f

Clarifications

- **Council can refuse permission.**
- "Relative" = **husband, wife, brother, sister, lineal ascendant & descendant.**

Directorship/Promoter

- **Director simplicitor** generally permitted regardless of substantial interest.
- Auditor of subsidiary **cannot be director of holding.**
- Promoter/**signatory to MOA/AOA** permitted.
- **MD/WTD** requires **specific prior Council approval.**

HUF Business

- Member can acquire **interest in family business** Proprietorship, partnership, HUF Karta/member.
- **Conditions:** Prove interest devolved by inheritance / succession / partition, **not actively engaged**, not created by self.

Clause 12 - Prohibiting a Non-Member/Non-Partner to sign on behalf of the firm

a

Guilty

Guilty if allows **non-member, non-practicing member** or non-partner to sign on his or firm's behalf

b

Routine documents

Routine documents can be signed by non-member: **Audit queries, info requests, forwarding draft observations, stamping vouchers, routine client correspondence, cash verification memos, acknowledging records, raising bills, routine tax practice** matters, administrative tasks.

c

Delegation

Delegation **does not absolve Responsibility.**

d

Name Disclosure

- **Report & F/S** requiring name disclosure: Member must **disclose name**. If no statutory requirement, firm name can be used.
- **SA 700** mandates **MRN & FRN**. UDIN Guidelines relevant.

12. Part II of First Schedule - Professional Misconduct for MIS

Clause 1 - Prohibits to pay, share of his Emoluments

a Guilty

Guilty if, as employee, **pays/allows/agrees to pay** any part/**share of emoluments** (directly/indirectly).

b Exception

Not apply to sharing **among relatives**, dependents, friends if unrelated to job procurement/retention.

c Key principle

Job procurement/retention based on professional **capabilities**, not financial deals.

Clause 2 - Prohibits to accept fees or gains from certain individuals

a Guilty

Guilty if **accepts/agrees to accept** any **part of fee, profits or gains** from lawyer, CA, broker engaged by employer or agent/customer of employer **by way of commission/gratification**.

b Purpose

Employee maintains **high ethics**, receives only **entitled amounts**.

c Key principle

Guilty regardless of full-time/**part-time employment** or **COP**.

13. Part III of First Schedule - Professional Misconduct for Members Generally

Clause 1 - Not being Fellow of the Institute but acts as Fellow

Guilty if acts as Fellow **when not a Fellow** (e.g., ACA acting as FCA).

Clause 2 - Fails to Supply Information Called for by the Institute

Guilty if **does not supply info** or comply with requirements **asked by Institute, Council, Committee, Director (Discipline), Board of Discipline, Disciplinary Committee, QRB, Appellate Authority**.

Clause 3 - Giving False Information to Others [NOT to Institute*]

- Guilty if provides knowingly any false information: while inviting work from another CA, responding to tenders, advertising via write-up or generally gives info knowing it to be false.
- Applies whether **misrepresentation** via **documents** or acts.

*Note

If False Info is submitted to ICAI and its related persons Guilty under SCH II Part 2 Clause 3

15. Part IV of First Schedule - Other misconduct for to Members Generally

Clause 1 - Held Guilty by any civil or criminal court

Clause 2 - Brings Disrepute to the Profession or Institute

Guilty if held guilty by civil or criminal court for an offence punishable with imprisonment for a term not exceeding 6 months.

Guilty if, in Council's opinion, brings disrepute to profession/Institute as a result of action whether or not related to professional work.

15. Part I of Second Schedule - Professional Misconduct for CA in Practice

Clause 1 - Prohibition of Disclosure of Information of the client

a Guilty

Guilty if discloses client info acquired during professional work to any 3rd party.

b Exception

- With consent of client.
- Required under law.

c Note

Duty continues after client's work completion.

d Audit Working Papers

Auditors not obligated to share with client/others. May make portions/extracts available at discretion.

e Sharing Info

Can be shared with client / regulatory bodies only with client's consent.

f Legal Compulsion

Can disclose if there is legal requirement & legal advice recommended before disclosing.

g Unlawful Acts/Fraud

If client commits unlawful acts (tax evasion), conflict between confidentiality and duty to report illegal acts.

h Fraud Reporting

Auditor must report fraud to CG within 60 days (after procedure) as per Sec 143(12) Co's Act.

Clause 2 - Prohibits a CAP to certify accounts not verified by him

Guilty if certifies/reports on FS not examined by him, his partner/employee or another CAP except Joint Audit

Clause 3 - Prohibits a CAP to use his name on reports related to earnings estimate

a Guilty

Guilty if allows his name/firm name on report dealing with earning estimate depending on contingent future transactions.

b Exception

Permitted if clearly indicates sources of info, basis of forecast, underlying assumptions & does not vouch for accuracy of forecast.

c Council Guidelines

Applies to projections based on hypothetical assumptions. Guilty if issued projections w/o verifying basic documents leading to unrecoverable loans.

