CA Final INDEX (AUDIT Amendments May 2017)

1. These all are Amendments/ Changes/ Addition for May 2017 for CA Final AUDIT.
2. Video Lectures of the same will be provided to registered students in few days.

For any queries, you can contact us @ ravitaorisir@gmail.com or 9322011915.

DIVIDEND

CONTENT

1. CONCEPT OF DIVIDEND

2. PROCESS OF DIVIDEND DECLERATION & DISTRIBUTION (Sec 123)

Sec 123 (Declaration of Dividend)

BOD

Meets to Propose Dividend

Sources of Dividend
1. CY Profits (After Dep) *As per Sch II
2. Accumulated Profits (After Dep)
(Only Free Reserves) Gen Res & P&L App
3. Money provided by CG / SG

1.No Restriction on payment of dividend out of P&L Appropriation Account
2.But there are rules for payment out of General Reserves (Discussed Later)
3.Losses shall be ADJ (Discussed Later)

BOD Prop Dividend
(May also decide trf to Gen Res not mandatory)

NOTICE
It is included in AGM notice as Ordinary Business

Shareholders Pass Resolution & Declare Dividend.
Cannot Declare on Eq Sh if failure to comply with Sec 73 & Sec 74

**Trf money in separate bank a/c in 5 days
&
Pay CDT in 14 days

Dividend is calculated as per share holders register on record date
+
Details entered in dividend register.
Cash/ Chq /Warrant/ Elec Trf within 30 Days
(Dividend cannot be paid in Kind)

Section related to dividend doesn't restrict capitalisation of profits or reserves by issuing fully paid bonus shares or paying unpaid amount on shares

**Not Applicable to Government Company where entire paid up sh capital is held by CG / SG / Other Govt Comp

Nidhi Company

Condition regarding payment of dividend through cash / cheque / warrant / electronic mode :-Shall apply, subject to the modification that any dividend payable in cash may be paid by crediting the same to the account of the member, if the dividend is not claimed within 30 days from the date of declaration of the dividend.

3. INTERIM DIVIDEND

AGM — AGM

Interim Dividend is paid between 2 AGMs

1. Declared by Board of directors before year end, between 2 AGMs
2. Source can be the surplus in the profit and loss account and out of profits of current financial year. *(General Reserve or any other reserve cannot be used)*
3. As per definition of dividend "dividend includes interim dividend" So all other sections 123-127 are also applicable.
4. If company incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend

shall not be declared at <u>a rate higher than the average dividends declared by the company</u> during the immediately preceding three financial years.

5. Interim or Final Dividend can be cancelled if dividend is Illegal / Out of fake profits or when company ceases to be going concern.
6. If final dividend is just proposed and not yet declared at AGM it can be rolled back.

4. SECTION 124 UNPAID DIVIDEND

After 30 days, if dividend remains unpaid then amount should be transferred within 7 days to unpaid dividend account.

People can apply and take dividend from this account

→ If amount is not transferred within 7 days then company will have to pay 12% interest which will paid proportionately on unpaid dividend amount.

→ Within 90 days of transfer of money, names , address of people to whom dividend is unpaid should be uploaded on company website or as instructed by government.

If Amount remains unpaid for 7 years From date of Transfer. Dividend + Accrued Interest should be transferred to Investor Protection Fund And send details to administrator of fund.

→ Shares where dividend has not been paid or claimed for 7 consecutive years or more shall be trf to IEPF along with details.

Any claimant of shares shall be entitled to transferred as per procedure prescribed.

→ If there is non compliance company will pay fine 5 lakhs to 25 lakhs and every officer who is in default 1 lakh to 5 lakhs

5. SECTION 125:-Investor Education & Protection Fund

Sub section (1) to (4) are not yet notified and they are still governed by Sec 205C of companies act 1956 Rest of the sub sections are notified. It is because old law says once money is transferred to IEPF no one can claim money but new law says money can be claimed subject to rules.

CG should establish fund called IEPF → Following amount should be transferred to fund if they are unclaimed and unpaid for 7 years. Share application money due for refund / amount in unpaid dividend account / matured deposits & debentures / interest accrued on these amounts. → Apart from this grants / donations from CG / SG / Companies & there interest should also be credited

Money once transferred cannot be claimed and no payment will be made → It should be utilized for promotion of investors' awareness and protection of the interests of investors

CS shall constitute an authority, with 1 Chairperson, 1 CEO and members not exceeding 7 → They can spend money to achieve objectives of fund → Manner of Administration / Authority to be prescribed by rules → Separate Accounts & Other records should be maintained as prescribed by rules

C&AG shall audit and forward report annually → Authority shall prepare annual report explaining activities undertaken during the year → Audit Report & Annual Report shall be laid in each office of parliament

6. SECTION 126:- DIVIDEND IN ABEYANCE

Meaning

Buyer
(Transferee of shares)

Shares + Transfer Deed
(Before Record Date)

Request to transfer shares is pending as on record date (Valid Reason)
Eg Dispute / Attachment by authority or court

Company should transfer dividend to unpaid dividend account.
It will be paid when issue is resolved and transferor (Seller) approves payment to buyer.

Same should be done with rights & bonus shares

7. SECTION 127:- PUNISHMENT FOR NON PAYMENT OF DIVIDEND

Dividend has not been paid or the warrant has not been posted within 30 days
Every director of the company shall, if he is knowingly a party to the default,

1. Max imprisonment of 2 years to all the directors.
2. Fine of Rs. 1000 every Day (Directors to ROC)

3. 18% simple interest (Company to shareholders)

No offence in following cases: - *(In sequence of Law→Share Holder→Company→Third Party→Dispute)*

1. Reason of the operation of any law; *(Enforcement Directorate has stopped payment)*
2. Shareholders directions cannot be complied with and the same has been communicated to him; *(He asks for payment in US Dollars)*
3. Dividend has been adjusted by the company against any sum due. *(Debt overdue)*
4. Not due to any default on the part of the company. *(Bank transferred amount to wrong account)*
5. Dispute regarding the right to receive the dividend; *(Seller Vs Buyer, Interim dividend announced just before transfer, not know at the time of transfer)*

Nidhi Company

Shall apply, subject to the modification that where the dividend payable to a member is one hundred rupees or less, it shall be sufficient compliance of the provisions of the section, if the declaration of dividend is announced in the local language in one local newspaper of wide circulation and announcement of the said declaration is also displayed on the notice board of the Nidhis for at least three months.

DIVIDEND DISTRIBUTION AND PAYMENT OF DIVIDEND RULE 2014 OUT OF RESERVES (DAPD RULES 2014)

In case of inadequacy or absence of profits in any year, FREE RESERVES can be used subject to

1) The rate of dividend =<average of the rates of dividend (Past 3 Years) This condition is Not applicable if no dividend is declared in past 3 years
2) The total amount to be drawn from such accumulated profits general reserve shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
3) The balance of general reserves after such withdrawal shall not fall below fifteen per cent of its paid-up share capital as appearing in the latest audited financial statement.

Above rules Shall not apply to a Government Company in which the entire paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments. *(That means they can pay dividend without any restrictions, there has been little controversy as RTP misinterpreted this amendment, that such companies cannot pay dividend out of general reserve, I don't agree with it)*

Adjustment of Losses

1. **All past year losses (If any) should be adjusted if dividend is paid out of CURRENT YEAR profits. Logic behind such provision is simple, As company's position is improving it is better to adjust all past losses.**

2. **Only CY Loss (If any) should be adjusted if dividend is paid out of GENERAL Reserves. Logic behind such is simple, As company is not in good financial position, forced to use General Reserves, let's make things less difficult by adjusting only CY losses**

Question: - Due to inadequacy of profits during the year ended 31st March, 2015, From the following particulars, ascertain the **maximum amount** that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

17,500 9% Preference shares of Rs 100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs 10 each, fully paid up	80,00,000
General Reserves as on 1.4.2014	25,00,000
Capital Reserves as on 1.4.2014	3,00,000
Revaluation Reserves as on 1.4.2014	3,50,000
Net profit for the year ended 31st March, 2015	3,00,000

Average rate of dividend during the three year has been 12%.

Condition I

Average dividend rate of past 3 years is 12 %, so dividend rate cannot exceed 12%.

Preference Dividend 17,50,000 x 9 % = 1,57,500

Equity Dividend (Max) 80,00,000 x 12% = 9,60,000

Total Dividend =**11,17,500**

CY profit available 3,00,000

So withdrawal from reserves =11,17,500 – 3,00,000

= **8,17,500**

Condition II

Withdrawal from reserves = 10 % (Paid up Capital + Reserves)

= 10 % (17, 50, 000 + 80,00,000 + 25,00,000)

= **12,25,000**

Condition III

Minimum balance required in General Reserve = 15 % (Paid up capital)

= 15 % (17,50,000 + 80,00,000)

= **14,62,500**

So we can withdraw 25,00,000 – 14,62,500 = **10,37,500**

We have to select lowest of above, So 8,17,500 can be withdrawn from general reserve.

