AUDITING AND ASSURANCE STANDARDS BOARD

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

A Quarterly E-Newsletter

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Editorial Board

Contents

Disclaimer

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Message President, ICAI

Dear Professional Colleagues,

The profession of Chartered Accountancy has grown by leaps and bounds in the last 63 years of its glorious existence. Chartered Accountants play a major role in building of our nation providing conducive business environment through high quality financial information that builds investor confidence, facilitate business development and bring stability. Credible and reliable financial information are fundamental to business. The credibility of financial information is directly linked to sustained economic growth and overall development.

The auditing profession is changing worldwide. Whatever we do and wherever we work, our focus must be to provide high quality service. We should remember that the profession of Chartered Accountancy is built on the edifice of independence, integrity and excellence. We should maintain these aspects in everything we do.

The role of audit professionals is now more visible; our profile and responsibility will continue to grow in the future. The auditing profession must also be proactive to support the innovation and change. We all recognize that the signature of a Chartered Accountant is an expression of credibility and infuses confidence. The ability to sign as Chartered Accountant is the most precious and privileged possession, a person acquires on his obtaining the professional qualification. It should therefore be diligently used. It is high time that we remind ourselves of this important aspect and ensure that a signature of a Chartered Accountant inspires faith; indicates quality and leaves an indelible impression in the discharge of an assurance function.

The most important aspect for all of us concerned with the designing, maintenance and supervision of the financial system is to see that the information which a financial system provides is timely and useful, to the experts and ordinary investors.

With best wishes,
CA. Jaydeep Narendra Shah,
President, ICAI

Message Vice President, ICAI

Dear Members,

The profession of Chartered Accountancy functions within the ambit of a highly dynamic environment. With the frequent changes, particularly in economy, laws, information technology and business methodologies, the way business is done has changed tremendously. The liberal policies, ever increasing cross border transactions have opened new vistas for the CA profession. At the same time these changes have also posed various challenges.

The changes in the dynamic business environment have also brought in new opportunities for our profession that have led to multiplicity of roles that CAs perform. We need to work in an unrelenting manner to convert these opportunities into actions and take their advantage. In the words of Dr A.P.J. Abdul Kalam, former President of India, - 'The dream is not that you see in sleep, dream is which does not let you sleep.' To fully take advantage of the opportunities, we need to work hard and bring excellence in our work.

The ICAI is committed to the goal of enabling the accountancy profession in India to provide services of high quality in the public interest and which are accepted worldwide. During the process of auditing, our members need to properly follow various auditing and assurance standards. Remember that the profession of Chartered Accountancy is a noble profession. We have been entrusted with significant responsibility under various legislations. The business, government and other stakeholders have immense confidence and trust in the profession. We need to work cautiously to maintain that trust.

With best wishes,
CA. Subodh Kumar Agrawal,
Vice President, ICAI

Message Chairman, AASB

Dear Esteemed Colleagues,

Every major financial crisis in the past has left an indelible mark on the Profession, the 2008 financial crisis is no exception. The stakeholders have been left numbed by the "here today, gone tomorrow" phenomenon that blew away even the mega financial corporates like Lehman Brothers, Citi, Bear Stearns, Fannie Mae operating in the world's most closely regulated capital markets. The European sovereign debt crisis only added to the woes of the global economy already reeling under the impact of a gross economic slowdown.

In this background, users of financial statements are today seeking greater support from the auditors, in terms of demystifying the financial statement which are becoming complex by the minute and in terms of more comfort on pertinent issues such as going concern. They want the auditors to provide them with greater information to them through their audit reports on significant matters in the auditee, which may or may not be required to be disclosed in the financial statements as also the audit process itself.

Having said that, I can only add that change is an integral part of evolution and development of any Profession. Our proactiveness and ability to draw lessons from problems and adapt to these changing expectations will help us maintain our relevance in the society; and knowledge is what will help us in this endeavour.

This e-newsletter is but a small step to help the members keep abreast with some of the latest latest professional developments. I am sure that you are aware that the Auditing & Assurance Standards Board has also launched three phases of interactive e-learning on auditing standards at the cost of Rs. 500/- per phase and each phase covering ten Standards on Auditing. You can visit http://elearn.icai.org to get more information on the same.

CA Abhijit Bandyopadhyay,
Chairman, AASB, ICAI

Message Vice-Chairman, AASB

Dear Members,

The existing environment is incredibly dynamic for the Audit Profession. The expectations of the stakeholders from the Profession are also greater than ever. To bridge this expectation gap of the regulators the main area of concern is to improve the audit quality. Many technical challenges are faced by the audit professionals in the field. In addition to technical challenges, auditors face pressures related to tight deadlines, demands for client service, and business development expectations, all of which have to be balanced appropriately vis a vis audit quality.

The Auditing Standards being the benchmark for audit quality the Members should be well acquainted with all the Auditing Standards issued by the Institute of Chartered Accountants of India. The Auditing and Assurance Standard Board is also organizing many awareness programs viz, Seminars, Workshops on Audit to help members in understanding and implementing these auditing standards.

CA. Shiwaji Bhikaji Zaware,
Vice Chairman, AASB, ICAI

Technical Literature From AASB

Implementation Guide to Risk–based Audit of Financial Statements (Revised Edition 2012)

The Auditing and Assurance Standards Board has brought out the Revised 2012 edition of the publication, *Implementation Guide to Risk-based Audit of Financial Statements* whose first edition was issued in the year 2008.

The Guide deals with aspects such as **Basic Concepts of Risk-based Audits** (what is risk-based audit, audit risk components, interrelationship of audit risk components, risk-based approach etc.), **Risk Assessment** (understanding the entity, internal controls, financial statement assertions, materiality and audit risk, what are risk assessment procedures, overall audit strategy, business risks, fraud risks, significant risks etc.) and **Risk Response** (detailed audit plan, accounting estimates, related parties, subsequent events, going concern etc.). The Appendices to the Guide contain illustrations on overall audit strategy, understanding the entity, understanding the information system, risk assessment procedures, risk table, identification of risks, overall responses to the financial statement in general, etc.

The text of the Publication may be downloaded from the link:- ***http://220.227.161.86/26868aasb-igrba.pdf***

For ordering the printed version of the Implementation Guide, please see the back page.

Technical Guide on Audit of Non-Banking Financial Companies (Revised Edition 2012)

The Auditing and Assurance Standards Board has brought out the Revised 2012 edition of the publication, Technical Guide on Audit of Non-Banking Financial Companies whose first edition was issued in the year 2010.

This revised Guide has heightened focus on aspects such as knowledge of the operating and the financial reporting environment that would apply to NBFCs. It contains comprehensive guidance on areas of concern for auditors of NBFCs. The Guide extensively deals with areas of accounting and regulatory concern in respect of NBFCs The Appendices to the Guide contain illustrative audit report / certificate templates, illustrative audit checklist, etc.

For ordering the printed version of the Implementation Guide, please see the back page.

RESERVE BANK OF INDIA

Guidelines on Implementation of Basel III Capital Regulations in India

RBI vide Circular No. ***DBOD.No.BP.BC.98 /21.06.201/2011-12 dated May 2, 2012*** issued the final guidelines on Basel III capital regulations. These guidelines would become effective from January 1, 2013 in a phased manner. The Basel III capital ratios will be fully implemented as on March 31, 2018.

As per the guidelines the capital requirements for the implementation of Basel III guidelines may be lower during the initial periods and higher during the later years. While undertaking the capital planning exercise, banks should keep this in view.

For complete text of abovementioned Circular, please visit:- ***(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/BAICI020512IS.pdf)***

Deregulation of Interest Rates on Export Credit in Foreign Currency

RBI vide Circular No. ***DBOD.DIR.No.100/04.02.001/2011-12 dated May 4, 2012*** with a view to increasing the availability of funds to exporters, decided to allow banks to determine their interest rates on export credit in foreign currency with effect from May 5, 2012.