Clause 4 - Prohibits expression of opinion on entity where CAP has Substantial Interest

a

Guilty

Guilty if expresses opinion on FS of business/entities where he/firm/partner has substantial interest.

b

Applicable to

Reports, certificates, attest functions (statutory/tax).

c

Independence

- Interpret strictly, avoid compromising situations, avoid conflict of interest.
- Applies to all attest functions (Tax/GST/Concurrent audits).

d

Examples of Conflict

- Liquidator not to audit accounts.
- CA in employment not certifying employer's FS (even with COP).
- Lecturer not auditing college.
- Partner is employee / trustee of trust not auditing trust. Member/partner / relative is director/employee / holds securities / interest in company, cannot audit.
- Not write books for auditee.
- Stat auditor cannot be internal auditor
- Internal auditor cannot undertake GST / IT audit for same entity.
- Cannot accept company audit for 2 years after serving as director / resigning.
- Cannot undertake certification for relative.

e

Statutory Compliance

- Ensure appointment follows statutory requirements / regulations.
- Verify appointment validity / documentation.
- Sec 288 Income-tax Act, 1961 disqualifications for tax audit relevant.

Notes:

- Concurrent Auditor Cannot be Stat Auditor
- Stat Auditor cannot be Stock Auditor

Clause 5 - Failure to disclose a material fact known to a CAP

a

Guilty

Guilty if fails to disclose a material fact known to him not disclosed in FS as per AFRFW.

b

Exception

Does not apply to internally prepared FS not for external submission.

c

Materiality

Determined as per SA 320. Member responsible only if materiality proven. Assessed for both B/S and P&L.

Clause 6 - Fails to report a MMS in F/S

a

Guilty

Guilty if fails to report MMS in FS known to him.

b

Material misstatement

MMS must be proven.

Clause 7 - Fails to exercise due diligence in his professional work

a

Guilty

Guilty if does not exercise due diligence or is grossly negligent in professional work.

b

Auditor's Duty

Use appropriate skill, care, caution. Watchdog, not detective. Investigate suspicious items.

c

Professional Misconduct

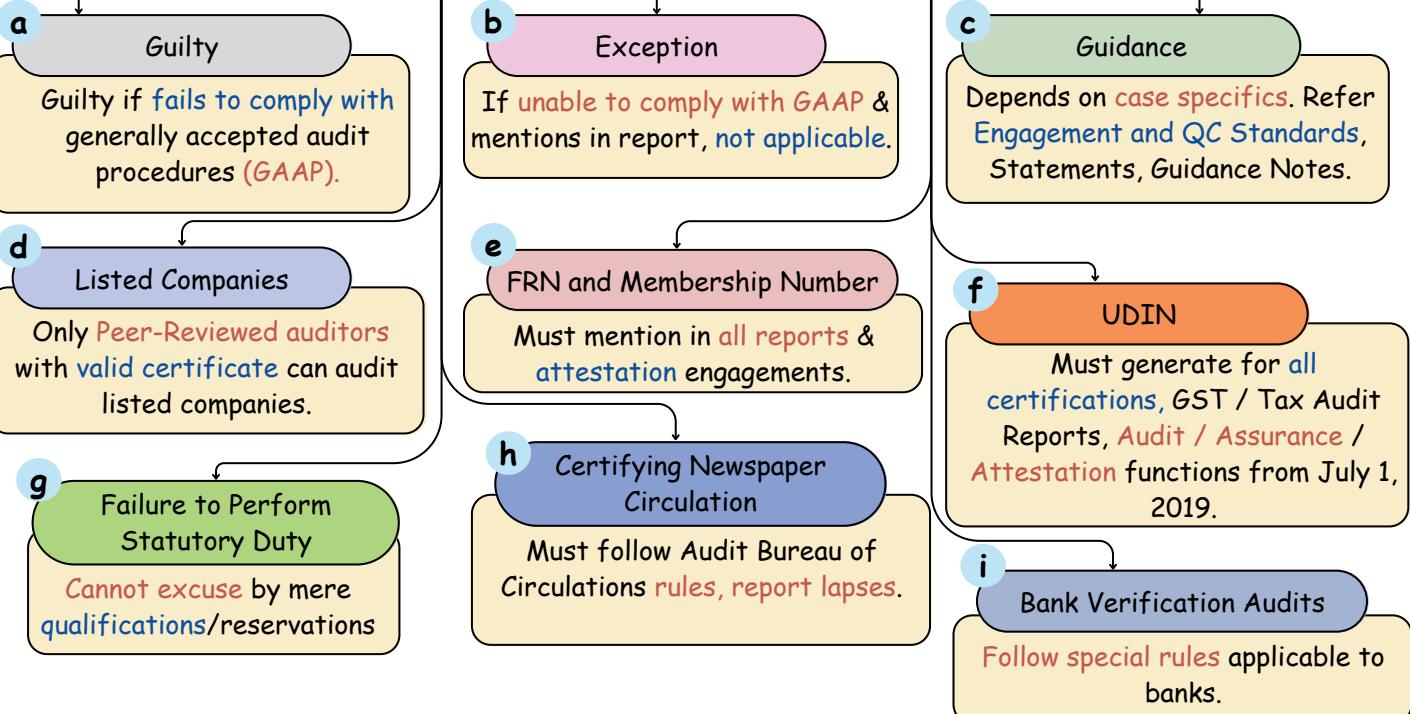
Refers to gross negligence. Minor errors generally not misconduct but noted.