Question:- Due to inadequacy of profits during the year ended 31st March, 2015, From the following particulars, ascertain the **maximum rate of dividend** that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

17,500 9% Preference shares of Rs 100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs 10 each, fully paid up	80,00,000
General Reserves as on 1.4.2014	25,00,000

Capital Reserves as on 1.4.2014	3,00,000
Revaluation Reserves as on 1.4.2014	3,50,000
Net Loss for the year ended 31st March, 2015	**(75,000)**
Average rate of dividend during the last three year has been 12%.	
Accumulated loss of previous year	**(1,25,000)**

Condition I

Average dividend rate of past 3 years is 12 %, so dividend rate cannot exceed 12%.
Preference Dividend 17,50,000 x 9 % = **1,57,500**

Equity Dividend (Max) 80,00,000 x 12% = 9,60,000
Total Dividend = **11,17,500**

CY Loss **(75,000)**
So total profit required 11,17,500 + 75,000 = **11,92,500** (Withdrawal)

Condition II

Withdrawal from reserves = 10 % (Paid up Capital + Reserves)
= 10 % (17, 50, 000 + 80,00,000 + 25,00,000)
= **12,25,000**

Condition III

Minimum balance required in General Reserve = 15 % (Paid up capital)
= 15 % (17,50,000 + 80,00,000)
= **14,62,500**

So we can withdraw 25,00,000 – 14,62,500 = **10,37,500**

We have to select lowest of above, So 10,37,500 can be withdrawn from general reserve.

Profit available from withdrawal	**10,37,500**
Adjustment of CY	**(75,000)**
Profit available for Dividend	**9,62,500**
Preference Dividend	**(1,57,500)**
Equity Dividend	**8,05,000**

So Maximum Rate = 8,05,000 / 80,00,000 X 100 = 10.0625%

8. DIVIDEND OUT OF CAPITAL PROFITS & REVALUATION RESERVE

1. Companies act doesn't distinguish between capital nature profits & revenue nature profits. Further AS 10 also says that profit on sale of fixed assets should be credited to P&L.

2. As per OLD case law (LUBBOCK VS THE BRITISH BANK OF SOUTH AMERICA & FOSTER Vs THE NEW TRINIDAD LAKE ASPHALT CO)
   3 conditions should be fulfilled
   (i) Permission by AOA
   (ii) Realisation in CASH

(iii) Ensure that losses on overvaluation of assets & undervaluation of liabilities are adjusted before utilizing from dividend

Revaluation profits are unrealised capital nature profits so it should not be used for dividend, bonus, adjusting operating losses. These restrictions are also prescribed in AS 10.

Amendments
Company Audit I (Sec 139 to Sec 148)

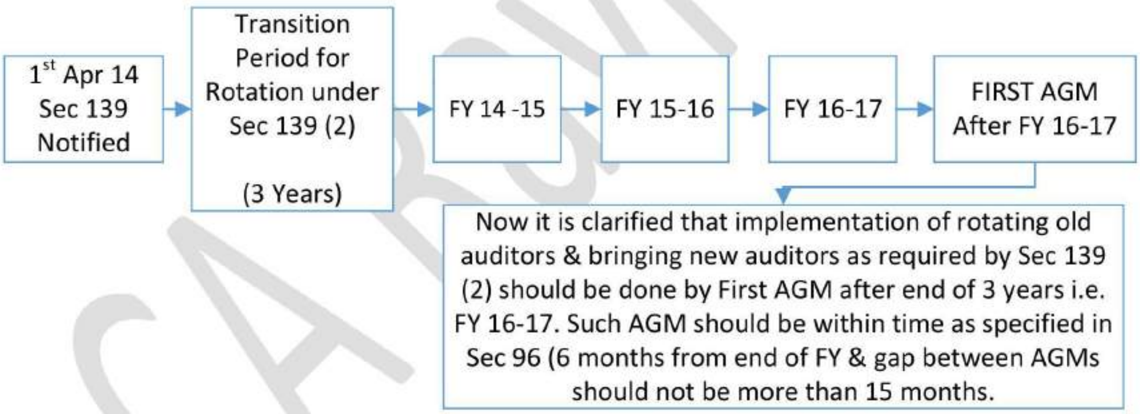
1. Sec 139 / Rotation of Auditor

Old Provision

"Provided also that every company, existing on or before the commencement of this Act which is required to comply with the provisions of this sub-section, shall comply with the requirements of this sub-section within three years from the date of commencement of this Act:"

New Provision

"Provided also that every company, existing on or before the commencement of this Act which is required to comply with the provisions of this sub-section, shall comply with requirements of this sub-section within a period which shall not be later than the date of the first annual general meeting of the company held, within the period specified under sub-section (1) of section 96, after three years from the date of commencement of this Act."



2. Sec 148 / Cost Audit

Cost Audit Rules 2014 are amended.

Rule 2 Definition of Cost Audit Report is elaborated. Not significant from exams point of view.

Rule 3 There are 6 industries in regulated sector and 33 in unregulated sector, description of some industries is elaborated to include more companies under rules. Not significant from exams point of view.

Rule 4 One more exemption from Cost Audit, earlier there were 2 now its total 3
Company which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005.

Rule 6 which is regarding process of cost audit.
Covering whole rule for better understanding not just amendments.

1. Cost Records should be maintained in form CRA-1
2. Before appointment take written consent of the cost auditor to such appointment, and a certificate from him. *(Amendment)*

Contents of Certificate

- the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959 (23 of 1959) and the rules or regulations made thereunder;
- the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
- the proposed appointment is within the limits laid down by or under the authority of the Act; and
- the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

1. Company shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor

2. Every company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified.

3. The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon.

4. Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.

5. Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.

6. Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format.

7. Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed

8. The cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing:

Provided further that the Form CRA-2 to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company. *(Amendment)*

1. Any casual vacancy in the office of a cost auditor, whether due to resignation death or removal, shall be filled by the Board of Director, within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor. *(Amendment)*
2. The provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules. *(Amendment)*

Amendments
Company Audit II (Sec 128 to Sec 138)

1. Sec 129 / Consolidation

Sec 129 (3) deals with consolidated financial statements. Rule 6 of Companies (Accounts) rule deal with manner of consolidation. This rule provides for exemption from consolidation.

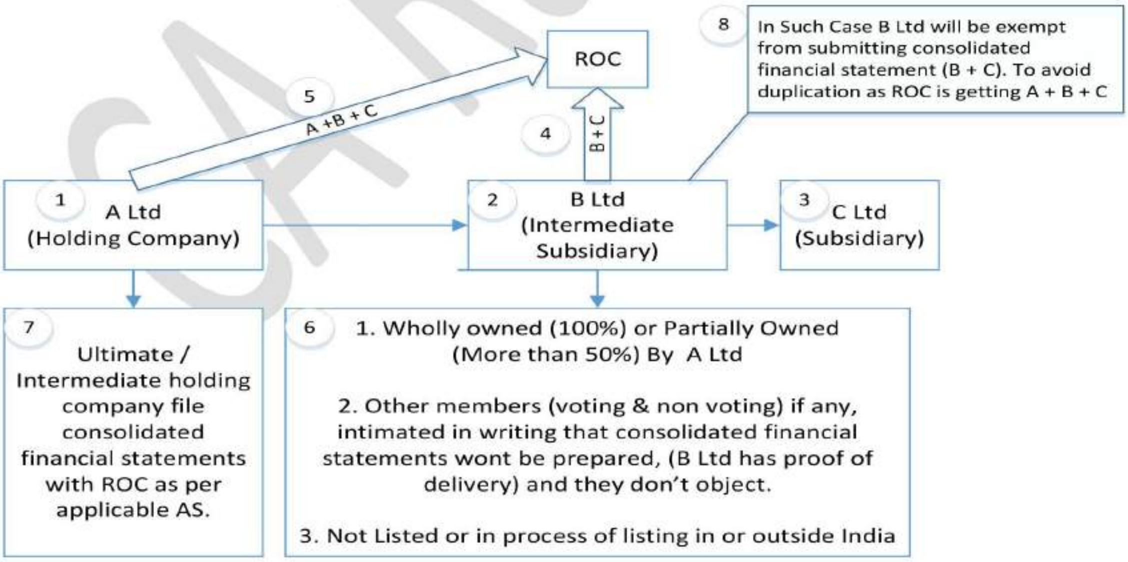
Old Provision (No need to read just for reference if required)
"Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statement by an intermediate wholly-owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India"

New Provision
"Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statements by a company if it meets the following conditions:—

(i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;

(ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and

(iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards."



2. Sec 130 / Re-opening of accounts on court's or Tribunal's orders

(Notified and applicable first time)

Sec 130. (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:-

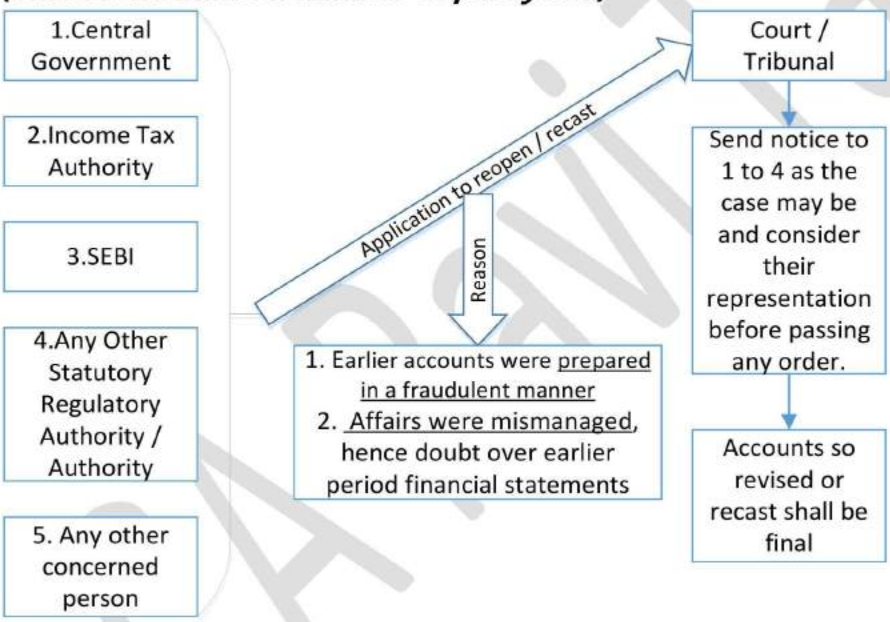
(i) the relevant earlier accounts were prepared in a fraudulent manner; or

(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.