For complete text of abovementioned Circular, please visit:-

(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/CDEC050212IR.pdf)

Revisions to the Guidelines on Securitisation Transactions

With a view to developing an orderly and healthy securitisation market and ensuring greater alignment of the interests of the originators and the investors, RBI has prescribed a minimum lock-in-period and minimum retention criteria for securitised loans originated and purchased by banks and NBFCs, vide its Circular No. ***DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012.***

These Guidelines also cover prudential treatment of transfer of assets through direct assignment of cash flows and the underlying securities, if any. The guidelines are organised in three Sections. **Section A** contains the provisions relating to securitisation of assets. RBI would issue a separate circular in due course on reset of credit enhancements in case of securitisation transactions. **Section B** contains stipulations regarding transfer of standard assets through direct assignment of cash flows. **Section C** enumerates the securitisation transactions which are currently not permissible in India.

For complete text of abovementioned Circular, please visit:- ***(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/FIGUSE070512.pdf)***

Transfer of Borrowal Accounts from One Bank to Another

As per the extant RBI guidelines banks were advised to incorporate the necessary safeguards to be observed in the case of transfer of borrowal accounts from one bank to another as a part of their lending policy/procedures.

It was noted by RBI that the critical information on the health of the borrowal accounts being taken over is not being shared by the transferor bank with the transferee bank, resulting in inadequate due diligence at the time of taking over of accounts.

Accordingly, RBI vide Circular No. ***DBOD.No.BP.BC- 104 /21.04.048/2011-12 dated May 10, 2012,*** advised banks to follow the guidelines in this respect.

For complete text of abovementioned Circular, please visit:- ***(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/TBAB100512B.pdf)***

Bank Finance to NBFCs Predominantly Engaged in lending against Gold

NBFCs which are predominantly engaged in lending against collateral of gold jewellery (i.e. such loans comprising 50% or more of their financial assets) have recorded significant growth in recent years, both in terms of their balance sheet size and physical presence.

In view of regulatory concerns arising out of the rapid pace of business growth and concentration risk inherent in their business model, certain prudential measures like limiting Loan to Value (LTV) Ratio, increasing the minimum Tier I Capital requirement, prohibition on granting loans against bullion / primary gold and gold coins and other operational guidelines have been prescribed for NBFCs.

The rapid expansion of NBFCs predominantly engaged in lending against the collateral of gold jewellery has led to their increased dependence on public funds, including bank finance. RBI vide its Circular No. DBOD.BP.BC.No. 106/ 21.04.172 /2011-12 dated May 18, 2012 advised the Banks to supplement the prudential norms prescribed for NBFCs as indicated above with two other conditions.
For complete text of abovementioned Circular, please visit:- ***(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/MPAC180512F.pdf)***

Know Your Customer (KYC)/Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) - Risk Categorization and Updation of Customer Profiles

As per the extant guidelines for effective implementation of KYC/AML/CFT measures, banks were advised to put in place a system of periodic review of risk categorization of customers and updation of customer identification data.

RBI, however, observed that there are laxities in effective implementation of its guidelines in this area, leaving banks vulnerable to operational risk.

Accordingly, RBI vide Circular No. ***DBOD. AML.BC. No.110 /14.01.001/2011-12 dated June 08, 2012*** advised banks to complete the process of risk categorization and compiling / updating profiles of all of their existing customers in a time-bound manner, and in any case not later than end-March 2013.

For complete text of abovementioned Circular, please visit:- ***(http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/CER080612RC.pdf)***

Prudential Norms for Off-balance Sheet Exposures of Banks

Any change in any of the parameters of a derivative contract is treated as restructuring and the mark-to-market (MTM) value of the contract on the date of restructuring should be cash settled as per circular No. ***DBOD.No.BP.BC.57/21.04.157/2008–09 dated October 13, 200 of RBI.***

RBI further vide Circular No. ***DBOD.No.BP.BC.31/21.04.157/2012-13 dated July 23, 2012,*** specified that there may be situations where the clients of banks may like to reduce the notional exposure of the hedging derivative contract. In such cases, banks may partially or fully terminate the contract before maturity, at their discretion, thereby reducing the notional exposure of the contract. This reduction in notional exposure would not be treated as re-structuring of the derivative contract provided all other parameters of the original contract remain unchanged.

In such cases, if the MTM value of the derivative contract is not cash settled, banks may permit payment in instalments of the crystallized MTM of such derivative contracts (including Forex Forward Contracts), subject to the conditions mentioned in the Circular.

For complete text of abovementioned Circular, please visit:- ***http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=7461***

The Non-Banking Financial Company–Factors (Reserve Bank) Directions, 2012

RBI issued direction for Non- Banking Financial Company vide Circular No. ***DNBS (PD) CC. No. 297 / Factor / 22.10.91/ 2012-13 dated July 23, 2012 "The Non-Banking Financial Company –Factors (Reserve Bank) Directions, 2012".***

The Central Government has notified the Factoring Regulation Act, 2011 on January 22, 2012. The Act aims to regulate Factors and assignment of receivables in favour of Factors, as also delineate the rights and obligations of parties to assignment of receivables.

Under the Act, factoring companies other than banks, Government companies etc., would need to be registered with the Reserve Bank as NBFCs and would be subject to prudential regulations by the Reserve Bank. Accordingly, a new category of NBFCs viz; Non-Banking Financial Company–Factors has been introduced and RBI would issue separate Directions to them.

For complete text of abovementioned Circular, please visit:- ***(http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=7462)***

Report Of The Working Group To Review The Existing Prudential Guidelines On Restructuring Of Advances By Banks/ Financial Institutions

In the Second Quarter Review of Monetary Policy 2011-12 announced on October 25, 2011, it was proposed to constitute a Working Group(WG) to review the existing prudential guidelines on restructuring of advances by banks/financial institutions and suggest revisions taking into account the best international practices and accounting standards. Accordingly, a WG was constituted on January 31, 2012 under the Chairmanship of Shri B. Mahapatra, Executive Director, RBI. The WG had members representing RBI, select commercial banks, IBA, CDR Cell and a rating agency.

The Working Group approached the mandate given to it from the perspective that restructuring of advances serves a useful social purpose as it protects the productive assets of the economy. It also approached the issue from the perspective that internationally restructuring of an account is considered as an event of impairment irrespective of whether an account's asset classification status is downgraded or not. The WG has, however, suggested a gradual and calibrated approach.

Recommendations of the WG can be broadly viewed as forward-looking as well as contemporary to the current issues. The forward-looking recommendations are aimed at bringing the RBI's present prudential guidelines on restructuring of advances in line with the international prudential norms in a time-bound manner; and gradually develop the restructuring guidelines to the needs of a globalised economy. In the meanwhile, the contemporary recommendations address the moral hazard issues arising from extant guidelines, which might have hitherto dissuaded the lenders from proper due-diligence and viability assessment on one hand and encouraged the borrowers in excessive risk taking or adopting lax business practices on the other hand, by tightening certain prudential norms. The contemporary recommendations are also aimed at rationalising certain extant norms.

The Report has been hosted on RBI's website for public comments.
The Complete Text of the Report of the Working Group is available at:-
(http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/WRPN180712FL.pdf)

Recent Master Circular Issued By RBI

The Reserve Bank of India in July, 2012 issued a series of Master Circulars. An inclusive list of these Master Circulars that would be relevant to the auditors of bank and bank branches is given below. Viewers can click on the relevant circular number below to download the full text of the each circular.

