

Auditing (CA Final)

The following amendments have taken place in Advanced Auditing since the last attempt in November 2008:

1. Code of Ethics
2. Audit of NBFC
3. Clause 49
4. Clause 41
5. AAS (Auditing and Assurance Standards)
6. Insurance Companies
7. Tax Audit (in relation to new Rule 8D)
8. Bank Audit

AMENDMENTS IN CODE OF ETHICS:

1. CHARTERED ACCOUNTANTS CAN SHARE PROFITS AND CAN ENTER INTO A MULTIDISCIPLINARY PARTNERSHIP FIRM

Institute of Chartered Accountants of India has issued a notification no. Na.1-CA(7)/116/ 2008 dated 25-9-2008 incorporating various amendment to the Chartered Accountants Regulations, 1988.

These amendments are summarized as under

[The qualifications to share profits / remunerations / commission / brokerage etc. \(Under clause 2 and 3 of part I of first schedule\)](#)

(i) Company Secretary within the meaning of the Company Secretaries Act, 1980;

(ii) Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959;

(iii) Actuary within the meaning of the Actuaries Act, 2006;

(iv) Bachelor in Engineering, from a University established by law or an Institution recognised by law;

(v) Bachelor in Technology from a University established by law or an Institution recognised by law;

(vi) Bachelor in Architecture from a University established by law or an Institution recognised by law;

(vii) Bachelor in Law from a University established by law or an Institution recognised by law;

(viii) Master in Business Administration from Universities established by law or technical institutions recognised by All India Council for Technical Education.

[Prescribed qualifications of a eligible partner who is not a member of ICAI \(Under clause 4 of part I of first schedule\)](#)

(a) Company Secretary, member, The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980;

(b) Cost Accountant, member, The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959;

(c) Advocate, member, Bar Council of India established under the Advocates Act, 1961;

(d) Engineer, member, The Institution of Engineers, or Engineering from a University established by law or an Institution recognized by law.

(e) Architect, member, The Indian Institute of Architects established under the Architects Act, 1972;

(f) Actuary, member, The Institute of Actuaries of India, established under the Actuaries Act, 2006.

(g) Professional bodies or Institutions outside India whose qualifications relating to accountancy are recognised by the Council.

S.NO.	CLAUSE (2) & (3) OF PART-I OF SCH-I (SHARING)	CLAUSE (4) OF PART-I OF SCH-I (PARTNERSHIP)
1	C.S.	C.S.
2	C.W.A.	C.W.A.
3	ENGINEER	ENGINEER
4	ARCITECT	ARCITECT
5	ACTUARARY	ACTUARARY
6	ADVOCATES	ADVOCATES
7	MBA	PERSON HAVING PRESCRIBED QUALIFICATION

2. A CHARTERED ACCOUNTANT IN PRACTICE CAN TAKE UP 45 TAX AUDITS (earlier limit was 30 per chartered accountant)

3. ICAI Guidelines No.1-CA(7)/ Council Guidelines/01/2008, Dated 14th May,2008 GUIDELINES FOR ADVERTISEMENT FOR THE MEMBERS IN PRACTICE

(Issued Pursuant to Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.)

The Members may advertise through a write up setting out their particulars or of their firms and services provided by them subject to the following Guidelines and must be presented in such a manner as to maintain the profession's good reputation, dignity and its ability to serve the public interest.

The Member(s)/Firm(s) should ensure that the contents of the Write up are true to the best of their knowledge and belief and are in conformity with these Guidelines and be aware that the Institute of Chartered Accountants of India does not own any responsibility whatsoever for such contents or claims by the Writer Member(s) / Firm(s).

1. Definitions For the purpose of these Guidelines:

- (i) The "Act" means The Chartered Accountants Act, 1949.
- (ii) "Institute" means the Institute of Chartered Accountants of India.
- (iii) "write up" means the writing of particulars according to the information given in the Guidelines setting out services rendered by the Members or firms and any writing or display of the particulars of the Member(s) in Practice or of firm(s) issued, circulated or published by way of print or electronic mode or otherwise including in newspapers, journals, magazines and websites (in Push as well in Pull mode) in accordance with the Guidelines.

(The terms not defined herein have the same meaning as assigned to them in the Chartered Accountants Act, 1949 and the Rules, Regulations and Guidelines made there under.)

2. The write-up may include only the following information:

(A) For Members

- (i) Name Chartered Accountant

(ii) Membership No. with Institute

(iii) Age

(iv) Date of becoming ACA

(v) Date of becoming FCA

(vi) Date from which COP held

(vii) Recognized qualifications

(viii) Languages known

(ix) Telephone/Mobile/Fax No.

(x) Professional Address

(xi) Web

(xii) E-mail

(xiii) C A Logo

(xiv) Passport size photograph

(xv) Details of Employees (Nos. -)

(a) Chartered Accountants -

(b) Other Professionals –

(c) Articles/Audit Assistants

(d) Other Employees

(xvi) Names of the employees and their particulars on the lines allowed
for a member as stated above.

(xvii) Services provided

(a)

(b)

(c)

(B) For Firms

(i) Name of the Firm Chartered Accountants

(ii) Firm Registration No. with Institute

(iii) Year of establishment.

(iv) Professional Address(s)

(v) Working Hours

(vi) Tel. No(s)/Mobile No./Fax No(s)

(vii) Web address

(viii) E-mail

(ix) No. of partners

(x) Name of the proprietor/partners and their particulars on the lines allowed for a member as stated above including passport size photograph.