Clause 8 - Fails to obtain sufficient information

1. Guilty if **fails to obtain SAAE** necessary for expression of opinion.
2. If unable to obtain, **deny expression of opinion** (Disclaimer). Failure may be gross negligence.
3. **State Limitations/Assumptions:** Clearly **state in certificate**. Disclose non-performed checks to avoid misleading.
4. **Council/Court Decisions:** Guilty for **certifying circulation without verifying financial records**. Guilty for not reporting land transaction discrepancy. Guilty for not verifying bank account details with discrepancies.



Clause 9 - Fails to Invite attention to any material departure from GAAP

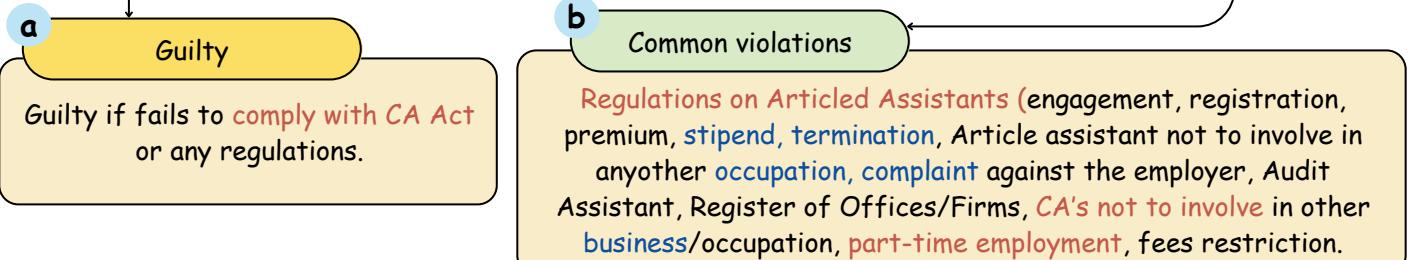


Clause 10 - Fails to keep moneys of his client other than fees in a separate banking account

1. **Moneys received from client** (other than fees) must be **kept in a separate bank account** and used only for stated purposes.
2. **Clarifications:** **Advance fees, money for expenses** (statutory fees, stamp paper to be spent in reasonable time) **do not require separate bank account**.
3. **Moneys received as trustee, executor, liquidator** always in **separate bank account**.

17. Part II - Professional Misconduct in relation to the Members Generally

Clause 1 - Members to comply with CA act, regulations and guidelines



Clause 2 - Prohibition to disclose Information related to Employer

a

Guilty

Guilty if discloses any confidential information relating to employer.

b

Exception

If consent of employer obtained.

c

Principles

Follows Principle of Agency Law, employee keeps info confidential for duties. Access to confidential info requires care.

Clause 3 - Prohibition to provide misleading information to the Institute

Guilty if furnishes any returns, reports, statements or forms which contain any false information knowingly to the Institute, Council, Director Discipline, Disciplinary Committee, QRB, Appellate Authority.

Council decisions: Claim to be partner when he is only Manager, False statement during hearing before Disciplinary Committee

Clause 4 - Defalcation of Money Received

Guilty if defalcates or embezzles any money received in professional capacity amounting to fraud.

18. Part III - Other misconduct in relation to Members Generally

a

Guilty

Guilty if held guilty by civil/criminal court for an offence punishable with imprisonment for a term exceeding 6 months.

b

Other misconduct

Major offence under 'other misconduct'.

19. Council Guidelines

Chapter I

Applicable to all members whether in practice or not.

Chapter II

Employee shall exercise Due Diligence and shall not be grossly negligent.