S. No.	Circular Number	Circular dated	Particulars
1	RBI/2012-2013/108 RPCD. CO. Plan. BC 12/04.09.01/2012-13	2.7.2012	Master Circular - Lending To Priority Sector
2	RBI/2012-2013/98 IDMD.PCD. 03/14.01.01/2012-13	2.7.2012	Master Circular on Call/Notice Money Market Operations
3	RBI/2012-2013/96 DBOD.BP.BC.No.27/21.04.172/2012-13	2.7.2012	Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)
4	RBI/2012-2013/95 DBOD.No.BP.BC.16/21.06.001/2012-13	2.7.2012	Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)
5	RBI/2012-2013/91 RPCD GSSD.BC.No.7/09.16.01/2012-13	2.7.2012	Master Circular Priority Sector Lending- Special Programmes Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
6	RBI/2012-2013/89 RPCD. GSSD. BC. No.2/09.10.01/2012-13	2.7.2012	Master Circular- Priority Sector Lending - Credit Facilities to Minority Communities

7	RBI/2012-2013/88 RPCD. GSSD. BC. No.1/09.01.01/2012-13	2.7.2012	Master Circular on Priority Sector Lending- Special Programmes - Swarnajayanti Gram Swarozgar Yojana (SGSY)
8	RBI/2012-2013/87 RPCD. FID. BC.No. 04/12.01.033/ 2012-13	2.7.2012	Master Circular on SHG-Bank Linkage Programme
9	RBI/2012-2013/86 RPCD. No. PLFS. BC 3/ 05.04.02/ 2012-13	2.7.2012	Master Circular - Guidelines for Relief Measures by Banks in Areas Affected by Natural Calamities
10	RBI/2012-2013/80 DBS.FrMC.BC.No.1/23.04.001/2012-13	2.7.2012	Frauds – Classification and Reporting
11	RBI/2012-2013/79 DBOD.No.Dir.BC.4/13.03.00/2012-13	2.7.2012	Master Circular- Loans and Advances – Statutory and Other Restrictions
12	RBI/2012-2013/78 DBOD.No.Dir.BC.8/13.03.00/2012-13	2.7.2012	Master Circular of instructions relating to deposits held in FCNR(B) Accounts
13	RBI/2012-2013/76 DBOD. No.Ret. BC.22/12.01.001/2012-13	2.7.2012	Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
14	RBI/2012-2013/75 DBOD.No.Dir.BC.1/13.03.00/2012-13	2.7.2012	Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts
15	RBI/2012-2013/74 DBOD No.DIR.BC.06/04.02.002/2012-13	2.7.2012	Master Circular - Rupee / Foreign Currency Export Credit & Customer Service To Exporters
16	RBI/2012-2013/73 DBOD. No.DIR.BC.07/08.12.001/2012-13	2.7.2012	Master Circular – Housing Finance
17	RBI/2012-2013/72 DBOD. No.FSD.BC 24/24.01.001/2012-13	2.7.2012	Master Circular - Para-banking Activities
18	RBI/2012-2013/71 DBOD.No.FSD.BC. 23/ 24.01.011/ 2012-13	2.7.2012	Master Circular on Credit Card Operations of Banks
19	RBI/2012-2013/70 DBOD.No.Dir.BC. 5 /13.03.00/2012-13	2.7.2012	Master Circular - Interest Rates on Advances
20	RBI/2012-2013/69 DBOD. No. Dir. BC. 02/13.03.00/2012-13	2.7.2012	Master Circular - Guarantees and Co-acceptances
21	RBI/2012-2013/68 DBOD. No.Dir.BC. 3/13.03.00/2012-13	2.7.2012	Master Circular – Exposure Norms
22	RBI/2012-2013/50 DBOD No.Leg.BC. 21/09.07.006/2012-13	2.7.2012	Master Circular on Customer Service in Banks
23	RBI/2012-2013/45 DBOD. AML. BC. No. 11/14.01.001/2012-13	2.7.2012	Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002
24	RBI/2012-2013/43 DBOD No. CID.BC. 10/20.16.003/2012-13	2.7.2012	Master Circular on Wilful Defaulters
25	RBI/2012-2013/41 DBOD.BP.BC No.14 /21.04.018/2012-13	2.7.2012	Master Circular - Disclosure in Financial Statements - Notes to Accounts

Securities & Exchange Board of India

Master Circular for Mutual Funds

SEBI vide its master Circular No. SEBI/IMD/MC No.3/10554/2012 dated May 11, 2012 in order to enable the industry and other users to have an access to all the applicable circulars at one place, issued compilation of Master Circulars for Mutual Funds.
The Complete text of the Compilation is available at:-
http://www.sebi.gov.in/cms/sebi_data/attachdocs/1337083696184.

Alternative Investment Funds Regulations, 2012

SEBI made Alternative Investment Funds) Regulations, 2012 vide Notification No. LAD-NRO/GN/2012-13/04/11262 dated May 21, 2012.
The Complete text of the abovementioned regulation is available at:-
(http://www.sebi.gov.in/cms/sebi_data/attachdocs/1337599839661.pdf)

Securities Contracts (Regulation) (Stock Exchanges And Clearing Corporations) Regulations, 2012

The SEBI framed the regulations, Securities Contracts (Regulation) (Stock Exchanges And Clearing Corporations) Regulations, 2012 to regulate recognition, ownership and governance in stock exchanges and clearing corporations and incidental matters vide Notification No. LAD-NRO/GN/2012-13/07/13546 dated June 20, 2012.
The Complete text of the abovementioned regulation is available at:-
http://www.sebi.gov.in/cms/sebi_data/attachdocs/1340272091708.pdf

Contents of Application Form and Abridged Prospectus for Public Issue of Debt Securities

SEBI had notified SEBI (Issue and Listing of Debt Securities) Regulations in 2008 specifying norms for public issue of debt securities and privately placed listed debt securities. With respect to public issue of debt securities, there is currently no specified standard format for the Application Form and Abridged Prospectus. This has resulted in different application forms and abridged prospectus being used in public issues of debt securities.

In order to standardize the Application Form and Abridged Prospectus for public issue of debt securities, the existing forms and abridged prospectus were discussed and deliberated upon with market participants. Based on the discussions SEBI, standardized the structure, design, format, contents and organization of information in the Application Form and Abridged Prospectus and made uniform for public issues of debt securities vide Circular No. CIR/IMD/DF-1/19/2012 dated July 25, 2012.

The Complete text of the abovementioned regulation is available at:-
(http://www.sebi.gov.in/cms/sebi_data/attachdocs/1343215764280.pdf)

Manner of Dealing With Audit Reports Filed By Listed Companies – Amendment o clause 31(a) of the Listing Agreement

SEBI, vide its circular no. CFD/DIL/7/2012 dated 13th August 2012 has amended clause 31(a) of the equity listing agreement to require the listed companies to submit the following forms, as may be applicable, along with the copies of the annual reports submitted to stock exchanges:

- Form A : Unqualified/ Matter of Emphasis Report
- Form B : Qualified/ Subject To/ Except For Audit Report

In formats prescribed under the Circular. The Forms have to signed by the Chief Executive Officer/Managing Director; Chief Financial Officer; Auditor; and the Chairman of the Audit Committee of the Company. The information submitted as per these Forms would also draw attention to the relevant notes in the financial statements, management's responses to qualifications in the Directors' Report and comments of the Board/ Chair of the Audit Committee. The complete text of the circular is available at http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344856756454.pdf

(While the coverage of this volume of the E-newsleter is 1st May to 31st, July 2012, this circular of SEBI has been included as a matter of exception.)