(xi) C A Logo

(xii) Details of Employees (Nos. -)

(a) Chartered Accountants -

(b) Other professionals –

(c) Articles/Audit Assistants

(d) Other employees

(xiii) Names of the employees of the firm and their particulars on the lines allowed for a member as stated above.

(xiv) Services provided:

(a)

(b)

(c)

The write-up may have the Signature, Name of the Member/ Name of the Partner signing on behalf of the firm, Place and Date.

3. Other Conditions

(i) The write-up should not be false or misleading and bring the profession into disrepute.

(ii) The write-up should not claim superiority over any other Member(s)/Firm(s).

(iii) The write-up should not be indecent, sensational or otherwise of such nature which may likely to bring the profession into disrepute.

(iv) The write-up should not contain testimonials or endorsements concerning Member(s).

(v) The write-up should not contain any other representation(s) that may like to cause a person to misunderstand and/or to be deceived.

(vi) The write-up should not violate the provisions of the 'Act', Rules made there under and 'The Chartered Accountants Regulations, 1988'.

(vii) The write-up should not include the names of the clients (both past and present)

(viii) The write-up should not be of font size exceeding 14.

(ix) The write-up should not contain any information other than stated in Para 3 hereinabove.

(x) The write-up should not contain any information about achievements / award or any other position held.

(xi) The particulars of information required at para (ii) of 3(A) and para (ii) of 3(B) above is mandatory.

AMENDMENTS IN AUDIT OF NBFC:

Notification No. DNBS. 201 /DG(VL)-2008 dated September 18, 2008.

The Reserve Bank of India (hereinafter referred to as "the Bank"), having considered it necessary in the public interest and for the purpose of proper assessment of books of accounts of NBFCs, in exercise of the powers conferred by **sub-section (1A) of Section 45MA of the Reserve Bank of India Act, 1934 (Act 2 of 1934)** and of all the powers enabling it in this behalf, and in supersession of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, issues to every auditor of every non-banking financial company, the Directions hereinafter specified.

1. Short title, application and commencement of the Directions

- (i) These Directions shall be known as "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008."
- (ii) These Directions shall apply to every auditor of a non-banking financial company as defined in **Section 45 I(f)** of the Reserve Bank of India Act, 1934 (2 of 1934) hereinafter referred to as non-banking financial company.
- (iii) These Directions shall come into force with immediate effect.

2. Auditors to submit additional Report to the Board of Directors

In addition to the Report made by the auditor under **Section 227 of the Companies Act, 1956 (1 of 1956)** on the accounts of a non-banking financial company examined for every financial year ending on any day on or after the commencement of these Directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.

3. Matters to be included in the auditor's report

The auditor's report on the accounts of a non-banking financial company shall include a statement on the following matters, namely: -

(A) In the case of all non-banking financial companies

- I. Whether the company is engaged in the business of non-banking financial institution and whether it has obtained a Certificate of Registration (CoR) from the Bank

II. In the case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its asset/income pattern as on March 31 of the applicable year.

Note: A reference in this regard is invited to paragraph 15 of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 in respect of deposit taking NBFCs and paragraph 15 of Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 in respect of non-deposit taking NBFCs.

III. Based on the criteria set forth by the Bank in Company Circular No. DNBS.PD. CC No. 85 /03.02.089 /2006-07 dated December 6, 2006 for classification of NBFCs as Asset Finance Company (AFC), whether the non-banking financial company has been correctly classified as AFC as defined in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 with reference to the business carried on by it during the applicable financial year.

(B) In the case of a non-banking financial company accepting/holding public deposits

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely:-

(i) Whether the public deposits accepted by the company together with other borrowings indicated below viz;

(a) from public by issue of unsecured non-convertible debentures/bonds;

(b) from its shareholders (if it is a public limited company) and

(c) which are not excluded from the definition of 'public deposit' in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998;

(ii) Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 are regularised in the manner provided in the said Directions;

(iii) Whether an Asset Finance Company having Capital to Risk Assets Ratio (CRAR) less than 15% or an Investment Company or a Loan Company as defined in paragraph 2(1)(ia), (vi) and

(viii) respectively of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 is accepting "public deposit" without minimum investment grade credit rating from an approved credit rating agency;

(iv) In respect of NBFCs referred to in clause (iii) above, whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies listed in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998

(a) is in force; and

(b) whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency;

(v) In case of NBFCs having Net Owned Funds of Rs 25 lakh and above but less than Rs 200 lakhs, whether the public deposit held by the companies is in excess of the quantum of such deposit permissible to it in terms of Notification No.

DNBS. 199/CGM (PK) - 2008 dated June 17, 2008 and whether such company :

(a) has frozen its level of deposits as on the date of that Notification; or

(b) has brought down its level of deposits to the level of revised ceiling of deposits in terms of that Notification.

(vi) Whether the company has defaulted in paying to its depositors the interest and /or principal amount of the deposits after such interest and/or principal became due;

(vii) Whether the company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, and concentration of credit/investments as specified in the Directions issued by the Reserve Bank of India in terms of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

(viii) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in terms of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein;

(ix) Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the RBI Act and whether the details of the designated bank in which the approved securities are held is communicated to the office concerned of the Bank in terms of NOTIFICATION NO.DNBS.172/CGM(OPA)-2003 dated July 31, 2003;

(x) Whether the company has furnished to the Bank within the stipulated period the return on deposits as specified in the NBS 1 to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998;

(xi) Whether the company has furnished to the Bank within the stipulated period the half-yearly return on prudential norms as specified in the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

(xii) Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

(C) In the case of a non-banking financial company not accepting public deposits

Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely: -

(i) Whether the Board of Directors has passed a resolution for non- acceptance of any public deposits.