Chapter III & IV

Omitted

Chapter V - Maintenance of books of accounts by CAP

1. Must maintain proper books of accounts (cashbook, ledger) for professional practice.

2. Irrespective of turnover limits u/s 44AA Income Tax Act, 1961.



Chapter VI - Limit on Number of Tax Audit Assignments

a

Limit

Applicable to all members whether in practice or not.

b

Partnership/LLP

Limit is as per partner in practice.

d

Not Counted

Audits u/s 44AD, 44ADA, 44AE.

c

Multiple Firms

Still 60 per member.

e

Distribution

Limit can be distributed among partners* (even single partner can sign for others).

f

Part-time Practicing Partner

Not counted in firm's total limit.

g

Record

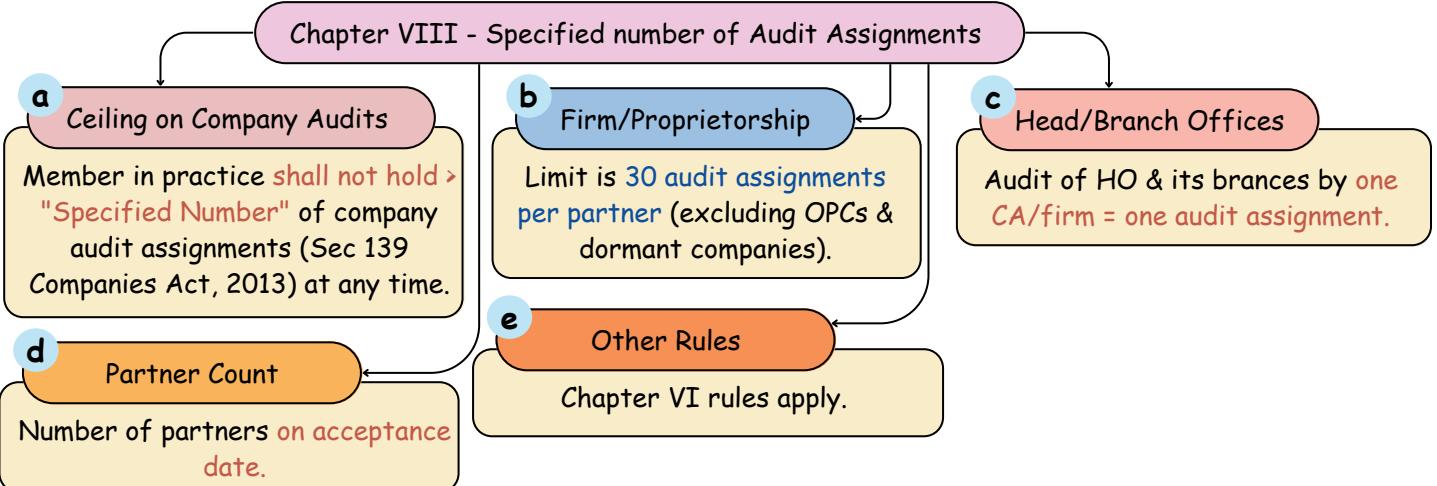
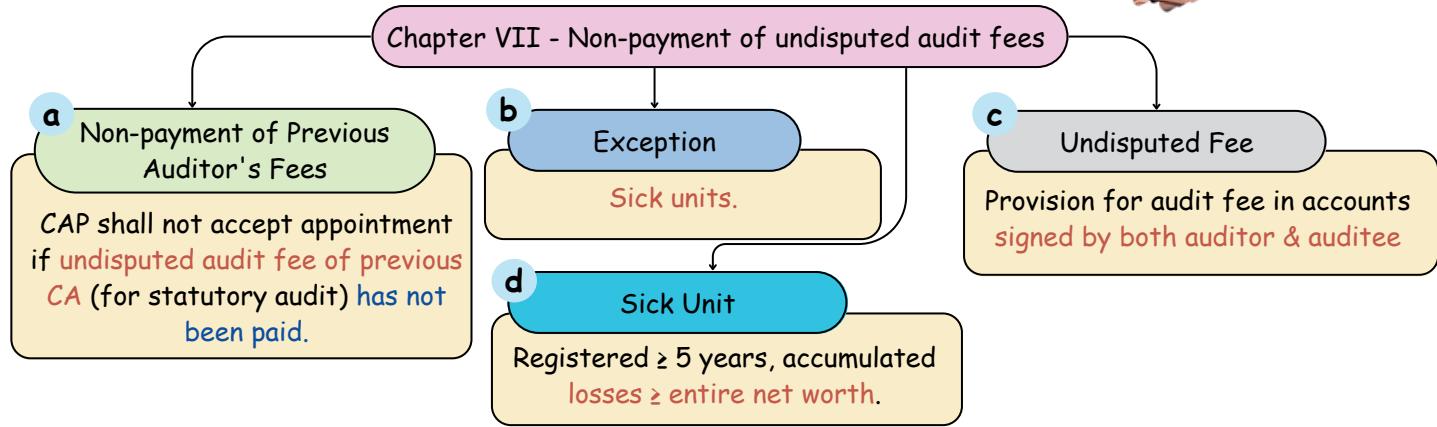
Maintain record of tax audit assignments.