Insurance Regulatory & Development Authority (IRDA)

IRDA (Issuance of Capital by Life Insurance Companies) Regulations, 2011 – Disclosure Requirements

IRDA vide its Circular No. IRDA/F&I/NFTN/CIR/158/07/2012 dated July 24, 2012 has notified the ICLIC (Issuance of Capital by Life Insurance Companies). The Regulations lay down disclosure requirements applicable to life insurance companies. These disclosure requirements are in addition to the stipulations laid down by Securities Exchange Board of India (SEBI) under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

As per the Regulations, with respect to the following, the format of disclosures shall be as per the "prescriptions made by IRDA from time to time" (a)Risk factors specific to the insurance companies;(b)Disclosure of Financial Statements; and (c)Glossary of terms used in the insurance sector, as specified in the Circular.

As per Para 6(vii) of the Regulations, the applicant company is also required to file the 'Embedded Value' of the insurance company as one of the prescribed enclosures to the application seeking the approval of the Authority in the prescribed Form 'A'.

In tune with the requirements of the Regulations, the embedded value report is required to the prepared by an independent actuary and peer reviewed by another independent actuary. The said report is required to be prepared in compliance with the prescriptions laid down by the 'Institute of Actuaries of India' (IAI).

The Complete text of the Circular is available at the below cited link:-
(http://www.irda.gov.in/ADMINCMS/cms/Circulars_List.aspx?mid=3.1.3)

Central Board of Direct Taxes (CBDT)

DIRECT TAXES

Insertion of Rule 10AB- "Other method of determination of arm's length price"- Notification No.18/2012, dated- 23-05-2012

In exercise of the powers conferred by section 295 of the Income-tax Act, 1961, the Central Board of Direct Taxes has through this notification, notified the Income-tax (6th Amendment) Rules, 2012 which shall come into force on the 1st day of April, 2012 and shall apply to Assessment year 2012-13 and subsequent years.

These amendment Rules have inserted **Rule 10AB** which deals with "Other method of determination of arm's length price" and provides that for the purposes of section 92C(1)(f), the other method for determination of the arms' length price in relation to an international transaction shall be any method which takes into account the price which has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts.

Further, in view of insertion of Rule 10AB, **Rule 10B** which deals with the determination of arm length's price u/s 92C has been amended to include clause (f) to provide any other method as provided in rule 10AB.

Clarification regarding No deduction of tax at source under section 194J in respect of software payments on subsequent transfer of software by a resident subject to certain conditions-Notification No. 21/2012, dated- 13-06-2012

In exercise of the powers conferred by of section 197A(1F) of the Income-tax Act, 1961, the Central Government has through this notification, notified that no deduction of tax shall be made, w.e.f.1st July, 2012, under section 194J on the payment made by a transferee for acquisition of software from another person, being a resident transferor, subject to certain conditions viz.,:

i. the software is acquired in a subsequent transfer;
ii. the transferor has transferred the software without any modification;
iii. tax has been deducted earlier u/s 194J or u/s 195 on payment for any previous transfer of such software; and
iv. the transferee obtains a declaration from the transferor that the tax has been deducted as per clause (iii) above, along with the Permanent Account Number of the transferor.

The complete details of the text of the notifications can be downloaded from the link: ***(http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=NOTF&schT=&csId=1c336387-d3d2-42af-8ae8-64c802d16&NtN=&yr=ALL&sec=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws)***

Government's White Paper on Black Money, Press Release, dated 16-05-2012

The Government has released a "White Paper on Black Money" to present the different facets of black money and its complex relationship with policy and administrative regime in the country. It also reflects upon the policy options and strategies that the Government has been pursuing in the context of recent initiatives, or need to take up in the near future, to address the issue of black money and corruption in public life.

The complete details of the text White Paper can be viewed at downloaded from the link: ***http://law.incometaxindia.gov.in/DIT/Circulars.aspx***

Deductors to comply with their obligations to ensure correct credit to persons from whose income tax is deducted at source-Press Release, dated 10-07-2012

All deductors other than Government deductors must file their quarterly TDS statement for the quarter ending 30th June 2012, on or before 15th July 2012 and Government deductors must file their statement on or before 30th July 2012. While submitting quarterly statements, deductors have to choose correct form, quote correct PAN against all entries and ensure that correct CIN/BIN is quoted in the TDS statements. As per Rule 37BA of Income Tax Rules, 1962 credit for TDS is given to the deductees on the basis of TDS statement furnished by the deductor. Non-quoting of PAN or TAN in TDS statements or delay in filing of TDS statements may lead to levy of penalty.

Filing of TDS statement with correct PAN and CIN/BIN is important because under Rule 37BA of Income Tax Rules, 1962 credit for tax deducted at source is given to the deductees on the basis of TDS statement furnished to the Income-tax Department by the deductor. Filing of TDS statements with incorrect PAN or other details of the deductee would, therefore, cause inconvenience to the deductees (taxpayer). In case the income is assessable in the hands of a person other than the person from whose income tax has been deducted at source, the deductee in such case is required to file a declaration with the deductor that credit for the TDS shall be given to the other person and not to the deductee. The declaration must contain the name, address, PAN of the person to whom credit is to be given and reasons for giving credit to such person. The deductor is required to report the tax deduction in the name of such other person and also issue the TDS certificate in the name of the person in whose name credit is shown in the TDS statement. TDS certificates other than salary income (Form 16A) for the quarter ending 30th June 2012 should be issued on or before 30th July 2012. The complete details of the text of the press releases can be downloaded from the link: http://law.incometaxindia.gov.in/DIT/Circulars.aspx

Central Board of Excise & Custom(CBEC)

SERVICE TAX

Service Tax (Settlement of Cases) Rules and Service Tax (Compounding of Offences) Rules notified

With effect from 28.05.2012, the provisions relating to Settlement Commission have been made applicable to service tax vide the Finance Act, 2012. Consequently, CBEC has notified the Service Tax (Settlement of Cases) Rules, 2012 to carry out the provisions of the Act. The Rules are issued on the lines similar to the Central Excise (Settlement of Cases Rules), 2007. An application for settlement is to be made in the Form SC(ST)-1. Such Form has also been notified by the Board.

The Board has also notified the Service Tax (Compounding of Offences Rules) Rules, 2012. Provisions of section 9A(2) of the Central Excise Act, 1944 deal with compounding of offences, which have been made applicable to service tax vide section 83 of the Finance Act, 1994. Compounding is a process whereby an accused pays a prescribed amount (known as compounding charges) in lieu of prosecution.

[Notification No. 16 & 17/2012 ST dated 29.05.2012]

Negative list of services and other related amendments made by the Finance Act, 2012 to be effective from July 1, 2012

The Finance Act, 2012 had sought to insert provisos in sections 65, 65A, 66 and 66A of the Finance Act, 1994 from a date to be notified by the Central Government. Notification No. 18/2012 ST dated 01.06.2012 has notified June 1, 2012 as the date when the provisos would be inserted in the sections mentioned above.

Subsequently, Notifications 20-23/2012 ST dated 05.06.2012 have been issued to notify July 1, 2012 as the date when the provisions of sections 65 (definitions), 65A (classification of services), 66 (charging section) and 66A (import of services) will cease to apply.

Simultaneously, Notification No. 19/2012 ST dated 05.06.2012 has also been issued to specify that following would be effective from July 1, 2012:

Sl No.	Clause of the FA, 2012	Sections of the Finance Act, 1994 covered in the Clause of the FA, 2012	Description
(i)	(C)	65B	Interpretations
(ii)	(F)	66B	Charge of service tax on and after Finance Act, 2012
		66C	Determination of place of provision of service
		66D	Negative list of services
		66E	Declared services
		66F	Principles of interpretation of specified descriptions of services or bundled services

Further, the following amendments will also be effective from July 1, 2012:

i. Omission of definition of money from the explanation to section 67;
ii. Amendment in section 68 seeking to put onus of payment of service tax under the reverse charge basis partly on service provider and partly on service receiver.