(There is no limit on number of past years)



3. Sec 131 / Voluntary revision of financial statements or Board's report.

Sec 131.

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

(a) the financial statement of the company; or

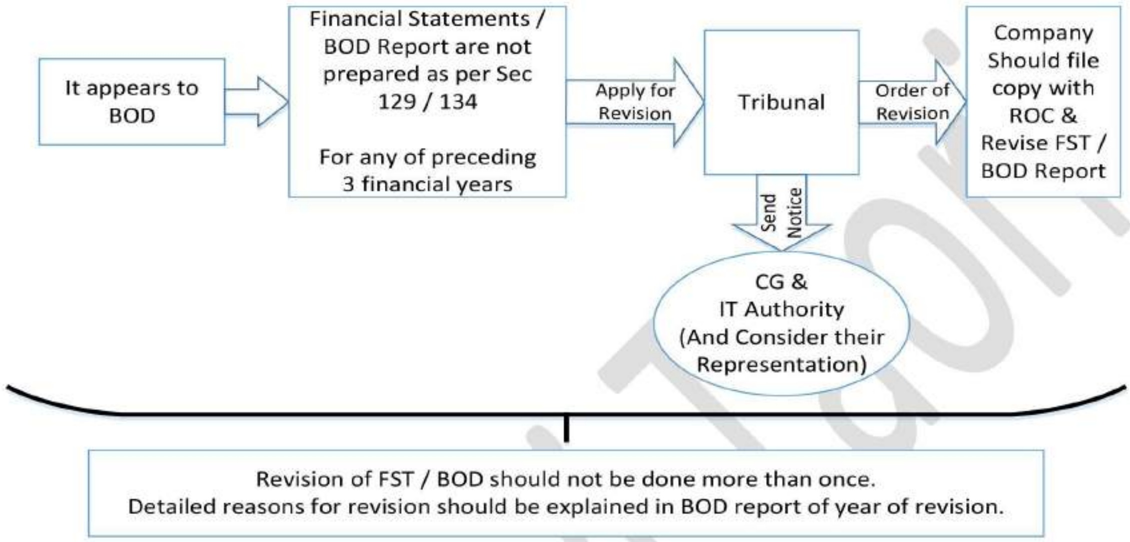
(b) the report of the Board,

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:

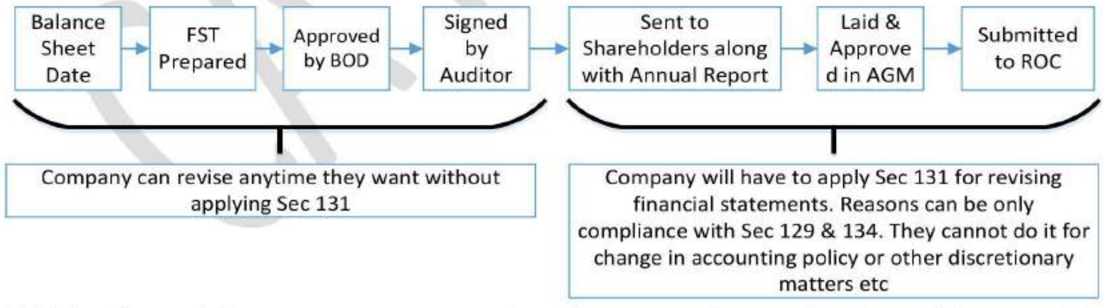
Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.



(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 provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;

(b) 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;

(c) require the directors to take such steps as may be prescribed.

4. Sec 134 / BOD Report

Sec 134 prescribes matter to be included in BOD Report. Rule 8 of Companies (Account) Rule 2014 further clarifies matters to be included.

Old Provisions (No need to read just for reference if required)

The Board's Report shall be prepared based on the stand alone financial statements of the company and the report shall contain a separate section wherein a report on the performance and financial position of each of the subsidiaries, associates and joint venture companies included in the consolidated financial statement is presented.

New Provisions

The Board's Report shall be prepared based on the stand alone financial statements of the company [and shall report on the highlights of performance of subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the period under report. *(So as per amendment not just subsidiaries, associates & joint ventures who are consolidated but others also)*

5. Sec 138 / Internal Audit

Sec 138 is all about internal audit. Rule 13 guides regarding implementation of Sec 138.

Old Provision

The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

New Provision

The following class of companies shall be required to appoint an internal auditor [which may be either an individual or a partnership firm or a body corporate] namely:- *(So now apart from individuals & firms even companies can do internal audit, but as per CA Act Cas can create companies for consultancy called MCS but it cannot do periodical and statutory audits, so we need a change in CA Act for this provision is practical)*

Old Provision

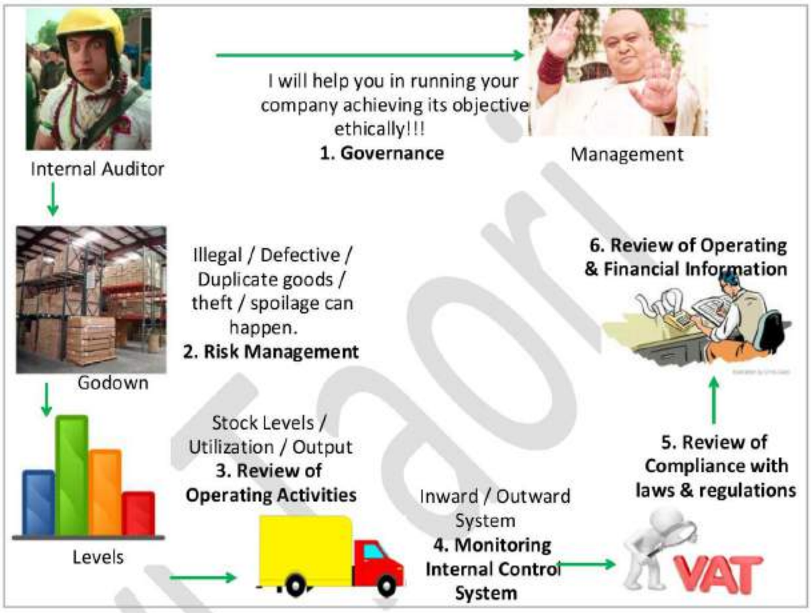
(ii) the term "Chartered Accountant" shall mean a Chartered Accountant whether engaged in practice or not.

New Provision

(ii) the term "Chartered Accountant" or "Cost Accountant" shall mean a "Chartered Accountant" or a "Cost Accountant", as the case may be, whether engaged in practice or not *(So now even non-practicing CWA or CMA can be internal auditor)*

SA 610 Revised
USING THE WORK OF INTERNAL AUDITORS

1. SCOPE AND OBJECTIVES OF THE INTERNAL AUDIT FUNCTION



Internal audit function – A function of an entity that performs assurance and Consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

- **Activities Relating to Governance**
  - The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.
- **Activities Relating to Risk Management**
  - The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).
  - The internal audit function may perform procedures to assist the entity in the detection of fraud.
- **Activities Relating to Internal Control**
  - Evaluation of internal control The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.

- Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.

- Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including nonfinancial activities of an entity.

- Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

2. Difference between Internal Audit & External Audit

Particulars	Internal Audit	External Audit
Definition	It is a **review of activities, as a service to all levels of Management.**	**Audit of financial or other quantitative information of any entity** with a view to express an opinion thereon.
Objective	**Report upon the effectiveness of Internal Controls,** financial and others, as a contribution to the efficient use of resources within an organization.	To **express an opinion on the true and fair view** presented by Financial Statements.
Necessity	It is **voluntary. Compulsory to some companies U/S 138**	It is normally **compulsory. U/S 143**
Auditor	Generally an **employee of the Organization.**	The External or Statutory Auditor is **not part of the organization.**
Appointment	By the **Management (BOD)** of the enterprise.	By the **owners (Shareholders)** of the enterprise.
Scope of work	It is **determined by the Management** and ranges from the pure review of accounting functions to the review of various operational services in the organization.	It **arises from the** responsibilities placed on him by the statute or the terms of engagement.
Submission of Report	To the **Management.**	To the **Shareholders.**
Format of Report	**No format** is prescribed. Guidelines in SIA 4	The aspects to be covered in the **Report are prescribed by law. SA 700**

<u>O</u>rientation	**Management** Oriented.	Oriented to the **needs of the users of Financial Statements** and also Management.

