May 2017

Advance Auditing and Professional Ethics

Amendments for May 2017.

All major amendments for May 2017 CA Final Exams in Advance Auditing and Professional Ethics are covered here with detail analysis of the Provisions.

Gunjan Pravin Shingavi

Mob.: +91-8446693996

Email:gShingavi@gmail.com

Standard on Auditing (SA) 610 (Revised) Using the Work of Internal Auditors

1) **What do you mean by Internal Audit Function?**
   For purposes of the SA Internal audit function means – A function of an entity that performs,
   - Assurance and
   - Consulting activities

   Designed to,
   - Evaluate and
   - Improve

2) **How to determining whether, in Which Areas and to What Extent the Work of the Internal Audit Function Can Be Used**
   Evaluating the Internal Audit Function:
   a) The external auditor shall determine whether the work of the internal audit function can be used or purposes of the audit by evaluating the following:
      i) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
      ii) The level of competence of the internal audit function; and
      iii) Whether the internal audit function applies a systematic and disciplined approach, including quality control.
   b) The external auditor shall not use the work of the internal audit function if the external auditor determines that:
      i) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
      ii) The function lacks sufficient competence; or
      iii) The function does not apply a systematic and disciplined approach, including quality control.

3) ***Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used***
   As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the external auditor shall consider the nature and scope of the work that has

been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan.

The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.

The external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with SA 260, communicate how the external auditor has planned to use the work of the internal audit function.

4) What considerations required while using the Work of the Internal Audit Function?

If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities.

The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.

The external auditor shall perform sufficient audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:

a) The work of the function had been properly planned, performed, supervised, reviewed and documented;
b) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
c) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.

The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:

a) The amount of judgment involved;
b) The assessed risk of material misstatement;
c) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and
d) The level of competence of the function;
e) And shall include re performance of some of the work.

5) **How to use work of Internal Auditors to Provide Direct Assistance?**
   a) Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
      i) Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
      ii) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.
   b) The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220 In so doing:
      i) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this SA; and
      ii) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

Standard on Assurance Engagement (SAE) 3420

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

1) **What do you mean by Pro forma Financial Information?**
Pro forma financial information – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. In this SAE, it is presumed that pro forma financial information is presented in columnar format consisting of

   a) The unadjusted financial information;

   b) The pro forma adjustments; and

   c) The resulting pro forma column.

2) **What is objective of practitioner in this SAE?**
According this SAE, the objectives of the practitioner are:
To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and
To report in accordance with the practitioner's findings.

3) **What is the nature of the Practitioner's responsibility in this SAE?**
In an engagement performed under this SAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

4) **What is the purpose of Pro Forma Financial Information Included in a Prospectus?**
The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows.

5) **What considerations required before accepting the Engagement?**
Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:

(a) Determine that the practitioner has the capabilities and competence to perform the engagement;
(b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended;
(c) Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE;
(d) Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources;

(e) If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and

(f) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for:

(i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;

(ii) Compiling the pro forma financial information on the basis of the applicable criteria; and

(iii)Providing the practitioner with:

1. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;
2. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
3. Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
4. When needed for purposes of the engagement, access to appropriate individuals within the acquire (s) in a business combination.

6) **How to plan and perform such engagement?**

Following shall be considered while planning.

a) Assessing the Suitability of the Applicable Criteria
b) Determination of Materiality
c) Obtaining an Understanding of How the Responsible Party Has Compiled the Pro
d) Forma Financial Information and Other Engagement Circumstances
e) Obtaining Evidence about the Appropriateness of the Source from Which
f) The Unadjusted Financial Information has been extracted
g) Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments

7) **How to form an opinion?**

a) The practitioner shall form an opinion on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.
b) In order to form that opinion, the practitioner shall conclude whether the practitioner has obtained sufficient appropriate evidence about whether the compilation of the pro forma financial information is free from material omissions, or inappropriate use or application of a pro forma adjustment. That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria to the extent that these are not publicly available.

Companies Auditor's Report Order (CARO), 2016

When it is notified?

The Ministry of Corporate Affairs (MCA) has notified the Companies Auditor's Report Order (CARO), 2016 vide Order dated. 29/03/16.