[Notification No. 18/2012 ST dated 01.06.2012 & 19-22/2012 ST dated 05.06.2012]

Service Tax Valuation Rules, 2006 amended

The Service Tax (Determination of Value) Rules, 2006 were amended vide Notification No. 11/2012 ST dated 17.03.2012 when the Finance Bill, 2012 was tabled in the Parliament. However, Notification No. 11/2012 ST has been rescinded by Notification No. 24/2012 ST dated 06.06.2012 and these rules have been amended further.

It may be noted that some of the amendments made by Notification No. 11/2012 have been continued by Notification No.24/2012 ST as well. The amendments will be effective from July 1, 2012.

In the Service Tax (Determination of Value) Rules, 2006, for Determination of value of service portion in the execution of a works contract under rule 2A, is substituted.

[Notification No. 24/2012 ST dated 06.06.2012]

Clarification on Rate of Tax

CBEC Vide its Circular No. 158/9/ 2012 – ST dated 8th May 2012 issued clarification regarding Eight (8) specified services provided by individuals or proprietary firms or partnership firms, to which Rule 7 of Point of Taxation Rules 2011 was applicable and services on which tax is paid under reverse charge.

The rate of service tax prevalent on the date when the point of taxation occurs is rate of service tax applicable on any taxable service. In case of the eight specified services and services wherein tax is required to be paid on reverse charge by the service receiver, the point of taxation is the date of payment. Circular No 154/5/2012 – ST dated 28th March 2012 has also clarified the same. Thus in case of such eight specified services provided by individuals or proprietary firms or partnership firms and in case of services wherein tax is required to be paid on reverse charge by the service receiver, if the payment is received or made, as the case maybe, on or after 1st April 2012, the service tax needs to be paid @12%.
Complete Text of Circular is available at: (http://www.servicetax.gov.in/st-circulars-home.htm)

Clarification on Service Tax on Remittances

CBEC has issued a Circular No. 163/ 14/2012 –ST dated 10th July, 2012 regarding the leviability of service tax on the remittance of foreign currency in India from overseas.

As per the Circular, there is no service tax per se on the amount of foreign currency remitted to India from overseas. As the amount of remittance comprises money, the activity does not comprise a 'service' and thus not subjected to service tax.

In case any fee or conversion charges are levied for sending such money, they are also not liable to service tax as the person sending the money and the company conducting the remittance are located outside India.

It is further clarified that even the Indian counterpart bank or financial institution who charges the foreign bank or any other entity for the services provided at the receiving end, is not liable to service tax as the place of provision of such service shall be the location of the recipient of the service, i.e. outside India.

Complete text of the circular is available at: ***http://www.servicetax.gov.in/st-circulars-home.htm***

CENTRAL EXCISE

Admissibility of CENVAT credit on structural components of boiler

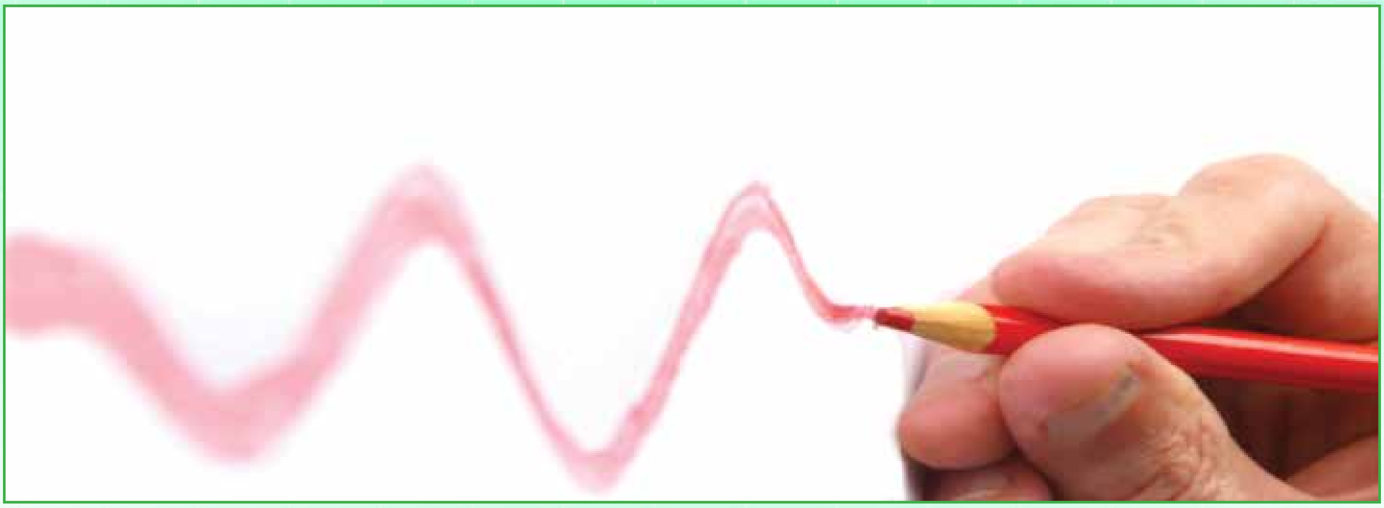
It has been clarified by the CBEC that as per Rule 2(k) of the CENVAT Credit Rules, 2004, CENVAT credit is available in respect of structural components if used as parts of Boiler. However, CENVAT credit would not be available in respect of structural components used for laying of foundation or making of structures for support of capital goods/ Boiler.

Earlier in April, 2012 the Board had issued Circular No 964/07/2012-CX dated 02.04.2012 wherein it was clarified that structural components of Boiler which are essentially parts of the boiler would be classified under heading 8402 and CENVAT credit would be admissible in respect of such structural components/parts (of the Boiler) for the reason that they are not used for laying of foundation or making of structures for support of capital goods.

In view of the Circular, doubts have arisen as to whether CENVAT credit will be available on structural components used for the support of the Capital Goods.

The Board has now clarified that whether a particular structural component is a part of the Boiler or a component to make structure for supporting the Boiler is a question of facts and needs to be examined on a case to case basis, depending on the nature and use of the said structural component as per the existing legal provisions and judicial pronouncements on the subject.

[Circular No. 966/09/2012 CX dated 18.05.2012]
The text of the above circular is available at ***www.cbec.gov.in***



Expert Advisory Committee (EAC) Opinions

EAC of ICAI has issued the following opinions recently:-

Computation of Depreciation on Extra Shift Workings

Facts of the Case

A limited company engaged in transportation of petroleum products through underground pipeline follow depreciation policy of its fixed assets on Straight Line Method (SLM) at applicable rates as prescribed in Schedule XIV to the Companies Act, 1956.

The company is charging average rate of depreciation on Straight Line Method on plant & machinery and main pipeline considering single shift @ 4.75%, double shift @ 7.42% and triple shift @10.34% as per the rates specified in Schedule XIV to the Companies Act, 1956. Zero depreciation was considered for shutdown period as no rate has been specified for shutdown period in Schedule XIV to the Companies Act, 1956.

During the supplementary audit, the Comptroller and Auditor General of India (C&AG) raised objection that, according to para 6 of the Schedule XIV of the Companies Act, 1956, the extra shift depreciation (double/triple shift) was to be computed in the proportion for which the Company worked for double shift or triple shift bears to the actual number of working days or 240 days whichever is higher. The Company while computing the average rate of Depreciation as above has also not considered any depreciation for 36 days on which the plant remained closed. Accordingly, the amount of depreciation and the net block of fixed assets were overstated by Rs. X.

Query

What should be the method of depreciation on extra shift for Plant and Machinery and main pipeline so as to comply with the minimum depreciation as per Schedule XIV to the Companies Act, 1956.