(ii) Whether the company has accepted any public deposits during the relevant period/year;

(iii) Whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

(iv) In respect of Systemically Important Non-deposit taking NBFCs as defined in paragraph 2(1)(xix) of the Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

(a) whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS- 7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;

(b) whether the company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.

(D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions

Apart from the matters enumerated in (A)(I) above, the auditor shall include a statement on the following matters, namely:

□ Where a Company has obtained a specific advice from the Bank that it is not required to hold CoR from the Bank whether the company is complying with the conditions stipulated as advised by the Bank.

4. Reasons to be stated for unfavourable or qualified statements

Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 3 above, his report shall indicate such fact together with reasons therefore.

5. Obligation of auditor to submit an exception report to the Bank

(I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

(a) the provisions of Chapter III B of Reserve Bank of India Act, 1934 (Act 2 of 1934); or

(b) the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or

(c) Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or

(d) Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in subparagraph (I) and such report shall not contain any statement with respect to compliance of any of those provisions.

6. Repeal and saving

The Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998 shall stand repealed by these Directions.

Notwithstanding such repeal,

(a) any action taken, purported to have been taken or initiated under the Directions hereby repealed shall, continue to be governed by the provisions of said Directions

(b) any reference in other Notifications issued by the Bank containing reference to the said repealed Directions, shall mean reference to these Directions, namely, Non- Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 after the date of repeal.

AMENDMENTS IN CLAUSE 49:

SEBI has on April 8, 2008 issued a press release and circular amending certain provisions of Clause 49 relating to corporate governance

The composition of board of directors has been required to be as under:

(a) where chairman is an executive chairman, atleast half the board has to comprise of independent directors

(b) where the chairman is a non-executive chairman, then one-third of the board has to comprise of independent directors

The primary amendment brings item (b) on par with item (a) above in certain specific situations.

A brief analysis is as below:

Mandatory provisions:

1. If the non-executive Chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.

Will impact companies

- having a non-executive Chairman who is a promoter or related to promoters &
 - Having a non-executive Chairman related to persons occupying management positions at the board level or at one level below the Board.
- Such companies will need to ensure that one-half of the board consists of independent directors.

This changeover is from a situation where if a company had a non-executive Chairman, then only one-third of the board needed to consist of independent directors.

Given that a large part of Corporate India comprises business houses / promoter driven enterprises, the impact can be quite a very high magnitude.

2. Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.

An ambiguity which is created is whether the inter-se relationship amongst directors that needs to be disclosed in specified documents/filings is with reference to:

- 'reporting relationship' OR
- relationship of being 'relatives'

3. The gap between resignation/removal of an independent director and appointment of another independent director in his place shall not exceed 180 days. However, this provision would not apply in case a company fulfils the minimum requirement of independent directors in its Board, i.e., one-third or one-half as the case may be, even without filling the vacancy created by such resignation/removal.

- This is an on-going requirement
- essentially, if an independent director has retired/resigned/been removed, then his replacement should be found within 180 days.
- no impact where minimum requirement of independent directors is satisfied without filing up the vacancy.

4. The minimum age for independent directors shall be 21 years.

Companies will need to ensure incoming directors are of this age.

An ambiguity – what about companies who already have directors below this age OR does the capacity to contract as per Indian Contract Act anyway rules out those below 21 years of age from being a director, and hence this modification was not really required?

Non-mandatory provisions:

- The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties.
 - Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company.
- Some ambiguities which arise due to this requirement:

- Does the tenure already served require being reckoned for directors on board a listed company?
- Does the tenure served by a director prior to listing of a company which lists hereafter require being reckoned

Whilst the provision is itself non-mandatory – but in case of non-adoption, a specific disclosure in the annual report needs to be made and companies wanting to ensure good governance will be faced with the above ambiguities whilst complying.

Some segments will be able to ensure immediate compliance. for example in case of banking companies, the Banking Regulation Act already has a mandatory requirement limiting an independent director's term to 8 years – itself a stricter standard than SEBI's non-mandatory requirement limiting the term to 9 years.

- The company may ensure that the person who is being appointed as an independent director has the requisite qualifications and experience which would be of use to the company and which, in the opinion of the company, would enable him to contribute effectively to the company in his capacity as an independent director.

As mentioned though these three requirements are non-mandatory, in case of non-adoption, a specific disclosure in the annual report needs to be made. These modifications to clause 49 reflect a continuing eye being kept by SEBI on Corporate India and prevailing Corporate governance standards - which is quite comforting! Clarifying the ambiguities will pave way for smooth adoption of these changes.

One aspect which may be challenging for Corporate India is the timing of these modifications - with financial years largely ending in March, with adoption of annual accounts within the quarter ending June, followed by circulation of annual report, may mean disclosures having to be made as on the date of the Annual report on the compliance with clause 49, and therefore compel steps to ensure compliance starting very quickly

AMENDMENTS IN CLAUSE 41:

Sebi has recently revised Clause 41 of the Equity Listing Agreement, which governs the submission of quarterly results to stock exchanges. The revision aims to rationalise formats and the submission process. The revised Clause 41 is applicable in respect of accounting periods commencing on or after July 1, 2007.