h

Branches

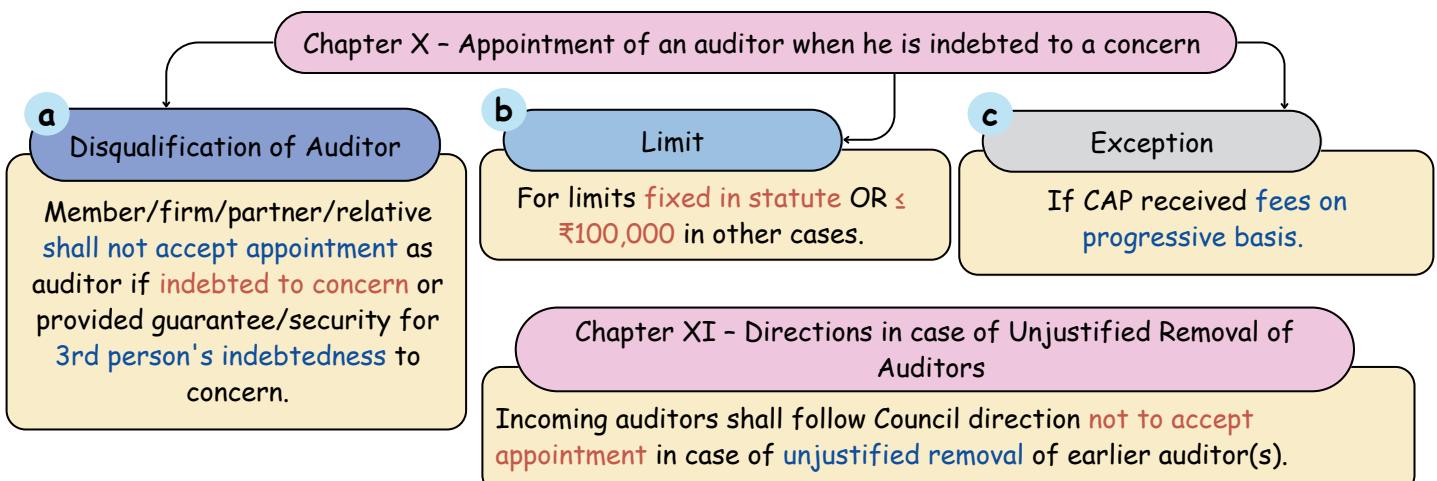
Audit of one or more branches of same concern = One Tax Audit assignment.

*1st April 2026 Onwards Limit Distribution is Not permitted.



Chapter IX - Limits on Fees for Other Services

- **Public Sector Undertakings, Govt. Cos., Listed Cos.:** Audit fees must be \geq aggregate fees for other services rendered to same company. Applies to other public companies with turnover \geq ₹50 crore.
- Restriction applies to **statutory auditor and associate concerns combined.**
- **Other Works/Services/Assignments:** Include MCOS & all other professional services by Council.
- **Not Included:** Audit under **other statute** (Tax/GST Audit), certification work required by statutory auditors, representation before authority.



Chapter XIII - Guidelines on Tenders

Already Discussed earlier under Clause 6



Chapter XIV - Unique Document Identification Number (UDIN)
Guidelines

a Objective

Curb false certification, eradicate bogus certificates, protect stakeholders

b Requirement

Member in practice must generate UDIN for all certifications, GST/Tax Audit Reports, Audit, Assurance, and Attestation functions signed by them.

Chapter XV - Guidelines for Networking

a Concept

Determined by facts / circumstances, not legal structure. Larger structure (common brand, QC, resources) may be network.

b Deemed Network if

Profit/cost-sharing, common ownership/control/Mgmt, common quality control, common business strategy, common brand name, sharing significant professional resources.

c Meaning of Significant Professional Resources

Common info systems, partners/staff, technical departments, audit methodology/manuals, training.

d Network Forms

Mutual Entity, Partnership Firm (< 20 partners), LLP, Company (under ICAI guidelines).

e Joining

Firm can join only one network. Firms with common partners must join same network.

f Network Name Approval

Approved By Institute. Cannot use "& Co." or "& Associates". Can use "& Affiliates".

g Registration

After name approval, register within 3 months using Form B (mandatory). Multinational firms are part of network

h Listing

Indian member firms joining international network file Form D within 30 days. Changes filed via Form C within 30 days.

i Ethical Compliance

If network firm is stat. auditor, neither firm nor associates can accept prohibited assignments.

j Ceiling on Non-audit Fees

Statutory auditor firm: follows Chapter IX guidelines. Other network firms: non-audit fees cannot exceed 3 times stat audit fee for same entity.

k Firm Rotation

No network firm can accept auditor appointment in place of retiring network firm.

l Advertising

Networks can advertise per ICAI guidelines.

m Compliance

All member firms/network must comply with ethical standards.

n Client Consent

Deemed obtained upon network registration

o Operational Byelaws

Must establish (managing committee, fees, engagement partner ID, dispute settlement, databases, training, newsletters, software, libraries, technical director, resource methodology, compensation, peer review).