3. Using Work Vs Taking Direct Assistance

Using work of Internal Auditor	Direct Assistance of Internal Auditor
Step 1:- Can we rely on Internal Auditor? (Evaluating Internal Audit Function) Statutory auditor shall determine can he rely on Internal Auditor. It depends on following ➢ Level of <u>Competence</u> ➢ <u>Objectivity</u> of Internal Auditor ➢ <u>Systematic & Disciplined</u> Approach If any of above factor is not fulfilled then he should not rely on internal auditor.	**Step 1**:-Can we take direct assistance of internal auditor? Statutory auditor can take direct assistance depending on following ➢ It should not be prohibited by law ➢ Significant threats to <u>Level of Competence</u> ➢ Significant threats to <u>Objectivity of Internal Auditor</u> If any of above factor is not fulfilled then he should not rely on internal auditor.
Step 2:- Which work can he use ? *(Example of Salary Checking Vs Brand Valuation)* ➢ All <u>significant judgments</u> should be made by statutory auditor Hence don't select areas where more judgement is involved in Planning / Performing / Evaluating audit evidence ➢ Don't select areas where <u>RMM is High</u> ➢ Selection of areas again depends on <u>factors discussed earlier.</u> Don't select areas where Competence is low, Objectivity is less & Nature of work performed or is planned to be performed is not systematic & Disciplined. Statutory auditor should be sufficiently involved in audit, major portions should be covered by him. Communicate with TCWG how external auditor plans to use work ion internal auditor.	**Step 2**:- Which work can be assigned ? *(Example of Salary Checking Vs Brand Valuation)* ➢ All <u>significant judgments</u> should be made by statutory auditor Hence don't select areas where more judgement is involved in Planning / Performing / Evaluating audit evidence ➢ Don't select areas where <u>RMM is High</u> ➢ Selection of areas again depends on <u>factors discussed earlier.</u> Don't select areas where Competence is low, Objectivity is less & Nature of work performed or is planned to be performed is not systematic & Disciplined. Statutory auditor should be sufficiently involved in audit, major portions should be covered by him. Communicate with TCWG how external auditor plans to use work ion internal auditor.
Step 3:- Using work of Internal Auditor	**Step 3**:- Taking Direct Assistance from

➢ Discuss planned use & Co-ordinate Activities ➢ Read report to understand NTE and related findings ➢ Perform Audit Procedures on body of work of Internal Auditor to evaluate whether work is planned / performed / supervised / reviewed / documented / S&A Evidence to draw conclusions / conclusions drawn are consistent with evidence obtained. ➢ His own audit procedures should be responsive depending on factors discussed earlier Judgment / RMM / (Competence / Objectivity / Work Performed by IA) and should always include reperformance of some work.	Internal Auditor *(Example of Transport Charges Checking)* ➢ Obtain written agreement from authorised representative of company that internal auditor will be allowed to follow external auditors instruction & that entity will not intervene in his work ➢ Obtain written agreement from internal auditor that he will keep confidential specific matters as instructed by external auditor and they will inform any threat to objectivity ➢ External Auditor should direct / supervise and review work in internal auditor. He should keep in mind that internal auditor is not independent. It should be responsive of factors considered earlier. ➢ External auditor should check back to the underlying audit evidence for some of the work performed by the internal auditors.

4. Can we rely on Internal Auditor ?

1. Technical Competence	
Team is Appropriately Resourced	30 people
Established policies for hiring / training / assigning	Every 3 months / No graduates / Pre audit 9 day training / assigning as per talent
Qualification	CA / CPA /CIMA / CIA
Technical Training & Proficiency	Trained for AS / Ind AS / IFRS / SOX
Membership of Professional Bodies (Compliance to Standards & Continuing Professional Development)	Majority governed by CA Act which require compliance to SAs & also Continuing Professional Education Programme
Knowledge of entity's FR & FRF	Team worked in same industry for past 10 years & working on same client for past 4 years
2. Objectivity	
Conflict of Interest	Not holding any post other than internal auditor in current & past.
Appointment	Audit Committee / BOD
Staff Appointments	Always in consultation with AC / BOD
Scope	No restrictions
Status	In line with directors
Authority	All the powers like director for internal

	auditor.
Accountability	Quarterly presentations & performance report.
Recommendations	Full Compliance
Membership obligation towards objectivity	As per CA Act & Regulations
3. Systematic and Disciplined Approach	
Documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting	There are 3 volumes of 1000 page each giving principles / formats / guidance on planning / risk assessment / procedures / reporting of Internal Audit.
Quality control policies and procedures	Internal Audit Firm is governed by Quality Control Procedures established under Internal Auditing Standards & SQC 1

5. Relationship between the Statutory and the Internal Auditors

It is not part of SA, it is from module but flow and concepts are same as expressed in SA610

Features of Internal Audit

The function of an internal auditor being an integral part of the system of internal control. It is statutory requirement too as per section 138 of the Companies Act, 2013 where the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

Evaluate Effectiveness of Internal Audit

However, it is obligatory for a statutory auditor to examine the scope and effectiveness of the work carried out by the internal auditor. For the purpose, he should examine the Internal Audit Department of the organisation, the strength of the internal audit staff, their qualification and their powers. Afterwards the procedures should be studied; also the scope of the audit examination carried out should be ascertained on referring to audit programmes, reports submitted, points raised in audit and how these had been dealt with subsequently. The extent of independence exhibited by the internal auditor in the discharge of his duties and his status in the organisation are important factors for determining the effectiveness of his audit. In a large business, it has been increasingly recognised that, if their functions and those of statutory auditors could be integrated, it might not be necessary for the statutory auditors to go over the same facts and figure as have been previously examined by a competent and trustworthy internal audit staff. But so far, the practice of audit being conducted jointly by the internal auditors is of great assistance to statutory auditors.

Reliance on Internal Auditor

If the statutory auditor is satisfied on an examination of the work of the internal auditor, that the internal audit has been efficient and effective, he often decides to curtail his audit programme by dispensing with some of the detailed checking already carried out by the

Internal Audit Department after or without testing the work already done. He, at times, also decides to entrust certain items of work to the internal auditor. Given below are items of audit work in regard to which the statutory auditor accepts the checking that has already been carried out by the internal auditor;

(i) Verification of the system of internal control;
(ii) Verification of assets, e.g., inventory in trade, fixed assets, book debts, etc.; and
(iii) Verification of amounts provided for expenses as well as amounts adjusted as prepaid expenses.

No reduction in Liability of Internal Auditor

It must however be mentioned that the area of co-operation between the statutory and the internal auditor is limited by the fact that the statutory auditor and the internal auditor owe their allegiance to separate authorities, the shareholders in one case and the management in the other. Therefore, the former is not protected against the liability for negligence which may arise in such a case.

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

SAE MAP

1. What do you mean by Pro Forma Financial Information?
2. What Factors should be considered before accepting such assignments?
3. How to plan & perform such assurance engagement?
4. Considerations while forming opinion?
5. How to prepare assurance Report?

1. What do you mean by 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.

For example, the entity may acquire a number of businesses prior to an initial public offering. In such circumstances, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity's financial position and key ratios such as debt to equity as if the acquired businesses had been combined with the entity at an earlier date. The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as "Pro Forma Balance Sheet as at March 31, 20X1" and "Pro Forma Statement of profit and loss for the Year Ended March 31, 20X1

Key to remember

Suppose Flipkart Ltd acquires Snapdeal Ltd who was biggest on 1st April 2017 and plan IPO in June 2017 for which financial statements of FY 14-15 were supposed to be presented in prospectus, but problem is effect of acquisition will not be reflected in financial statements of FY 14-15, so we will assume that acquisition has taken place on 1st April "2014" and adjust their financial statements.

Example

Particulars	*Flipkart Ltd Audited Unadjusted*	*Snapdeal Ltd Audited Unadjusted*	*Pro-forma Adjustments Inter Co*	*Pro-Forma Resulting Financials*
Sales	*5,000*	*3,000*	*(200)*	*7,800*

2. What Factors should be considered before accepting such assignments?

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;*(Eg Whether he has worked in e-commerce business before, whether he has done such assignments before or has he taken training or intensive study on these assignments and expects to get command and as per ICDR 2009 only statutory auditor can do such assignments)*

(b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party*(Eg Flipkart)*, determine that the applicable criteria *(Eg Issue of Capital & Disclosure Requirements 2009 (ICDR) regulation of SEBI)*are suitable and that it is unlikely that the pro form a financial information will be misleading*(Eg It says it is mandatory to merge or demerge only material subsidiaries while preparing pro-forma financial statements)* 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; *(Eg In India regulations don't provide any wordings do this point is not much use but if they say to give absolute assurance that pro-forma financial statements give true & fair view then that will be unacceptable)*

(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;
(Eg In India regulations are silent about it but if in future they prohibit use of modified audit opinion then we will have to decline such assignments and ensure clean financial statements & report)

(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;
(Eg This is a rare event in case of company who wants to get listed, we should not accept such assignments)

(f) 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
(Eg Again it seems to be unrealistic situation but if we can go to acquiree and collect info & are satisfied with accounting & financial reporting we may accept the assignment)

(g) 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:
      a. 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;
      b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
      c. 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 proforma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
      d. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

Key to remember
Competence & Capabilities → Suitability of Criteria / Is it Misleading? → Audit / Review of Acquiring Company → Audit Review of Subsidiary Company → Modified report of acquiring company →Wordings of opinion prescribed by Criteria → Agreement regarding their responsibility to prepare pro-forma financial statements / follow criteria / disclose criteria if not available publicly / access to information available / prepare additional information as requested / access to people of acquiring company and aquiree company

3. How to plan & perform such assurance engagement?

→Assessing the Suitability of the Applicable Criteria

The practitioner shall assess whether the applicable criteria are suitable,
as required by the Framework for Assurance Engagements, and in particular shall determine that they include, at a minimum, that:

(a) The unadjusted financial information be extracted from an appropriate source;
(b) The pro forma adjustments be:
   (i) Directly attributable to the event or transaction;
   (ii) Factually supportable; and
   (iii) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and

(c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the information conveyed.

In addition, the practitioner shall assess whether the applicable criteria are:

(a) Consistent, and do not conflict, with relevant law or regulation; and

(b) Unlikely to result in pro forma financial information that is misleading.

→Materiality

When planning, and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

→Obtaining an Understanding of How the Responsible Party Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances

The practitioner shall obtain an understanding of:

(a) The event or transaction in respect of which the pro forma financial information is being compiled;

(b) How the responsible party has compiled the pro forma financial information;

(c) The nature of the entity and any acquiree or divestee, including:

(i) Their operations,

(ii) Their assets and liabilities; and

(iii) The way they are structured and how they are financed;

(d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and

(e) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.

→Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted

The practitioner shall determine whether the responsible party has extracted the unadjusted financial information from an appropriate source.