EAC Opinion

Depreciation arises due to several factors including effluxion of time and wear and tear due to use. Accordingly, depreciation occurs with the passage of time, even if concerned asset is not in use.

Schedule XIV to the Companies Act, 1956, prescribes higher rates of depreciation for the assets operating for extra shifts. In case of double shift and triple shift, the factor of effluxion of time remains constant. Therefore, rates for extra shifts include only the incremental/extra depreciation due to extra wear and tear. Thus, the Committee is of the view that single shift depreciation rate should be applied for the time period when the asset is held by the company irrespective of the fact whether such asset is in use or not. As regards 'extra depreciation' to be computed for items of plant and machinery operating for extra shifts, the incremental depreciation should be determined by applying the differential rate of depreciation, i.e., depreciation rate as specified for the relevant shift less the rate specified for the single shift in the proportion which the company worked for the double/triple shift bears to the number the number of days on which the factory or 'concern' actually worked during the year. The formula for arriving at the 'depreciation' shall be as under:

Depreciation for single shift working

+ (Depreciation for double/triple shift working – Depreciation for single shift working) x (Number of days worked double or triple shift / Normal working days during the year)

For 'extra depreciation', normal number of working days would be the number of days on which the factory or 'concern' actually worked during the year. Thus, it is not the working days of individual plant and machinery item, which should be considered for the purpose of computing extra shift depreciation rather it is the working days of the factory or 'concern'. In this regard, it may be mentioned that various units/departments/ mills/ factories should be taken as separate concerns. Accordingly, the Committee is of the view that 'normal number of working days' should be calculated after deducting shut down period of the factory or 'concern'. Please refer to the Complete text of the facts and the Opinion at:-http://220.227.161.86/26653cajournal_may2012-13.pdf

Revenue Recognition in case of Construction Contracts

Facts of the Case

A listed public sector company engaged in the field of engineering, manufacture of equipments, erection and commissioning of power projects The billing to the customer is based on agreed terms and conditions either based on the Billing Break Up (BBU) agreed with the customer in few contracts, on reaching certain milestones. The billing value may not represent the true value of the despatches or the project progress at the site. The billing is mainly to ensure cash flows. Hence, the turnover for a period is arrived at after adjusting the value of works done to the billed amount through valuation adjustment account.

The Government auditor had raised certain objections on the accounting policy being followed by the company in respect of revenue in respect of construction contracts, treatment of cost of steel/ cement purchased at project sites, etc.

The company sought the opinion of EAC on whether

a. In the case of manufacturing units- the practice of cost of manufactured items despatched to project site alone being considered as 'cost incurred' without considering the cost of raw material in stocks, works in progress at the plant, finished goods at stores as cost incurred is in line with the revenue recognition principle as per AS 7 (revised 2002).
   Also, whether the wording of the accounting policy of the company is in line with the revenue recognition principle as per AS 7 (revised 2002).
b. In the case of erection sites, whether the cost of cement and steel procured and delivered at the project site, specific to the project, in respect of which billing has been done as per the BBU agreed with the customer can be considered as 'cost incurred' in working out the percentage of completion as per AS 7 (revised 2002) and whether the same is in line with the revenue recognition principle as per AS 7 (revised 2002).
c. Whether change in estimated revenue and estimated cost due to reasons explained in paragraph 9(c) above at the end of the reporting period in respect of long term contracts executed over a longer period needs to be disclosed as 'change in estimates' as per AS 5. (a view taken by the Government Auditor)

Points Considered by the Committee

- Paragraph 29 and 30 of Accounting Standard (AS) 7 (revised 2002), 'Construction Contracts'
- Paragraph 7 of Accounting Standard (AS) 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"

Opinion

i. It is the performance of contract activity rather than despatch of items from one location to another that should be considered while calculating stage of completion, which is determined with reference to the contract costs that contribute to the performance of contract activity rather than the total cost incurred up to the reporting
   So, the practice of the company of considering the cost of items merely despatched to the project site is not correct.
ii. As regards steel and cement procured and delivered at the contract site, it should be seen whether these can be considered as 'contract cost incurred'(CCI). Mere billing to the customer cannot trigger considering a cost as CCI. Accordingly, these should be considered for determining 'CCI' only when these have been applied for performance of contract activity. Till that time, these should be considered as 'WIP'.
iii. Change in estimates on account of changes in estimated contract revenue and costs should be disclosed in accordance with AS 5 read with AS 7.

Please refer to the complete text of the facts and the opinion http://220.227.161.86/26883cajournal_june2012-14.pdf

Treatment and disclosure of interest on fixed deposits in the financial statements of a financial enterprise

Facts of the Case

A public limited company whose entire equity is held by the Government of India, provides infrastructure finance through direct lending, refinancing and take out finance as per the financing scheme. The company has raised long-term debt by way of loans from LIC, National Small Saving Fund (NSSF), bonds listed in India and foreign currency loans from bilateral and multilateral institutions. Borrowings of the company are backed by sovereign guarantee.

Pending disbursement, the resources of the company are held in the form of bank deposits and investments, such as, Central/State Government securities, bonds issued by public sector undertakings (PSUs), Certificate of Deposits with scheduled banks, etc. as per investment policy approved by the board of directors of the company.

As per the Office Memorandum of Government of India dated 23rd April, 2007, the company is also recognised as 'sui-generis' organisation under direct supervision of the Ministry of Finance, Government of India. The company is not registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India although the statutory auditors of the company have opined that the company is an NBFC.

The querist has stated that as the nature of its business is that of an NBFC, the company has been treating interest on bank deposits as income from operations in its books of account and accordingly, considers and discloses interest on bank deposits as income from operations in the financial statements as well as in the cash flow statement.

As per the observations of CAG auditors, the interest income from fixed deposits with banks should be treated as 'other income' instead of 'income from operations'. Their observations are as follows:

Since, as per MOU of the company, the core activity of the company is to provide long-term financial assistance to infrastructure projects in India and surplus funds arising out of asset-liability mismatch is to be invested only in marketable government securities till its deployment in financing the infrastructure projects in terms of the guidelines issued by the Ministry of Finance, i.e., the financing scheme which is the mandate for the company. However, the company has invested partial amount of surplus funds into the fixed deposits with banks which do not fall under the category of marketable government securities.

This has resulted in the overstatement of the income from operations and understatement of the other income. The company has been treating interest on fixed deposits with banks as income from operations considering the following factors:

Nature of disbursement of infrastructure loans- The period of implementation of infrastructure projects generally extends over 3 to 5 years and accordingly, the disbursement of loan is made in tranches over this period as per the progress of implementation of projects.

Pending disbursement, surplus funds are invested in various short-term instruments as per the investment policy of the company approved by the board of directors.
This activity is an integral part of its operations to fund infrastructure loans; hence it has classified the interest income from these investments as 'income from operations' in the profit and loss account as well as cash flow statement.
Compliance with Accounting Standard (AS) 3, 'Cash Flow Statement' – The company is a financial enterprise. Therefore, while forming the above opinion, the company has also taken guidance from paragraph 30 of AS 3.

Whether it is appropriate for the company to treat interest on bank deposits as income from operations in its books of account and accordingly, to consider and disclose interest on bank deposits as income from operations in the preparation of financial statements including cash flow statement.