Chapter XVI - Guidelines for Logo

a

"CA India" Logo

- 'CA' in blue, tri-colour upside-down tick.
- Blue = creativity, integrity, knowledge, trust, stability.
- Tick = wisdom, value.
- "India" = commitment to Indian Economy/public interest.



b

Usage

No alteration in font, color, bold, size, spacing. No change in dimensions/design/color palette. White background mandatory. No rotation, shrinking or distortion.

Chapter XVII - Guidelines for Corporate Form of Practice

1. Members in practice can hold MD, WTD, or Manager in body corporate ONLY if company engages exclusively in Management Consultancy services.
2. Can hold full-time COP. No restriction on equity holding (member/relatives). Still regarded as full-time practice, can train articles.
3. Company name must be approved and registered with Institute.
4. Audit practice cannot be done in Corporate Form. Consultancy practice can.
5. Ethical Compliance: If individual/firm is statutory auditor, MC Company cannot accept prohibited assignments (internal audit, bookkeeping). Ceiling on non-audit fees applies. Must comply with Clause 6 & 7 Part I First Schedule. Must undertake to comply with CA Act. Company only engages in Council-prescribed MC and Other Services.



20. Council Guidelines for Advertisement, 2008

A

Advertising through Write up

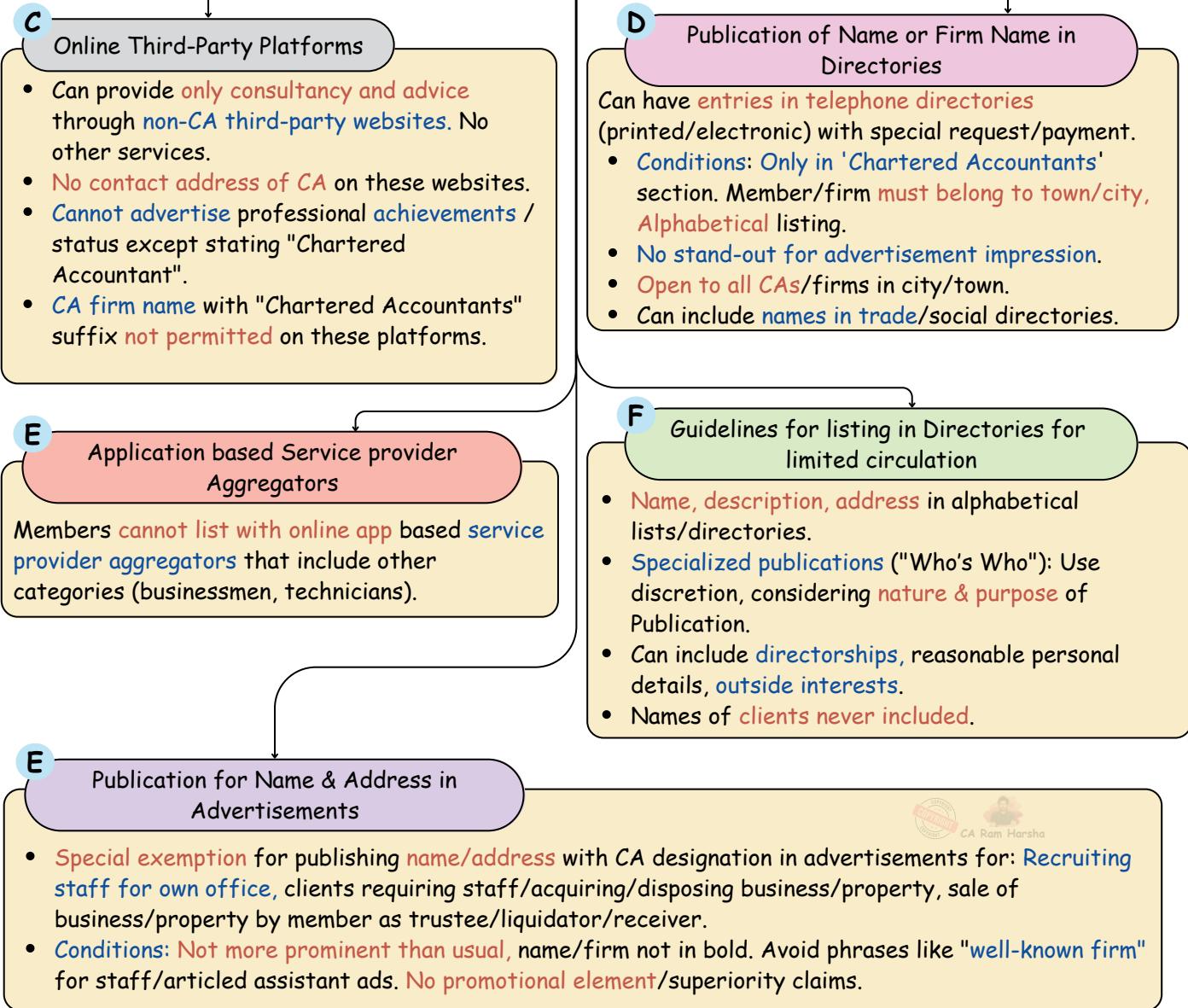
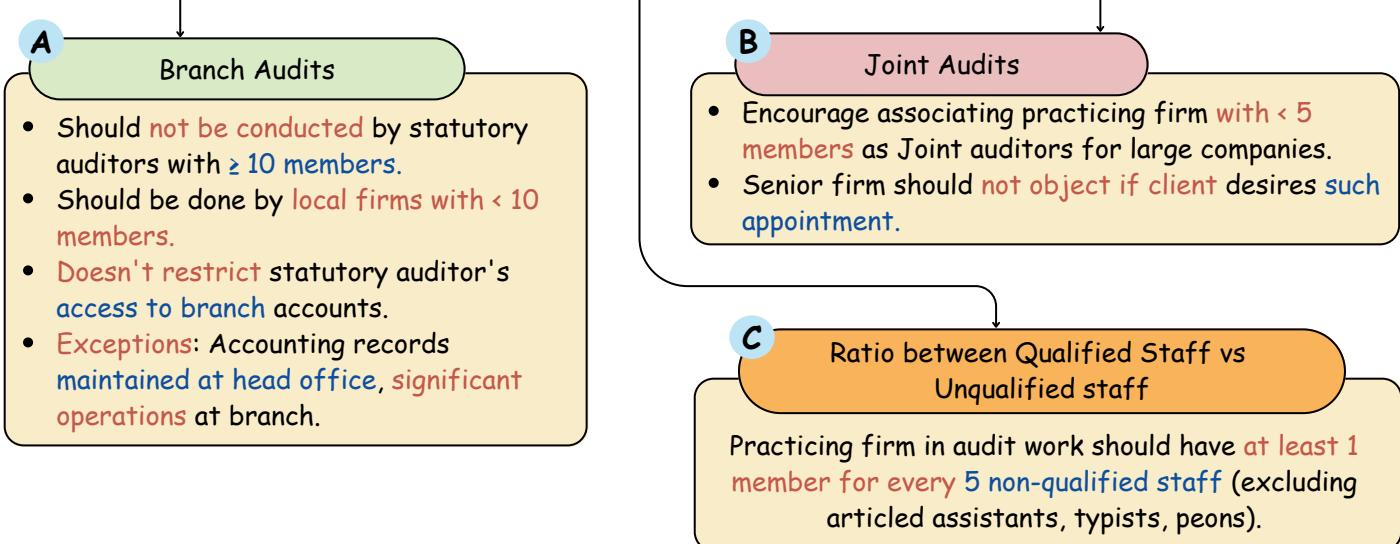
- Members can advertise through write-up (particulars, firm, services) maintaining profession's dignity/reputation. Content accurate, ICAI not responsible for claims.
- Conditions:
- Honest/truthful,
 - No exaggerated claims, no disparaging references, no disrepute to profession.
 - No testimonials / endorsements / client names / fees charged.
 - No achievements / awards (except Govt./Regulatory).
 - No monograms/catchwords. MRN/FRN mandatory. Font size ≤ 14.
 - Comply with CA Act, Regulations, Code of Ethics, guidelines. ICAI may direct removal of writeup.