If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate.

The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.

→Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments

In evaluating whether the pro forma adjustments are appropriate, the practitioner shall determine whether the responsible party has identified the proforma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration.

In determining whether the pro forma adjustments are in accordance with the applicable criteria, the practitioner shall determine whether they are:

(a) Directly attributable to the event or transaction;

(b) Factually supportable.
If acquiree or divestee financial information is included in the pro forma adjustments and there is no audit or review report on the source from which such financial information has been extracted, the practitioner shall perform procedures to be satisfied that the financial information is factually supportable; and

(c) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework.

→Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source from Which the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted

A modified audit opinion or review conclusion may have been expressed with respect to either the source from which the unadjusted financial information has been extracted or the source from which the acquiree or divestee financial information has been extracted, or a report containing an Emphasis of Matter paragraph may have been issued with respect to such source. In such circumstances, if the relevant law or regulation does not prohibit the use of such a source, the practitioner shall evaluate:

(a) The potential consequence on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;

(b) What further appropriate action to take; and

(c) Whether there is any effect on the practitioner's ability to report in accordance with the terms of the engagement, including any effect on the practitioner's report.

→Source from Which the Unadjusted Financial Information Has Been Extracted or Pro Forma Adjustments Not Appropriate

If, on the basis of the procedures performed, the practitioner identifies that the responsible party has:

(a) Used an inappropriate source from which to extract the unadjusted financial information; or

(b) Omitted a pro forma adjustment that should be included, applied a proforma adjustment that is not in accordance with the applicable criteria or otherwise inappropriately applied a pro forma adjustment, the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall evaluate what further action to take.

→Obtaining Evidence about the Calculations within the Pro Forma Financial Information

The practitioner shall determine whether the calculations within the proforma financial information are arithmetically accurate.

→Evaluating the Presentation of the Pro Forma Financial Information

The practitioner shall evaluate the presentation of the pro forma financial information. This shall include consideration of:

(a) The overall presentation and structure of the pro forma financial information, including whether it is clearly labelled to distinguish it from historical or other financial information;

(b) Whether the pro forma financial information and related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading;

(c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed; and

(d) Whether the practitioner has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information.

The practitioner shall read the other information included in the prospectus containing the pro forma financial information to identify material inconsistencies, if any, with the pro forma financial information. If, on reading the other information, the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact in that other information, the practitioner shall discuss the matter with the responsible party.

If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action.

→Written Representations

The practitioner shall request written representations from the responsible party that:

(a) In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; and

(b) The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

1. *Understand criteria and determine is it conflicting as per FRF of entity or any other regulations → Will it be suitable for the source financial statements / adjustments to made & FRF applicable / will it provide adequate disclosures.*

2. *Determine materiality*

3. *Obtain understanding of the assignment→ Understand events (Acquisition / Disinvestment) which are reason behind pro-forma financial statements / Understand relevant industry & regulations / Nature of their operations / Understand FRF applicable / Understand nature of income, expense, assets, liabilities*

4. *Obtain source of unadjusted financial statements (If its audited / reviewed take corresponding reports and read them and if not collect additional information to get satisfied) →Consider if they are modified & take suitable action (if source financial statements of any entity are modified / EMP consider impact on pro-forma financial statements and take appropriate action)*

5. *Obtain evidence about appropriateness of adjustments → Adjustments can be for harmonisation of accounting policy, goodwill / capital reserve arising out of acquisition / adjustment for borrowings or further issue for acquisition / intercompany transactions, balances to be nullified, stock reserve etc. as we see in consolidation→These adjustments should be directly attributable to the event→ it should be factually supportable→ Adjustments should be consistent with FRF of acquiring company → If information of aquiree company is not audited then we should collect sufficient & appropriate information to be satisfied about its appropriateness*

6. *Check their arithmetical accuracy (Recalculate figures of adjustments as appearing in working notes provided and also recalculate their effect on unadjusted financial statements)*
7. *Presentation & Disclosure in Pro-forma financial statements (Pro-Forma Statements should have appropriate title / each column should have proper label to avoid miscommunication / ensure that they are not misleading / for each adjustment suitable notes should be presented which explains rational behind the adjustment / read other information in prospectus and see if there is material inconsistency or material misstatement of fact as explained in SA 720 and take appropriate action)*

8. *Written Representation (All appropriate adjustments are identified to reflect impact / Criteria followed in all material respects)*

9. *After performing all above if practitioner comes to know that Source or Adjustment Inappropriate (If source unadjusted financial statements are unreliable or adjustments are not as per criteria then discuss it with client and ask them to change if they don't agree take appropriate action)*

4. Considerations while forming opinion?

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.

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.

→Form of Opinion

Unmodified Opinion

The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

Modified Opinion

Where the relevant law or regulation precludes *(not allowed)* publication of a prospectus that contains a modified opinion with regard to whether the pro form financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall discuss the matter with the responsible party.

If the responsible party does not agree to make the necessary changes, the practitioner shall:

(a) Withdraw from the engagement; or

(b) Consider seeking legal advice.

Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro form a financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions.

Emphasis of Matter Paragraph

In some circumstances, the practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes. This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to users' understanding of whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not affect whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.

5. How to prepare assurance Report?

(Title) INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

(Addressee) [Appropriate Addressee(s)]

Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

(Intro Para) We have completed our assurance engagement to report on the compilation of pro forma financial information of ABC Company by [the responsible party]. The pro forma financial information consists of [the pro forma balance sheet as at [date]], [the pro forma statement of profit and loss for the period ended [date]], [the pro forma cash flow statement for the period ended [date],] and related notes [asset out on pages xx–xx of the prospectus issued by the company]. The applicable criteria on the basis of which [the responsible party] has compiled the pro forma financial information are [specified in [Securities Regulation XX] and described in [Note X]]/[described in [Note X]].

The pro forma financial information has been compiled by [the responsible party] to illustrate the impact of the [event or transaction] [set out in Note X] on the [company's financial position as at specify date] [and] [the company's/its financial performance [and cash flows] for the period ended specify date] as if the [event or transaction] had taken place at [specify date] [and specify date respectively]. As part of this process, information about the company's [financial position], [financial performance] [and cash flows] has been extracted by [the responsible party] from the company's financial statements [for the period ended [date]], on which [[an audit]/[a review] report]/[no audit or review report] has been published.

(Like Management's Responsibility) [The Responsible Party's] Responsibility for the Pro Forma Financial Information [The responsible party] is responsible for compiling the pro forma financial information on the basis of the [applicable criteria]. This responsibility includes the responsibility for designing, implementing and maintaining internal control relevant for compiling the pro forma financial information on the basis of the [applicable criteria] that is free from material misstatement, whether due to fraud or error. The .... {Responsible party} is also responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities, including compliance with the provisions of the laws and regulations for the compilation of Pro Forma Financial Information.

(Like Auditor's Responsibility) Practitioner's Responsibilities
Our responsibility is to express an opinion, as required by ....[Reference to the relevant law or regulation], 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].
We conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the Institute of Chartered Accountants of India. This Standard requires that the practitioner comply with ethical requirements and plan

and perform procedures to obtain reasonable assurance about whether .... [the responsible party] has compiled, in all material respects, the pro forma financial information on the basis of the ....[applicable criteria].

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

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.

Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at ....[specify date] would have been as presented.
A reasonable assurance engagement to report on whether the pro forma
financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by [the responsible party] in the compilation of the proforma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.
The engagement also involves evaluating the overall presentation of the proforma financial information.
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Opinion) Opinion
In our opinion, [the pro forma financial information has been compiled, in all material respects, on the basis of the .... [applicable criteria]]/[the pro forma financial information has been properly compiled on the basis stated].

Report on Other Legal or Regulatory Requirements
[Relevant law or regulation may require the practitioner to express an opinion on other matters. The form and content of this section of the practitioner's report will vary with the nature of such other reporting responsibilities.]

Signature / Date / Place

ICDR Requirement

(23) *Proforma Financial Statements*

(1) *In addition to other requirements laid down in these regulations and subject to the stipulation in sub-para (3) of this para, the issuer shall disclose Proforma Financial Statements in the offer document, if—*

(a) *an acquisition or divestment is made by the issuer after the end of the latest disclosed annual financial results in the offer document, due to which certain companies become/cease to be direct or indirect subsidiaries of the issuer, and*

(b) *the financial statements of such acquired or divested entity is material to the financial statements of the issuer company.*

Explanation: The financial statements of the acquired or divested entity shall be —material\ to the financial statements of the issuer if:

(i) *the total book value of the assets of the acquired/ divested entity amounts to more than 20% of the pre-acquisition/pre-divestment book value of the assets of the issuer; or*

(ii) *the total income of the acquired/divested entity amounts to more than 20% of the pre-acquisition/pre-divestment total income of the issuer.*

(2) *Proforma Financial Statements shall be disclosed in respect of the following, namely: —*

(i) *the last completed accounting year, and*

(ii) *the period beginning from the date of the end of the last completed accounting year and ending on the date on which financial statements of the issuer have been disclosed in the offer document.*

(3) *Where the said acquisition or divestment does not fulfil the tests of materiality specified in clause 23(1)(b) above, the fact of the acquisition or divestment along with the consideration paid/received and the mode of financing such acquisition shall be disclosed.*

(4) *The information disclosed as per sub-clause (2) and (3) above shall be certified by the statutory auditor of the issuer*

SRE 2400 (Revised) ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

1. AUDIT VS REVIEW

	AUDIT	REVIEW
TIME	MORE	LESS
PROCEDURES	Detailed till we obtain satisfaction	Only Inquiry + Analytical Procedures
LEVEL OF ASSURANCE	Reasonable (High)	Moderate / (Limited)
NATURE OF OPINION	Positive Assurance	Negative Assurance
WORDING OF OPINION	FST gives true & fair view	Did not receive any information which suggests material misstatement
EXAMPLE	Company Audit	Quarterly Review
STANDARDS APPLICABLE	SA	SREs

2. 2400 VS 2410

Is Review conducted by AUDITOR of company?