First, the revised Clause 41 requires that while placing the financial results before the board, the CEO and the CFO shall certify that the financial results do not contain any false or misleading statements or figures and do not omit any material fact which may make the statements or figures misleading. This requirement is similar to that in Clause 49, which embodies the corporate governance code. The revised Clause 41 further requires that the financial reports should be approved by the board or a committee (other than the audit committee) of the board, which shall consist of at least one-third of directors and shall include the managing director and at least one independent director.

When the quarterly financial results are approved by the committee, they shall be placed before the board at the next meeting. These modifications will enhance the accountability of the CEO, the CFO and the audit committee. They also reinforce the underlying principles that approval of the financial results, based on the recommendation of the audit committee, is a routine activity of the board.

Many board members feel that way. In fact, the board is required to apply its collective wisdom in approving financial results or in considering the accounting policy or the audit report. The practice of working through committees aims to improve the effectiveness of the functioning of the board and not to absolve the board of its responsibilities.

Another important revision is regarding explanation as to variations in unaudited and audited results. The revised Clause 41 requires that where there is a variation between the unaudited quarterly or year-to-date financial results and the results amended pursuant to limited review for the same period and the variation in net profit or net loss after tax is in excess of 10 per cent or Rs 10 lakh or higher, the company shall explain the reasons for variations.

Similarly, a company has to explain a variation of more than 10 per cent or Rs 10 lakh, whichever is higher, in exceptional or extraordinary items. Revised Clause 41 requires disclosure of exceptional and extraordinary items. Earlier, a company was required to explain variation of 20 per cent or more in respect of any item given in the format prescribed by Sebi for the presentation of quarterly results. The revision is sensible. But the limit of Rs 10 lakh may create hardship for big companies. Materiality should be the governing principle. Therefore, the limit of Rs 10 lakh may not be warranted. Perhaps, we are yet to recognise that many of our listed companies have grown in size and the rate of growth is faster than earlier.

The revised Clause 41 specifically stipulates that the quarterly and year-to-date results are to be prepared and presented in accordance with the recognition and measurement principles laid down in Accounting Standard (AS)-25, Interim

financial Reporting. AS-25 stipulates the accounting principles and methods for the preparation and presentation of interim financial reports. AS-25 requires the preparation and presentation of an interim financial report containing at least a set of condensed financial statements. Therefore, a quarterly financial report that a company presents in accordance with the requirements of Clause 41 is not an interim financial report. Therefore, only that part of AS-25 which deals with recognition and measurement principles is applicable.

Preparation and presentation of interim financial reports has certain inherent difficulties. Revenues of some businesses fluctuate widely among interim periods because of seasonal factors; in some businesses, heavy fixed costs incurred in one interim period benefit more than one interim period; costs and expenses related to a full year's activities are incurred at infrequent intervals during the year; and the limited time available to develop complete information required to estimate assets, liabilities, income and expenses.

There are two distinct views of interim reporting:

- Integral and
- Discrete

According to the integral view, each interim period is primarily an integral part of the annual period. Under this view, deferrals, accruals and estimations at the end of each interim period are affected by judgments made at the interim date with reference to the results of operations for the remainder of the annual period.

According to the discrete view, each interim period is a basic accounting period. Under this view, the results of operations for each interim period should be determined in essentially the same manner as if the interim period were an annual accounting period. Accounting Standard (AS)-25 has adopted the discrete view.

An enterprise estimates the amount at which an asset, liability, income or expense is to be recognised in financial statements based on information available, until the financial statements are approved by the Board of Directors. The same principle is applied in the preparation and presentation of interim financial reports. Estimates might change in the subsequent periods based on new information. Amounts of income and expenses reported in the current interim period reflect any changes in amounts reported in prior interim periods of the financial year. The amount and nature of any significant change in estimates should be disclosed.

Revenues that are received seasonally or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise financial year.

Costs that are incurred unevenly during an enterprises financial year should be anticipated or deferred for interim reporting purposes only if it is also appropriate to anticipate or defer that type of cost at the end of the financial year. A company should estimate provisions in respect of gratuity and other defined benefit schemes for an interim period on a year-to-date basis by using the actuarially determined rates at the end of the prior financial year.

However, it should not anticipate major planned periodic maintenance and overhaul for interim reporting purposes unless an event has caused the enterprise to have a present obligation.

Interim period income-tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the average annual effective income-tax rate applied to the pre-tax income of the interim period.

The estimated average annual income-tax rate would reflect the tax rate structure expected to be applicable to the full years earnings including fully or substantively enacted changes in the income-tax rates scheduled to take effect later in the financial year. The estimated average income-tax rate is re-estimated on a year-to-date basis.

A company considers the effect of the tax loss carry forward to determine the estimated average annual effective tax rate if the criteria for recognition of a deferred tax asset are met at the end of the interim reporting period.

A company applies the same impairment tests, recognition, and reversal criteria at an interim date as it would at the end of its financial year. An enterprise assesses the indications of significant impairment since the end of the most recent financial year to determine whether a detailed impairment calculation is needed.

The revision of Clause 41 is definitely a step forward. Let us hope that some companies take it further and present a set of condensed financial statements at least on a half-yearly basis.