B

Website of CA Firms

- Can create websites. "Pull" model only (info accessible when requested, no unsolicited push).
- No distribution of content via email/ads unless requested. Cannot use circulars/ads to invite website visits. Website addresses on professional stationery/email signatures allowed, not advertised separately.
- Client Names/Fees Disclosure: Permitted only if required by regulator (India/abroad), limited to regulatory requirements, valid only under regulator's purview. Mandatory disclaimer required.
- Passport style photos allowed. Articles, professional updates, bulletin boards, educational videos allowed.
- Chat rooms for members/clients (confidentiality).
- Document management system with secure login.

- Can link to social networking page but cannot solicit likes/visits.
- Online advice to clients only upon request. Content must not solicit clients/work.
- No banner ads / advertisement. Reflect dignity, no inappropriate material.
- Links to ICAI, Govt, regulatory bodies, professional bodies allowed.
- Website address near name/firm name, but no solicitation/promotion.
- Info must match ICAI records without material variation.

20. Council Guidelines for Advertisement, 2008

21. Self-Regulatory Measures


21. Self-Regulatory Measures

D

Disclosure of Interest by Auditors in other firms

- Auditors should disclose **payments received through other firms** (where they are partner/proprietor) for non-audit services.

E

Recommended Minimum Scale of Fees

- Institute issued **revised Minimum Scale of Fees** for professional assignments. Based on work performed, recommended separately for **Class-A, B, C cities**.
- Non-Public Interest Entities (PIE):** Disclosure required if **gross annual professional fees** from audit client > 40% of total firm fees for **2 consecutive years**.
- Public Interest Entities (PIE):** Disclosure required if gross annual professional fees from audit client > 20% of total firm fees for **2 consecutive years**.
- Exemptions on Disclosure:** Total fees received ≤ ₹20 lakhs. Exempt for **audit of government companies**, public undertakings, **nationalized banks**, public financial institutions, **regulators** or government appointments.