If answer is "YES" then SRE 2410 is applicable. It is designed for interim financial statement review but it is clarified that it can be applied for annual review also

If answer is "NO" then SRE 2400 is applicable. It can be applied for any review "interim or annual"

Interim financial statement review by person other than auditor *(Clarification)*

A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with SRE 2400 (Revised) "Engagements to Review Historical Information Financial Statements." As the practitioner, does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.

3. REVIEW HISTORICAL FINANCIAL STATEMENTS

Limited Assurance

The review of historical financial statements is a limited assurance engagement, as described in the Framework for Assurance Engagements.

In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

Procedures Used

The practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this SRE.

Additional Procedures

If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to conclude on the financial statements in accordance with this SRE.

4. REVIEW HISTORICAL FINANCIAL STATEMENTS

Materiality in a Review of Financial Statements ***(Like we do in "Planning Stage" of audit)***

- The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.
- The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially.

The Practitioner's Understanding ***(Like we do in "Risk Assessment Stage")***

- The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.

- The practitioner's understanding shall include the following: *(Similar to understanding entity & its environment in SA 315)*
  (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;
  (b) The nature of the entity, including:
    (i) Its operations;
    (ii) Its ownership and governance structure;
    (iii) The types of investments that the entity is making and plans to make;
    (iv) The way that the entity is structured and how it is financed; and
    (v) The entity's objectives and strategies;
  (c) The entity's accounting systems and accounting records; and
  (d) The entity's selection and application of accounting policies.

Designing and Performing Procedures ***(It's like "response to risk")***

What to cover?

In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures:

(a) To address all material items in the financial statements, including disclosures; and
(b) To focus on addressing areas in the financial statements where material misstatements are likely to arise. *(Like RMM)*

Inquiry

The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following:

Face **B**ook & **C**artoon **N**etwork **DRESS**

(a) ***F****raud / Non-Compliance*

The existence of any actual, suspected or alleged:

(i) Fraud or illegal acts affecting the entity; and *(Eg Directors misused money from employee trust)*

(ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations; *(Labour laws etc)*

(b) ***B****asis of Going Concern*

The basis for management's assessment of the entity's ability to continue as a going concern; *(Any assessment prepared by management or any limits set such as cash balance, turnover etc)*

(c) ***C****ommitments / Obligations / Contingencies*

Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and *(Commitments to employee unions etc)*

(d) ***N****on-Monetary Transactions*

Material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration. *(Exchange of assets with subsidiary etc)*

(e) ***D****oubt over Going Concern*

Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern; *(Financial / Operating or Other Indicators)*

(f) ***R****elated Party*

The identification of related parties and related party transactions, including the purpose of those transactions; *(Transactions with newly formed company, which is managed by MD)*

(g) ***E****stimates*

How management makes the significant accounting estimates required under the applicable financial reporting framework; *(Impairment of assets)*

(h) ***S****ignificant, Unusual or Complex Transactions*

Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:

(i) Significant changes in the entity's business activities or operations; *(Disposal of business, Motorola sold by google to Lenovo)*

(ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants; *(Changes in lease agreement of factory & main premises)*

(iii) Effects or possible implications for the entity of transactions or relationships with related parties; *(if holding is covered to public, subsidiary will also become public)*

(iv) Significant journal entries or other adjustments to the financial statements; *(Demerger)*

(v) Significant transactions occurring or recognized near the end of the reporting period;
(vi) The status of any uncorrected misstatements identified during previous engagements; *(Inventory valuation not rectified)* and

(i) ***S**ubsequent Events*
Whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements; *(Eg Default by big customer or outcome of legal case)*

Analytical Procedures

In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures. *(Reliable information from MIS of company)*

Procedures to Address Specific Circumstances

U-FROG

Use of work performed by others & experts

In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.

Fraud and non-compliance with laws or regulations

When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall: *(Dummy employees at branch)*

(a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;
(b) Request management's assessment of the effect(s), if any, on the financial statements;
(c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
(d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.

Related Parties

During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner. *(New share acquisitions)*

Outside Normal Course of Business

If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about: *(Sale to subsidiaries in Mauritius and Dubai then export to various countries for tax saving)*

(a) The nature of those transactions;
(b) Whether related parties could be involved; and
(c) The business rationale (or lack thereof) of those transactions.

Going concern

A review of financial statements includes consideration of the entity's ability to continue as a going concern. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified. *(Any financial indicators)*

Additional Procedures for Going Concern

If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

(a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern;

(b) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:

   (i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or

   (ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and

(c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated.

If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

(a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or

(b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

Reconciling the Financial Statements to the Underlying Accounting Records

The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records.

Subsequent Events

Similar to content of SA 560

Written Representation

Similar to content of SA 580

Evaluating Evidence Obtained from the Procedures Performed

The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.

If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review.

Evaluating the Effect on the Practitioner's Report

The practitioner shall evaluate the evidence obtained from the procedures performed to determine the effect on the practitioner's report.

5. REVIEW REPORT

Writing

The practitioner's report for the review engagement shall be in writing, and shall contain the following elements:

Elements

(a) Title

A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;

(b) Addressee

The addressee(s), as required by the circumstances of the engagement;

(c) Introductory Para

An introductory paragraph that:

(i) *Reviewed*

States that the financial statements have been reviewed;

(ii) *Identification*

Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;

(iii) Highlight Notes to Accounts

Refers to the summary of significant accounting policies and other explanatory information;

(d) Management Responsibility

A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for:

(i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;

(ii) Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

(e) If Special Purpose Framework is applied

If the financial statements are special purpose financial statements:

(i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and *(For investors as per options prescribed)*

(ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances; *(explain about choices available)*

(f) Practitioners Responsibility

A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation;

(g) A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements;

(h) A description of a review of financial statements and its limitations, and the following statements:

- **(i)** A review engagement under this SRE is a limited assurance engagement;
- **(ii)** The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
- **(iii)** The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements;

(i) Conclusion

A paragraph under the heading "Conclusion" that contains:

- (i) The practitioner's conclusion on the financial statements as a whole, as appropriate; and
- (ii) A reference to the applicable financial reporting framework used to prepare the financial statements.

(j) Modified Conclusion

When the practitioner's conclusion on the financial statements is modified:

- (i) A paragraph under the appropriate heading that contains the practitioner's modified conclusion in accordance with this SRE, as appropriate; and
- (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification;

(k) Date

The date of the practitioner's report;

(l) Signature

The practitioner's signature; and

(m) Place

The place of signature.

SRE 2410
REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR

Almost all points are similar to SRE 2400 / SAs except that here SRE says to use all information and evidences obtained during performing audit procedures. No need to study them again, you can write content as studied in SRE 2400 / SAs. Below is the key area from SRE 2110

1. Inquiries, Analytical and Other Review Procedures

Inquiry / Analytical Procedures / Other Review Procedures

The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

Inquiry

Role of Inquiry

A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information.

Nature & Extent of Inquiry

The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

Areas of Inquiry

The auditor ordinarily performs the following procedures:

- *Previous Audit or Reviews*

Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews. *(last time goodwill write off was not appropriate)*

- *Minutes*

Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information. *(restrictions on foreign borrowings after massive loss in last quarter)*

- *Management*

Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:

- *New Transactions*
  Whether any new transactions have necessitated the application of a new accounting principle. *(Outsourcing)*

- *Unusual or Complex Situations*
  Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business. *(Organisational restructuring, as per geographical areas)*

- *Fraud*
  Knowledge of any fraud or suspected fraud affecting the entity involving:
  - Management; *(Misuse of loan funds)*
  - Employees who have significant roles in internal control; or *(Financial controller approved fake purchases & corresponding payments)*
  - Others where the fraud could have a material effect on the interim financial information. *(Suppler cheated company)*

- *Fraud Communicated by Others*
  Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others. *(Medial reports)*

- *Non Compliance*
  Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information. *(Breach of guidelines by RBI)*

- *Related Party*
  Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information. *(Transactions with foreign subsidiary)*

- *Significant Assumptions*
  Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity. *(Capitalisation of factory renovation costs)*

- *Debt Covenants*
  Compliance with debt covenants. *(Maintenance current asset levels)*

- *Changes in Commitments*
  Significant changes in commitments and contractual obligations. *(Changes is committed construction contracts & raw material purchase commitments)*

- *Changes in Contingent Liabilities*
  Significant changes in contingent liabilities including litigation or claims. *(Change in probability of losing cases)*

- *Litigations & Claims*
  A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

- *Compliance with FRF*
  Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework. *(AS 25)*

- *Changes in FRF*
  Whether there have been any changes in accounting principles or in the methods of applying them. *(AS to IND AS)*

- *Interim period end transactions*
  Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period. *(Depreciations, Provision for Tax)*

- *Matters in response to review procedures*
  Matters about which questions have arisen in the course of applying the review procedures. *(Missing records from salary department)*

- *Uncorrected Misstatements*
  Whether the interim financial information contains any known uncorrected misstatements. *(No rectification for finance lease treated as operating lease)*

- *Other Auditors*

Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components. *(Internal Auditors etc)*

Analytical Procedures

Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information.
Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. *(GP ratio analysis)*

Timing

The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information.
For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early

identification and consideration of significant accounting matters affecting the interim financial information.

Audit & Review Procedures Together

The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the interim financial information also may be used for the annual audit. The auditor may also decide to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing audit procedures on significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions.