A) PART-I Applicability

1) CARO 2016 shall applies **to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013**,

   Except the following class of companies–

   a) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949
   b) an insurance company as defined under the Insurance Act,1938;
   c) a company licensed to operate under section 8 of the Companies Act, 2013;
   d) a One Person Company as defined under clause (62) of section 2 of the Companies Act

      and

      a small company as defined under clause (85) of section 2 of the Companies Act, 2013;
   e) **A private limited company** if the following criteria are met

      (i) not being a **subsidiary or holding company** of a **public company**, having a **paid up capital and reserves and surplus not more than rupees 1 crore** as on the balance sheet date and,

      - which does **not have total borrowings exceeding rupees 1 crore** from any bank or financial institution at any point of time during the financial year

        and
      - **which does not have a total revenue** as disclosed in **Scheduled III** to the Companies Act, 2013 (including revenue from discontinuing operations) **exceeding rupees 10 crore** during the financial year as per the financial statements.

2) *Analysis of Changes:*
   a) *CARO will be applicable to a private limited company which is holding company of a public company, which was not there in previous CARO.*
   b) *In the first condition it is clearly mentioned at the date of the balance sheet, in previous.*

3) *CARO any time during the year was considered, further the limit has been increased from 50 lakhs to 1 crore*

4) *Total Borrowing from bank or financial institutions increased to 1 crore from 25 lakhs, this limit has to be observed at any point of time during the financial year.*

5) *This CARO in the third condition of private limited company used the word total revenue, which means revenue and other operating revenue, but not other income. Words "during the financial year shall be interpreted at the end of the financial; year because sales returns are also required to be considered during the year. Limit has been increased from 5 crore to 10 crore.*

B) FAQS ON APPLICABILITY OF CARO

1) **FAQ-1: Whether CARO reporting required to Branch auditor also?**
   ANS:- Yes, CARO reporting is equally applicable to auditor of branch auditor.

2) **FAQ-2: Whether CARO applicable to NBFC?**
   ANS:- YES,CARO is applicable as it is neither a bank and nor a financial institution.

3) **FAQ.3: Whether for the purpose above exemption to private companies paid up share capital will include preference shares and share application money for pending allotment?**
   ANS:- Share capital includes preference share capital will also include bonus shares and preference share capital, but does not include any share application money for pending allotment.

4) **FAQ.4: What shall be mean by reserve and surplus?**
   ANS:- For the purpose of CARO reserves means Capital reserve + (revenue Reserve – accumulated losses to the tune of revenue reserve)+ revaluation reserve. Surplus means credit balance of profit and loss account, accumulated but not transfer to reserves.

5) **FAQ.5: For the purpose of availing exemption from CARO what kind of loan to be considered?**
   ANS:- All sorts of loan whether term loan, demand loan, export credit, working credit limits, cash credits. Overdrafts, bill purchased or discounted, but does not include non-fund based facilities like LC BG.

6) **FAQ.6:- Whether loan from NBFC will be treated as loan from bank or financial institution?**
   ANS:- NO.

7) **FAQ.7:- Any significant points to be considered, while computing the turnover for above exemption from CARO in case of a private company?**
   ANS:- Revenue shall not include indirect taxes collected.

8) **FAQ.8:- Whether CARO is Applicable to the auditor of consolidated financial statement?**
   Order shall not apply to the auditor's report on consolidated financial statements. In previous order it was not expressly provided hence CFS auditors used to include CARO in their report.

C) **PART-II REPORTING**

1) **Fixed Assets [3(i)]**
   a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
   b) Whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

c) **Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof**;

2) **Inventories [3(ii)]**
Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;

3) **Reporting on repayment of loans granted by company [3(iii)]**
Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,
a) Whether the **terms and conditions of the grant of such loans are not prejudicial** to the company's interest;
b) Whether the **schedule of repayment of principal and payment of interest has been stipulated** and whether the **repayments or receipts are regular**;
c) If **the amount is overdue,** state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

4) **Compliance of Section 185 and 186 [3(iv)]**
In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.