22. Recent Decisions of Ethical Standard Board

- Not permissible for **stat auditor** to prepare **Business Responsibility & Sustainability Reporting** study to audit clients (advisory is ok).
- Statutory auditor** not permitted for compilation engagement (SRS 4410) for same entity.
- Permissible to **engage** in performance audit of skill development council centers.
- Permitted to accept **Mystery Audit** assignment.
- Permitted to mention position as **Promote /Director** on company portal but **not** professional attainments/firm name.

- Permitted to become **professional director** in **Co-operative Bank**
- Permissible to set up **practice** in **IFSC/GIFT city** and
- Permissible to **render services** to **IFSC units** from **outside IFSC offices**.
- Firm **not permitted** to publish **vision/mission statement** on letterhead, visiting card.
- Statutory Auditor of a Bank** **cannot accept ASM of same Bank customer** simultaneously.

- Member **cannot be Internal Auditor & Procurement officer simultaneously**.
- Fees on **percentage of Educational Institute** grant utilization permissible.
- Statutory audit** of society **not permissible** if immediate family member **holds honorary position** in managing committee.
- CA as member and auditor of a Trust** has **no conflict of interest**.
- Using **Messaging Apps** for practice awareness is **not permissible**.

- Practicing **CA** with **COP** can be **member of Board of Management** in **Primary (Urban) Co-operative Banks**.
- Member cannot act as **Trademark or Patent Attorney** but can give professional advice on IPR.
- Internal auditor** can purchase shares of the company.
- CA Firm** can register on **Udyog Aadhar**.
- CA via kiosk** permissible if services are allowed professional activities.

- Joint **training session** for clients on **GST** permissible.
- Member can be **Non-executive/independent director** in Co-operative Bank if **not involved in day-to-day activity** and not an auditor.
- Director **Simplicitor** **cannot sign ROC Forms**.
- CA** can be **Authorized Representative of Foreign Company** if **not auditor**.
- CA** in service can take **e-return registration** but **not certify**, if no conflict.



22. Recent Decisions of Ethical Standard Board

- Non-executive director cannot be statutory auditor of a **joint venture** of the company.
- Equity research adviser** is **permissible**, but not retail report.
- Registration Authority** for digital signatures is **permissible**.
- Holding **Credit card** of bank being auditor is permissible **within limit**.
- CA can act as **mediator in Court**.

- Vision and values on visiting cards **not permissible** (**solicitation**).
- Agencies of **UTI, GIC or NSDL** not permissible.
- Member can be **settlor of a trust**.
- Customs Brokers **Licence not permissible**.
- Tax representative** for employer is permissible, but **not for other employees**.

- Audit assignment of bank** **not permissible** if loan against **Fixed Deposit** in that bank.
- Stat/Tax Auditor** **cannot be Valuer** of unquoted shares of same entity (permissible if law silent, subject to independence).
- 2 years cooling period** for directors becoming auditors is not enforced in **Companies Act**; Member decides as per Co's Act & Code of Ethics.
- Financial Advisors **receiving fees**/commission from Financial Institutions **not allowed**.
- Lien** over client documents for **non-payment** **not permissible**.

- Stat auditor **cannot accept stock audit/inspection audit** of the same bank branch.
- Internal auditor of PF Trust cannot be Stat Auditor of the company.
- Concurrent auditor** of bank 'X' **cannot be** statutory auditor of bank 'Y' sponsored by 'X'.
- Internal auditor of a company can be **stat. auditor of employees PF Fund** is permissible.
- Director **Simplicitor** is permissible if **non-executive and paid only** for board meetings.



Confusion on Firm Name Usage ?



CA Ram Harsha

Permitted

- Publication of Books, Articles, Presentations
- Greeting Cards/Invitations
- TV / Movie Credits
- Firm Website



Not Permitted

- Sponsoring Activities
- Public Announcements in Prospectus
- Online third party platforms
- On Company portal where CA is a Director



WINNER!

Let's aim Exemption in Auditing! Yes, it's absolutely achievable, and I'm ready to put in the work for you. But remember, it takes two hands to clap. So, come on—join me! Together, we can conquer this and achieve success.

Wish you
Clarity, Confidence and Success



 www.shreshtaforcacma.com  shreshtateam@gmail.com

ABOUT US

A Pioneer Institute in the digital classroom space, founded by CA Ram Harsha.

He has always catered to serve quality. As a result today, 'SHRESHTA' stands as the most preferred institution among students. We are privileged to provide the highest standard of coaching facility for CA and CMA students at most affordable prices, turning many of our students' dreams into reality.