AMENDMENTS IN AAS (Auditing and Assurance Standards):

<u>OLD NO.</u>	<u>NEW NO.</u>	<u>NAME OF AAS</u>
AAS-1	SA 200	BASIC PRINCIPLES GOVERNING AN AUDIT
AAS-2	SA 200A	OBJECTIVES & SCOPE OF AN AUDIT
AAS-3	SA 230	DOCUMENTATION
AAS-4	SA 240	AUDITORS RESPONSIBILITY TO CONSIDER FRAUDS & ERRORS IN AN AUDIT OF F.S
AAS-5	SA 500	AUDIT EVIDENCES
AAS-6	SA 400	RISK ASSESSMENT & INT.CONTROL
AAS-7	SA 610	RELYING UPON THE WORK OF AN INT.AUD
AAS-8	SA 300	AUDIT PLANNING
AAS-9	SA 620	USING THE WORK OF AN EXPERT
AAS-10	SA 600	USING THE WORK OF ANOTHER AUDITOR
AAS-11	SA 580	MANAGEMENT RESPONSIBILITY
AAS-12	SA 299	JOINT AUDITORS
AAS-13	SA 320	AUDIT MATERIALITY
AAS-14	SA 520	ANALYTICAL PROCEDURE
AAS-15	SA 530	AUDIT SAMPLING
AAS-16	SA 570	GOING CONCERN
AAS-17	SA 220	QUALITY CONTROL OF AN AUDIT WORK
AAS-18	SA 540	AUDIT OF ACCOUNTING ESTIMATES
AAS-19	SA 560	SUBSEQUENT EVENT
AAS-20	SA 310	KNOWLEDGE OF BUSINESS

AAS-21	SA 250	CONSIDERATION OF LAWS & REGULATION IN AUDIT OF FINANCIAL STATEMENT
AAS-22	SA 510	INITIAL ENGAGEMENT OPENING BALANCES
AAS-23	SA 550	RELATED PARTY
AAS-24	SA 402	CONSIDERATION FOR AUDIT MATTER FOR ENTITY USING SERVICE ORGANISATION
AAS-25	SA 710	COMPARITIVES
AAS-26	SA 210	TERMS OF ENGAGEMENT
AAS-27	SA 260	COMMUNICATION OF AUDIT MATTER TO THOSE CHARGE WITH AUDIT GOVERNANCE
AAS-28	SA 700	AUDIT REPORT
AAS-29	SA 401	AUDIT IN COMPUTER INFO.ENVI.SYSTEM
AAS-30	SA 505	EXTERNAL CONFIRMATION
AAS-31	SRS 4410	ENGAGEMENT TO COMPILE FINANCIAL INFO.
AAS-32	SRS 4400	ENGAGEMENT TO PERFORM REGARDING FINANCIAL INFORMATION
AAS-33	SRE 2400	ENGAGEMENT TO REMOVE FINANCIAL ST.
AAS-34	SA 501	AUDIT EVIDENCE FOR ADDITIONAL CONSIDERATION OF SPECIFIC ITEM
AAS-35	SAE 3400	THE EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION

COMPLETED NEW SCHEME OF STANDARDS AS ISSUED BY ICAI (details of above)

Audits and Reviews of Historical Financial Information

- 100-999 Standards on Auditing (SAs)
- **100-199 Introductory Matters**

• **200-299 General Principles and Responsibilities**

- SA 200 (AAS 1) , “Basic Principles Governing an Audit”
- SA 200A (AAS 2), “Objective and Scope of the Audit of Financial Statements”
- SA 210 (AAS 26), “Terms of Audit Engagement”
- SA 220 (AAS 17), “Quality Control for Audit Work”
- SA 230 (AAS 3) , “Documentation”
- SA 240 (AAS 4) , “The Auditor’s Responsibility to Consider Fraud and Error in an Audit of Financial Statements”
- SA 250 (AAS 21), “Consideration of Laws and Regulations in an Audit of Financial Statements”
- SA 260 (AAS 27), “Communications of Audit Matters with Those Charged with Governance”
- SA 299 (AAS 12), “Responsibility of Joint Auditors”

• **300-499 Risk Assessment and Response to Assessed Risks**

- SA 300 (AAS 8) , “Audit Planning”
- SA 310 (AAS 20), “Knowledge of the Business”
- SA 320 (AAS 13), “Audit Materiality”
- SA 400 (AAS 6) , “Risk Assessments and Internal Control”
- SA 401 (AAS 29), “Audit in a Computer Information Systems Environment”
- SA 402 (AAS 24) , “Audit Considerations Relating to Entities Using Service Organisations”

• **500-599 Audit Evidence**

- SA 500 (AAS 5), “Audit Evidence”
- SA 501 (AAS 34), “Audit Evidence – Additional Considerations for Specific Items”
- SA 505 (AAS 30), “External Confirmations”
- SA 510 (AAS 22), “Initial Engagements – Opening Balances”
- SA 520 (AAS 14), “Analytical Procedures”
- SA 530 (AAS 15), “Audit Sampling”
- SA 540 (AAS 18), “Auditing of Accounting Estimates”
- SA 550 (AAS 23), “Related Parties”
- SA 560 (AAS 19), “Subsequent Events”
- SA 570 (AAS 16), “Going Concern”
- SA 580 (AAS 11), “Representations by Management”

- **600-699 Using Work of Others**

- SA 600 (AAS 10), "Using the Work of Another Auditor"
- SA 610 (AAS 7) , "Relying Upon the Work of an Internal Auditor"
- SA 620 (AAS 9) , "Using the Work of an Expert"

- **700-799 Audit Conclusions and Reporting**

- SA 700 (AAS 28), "The Auditor's Report on Financial Statements"
- SA 710 (AAS 25), "Comparatives"