5) **Acceptance of Deposit [3(v)]**
In case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

6) **Cost Records [3(vi)]**
Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

7) **Statutory Dues [3(vii)]**
a) Whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

b) Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).

8) **Default in repayment of Dues [3(viii)]**
a) Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, **Government** or dues to debenture holders?

b) If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).

9) **Money raised by public offer and loans [3(ix)]**
Whether moneys raised **by way of initial public offer or further public offer** (including debt instruments) **and term loans** were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

10)Reporting of Fraud [3(x)]

Whether any fraud by the company or any fraud on the **Company by its officers or employees** has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;

11)Managerial Remuneration [3(xi)]

Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same;

Special Note:- section 197 of the Act is not applicable to a Priv`ate Company, and government company, accordingly, reporting under this clause would not be required.

12)Nidhi Company [3(xii)]

whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability; Related Parties

13)Transactions [3(xiii)]

Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;

Section 188(1) with Rule 15(3) describes nature of the transaction and criterion for which prior approval through ~~special resolution~~ **ordinary resolution** by the company in general meeting needed. [Company amendment Act, 2015]

Nature of Transaction	Criteria
188(1)(a) and 188(1)(e) Sale, purchase or supply of any goods or materials directly or through appointment of agents	Exceeding 10% of the Annual Turnover of the company or ₹ 100 cr. Whichever is lower.
188(1)(b) and 188(1)(e) Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents	Exceeding 10% of Net Worth of the company or ₹ 100 cr. Whichever is lower.
188(1)(c) Leasing of property of any kind;	Exceeding 10% the net worth of the company or 10% of the turnover of the company or ₹ 100 crore, Whichever is lower.
188(1)(d) and 188(1)(e) Availing or rendering of any services directly or through appointment of agents	Exceeding 10% of the turnover of the company or ₹ 50 crore, whichever is lower.

14)Private Placements and Preferential allotment [3(xiv)]

Whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;

15)Non-cash Transactions [3(xv)]

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with;

D) **FAQS ON REPORTING**

1) **FAQ 9: -What matters shall be included in F.A.R.?**
ANS:-Though the meaning for the term Proper Records is not defined in the Order,' in general the records relating to Fixed Assets should contain, the following details —
   a) Description of Asset,
   b) Classification (e.g. Plant & Machinery, Office Equip., etc.),
   c) Situation,
   d) Quantity,
   e) Original Cost,
   f) Year of Purchase,
   g) Adjustment for Reval^{n} or for any increase / decrease in cost,
   h) Date of Revaluation,
   i) Rate(s) / Basis of Depreciation or Amortization,
   j) Depreciation / Amortization Amount for the current year,
   k) Accumulated Depreciation / Amortization,
   l) Particulars regarding Impairment.
   m) Particulars regarding Sale, Discarding, Demolition, Destruction,
   n) Distinctive Number of Assets, etc.

2) **FAQ 10: What is reasonable interval?**
ANS:- Usually annual verification may be reasonable, it may be impracticable to carry out the same in some cases (due to nature of assets, difficulty in verification, spread, etc). Even in such cases, the verification programme should be such that all assets are verified at least once in every 3 years.

3) **FAQ 11: What documents Constitute Title Deed?**
Constitute title deeds of the immovable property:-
   a) Registered sale deed / transfer deed / conveyance deed, etc. of land, land & building together, etc. purchased, allotted, transferred by any person including any government, government authority/ body/ agency/corporation, etc. to the company.
   b) In case of leasehold land and land & buildings together, covered under the head fixed assets, the lease agreement duly registered with the appropriate authority.

4) **FAQ.12 What to do if Title Deeds are pledged with banks and FI?**
Where the title deeds of the immovable property have been mortgaged with the Banks/ Financial Institutions, etc., for securing the borrowings and loan raised by the company, a confirmation about the same should be sought from the respective institution to this effect. The auditor may also consider verifying this information from the online records, if available, of the relevant State.