The fact that the MOU/the financing scheme did not permit the investment of funds in fixed deposits with banks does not change the nature of the interest received from such deposits and accordingly, its accounting would remain the same irrespective of whether it was permitted or not to invest the funds of the company in fixed deposits. As far as the disclosure of such interest income in the financial statements including cash flow statement is concerned, the Committee notes the definition of the term 'operating activities' as provided under paragraph 5 of AS 3 and paragraphs 12 and 30 thereof, The Committee is of the view that operating activities are the principal revenue-producing activities of the enterprise. The Committee is of the view that being a financial enterprise, the main business of the company in the extant case is to provide long-term infrastructure loans and financial assistance while optimally managing and utilising its funds. The Committee is of the view that the company is in the business of earning income by managing its funds which also includes the management of surplus funds between the date of receipt of funds to the date when the funds are finally disbursed. Accordingly, the Committee is of the view that interest earned on investment of surplus funds of the enterprise arises from its principal revenue-producing activities and therefore, it should be treated and classified as income from operating activities. Further, in the context of cash flow statement, the Committee notes that paragraph 30 of AS 3 specifically states that cash flows arising from interest and dividends received in case of financial enterprise should be classified as 'cash flow from operating activity'.

Please refer to the Complete text of the facts and the Opinion
http://220.227.161.86/27121cajournal_july2012-42.pdf

Around The World

International Auditing & Assurance Standards Board

ISAE 3410, "Assurance Engagements on Greenhouse Gas Statements" issued by IAASB

In June 2012, the International Auditing and Assurance Standards Board (IAASB) issued the International Standard on A ssurance Engagement (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements.

ISAE 3410 deals with assurance engagements to report on an entity's Greenhouse Gas Statement. It does not deal with Statements of emissions other than Greenhouse Gas emissions. This ISAE deals with both reasonable assurance engagements and limited assurance engagements. This ISAE applies in conjunction with ISAE 3000, 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' issued by IAASB.

This ISAE is effective for assurance reports covering periods ending on or after September 30, 2013.

The text of ISAE 3410 is available on the website:- ***www.ifac.org***

Consultation Paper on "Invitation to Comment – Improving the Auditor's Report" issued by IAASB

The International Auditing and Assurance Standards Board (IAASB), has recently published an Invitation to Comment titled, Improving the Auditor's Report. Through this, IAASB is envisaging important amendments to the format and contents of the auditor's report to make it more informative and a valuable document for the stakeholders. Among other things, it is exploring the possibility of the auditors providing greater information on:

- Matters that are, in the auditor's judgment, likely to be most important to users understanding of the audited financial statements or the audit of public interest entities;
- Auditor's conclusion on appropriateness of management's use of going concern assumption;
- Auditor's statement on existence of any material inconsistencies between audited financial statements and other information;

for which it is proposing new sections titled Going Concern, Auditor Commentary and Other Information in the audit report. In addition it is also exploring the manner in which greater transparency about the audit process can be reflected in the audit report through suggestions such as in case of group audits, the extent of work done by the component auditors vis a vis principal auditor. IAASB is also exploring if a change in the placement of the opinion paragraph vis a vis auditor's / management's responsibility paragraphs in the audit report could enhance the value of the audit report.

Based on the feedback received, IAASB would propose amendments to its reporting standards, particularly, ISA 700.

The text of this Invitation to Comment is available on ***http://www.ifac.org/publications-resources/improving-auditor-s-report***

Federation of European Accountants (FEE)

Discussion Paper on the Functioning of the Audit Committees In June 2012, the Federation of European Accountant s (FEE) issued the Discussion Paper - The Functioning of the Audit Committees.

The Discussion Paper contributes to the current debate regarding improvements to corporate governance for companies as well as to the discussions on audit policy in general. The Discussion Paper is aimed at policymakers as well as auditors and audit committees, and debates topics regarding:

- Establishment of audit committees.
- Composition, including the independence, competence and compensation of the members of audit committees.
- Responsibilities and tasks, including terms of reference for the audit committee and reporting responsibilities.
- Reporting to and from the audit committee.
- The discussion paper can be viewed on link ***http://www.fee.be/fileupload/upload/Discussion%20Paper%20on%20Audit%20Committees%20120615156201218855.pdf***

Policy Statements on Audit Policy

In the context of the debate on audit policy, FEE has prepared four Policy Statements on a number of topics directly relevant to audit policy.

1. Policy Statement - Provision of Non-Audit Services to Audit Clients that are Public Interest Entities (PIEs)

In this Statement, FEE explains that not all non-audit services should be treated as a monolithic bloc which endanger the auditor's independence and thus be prohibited as a whole. There are different categories of non-audit services and further harmonisation at European level could be achieved with the application of the principles and requirements of the relevant sections of the Ethics Standards Board for Accountants (IESBA) Code of Ethics. Certain services should be generally prohibited as provided for in the IESBA Code. Others should be generally permitted with the overall requirement to address specific threats to independence without other limitations. The provision of other services to audit clients should be either prohibited or permitted depending on a case by case analysis.

The Policy Statement can be viewed at link ***(http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1535)***

2. Policy Statement - Improved Auditor Reporting

In this Policy Statement, FEE explains that the informative value of public audit reports and the auditor communications with the audited entity should be enhanced to benefit all stakeholders. This could be achieved by considering the currently proposed general principles and requirements for the content of future auditor communications, as recently issued by the International Auditing and Assurance Standards Board (IAASB).

As far as public auditor reporting is concerned, this can be done through providing more information in the audit report regarding the auditor's view on the use of the going concern assumption by management. In addition, information in relation to the audit approach used in respect of the entity's specific significant audit risks including internal controls should be included. The auditor report accompanies the entity's financial statements and the additional auditor reporting will help to add credibility to those financial statements.

The Policy Statement can be viewed at link: ***(http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1536)***

3. Policy Statement - Public Oversight of Statutory Auditors and Audit Firms auditing Public Interest Entities (PIEs) and non-Public Interest Entities (non-PIEs)

This FEE Policy Statement recommends that for public oversight of the audit profession, an appropriate mechanism is set up to identify, assess and use relevant and up to date expertise and experience from practitioners regarding auditing as well as that the composition of competent authorities should reflect a necessary wide range of stakeholders, including representatives of business, regulators, shareholders and not only be composed of government officials. Furthermore, the proposed European Regulation should clarify the need for ESMA to create a dedicated and representative Stakeholder Consultative Group to involve all relevant stakeholders.
Generally, each Member State's competent authority is best placed and sufficiently competent to judge about the level of delegation that is appropriate according to their own specific market conditions. Regarding non-PIE audits, FEE believes that existing mechanisms such as quality assurance reviews performed by professional accountancy bodies have proven effective and useful in adding value to non-PIE audits. Therefore, FEE recommends that under the competent authority should continue to be able to delegate - under the oversight of the competent authority and appropriately reported to them - quality assurance reviews for non-PIEs to professional accountancy bodies.

Related to the proposed PIE definition, FEE recommends to introduce a Member State option to exclude certain entities from the definition on condition that the Member States provide evidence regarding national regulation, demonstrate that they are not significant to the economy and that the exemption of such entities would not result in any cross-boarder effect.

The Policy Statement can be viewed at link: ***(http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1537)***

4. Policy Statement - Adoption of International Standards on Auditing (ISAs) in the European Union

In this Statement, FEE explains that a major driver of the quality of audits is the standards by which the audits are performed. Over the past 10 years, considerable improvements have been made to the International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB). Recognizing that ISAs promote quality and enhance confidence in the internal market, FEE continues to call for their adoption for all statutory audits in the European Union.

FEE welcomes the explicit statement of proportionate application of ISAs for SME audit engagements as proposed by the European Commission as it would assist in avoiding an unreasonable inspection approach applied by competent authorities including disproportionate demands for audit documentation. In this context, FEE would be supportive of a further international initiative to develop solutions on the application of the proportionality principle of ISAs that would assist the practical application of ISAs and its requirements in differing audit environments.