- **800-899 Specialized Areas**

2000-2699 Standards on Review Engagements (SREs)

- SRE 2400 (AAS 33), "Engagements to Review Financial Statements"

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- 3000-3699 Standards on Assurance Engagements (SAEs)
- 3000-3399 Applicable to All Assurance Engagements
- 3400-3699 Subject Specific Standards
- SAE 3400 (AAS 35), "The Examination of Prospective Financial Information"

Related Services

- 4000-4699 Standards on Related Services (SRSs)
- SRS 4400 (AAS 32), "Engagements to Perform Agreed-upon Procedures Regarding Financial Information"
- SRS 4410 (AAS 31), "Engagements to Compile Financial Information"

AMENDMENTS IN INSURANCE AUDIT:

IRDA NOT TO HAVE PANEL OF AUDITORS FOR STATUTORY AUDIT

- 🔴 The Insurance Regulatory and Development Authority (IRDA) has refrained from directly appointing statutory auditors, by retaining the practice of prescribing eligibility criteria for appointment of auditors by insurers.
- 🔴 IRDA would not have a panel of auditors and would not appoint auditors, as demanded by accounting regulator ICAI.

- The regulator has not been maintaining panel of auditors since 2005 and instead prescribing the requirements for their appointment by insurers.
- In the backdrop of inflated balance sheet of Satyam Computer, chartered accountant body ICAI had pitched for the appointment of statutory auditors for insurance firms by IRDA.
- As per the circular, IRDA asked insurers to ensure that statutory auditors appointed by them should meet the criteria like existence of such a firm for at least 15 years.

". . .all insurers while appointing/reappointing the statutory auditors must ensure compliance with stipulations. . .," the circular stated.

Stipulations provide that auditor appointed by an insurance company will have to be from a firm which has been in existence for a period of 15 years.

SATYAM EFFECT: IRDA MAY FACE C&AG AUDIT

IRDA may soon be put under scrutiny of the Comptroller and Auditor General (C&AG) for their failure to detect irregularities in corporate governance such as the one discovered in Satyam Computers. After the lid was blown off the Satyam scam, the CAG sent a strongly-worded letter to the finance ministry stating that Sebi and IRDA had failed to put their funds under government accounts despite instructions issued by the government to do so.

The finance ministry had as early as 2005 instructed all government bodies and regulators to ensure that their funds were maintained in the Public Accounts. The orders were issued with a view to achieve fiscal objectives set out under the Fiscal Responsibility and Budget Management (FRBM) Rules.

The CAG, in its latest communication to the government, is believed to have said that the refusal by regulators to bring their funds under government accounts was not only violative of government instructions but also inconsistent with constitutional provisions.

The finance ministry had in its draft action taken note to the Public Accounts Committee in November 2004 also assured the panel that regulators had been asked to deposit its funds in the Public Accounts, sources said. However, despite all such instructions and assurances made by the government, IRDA, has been maintaining its funds running into hundreds of crores outside the government accounts.

APPOINTMENT OF STATUTORY AUDITORS:

- ◆ It is reiterated that all insurers while appointing/re-appointing the Statutory Auditors must ensure compliance with the stipulations on the "Appointment of Statutory Auditors" as contained in the circular.
- ◆ The Authority must be informed such appointments/re-appointments within a week thereof with a certification to the effect that the said stipulations have been met, as per the Format 1.
- ◆ Insurers are also advised to file a Return on an annual basis as per the Format 2 giving details of Chartered Accountant firms engaged in various capacities like Statutory Auditors, Internal Auditors, Concurrent Auditors, Tax Auditors and other Auditors (to be specified)
- ◆ Both Format are signed by Chief Executive Officer.

Format 1:

Date:

Name of the Insurer:

1. Appointment of Statutory Auditors:

This is to inform that the following audit firms have been appointed as Statutory Auditors for (Name of the Insurer) for the financial year_____

Sl.No.	Name of the Audit Firm	Address
1		
2		
3		

2. Past Records:

Statutory Auditors of (Name of the Insurer) for the past 5 years is as under:

	Year – 4	Year -3	Year – 2	Year -1	Current Year
Name of the Audit Firm					
1					
2					

Format 2:

Name of the Insurance Company:

Return of Auditors engaged for the financial year_____

Sl.No.	Auditors engaged as	Name of the Firm	Address
1	Statutory Auditors		
	1		
	2		
2	Internal Auditors		
	1		
	2		
3	Concurrent Auditors		
	1		
	2		
4	Tax Auditors		
	1		
	2		
5	Any Other Capacity (to be specified)		
	1		
	2		

AMENDMENTS IN TAX AUDIT:

AMENDMENT IN FORM 3CD

Income Tax department has amended the 3CD report by **inserting a New Clause 17A after Clause 17** by **NOTIFICATION NO. 36/2009, dt 13-4-2009**, which require auditors to report **Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006**. In addition to that there were some changes in provisions of fringe benefit.

Notification is as follows:-

Income-tax (Tenth Amendment) Rules, 2009 - Amendment in Form No. 3CD
NOTIFICATION NO. 36/2009, dt 13-4-2009

In exercise of the powers conferred by **section 295 read with section 44AB of the Income-tax Act, 1961 (43 of 1961)**, the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely :

- (1) These rules may be called the Income-tax (Tenth Amendment) Rules, 2009.
(2) They shall come into force on the date of their publication in the Official Gazette.
- In the Income-tax Rules, 1962, in Appendix II, in Form No. 3CD, after item 17, the following shall be inserted, namely :-

"17A. Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006."