5) **FAQ.13: Is it mandatory to attend physical verification by the auditor?**
ANS:- As per SA 501 when Inventory is material to the Fin. State., the Auditor shall obtain sufficient appropriate audit evidence regarding the existence & condition of Inventory by –
   a) Attendance at physical inventory counting unless impracticable, to –
      (i) Evaluate Management's instructions and procedures for recording and controlling the results of the Entity's physical inventory counting,
      (ii) Observe the performance of Management's count procedures,
      (iii) Inspect the Inventory, and
      (iv) Perform Test Counts.
   b) Performing audit procedures over the Entity's final inventory records to determine whether they accurately reflect actual inventory count results.

6) **FAQ. 14 How to report if no stipulation is there in form of agreement?**
ANS:- In case of non-stipulation of schedule of repayment of principal & payment of Interest, the auditor should state the fact and may report that he is unable to make specific comment on the regularity of repayment of principal & payment of interest, in such cases.

7) **FAQ:15 Whether this is applicable to all companies coming under the net of CARO?**
   a) No some private companies and government companies are out of ambit of these sections but they are within the scope of CARO, care must be taken for following companies.

b) **The exemption has been granted to private companies from compliance of provisions of Section 185**,
provided it complies with the following conditions:
(i) There shall be no other body corporate shareholder in the lending company;
(ii) if the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is lower; and
(iii) Such a company has no default in repayment of such borrowings subsisting at the time of making transactions under this Section.

c) **Entire Section 185 Shall not apply to Government company** in case such company obtains approval of the

8) **FAQ.16: Should the auditor examine the cost record in detail?**
ANS:-CARO does not require a detailed examination of Cost Records. The Auditor should, therefore, conduct a general review of Cost Records to ensure that the records as prescribed are made and maintained.
The word "made" applies in respect of Cost Accounts, and the word "maintained" applies in respect of Cost Records relating to Materials, Labour, Overheads, etc.

9) **FAQ.17:- Whether is it necessary to report under this clause even if there is cost audit already ordered by Govt.?**
ANS:- The Auditor has to Report under the clause irrespective of whether a Cost Audit has been ordered by the CG. Where the Auditor

10) **FAQ.18:- What should be auditors' course of action if show cause notice is issued by department?**
ANS: - Issuance of a show cause notice by the concerned department should not be construed to be a demand payable by the Company. In some cases, such notice and Demand may be combined in one document. Normally, in such cases, the Demand would not be construed to have arisen till the time the Assesse has disposed off the requirements of the Show cause notice; hence it is necessary to evaluate each situation individually.

11) **FAQ.19- What should be course of action when demand is in stay?**

ANS:-Demands that have been stayed should be regarded as Disputed Dues. These should be disclosed along with a disclosure of the fact of stay. The Stay normally is a concession that the amount may not be deposited immediately or that it may be deposited in installments.

12) **FAQ.20:-What should be course of action if there is an appeal by department against decision of appellate authority?**

a) There may be a situation that the Appellate Authority has decided a case in favor of the Company but the
b) Department may prefer to make an appeal to a Higher Authority. In such case, there is no dispute until the time

13) **FAQ.21: Default was there during the financial year but made good at the end whether to report?**

ANS:- Where a default has been made good by the Company during the accounting period covered by the Auditor's Report, the Auditor should state in his Audit Report the fact of default having been made good.

14) **FAQ.22- Whether this clause is applicable for all type of loans?**

ANS:-This is applicable in respect of Term Loans (Cash credit, overdraft and call money accounts/deposits are, therefore, not covered) availed from any person (Banks, Financial Institutions, Directors, Subsidiaries, etc.). Term loans normally have a fixed or predetermined maturity period or a repayment schedule. In the banking industry, for example, loans with repayment period beyond 36 months are usually known as "term loans".

15) **FAQ 23- What if the purpose of Loan not specified in the agreement?**

ANS:- Auditor should clearly mention the fact, that in the absence of any stipulation regarding the utilization of loans from the Lender, he is unable to comment as to whether the Term Loans have been applied for the purposes for which they were obtained. It may, however, be noted that she Auditor, in such cases, should verify that the Company has not invested or utilized the money for purposes that are prohibited under law.