Reading Interim Financial Information

Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework. *(Unusual current asset and current liability imbalance)*

Reconcile with underlying records

The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records.

The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

(a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
(b) Other supporting data in the entity's records as necessary.

Subsequent Events

The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report

2. Specimen Report

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the accompanying balance sheet of ABC Entity as of June 30,20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with__________[indicate applicable FRF]. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the State of Affairs of the entity as at June 30, 20XI, and of its Results of Operations and its cash flows for the three month period then ended in accordance with_________[applicable FRF]

For ABC and Co,
Chartered Accountants
Firm's Registration Number
Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)
Membership Number
Place of
Signature Date

3. Other Considerations

Financial Statements should accompany review report

1. Terms of engagement should contain a clause that, If in any document it is mentioned that financial statements are reviewed then it should be accompanied by review report.
2. If management is not fulfilling this condition they should be informed and auditor should take appropriate course of legal action to compel management to fulfil requirement of engagement letter.
3. If auditor has issued modified review report & management is not including review report along with financial statement then auditor should take legal advice and also consider "possibility of resigning from the annual audit assignment".

SRS 4410 (Revised)
COMPILATION ENGAGEMENTS

1. COMPILATION ENGAGEMENT SHORT NOTE

Need of Management & Professional Expertise

Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity.

CAs use professional expertise to compile but not assurance

The value of a compilation engagement performed in accordance with this SRS to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements, and the clear communication of the nature and extent of the practitioner's involvement with the compiled financial information.

Since a compilation engagement is not an assurance engagement, a compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

Management Responsibility

Management retains responsibility for the financial information and the basis on which it is prepared and presented. That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates.

Basic Premise of SRS 4410

This SRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. An engagement performed in accordance with this SRS is conducted on the premise that management, or those charged with governance where appropriate, have agreed certain responsibilities that are fundamental to the performance of the compilation engagement.

Purpose of Complied Financial Statements

Financial information that is the subject of a compilation engagement may be required for various purposes including:

(a) To comply with mandatory periodic financial reporting requirements established in law or regulation, if any; or
(b) For purposes, unrelated to mandatory financial reporting under relevant law or regulation, including for example:
    - For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).

- For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
- For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).

FRF

Different financial reporting frameworks can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information. *(Listed in India or Outside India, Banking, Insurance etc)*

Independence

Section 290, Independence–Assurance Engagements of the ICAI's Code of Ethics does not apply to compilation engagements, laws or regulations may specify requirements or disclosure rules pertaining to independence.

Key to remember

Management Needs it→We compile it, but it's Not Assurance Service→ ultimate Responsibility is of Management, Basic premise (assumption) → it can be prepared for variety of Purposes, different FRF→ Independence is not required)

2. HOW TO PERFORM COMPILATION ENGAGEMENT?

(Flow of points
Understanding→

The Practitioner's Understanding

The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement:

(a) The entity's business *(Eg Publishing & Printing Business)* and operations *(There are 2 divisions, colour printing & black & white printing and there are 10 such branches)*, including the entity's accounting system *(Tally Software)* and accounting records *(wage computation is done manually but rest of the records & books of accounts are maintained in electronic form);* and

(b) The applicable financial reporting framework, including its application in the entity's industry. *[IGAAP (AS+ GN + Sch III) is used as FRF, practitioner has previous experience of accounting in printing industry)*

Compiling the Financial Information

(a) Documents & Judgments by Management

The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management. *(Trial Balance, List of accounting policies, etc & significant judgements such as useful life, probability of losing legal case etc are provided by management which should be used by practitioner)*

(b) Significant Judgements Discussion

The practitioner shall discuss with management, or those charged with governance as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information. *(Practitioner may give additional services of helping management to determine estimates and policies, in such case he should discuss such estimates & policies to ensure they are appropriate but he should clearly specify ultimate responsibility lies with management)*

(c) Incomplete, Inaccurate & Unsatisfactory R/D/E/O/J

If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information.

(Incomplete: - Trial Balance of 2 small branches not given.

Inaccurate: - Provision for Income Tax appears inaccurate as compared to profits for the year.

Unsatisfactory: - Description of accounting policies and Material uncertainty about going concern are unsatisfactory)

(d) Failure to provide adequate R/D/E/O/J

If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. *(Lack of information will lead to withdrawal from engagement and there is responsibility to inform reason to management & TCWG)*

(e) Read Complied Information

Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework. *(He is not supposed to perform audit but he should read financial information carefully to see if there is prima facia anything wrong)*

(f) Material Misstatement / Misleading / Inadequate Disclosure of FRF

If the practitioner becomes aware during the course of the engagement that:

i. Amendments to the compiled financial information are required for the financial information not to be materially misstated; or *(It simply means material misstatement is present in financial statements, for eg stock value is in appropriate as compared to underlying records provided, now what do you mean by material should be as per FRF, Eg in Sch III there is little guidance about materiality it is 1,00,000 or 1% of revenue whichever is higher. AS SA 320 is not applicable)*

ii. The compiled financial information is otherwise misleading, *(Even though there is material uncertainty over going concern, there is no reference in financial statements OR financial statements have not explained revaluation of assets)*

iii. The compiled financial information does not adequately refer to or describe the applicable financial reporting framework; *(Sometimes applicable financial reporting frameworks are modified version of established / popular FRF, for example IGAAP without AS 15 & 19, such things need appropriate disclosure else there can be miscommunication, it should be further provided in compilation report so that people pay attention to it)*

The practitioner shall propose the appropriate amendments to management.

(g) Management Declines Amendments

If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.

(There is no concept of adverse or disclaimer in compilation report as we are not doing audit , so one option left withdraw)

(h) Acknowledgment

The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information. *(Similar to written representation but different name is used, to avoid confusion with audit)*

Key to Remember

(Understanding Entity→ Obtain Information → Incomplete or Inaccurate→ Failure to provide data →if all fine compile → After approval from BOD, read FTS → Misstatement etc → Ask for amendment → If they deny withdraw → Ask for Acknowledgement)

3. COMPLIATION REPORT

Purpose

An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.

Writing

The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements:

Elements

Title

(a) The report title;

Addressee

(b) The addressee(s), as required by the terms of the engagement;

Like Intro Para

(c) *Source of Information*
A statement that the practitioner has compiled the financial information based on information provided by management;

(d) *Statements Compiled & Period*
Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;

Management Responsibility

(e) A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;

Like Auditor's Responsibility (this heading just for our understanding & flow)

(f) (*Meaning of Compilation*
A description of what a compilation engagement entails in accordance with this SRS;

(g) *Reference to SRS*
A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;

(h) *Identification of FRF*
Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;

(i) *Not a Audit or Review*
Explanations that:
  (i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and
  (ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.

No opinion para, again just for understanding & flow

Special Purpose Framework, if applicable

(j) If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:
  (i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
  (ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;

Date

(k) The date of the practitioner's report;

Signature

(l) The practitioner's signature; and

Place

(m) The Place of signature.

Important matter about date

The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this SRS.

4. SPECIMEN OF COMPILATION REPORT

ACCOUNTANT'S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements comprise the Balance Sheet of ABC Company as at March 31, 20XX, the statement of Profit and Loss, and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with Standard on Related Services 4410 (Revised), Compilation Engagements.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with accounting principles generally accepted in India. We have complied with relevant ethical requirements.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with accounting principles generally accepted in India.

For XYZ and Co.
Chartered Accountants
Firm's Registration Number
Signature
(Name of the Member Signing the Compilation Report)
(Designation)
Membership Number

Internal Financial Control (IFC) is explained in Explanation to Sec 134 (5) (e).

It is defined as

Policies and procedures adopted by the company for ensuring the

→orderly and efficient conduct of its business including adherence *(There should be defined set of procedures & policies for Purchase of Goods, Services, Fixed Assets / Recruitment of Employees / Production Process / Sales Cycle and Financial Function)*

→to company's policies, *(It is company's policy to purchase from vendors with at least 5 years of experience in the business)*

→the prevention and detection of frauds and errors, *(Purchase price & quality is approved by 2 purchase managers and GRN is checked by Store Manager)*

→the safeguarding of its assets, *(Units purchased are marked with company logo & kept under CCTV surveillance)*

→the accuracy and completeness of the accounting records, *(Barcode reader is used for recording purchases)*

→and the timely preparation of reliable financial information *(Weekly Purchase report is prepared by locations & consolidated at HO)*

Operational Controls

Fraud Prevention Controls

Internal Financial Control over Financial

Broadly we can say it covers

i. Operational Controls *(Efficient & Economical acquisition& utilization of resources and achieve objective effectively)*

ii. Fraud Prevention *(Identifying fraud risk factors & designing controls to compensate it)*

iii. Internal Financial Reporting over Financial Reporting (IFCR) *(Safeguarding Assets / Only Authorised Transactions are recorded / Detailed & Accurate maintenance of Financial Records /Compilation of financial information)*

IFC = Operational Controls + Fraud Prevention Controls + Internal Financial Control Over Fraud Reporting

IFCR is defined in in Guidance note on Audit of IFCR.