This additional reporting requirement appears to be simple, but in practice it will require lot of examination of relevant records, wherever any interest is paid or payable to Suppliers/ service providers.

The clients of auditor will have to find out eligible suppliers to whom the provisions of section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 apply and interest payable or paid to them will have to be ascertained. The auditor must verify the same carefully and to ensure that the client has taken all reasonable steps to ascertain the information in this regard.

The clients may be advised to:

- Maintain a separate register or details sheet of eligible suppliers.
- A separate classification of such suppliers can be maintained in ledger.
- A separate interest account in ledger can be maintained in relation to such suppliers.

The auditor can also consult relevant websites to find out if any supplier is an eligible supplier under the said Act.

Provisions relating to computation of income:

In the **Micro, Small and Medium Enterprises Development Act, 2006** we find a section 23 which reads as follows:

23. Interest not to be allowed as deduction from income.-

Notwithstanding anything contained in the [Income-tax Act, 1961](#), the amount of interest payable or paid by any buyer, under or in accordance with the provisions of this Act, shall not, for the purposes of computation of income under the [Income-tax Act, 1961](#), be allowed as deduction.

This section has been given status of an overriding provision vide section 24 of the enactment. The section 24 reads as follows:

24.Overriding effect.- The provisions of **sections 15 to 23** shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force.

Therefore, section 23 shall have an overriding effect on the relevant provision of the [Income Tax Act 1961](#). We find that interest can be claimed under different circumstances under different provisions like **sections 24, 36, 37 and 57**. Section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 will have

over riding effect on all the provisions which enable deduction of interest payable by a buyer to the supplier of goods or service provider in case of delayed payment.

Section 2. (d) "buyer" means whoever buys any goods or receives any services from a supplier for consideration;

Section 2.(n) "supplier" means a micro or small enterprise, which has filed a memorandum with the authority referred to in sub-section (1) of section 8, and includes,— (i) the National Small Industries Corporation, being a company, registered under the Companies Act, 1956; (ii) the Small Industries Development Corporation of a State or a Union territory, by whatever name called, being a company registered under the Companies Act, 1956; (iii) any company, co-operative society, trust or a body, by whatever name called, registered or constituted under any law for the time being in force and engaged in selling goods produced by micro or small enterprises and rendering services which are provided by such enterprises;

From the definition of buyer, we find that provisions relates to goods purchased as well as serviced received.

Eligible supplier must satisfy requirements of S.2 (n). otherwise the provision shall not apply and the tax auditor will not be required to report about any supplier. Unless a supplier has given intimation with evidence as to his eligibility, a buyer cannot be presumed that the supplier is eligible, and therefore, interest payable to such a supplier need not be disallowed.

Interest on capital borrowed will not be covered:

Section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 is concerned with interest payable by a buyer to supplier/service provider, who is micro, small and medium enterprise to which the provision of that Act apply. In this relation we need to have a look on the definition of buyer and supplier which reads as follows:

Total disallowance of interest is not justified:

It is to be noted that any interest to which S. 23 apply is not at all allowable. This is not justified. If there is delay in payment, the buyer can compensate the supplier by paying interest. Therefore, it would have been better proposition to allow interest payable to such eligible suppliers only on actual payment and not otherwise.

Total ban in allowability of interest paid or payable to such eligible suppliers may lead to payment of interest from undisclosed sources in cash or it may prompt to collusive deal under which the supplier may be asked to over invoice future supply by including the amount of interest payable for delayed payment.

S. 43B could be applied to all payments to eligible suppliers to achieve purpose:

Considering the purposes of the Micro, Small and Medium Enterprises Development Act, 2006 it would have been better option to cover allowability of any sum payable to eligible supplier under section 43B including for goods purchased, services received and interest payable for delayed payments.

In fact the provision that interest shall not be allowed at all may be considered as unconstitutional and illegal being unreasonable and devoid of merits based on usages and practices in nay trade, commerce and industry. This is because negotiation of terms and conditions as to interest payment are integral part of any business contract. A supplier sells goods at lower price when cash payment is made and higher price is charged when credit period is allowed. Depending on period of credit, price charged also vary.

AMENDMENTS IN BANK AUDIT:

Auditor's Responsibilities Relating to Restructuring of Advances

1. Attention of the members carrying out audit of financial statements of banks for the year ended March 31, 2009, is drawn to Reserve Bank of India's circular no. [DBOD.BP.BC.No.105/21.04.132/2008-09 dated February 4, 2009](#) on Prudential Guidelines on Restructuring of Advances by Banks.

The said circular:

- Applies to advances to which Special Regulatory Treatment was extended in terms of RBI's circular no.DBOD.BP.BC.93/21.04/132/2008-09 dated December 8, 2008 and also were Standard Assets as on September 1, 2008;
- Extends the date of receipt of application for restructuring from January 31, 2009 to March 31, 2009; and
- Clarifies that "the general framework of Restructuring of Advances by banks continues to be governed by the circular dated August 27, 2008".

2. In view of the above, the members may note that mere receipt of an application for restructuring does not by itself makes the advance(s) referred to above qualified to retain its classification as "Standard Asset(s)". Such retention can be done only if the following criteria are met:

- The conditions subject to which the benefits of restructuring under Special Regulatory Treatment can be availed in terms of the circular no. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 read with

paragraph 4(c) of RBI's circular no. DBOD.BP.BC.No.104/21.04.132/2008-09 dated January 2, 2009 are met; and

- The restructuring package is implemented **within a period of 120 days** of taking up of restructuring package.