16) **FAQ.24 What Kind of written representations are needed?**

The auditor should obtain written representations from management that:

a) it acknowledges its responsibility for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error;
b) it believes the effects of those uncorrected misstatements in financial statements, aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representation;
c) it has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; and
d) it has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

17) **FAQ 25: what are the provisions relating to section 192?**

a) Section 192 of the Act deals with restriction on non-cash transactions involving directors or persons connected with them. The section prohibits the company from entering into following types of arrangements unless it meets the conditions laid out in the said section:
   (i) An arrangement by which a director of the company or its holding, subsidiary or associate co. or a person connected with such director acquires or is to acquire assets for consideration other than cash, from the company.
   (ii) An arrangement by which the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected.
b) Arrangements, as discussed herein above, can only be entered by the company on fulfillment of the conditions laid out in Section 192 of the Act which are as under:
   (i) The company should have obtained prior approval for such arrangement through a resolution of the company in G.M.
   (ii) In case the concerned director or the person connected therewith, is also a director of its holding company, a similar approval should have been obtained by the holding company through a resolution at its general meeting

Guidance Note on Reporting under Sec. 143(3)(f) & (h) of Companies Act, 2013

What are the reporting requirements under 143(3)(f) and (h)
According to Section 143 (3) lays down certain matters required to be reported upon by the auditor in his report. Sub-section (3) of section 143 of Act provides as follows:

"(3) The auditor's report shall also state –

a) Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
b) Whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
c) Whether the report on the accounts of any branch office of the company audited under sub- section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
d) Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
e) Whether, in his opinion, the financial statements comply with the accounting standards;
f) The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
g) Whether any director is disqualified from being appointed as a director under sub- section (2) of section 164;
h) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
i) Whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
j) Such other matters as may be prescribed.

1) ***What should be considered while reporting under clause (f) of subsection 3 of section 143:- "The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;"***
   A) According to the Guidance note :- The words "observations" or "comments" as appearing in clause (f) of section 143(3) are construed to have the same meaning as referring to "emphasis of matter paragraphs, situations leading to modification in the auditor's report. Accordingly, the auditor should have made an "observation" or "comment" in the auditor's report in order to determine the need to report under clause (f) of section 143(3). Therefore, only such "observations" or "comments" of the auditors on financial transactions or matters that have been made by the auditor in the auditor's report which have an adverse effect on the functioning of the company are required to be reported under this clause.
   B) It should be noted that there is no change in the objective and scope of an audit of financial statements because of inclusion of clause (f) in sub-section (3) of section 143 of the Act

2) **Whether every qualification, disclaimer, adverse opinion, or emphasis of matter para required to be included in above reporting?**
   According to this Guidance Note - The auditor expresses his opinion on the true and fair view presented by the financial statements through his report which may be modified in certain circumstances. However, the auditor would now have to evaluate the subject matters leading to modification of the audit report or emphasis of matter in the auditor's report to make judgment as to which of them has an adverse effect on the functioning of the company within the overall context of audit of financial statements of the company. Only such matters which, in the opinion of the auditor, have an adverse effect on the functioning of the company should be reported under this clause.
   Hence such qualifications or adverse opinions or disclaimer of opinions or emphasis of matters of the auditor, which do not deal with matters that have adverse effect on the functioning of the company, need not be reported under this clause.

3) **Illustrate which type of modifications in auditors report will require to report under Section 1432(3)(f) and which are not?**

A) Examples of emphasis of matter which may have an adverse effect on the functioning of the company include situations where:

a) The going concern assumption is appropriate but there are several factors leading to a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern; or

b) A material uncertainty regarding the outcome of a litigation wherein an unfavorable decision could result in a significant outflow of resources for the company, etc.