The Policy Statement can be viewed at link :- ***(http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1538)***

About Auditing & Assurance Standards Board

Brief History

1. The Institute of Chartered Accountants of India (ICAI) constituted the Auditing Practices Committee (APC) on 17th September 1982, to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices so that these may be issued under the authority of the Council of the Institute. Subsequently, at its 226th meeting held in July 2002, the Council of the Institute approved certain recommendations of the APC to strengthen its role in the growth and development of the accountancy profession in India. The Council, at the said meeting, also approved the renaming of the Auditing Practices Committee as the Auditing and Assurance Standards Board (AASB) as well as renaming of the Statements on Standard Auditing Practices as Auditing and Assurance Standards (AASs).

2. The ICAI is one of the founder members of the International Federation of Accountants (IFAC). It is one of the membership obligations of the Institute to actively propagate the pronouncements of the International Auditing and Assurance Standards Board (IAASB) of the IFAC to contribute towards global harmonisation and acceptance of the Standards issued by the IAASB. Accordingly, while formulating Engagement and Quality Control Standards, the AASB takes into consideration the corresponding Standards, if any, issued by the IAASB. In addition, the AASB also takes into consideration the applicable laws, customs, usages and business environment prevailing in India within the parameters of the July 2006 Policy Paper, A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications, issued by the IAASB.

Objectives and Functions

The following are the objectives and functions of the Auditing and Assurance Standards Board:

- To review the existing and emerging auditing practices worldwide and identify areas in which Standards on Quality Control, Engagement Standards and Statements on Auditing need to be developed.
- To formulate Engagement Standards, Standards on Quality Control and Statements on Auditing so that these may be issued under the authority of the Council of the Institute.
- To review the existing Standards and Statements on Auditing to assess their relevance in the changed conditions and to undertake their revision, if necessary.
- To develop Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry or on generic issues, so that those may be issued under the authority of the Council of the Institute.
- To review the existing Guidance Notes to assess their relevance in the changed circumstances and to undertake their revision, if necessary.
- To formulate General Clarifications, where necessary, on issues arising from Standards.
- To formulate and issue Technical Guides, Practice Manuals, Studies and other papers under its own authority for guidance of professional accountants in the cases felt appropriate by the Board.

Engagement and Quality Control Standards issued by AASB

The list of Engagement and Quality Control Standards issued by AASB under the authority of the Council of ICAI is given below

Standard Number (SQC) (1-99)	Standards on Quality Control (SQCs)	Effective Date
1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	Effective for all engagements relating to accounting periods beginning on or after April 1, 2009.

Standard Number (SA) (100-999)	Standards on Auditing (SAs)	Effective Date
100-199	**Introductory Matters**	
200-299	**General Principles and Responsibilities**	
200(Revised)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
210 (Revised)	Agreeing the Terms of Audit Engagements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
220 (Revised)	Quality Control for an Audit of Financial Statements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
230 (Revised)	Audit Documentation	Effective for audits of Financial Statements for periods beginning on or after April 1, 2009
240 (Revised)	The Auditor's Responsibilities Relating to fraud in an Audit of Financial Statements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2009
250 (Revised)	Consideration of Laws and Regulations in an Audit of Financial Statements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2009
260 (Revised)	Communication With Those Charged with Governance	Effective for audits of Financial Statements for periods beginning on or after April 1, 2009
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
299	Responsibility of Joint Auditors	Effective for all audits related to accounting periods beginning on or after April 1, 1996
300-499	**Risk Assessment and Responses to Assessed Risks**	
300 (Revised)	Planning an Audit of Financial Statements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2008
315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment	Effective for audits of Financial Statements for periods beginning on or after April 1, 2008
320 (Revised)	Materiality in Planning and Performing an Audit	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
330	The Auditor's Responses to Assessed Risks	Effective for audits of Financial Statements for periods beginning on or after April 1, 2008
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450	Evaluation of misstatements identified during the Audit	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010

500-599	**Audit Evidence**	
500(Revised)	Audit Evidence	Effective for audits of Financial Statements for periods beginning on or after April 1, 2009
501 (Revised)	Audit Evidence – Specific considerations for selected items	Effective for audits of Financial Statements for periods beginning on or after April 1, 2010
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600-699	**Using Work of Others**	
600	Using the Work of Another Auditor	Effective for all audits related to accounting periods beginning on or after April 1, 2002
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700-799	**Audit Conclusions and Reporting**	
700 (Revised)	Forming an Opinion and Reporting on Financial Statements	Effective for audits of Financial Statements for periods beginning on or after April 1, 2012
705	Modifications to the Opinion in the Independent Auditor’s Report	Effective for audits of Financial Statements for periods beginning on or after April 1, 2012

706	Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report	Effective for audits of Financial Statements for periods beginning on or after April 1, 2012
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805	Special Considerations - Audits of single Financial Statements and Specific elements, Accounts or items of a Financial Statement	Effective for all audits related to accounting periods beginning on or after April 1, 2011
810	Engagements to Report on Summary Financial Statements	Effective for all audits related to accounting periods beginning on or after April 1, 2011
Standard Number (SRE) (2000-2699)	**Standards on Review Engagements (SREs)**	**Date from which Effective**
2400 (Revised)	Engagements to Review Financial statements	Applicable for Reviews of Financial Statements for periods beginning on or after April 1, 2010
2410	Review of Interim Financial Information performed by the Independent Auditor of the Entity	Applicable for Reviews of Interim Financial Information for periods beginning on or after April 1, 2010
Standard Number (SAE) (3000-3699)	**Standards on Assurance Engagements (SAEs)**	**Date from which Effective**
3400	The Examination of Prospective Financial Information	Effective in relation to Reports on Projections forecasts issued on or after April 1, 2007
3402	Assurance Reports on Controls at a Service Organization	Effective for service auditors' assurance reports covering periods ending on or after April 1, 2011.
Standard Number (SRS) (4000-4699)	**Standards on Related Services (SRSs)**	**Date from which Effective**
4400	Engagements to Perform Agreed-upon Procedures regarding Financial Information	Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004
4410	Engagements to Compile Financial Information	Applicable to all Compilation engagements beginning on or after April 1, 2004

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- Volume I.A – contains the text of the Engagement and Quality Control Standards.
- Volume I.B – contains the text of the Statements on Auditing.
- Volume II – contains the text of the Guidance Notes on Auditing Aspects.

Industry Specific Guidance Notes

- Guidance Note on Audit of Banks 2011 Edition.

- Guidance Note on Audit of Accounts of Members of Stock Exchanges.
- Guidance Note on Audit of Companies Carrying on General Insurance Business.
- Guidance Note on Audit of Companies Carrying on Life Insurance Business.
- Guidance Note on Certification of XBRL Financial Statements.

Technical Guides/Guides

- Technical Guide on Audit of Non-Banking Financial Companies (Revised Edition 2012)
- Technical Guide on Audit in Hotel Industry.
- Technical Guide on Audit in Automobile Industry.
- Technical Guide on Audit in Telecom Industry – Revenue, Fixed Assets and Related Operating Costs.
- Technical Guide on E-commerce – Considerations for Audit of Financial Statements.
- Practitioner's Guide to Audit of Small Entities.
- Guide to Audit of Complex Financial Instruments.

Implementation Guides

- Implementation Guide to SQC 1
- Implementation Guide to Risk based Audit of Financial Statements (Revised Edition 2012)
- Implementation Guide on Reporting Standards
- Implementation Guide to Standard on Auditing (SA) 530, Audit Sampling
- Implementation Guide to Standard on Auditing (SA) 320, Materiality in Planning and Performing an Audit

Other Publications

- Background Material for Audit Training Workshops and Seminars.
- A Study on Basel II and Risk-based Supervision.
- A Study on Money laundering.
- Convergence with the International Standards of IAASB: Position Paper and Work Plan.
- What is an Audit- Understanding the Audit of Financial Statements.

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