3. In case of advances where the above conditions are not fulfilled then in terms of paragraph 6.2 of RBI's circular no. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 on Prudential Guidelines on Restructuring of Advances by Banks read with paragraph 3.1.2 of the said Circular, the usual asset classification norms would continue to apply.

Accordingly, an adequate provision in respect of such accounts needs to be made in the financial statements of the bank.

Where the bank has not made such a provision in the financial statements, the auditor should consider the impact of such non-provisioning on his audit opinion in terms of the principles laid down *in Standard on Auditing (SA) 700, The Auditor's Report on Financial Statements*.

4. Where the member, in accordance with the requirements of SA 700, decides to issue a modified audit opinion in respect of the above, his audit report should clearly bring out matters such as the fact of non-provisioning, the amount involved, the impact of such non provisioning on the relevant items of financial statements, reference to the relevant circular(s) of the Reserve Bank of India.

5. Further, the member would also need to consider the need for giving a suitable comment in this regard in his Long Form Audit Report. For example, in case of a bank branch, the Long Form Audit Report requires the auditor to provide details of such advances where the auditor disagrees with the branch classification of the advance(s) into standard/ sub-standard/doubtful/ loss assets, along with the reasons thereof.

6. In addition to the above, it may also be worthwhile to reiterate that while carrying out statutory audit of the financial statements of banks, the members should ensure compliance with the applicable Standards on Auditing as well as the Guidance Note on Audit of Banks issued by the Institute of Chartered Accountants of India.

Prudential guidelines on restructuring of advances

Please refer to our circular **DBOD.No.BP.BC.No.37/ 21.04.132/2008-09 dated August 27, 2008** and subsequent circulars on the captioned subject. Queries have been raised whether in terms of the above circulars mere receipt of an application for restructuring of an advance will entitle a bank to classify it as

standard asset, if the account was standard as on September 1, 2008 and had turned NPA subsequently.

2. In this connection, we advise that in terms of Para 3.1.2 of the circular dated August 27, 2008, during the pendency of the application for restructuring of the advance, the usual asset classification norms continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the bank in non-CDR cases:

- (i) **Within 120 days** from the date of approval under the CDR Mechanism.
- (ii) **Within 90 days** from the date of receipt of application by the bank in cases other than those restructured under the CDR Mechanism.

3. Since the spill over effects of the global downturn had started affecting the Indian economy, particularly from September 2008 onwards, creating stress for the otherwise viable units / activities, certain modifications were made to the provisions of the circular dated August 27, 2008, by circulars dated January 2, 2009 and February 4, 2009. The modifications provided that accounts which were standard accounts on September 1, 2008 would be treated as standard accounts on restructuring provided the restructuring is taken up on or before March 31, 2009 and the restructuring package is put in place **within a period of 120 days from the date of taking up the restructuring package**. This modification means that the incentive for quick implementation as envisaged in terms of para 6.2.1 of the circular dated August 27, 2008 is available even in those cases where the accounts were standard as on September 1, 2008 but had turned NPA as on the date of receipt of application for restructuring by banks or as on date when reference was made to the CDR Cell, as the case may be. However, this modification appears to have been interpreted by some banks to mean that the account will not slip to NPA category just because an application for restructuring is received, which is not the correct position.

4. In this connection, it is further clarified that the cases where the accounts were standard as on September 1, 2008 but slipped to NPA category before 31st March 2009, these can be reported as standard as on March 31, 2009 only if the restructuring package is implemented before 31st March 2009 and all conditions prescribed in para 6.2.2 of the circular dated August 27, 2008 (as amended till date) are also complied with. All those accounts in case of which the packages are in process or have been approved but are yet to be implemented fully will

have to be reported as NPA as on March 31, 2009 if they have turned NPA in the normal course. However, in any regulatory reporting made by the bank after the date of implementation of the package within the prescribed period, these accounts can be reported as standard assets with retrospective effect from the date when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the bank in non-CDR cases. In this regard, it may be clarified that reporting with retrospective effect does not mean reopening the balance sheet which is already finalised; what it means is that in all subsequent reporting, the account will be reported as standard and any provisions made because of its interim slippage to NPA can be reversed.

5. The circulars dated December 8, 2008, January 2, 2009 and February 4, 2009 will cease to operate from July 1, 2009. Thereafter, restructuring of all accounts will be governed **only** by the provisions of circulars dated August 27, 2008, November 3, 2008 and April 9, 2009.

6. In addition to the disclosures required in terms of our circular dated August 27, 2008, banks may also disclose the information in the balance sheet as detailed in **Annex**.

<u>Additional disclosures regarding restructured accounts S.No</u>	<u>Disclosures</u>	<u>Number</u>	<u>Amount (in crore of Rs.)</u>
1.	Application received up to March 31, 2009 for restructuring, in respect of accounts which were standard as on September 1, 2008.		
2.	Of (1), proposals approved and implemented as on March 31, 2009 and thus became eligible for special regulatory treatment and classified as standard assets as on the date of the balance sheet.		
3.	Of (1), proposals approved and implemented as on March 31, 2009 but could not be upgraded to the standard category.		
4.	Of (1), proposals under process/implementation which were standard as on March 31, 2009.		
5.	Of (1), proposals under process/implementation which turned NPA as on March 31, 2009 but are expected to be classified as standard assets on full implementation of the package.		