B) **Examples of emphasis of matter which may not have an adverse effect on the functioning of the company include a situation where there is an emphasis of matter:**

a) On managerial remuneration which is subject to the approval of the Central Government;

b) Relating to accrual of a contractually receivable claim based on management estimate where the ultimate realisation could be different from the amount accrued;

c) On frauds that have been dealt with in the financial statements of the company and would not have any continuing effect on the financial statements

4) **What is scope of auditor while reporting under 143(3)(h) "any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;"**

According to Guidance Note ,the words "qualification", "adverse remark" and "reservation" used in clause (h) of section 143(3) should be considered to be similar to the terms "qualified opinion", "adverse opinion" and "disclaimer of opinion", respectively, referred to in SA 705 "Modifications to the Opinion in the Independent Auditor's Report". Hence, the auditor would need to report under clause (h) of section 143(3) any matter that causes a qualification, adverse remark or disclaimer of opinion on the financial statements since such matters **will or possibly will have an effect on the books of account maintained by the company**. It should be noted that the auditor may have made an observation on maintenance of cost records under clause (b) of section 143(3) and this may not have had an effect on the financial statements of the company or the auditor's opinion on the financial statements. Further, any material weakness in internal financial controls that is reported by the auditor under clause (i) of section 143(3) may not have an impact on the maintenance of books of account if such material weakness did not result in a modification to the opinion on the financial statements of the company. However, if the material weakness in internal financial controls resulted in a modification to the audit opinion on the financial statements, then such modification may be covered for reporting under clause (h) of section 143(3).

Guidance Note on Reporting of Fraud Under Section 143 (12) of Companies Act, 2013.

1) **What is Duty to report on frauds under Companies Act?**
   As per sub-section (12) of section 143 of the Companies Act, 2013:
   - If an auditor of a company,
   - In the course of the performance of
   - His duties as auditor,
   - Has reason to believe that,
   - An offence of fraud involving such ***amount or amounts as may be prescribed***,
   - Is being or has been committed in the company,
   - By its officers or employees,
   - The auditor shall report the matter to the Central Government,
   - ***Within such time and in such manner as may be prescribed***.

2) **What is the monetary threshold prescribed for such reporting?**
   A) **Case-1 Fraud amounting to 1 crore or more:-**
   If auditor has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ` ***1 crore or above,*** is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
   a) The manner of reporting the matter to the C.G. is as follows:
      (i) **The auditor shall report the matter to the Board or the Audit Committee,** as the case may be, **immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days;**
      (ii) **On receipt of such reply or observations**, the **auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;**

(iii) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, **he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;**

(iv) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e- mail in confirmation of the same;

(v) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and the report shall be in the form of a statement as specified in Form ADT-4

B) **Case 2 Fraud amounting to less than 1 Cr.:-**

a) **Sub-section (12) of section 143 of the Companies Act, 2013 further prescribes that in case of a fraud involving lesser than the specified amount [i.e. less than ` 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.**

b) In this regard, sub- rule (3) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that in case of a fraud involving lesser than the amount specified in sub-rule (1) [i.e. less than ` 1 crore], the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than 2 days of his knowledge of the fraud and he shall report the matter specifying the following:

(i) Nature of Fraud with description;
(ii) Approximate amount involved; and
(iii)Parties involved.

3) **What are disclosure requirements of FRAUD in Board's report?**

A) Sub-section (12) of section 143 of the Companies Act, 2013 further prescribes that the,
   a) Companies, whose auditors have reported frauds under this sub-section (12)
   b) To the audit committee or the Board,
   c) But not reported to the Central Government,
   d) Shall disclose the details about such frauds in the Board's report
   e) In such manner as may be prescribed.

B) In this regard, sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the auditor is also required to disclose in the Board's Report the following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year:
   a) Nature of Fraud with description;
   b) Approximate Amount involved;
   c) Parties involved, if remedial action not taken; and
   Remedial actions taken

Guidance Note on Internal Financial Control over Financial Reporting

1) **What is Internal Financial Control (IFC)? (Sec 134)**
   As per Section 134 of the Companies Act 2013, the term „Internal Financial Controls‟ means the ***policies and procedures*** adopted by the company for ensuring:
   a) Orderly and efficient conduct of its business, including adherence to company's policies,
   b) Safeguarding of its assets,
   c) Prevention and detection of frauds and errors,
   d) Accuracy and completeness of the accounting records, and
   e) Timely preparation of reliable financial information.

2) **What is Internal Controls over financial Reporting (ICFR)**
   As per Guidance Note issued by ICAI on Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (September, 2015), "Internal Financial Controls over Financial Reporting (ICFR) shall mean:
   a) "A Process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles". A Company's internal financial control over financial reporting includes those policies and procedures:
   b) Pertain to the maintenance of the records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company:
   c) Provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles, and those receipts and expenditures of the company are being made only in accordance with authorizations of management and director of the company.
   d) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statement.

3) **Which provision of Companies Act requires such IFC and Reporting?**

   A) **Section 134:**
   In the case of a listed company, the Director's Responsibility states that directors, have laid down IFC to be followed by the company and that such controls are adequate and operating effectively.

   B) **Section 143:**
   The auditor's report should also state whether the company has adequate IFC system in place and the operating effectiveness of such controls

   C) **Section 177:**
   Audit committee may call for comments of auditors about internal control systems before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

   D) **Schedule IV**
   The independent directors should satisfy themselves on the integrity of financial information and ensure that financial controls and systems of risk management are robust and defensible.

   E) **Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 –**
   The director's report should contain details in respect of adequacy of internal financial controls with reference to the financial reporting.

4) **To whom does this apply?**
   The guidance note clarifies that reporting on ICFR by auditors will be applicable to both listed and unlisted companies, including small and one person companies. This is in line with the requirements of section 143(3)(i) of the Companies Act, 2013.

   Furthermore, it states that auditors will have to report on ICFR in respect of both stand alone and consolidated financial statements.

5) **When does this apply and for financial statements of which period?**

The guidance note clarifies that auditors will have to report whether a company has an adequate ICFR system in place and whether the same was operating effectively as at the balance sheet date of 31 March 2016. In practice, this will mean that when forming its audit opinion on ICFR, the auditor will surely test transactions during the financial year ending 31 March 2016 and not just as at the balance sheet date, though the extent of testing at or near the balance sheet date may be higher. If control issues or deficiencies are identified during the interim period and are remediated before the balance sheet date, then the auditor may still be able to express an unqualified opinion on the ICFR. This is particularly important for companies for the current year ending 31 March 2016, as it will be the first year when auditor validation of ICFR will be required.

6) **What is extent of reporting?**

The auditor needs to obtain reasonable assurance to state whether an adequate internal financial controls system was maintained and whether such internal financial controls system operated effectively in the company in all material respects with respect to financial reporting only. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity

Recent Decisions of Ethical Standards Board

1) **Chartered Accountants in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.**

2) Chartered Accountant cannot exercise lien over the client documents/records for non-payment of his fees.

3) It is not permissible for CA Firm to print its vision and values behind the visiting cards, it would result in solicitation and therefore would be violative of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.

4) It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.

5) It is permissible for a member in practice to be a settler of a trust.

6) A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.

7) A Chartered accountant in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.

8) A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.

9) A Chartered Accountant Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.

10) A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.

11) A CA/CA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).

12) The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplicitor (which is generally permitted as per ICAI norms) , if he is non -executive director, required in the Board Meetings only , and not paid any remuneration except for attending such Board Meetings.

13) Mentioning the firm as a "Knowledge Partner" or in the "Thank You" advertisement, is not permissible, however mention of name of an individual member with prefix/suffix "CA" as a "knowledge partner" is permissible.

14) Permitting the use of firm name by client, mentioning the firm as a "Knowledge Partner" or in the "Thank You" advertisement is not permissible.

15) Concurrent auditor of an entity cannot accept an assignment done under any statue.

16) A chartered accountant in practice may establish a

17) TIN – FC, and may as well establish a TIN - FC under franchise from the other entity which is already a TIN – FC.

18) Quick Response Code (QR Code) may be printed on the visiting Card by a member in practice, provided that the Code does not contain information that is not otherwise permissible to be printed on a visiting Card.

19) A statutory auditor and tax auditor can not be valuer of the unquoted equity shares as it would create threats to independence of the auditor, which may not possibly be reduced by application of safeguards.

20) The use of banner with name of CA firm is not permissible in terms of provisions of Items 6 and 7 of Part -I of First Schedule to The Chartered Accountants Act, 1949.

Tendering

A) In exercise of the powers conferred on it under Item (1) of Part II of the Second Schedule of the Chartered Accountants Act, 1949, the Council of the Institute of Chartered Accountants of India hereby issue the following guidelines for compliance by the members of the Institute -

1) A member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.
2) This Guideline shall come into force with immediate effect.

B) **What is the effective date of the said notification/guideline?**
The said notification/guideline has come into force with immediate effect from date of publication of the notification in the official gazette (7th April, 2016). In other words, all tenders issued on or after 7th April 2016 will be covered under this notification/guideline

C) **Whether a member of the Institute in practice can accept such assignment where advertisement of tender was issued prior to 7th April, 2016?**
The notification is effective for all tenders issued/hosted on or after 7th April, 2016. Therefore, a member of the Institute in practice can accept such assignment where advertisement of tender was issued prior to 7th April, 2016.

D) **Whether a member of the Institute in practice can respond to tenders floated in exclusive areas of practice of Chartered Accountants?**
A member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for Chartered Accountants by statute viz. audit and attestation services such as audit under Companies Act 2013, Income Tax Act 1961, etc.

It is clarified that in any State under the local statute if audit and attestation services are exclusively meant for Chartered Accountants only, the member will not be allowed to respond to such tender. However, a member of the Institute in practice may respond to tenders as mentioned above wherever the minimum fee of the assignment is prescribed in the tender document itself.

E) **Whether a member of Institute in practice can respond to such tenders which are open to other professionals apart from CAs. However, in the tender document, only CA's have been invited to respond?**
A member of the Institute in practice can respond to such tenders

F) **Whether a member of Institute in practice can respond to such tenders which are open to CAs and other professionals and in the tender document other professionals along with CAs have been invited to respond?**
A member of the Institute in practice can respond to such tenders.

G) **Whether a member of Institute in practice can respond to such assignments where quotations have been called for from practicing members/firms through individual letters?**
A member of the Institute in practice can respond to such assignments based on individual letters issued.

H) **Whether a member of Institute in practice can respond to such tenders where only technical bid has been asked for from the members who are followed by financial quotations request from the shortlisted members through individual letters?**
A member of the Institute in practice can respond to such tenders.

I) **Whether non-adherence to such guidelines will lead to disciplinary action?**
Non-adherence to such guidelines could lead to disciplinary action as this is a Council decision.

J) **Whether the Institute can call for any papers/documents related to bid submitted by members in response to respective tender?**
The Institute can call for any such papers/documents.

Section 130: Re-opening of accounts on court's or Tribunal's orders

1) A company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that—

    (i) The relevant earlier accounts were prepared in a fraudulent manner;

    Or

    (ii) The affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements:

    Provided that the court or the Tribunal, as the case may be, shall give notice to the Central Government, the Income-tax authorities, the Securities and Exchange Board or any other statutory regulatory body or authority concerned and shall take into consideration the representations, if any, made by that Government or the authorities, Securities and Exchange Board or the body or authority concerned before passing any order under this section.

2) Without prejudice to the provisions contained in this Act the accounts so revised or re-cast under sub-section (1) shall be final.

Section 131: Voluntary revision of financial statements or Board's report

1) If it appears to the directors of a company that—

    a) The financial statement of the company;

    Or

    b) The report of the Board, do not comply with the provisions of section 129 or section 134 they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar:

    Provided that the Tribunal shall give notice to the Central Government and the Income Tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:

    Provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:

    Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.

2) Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to—

    a) The correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134;

    And

    b) The making of any necessary consequential alternation.

3) The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular—
   a) Make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;
   b) Make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;
   c) Require the directors to take such steps as may be prescribed

Bibliography:

Gunjan Pravin Shingavi. (2017).

CA_Final_May_2017_Amendments_Auditing

(Free Edition ed., Vol. 1.01).

Sparkz Solutions.,Ahmednagar, Maharashtra, India

gShingavi@gmail.com//+91-8446693996

http://www.gshingavi.webs.com

Facebook: http://www.facebook.com/gshingavi

Instagram: http://www.instagram.com/gshingavi