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:

→Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Safeguardin g Assets

→that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and

Authorisation of

→Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
→Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles

Maintenance of Records & Preparation of FST

IFCR = Safeguarding Assets + Authorisation of Transactions + Maintenance & Preparation of FST

Regulatory Requirements

IFCR

i. Companies Accounts Rules 2014, Rule 8 (v) (vii):- All companies should specify following in BOD report:- the details in respect of adequacy of internal financial controls with reference to the Financial Statements. (That means IFCR)

ii. Sec 143 (3) (i):- Auditors to report if the company has adequate IFC systems and that they are operating effectively. (Word used is IFC but guidance notes says that it should be read as IFCR taking into account role of auditor & similar requirement in other countries also. (Again related to IFCR)

IFC

iii. Sec 134 (5) (e):- Board of director has to specify in Director Responsibility Statement annexed to BOD Report that IFC are adequate & operating effectively in Listed Companies

iv. Sec 177 (4) (vii):- Companies in which audit committee is applicable, AC has to evaluate Internal Financial Controls

v. Sec 149(8) & Sch IV:- In case of all companies where Independent Directors are required, IDs to satisfy themselves on the integrity of financial information and that financial controls are robust and defensible

Audit Report of IFCR

(Title)
REPORT ON THE INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING UNDER CLAUSE (i) OF SUB- SECTION 3 OF SECTION 143 OF THE COMPANIES ACT, 2013 ("THE ACT")

(Intro)
We have audited the internal financial controls over financial reporting of RELIANCE INDUSTRIES LIMITED ("the Company") as of March 31, 2016, in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

(Management Responsibility)
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS
The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

(Auditor Responsibility)
AUDITORS' RESPONSIBILITY
Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

A company's internal financial control over financial reporting is 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 that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and payments of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

In our opinion, to the best of our information and according to the explanations given to us, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

Signature / Date / Place

Guidance Note on 143(3) (f) & (h)

Section	143(3)(f)	143(3)(h)
Consider	→Observations (Qualification/ Adverse / Disclaimer) →Comments (EMP / OMP) Both on Financial Statements or Adequacy on IFCR	→Observations (Qualification/ Adverse / Disclaimer) Both on Financial Statements or Adequacy on IFCR
Determine	Whether it indicates adverse impact on functioning of the company (Losses / Expenses are suppressed or Profits / Incomes are artificially overstated)	Any qualification, reservation or adverse (EMP / OMP not covered) remark relating to the maintenance of accounts and other matters
Example	Impairment of assets not done / Obsolete inventory not written off / Going concern assumption is invalid still financial statements are not adjusted / Company is not having appropriate system for receipt, issue of Inventory	(Journal / Ledger / Cash Book not updated, not accounted regularly, many mistakes, not properly totalled , TB doesn't tally etc) connected therewith

Example for 143(3) (f) & (h)

Basis for Disclaimer of Opinion

We were appointed as auditors of the Company after March 31, 20X1 and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at ` XXX and ` XXX, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X0 resulted in numerous errors in accounts receivable. As of the date of our audit report, Management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of ` XXX as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable in the Balance Sheet, and the corresponding elements making up the Statement of Profit and Loss and Cash Flow Statement.

Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, we report that:

………………………

………………………

(f) The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

……………………

(h)The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion paragraph above.

CORPORATE GOVERNANCE

Concept of Corporate Governance

Just like individual has character & personality. Company has Corporate Governance. Corporate Governance means principles, rules, procedures; systems framed so that interests of all stake holders are taken care while achieving objectives.

In India corporate governance depends on of Listing Agreement & Disclosure Requirements 2015 (LODR) & Company Act 2013.

LODR

Securities and Exchange Board of India (SEBI) on September 2, 2015 issued the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') with the aim to consolidate and streamline the provisions of existing listing agreements for different segments of capital markets such as equity shares (including convertibles), non-convertible debt securities, etc. and disclosure norms in relation thereto, thereby ensuring better enforceability.

Structure of LODR

- LODR is divided into XI chapters further divided into 110 regulations and backed by IX schedules, brief description as mentioned hereunder:
- Chapter I: Definitions
- Chapter II: Guiding Principles
- Chapter III: Common Obligation applicable to all listed entities
- Chapter IV-IX: Obligation applicable to specific type of securities
- Chapter X & XI: Obligation of stock exchanges and provisions in case of default

Applicability of LODR

Unless otherwise provided, these regulations shall apply to the listed entity who has listed any of the following designated securities on recognised stock exchange(s):

(a) Specified securities *(Equity Shares & Convertible Securities)* listed on main board or SME Exchange or institutional trading platform;
(b) Non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares;
(c) Indian Depository receipts;
(d) Securitised Debt Instruments;
(e) units issued by mutual funds;
(f) Any other securities as may be specified by the Board.

CONTENTS

Important Points of LODR **{FM GPS aur C^3IGARS leke kashmir ghumne nikle}**

- F-Financial Results
- M-Management Discussion & Analysis
- G-Grievance Redressal Mechanism
- P-Preservation
- S-Share Transfer Agent
- C- CEO / CFO Certification
- C- Compliance Certificate
- C-Compliance Officer and his Obligations
- I-Independent Director
- G- General Principles
- A- Audit Committee
- R- Report on Corporate Governance
- S- Subsidiary

Financial Results

(1) While preparing financial results, the listed entity shall comply with the following:

- The financial results shall be prepared on the basis of accrual accounting policy and shall be in accordance with uniform accounting practices adopted for all the periods.

- The quarterly and year to date results shall be prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 or Indian Accounting Standard 34 (AS 25/ Ind AS 34 – Interim Financial Reporting), as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed there under or as specified by the Institute of Chartered Accountants of India, whichever is applicable.

- The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India:
  Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

- The listed entity shall ensure that the limited review or audit reports submitted to the stock exchange(s) on a quarterly or annual basis are to be given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India and holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

- The listed entity shall make the disclosures specified in Part A of Schedule IV. (Disclosures in Notes to Accounts)

(2) The approval and authentication of the financial results shall be done by listed entity in the following manner:

- The quarterly financial results submitted shall be approved by the board of directors:
  Provided that while placing the financial results before the board of directors, the chief executive officer and chief financial officer of the listed entity shall certify that the financial results do not contain any false or misleading statement or figures and do not omit any material fact which may make the statements or figures contained therein misleading.

- The financial results submitted to the stock exchange shall be signed by the chairperson or managing director, or a whole time director or in the absence of all of them; it shall be signed by any other director of the listed entity who is duly authorized by the board of directors to sign the financial results.

- The limited review report shall be placed before the board of directors, at its meeting which approves the financial results, before being submitted to the stock exchange(s).

- The annual audited financial results shall be approved by the board of directors of the listed entity and shall be signed in the manner specified in clause (b) of sub regulation (2).

(3) The listed entity shall submit the financial results in the following manner:

- The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within forty-five days of end of each quarter, other than the last quarter.
- In case the listed entity has subsidiaries, in addition to the requirement at clause (a) of sub-regulation (3), the listed entity may also submit quarterly/year-to-date consolidated financial results subject to following:
  - The listed entity shall intimate to the stock exchange, whether or not listed entity opts to additionally submit quarterly/year-to-date consolidated financial results in the first quarter of the financial year and this option shall not be changed during the financial year.
    Provided that this option shall also be applicable to listed entity that is required to prepare consolidated financial results for the first time at the end of a financial year in respect of the quarter during the financial year in which the listed entity first acquires the subsidiary.

  - In case the listed entity changes its option in any subsequent year, it shall furnish comparable figures for the previous year in accordance with the option exercised for the current financial year.

- The quarterly and year-to-date financial results may be either audited or unaudited subject to the following:

- In case the listed entity opts to submit unaudited financial results, they shall be subject to limited review by the statutory auditors of the listed entity and shall be accompanied by the limited review report.
  Provided that in case of public sector undertakings this limited review may be undertaken by any practicing Chartered Accountant.
- In case the listed entity opts to submit audited financial results, they shall be accompanied by the audit report.

- The listed entity shall submit audited standalone financial results for the financial year, within sixty days from the end of the financial year along with the audit report and either Form A (for audit report with unmodified opinion) or Form B (for audit report with modified opinion):
  Provided that if the listed entity has subsidiaries, it shall, while submitting annual audited standalone financial results also submit annual audited consolidated financial results along with the audit report and either Form A (for audit report with unmodified opinion) or Form B (for audit report with modified opinion).

- The listed entity shall also submit the audited financial results in respect of the last quarter along-with the results for the entire financial year, with a note stating that the figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year-to-date figures upto the third quarter of the current financial year.
- The listed entity shall also submit as part of its standalone or consolidated financial results for the half year, by way of a note, a statement of assets and liabilities as at the end of the half-year.

(4) The applicable formats of the financial results and Form A (for audit report with unmodified opinion) & Form B (for audit report with modified opinion) shall be in the manner as specified by the Board from time to time.

(5) For the purpose of this regulation, any reference to "quarterly/quarter" in case of listed entity which has listed their specified securities on SME Exchange shall be respectively read as "half yearly/half year" and the requirement of submitting 'year-to-date' financial results shall not be applicable for a listed entity which has listed their specified securities on SME Exchange.

(6) The Form B and the accompanying annual audit report submitted in terms of clause (d) of sub-regulation (3) shall be reviewed by the stock exchange(s) and Qualified Audit Report Review Committee in manner as specified in Schedule VIII.

(7) The listed entity shall on the direction issued by the Board, carry out the necessary steps, for rectification of modified opinion and/or submission of revised pro-forma financial results, in the manner specified in Schedule VIII.

KEY TO REMEMBER

Requirement

1. Quarterly – Financial Results (P&L)

Half Yearly -- Financial Results (P&L) + Statement of Assets & Liabilities

Annual -- Financial Results (P&L) + Statement of Assets & Liabilities

1. All quarterly results are accompanied with year-to date financial results.

2. Publish financial results for financial year + for last quarter (difference between whole year and financial results till end of third quarter)

3. Comparatives are presented along with current period financial statements.

Preparation

4. Accrual accounting policy + uniform accounting policy for all periods presented in financial statements.

5. Financial Statements should be as per IGAAP; entity may also in addition submit as per IFRS

6. Quarterly / Year-to-date / Half Yearly financial statements should be prepared as per AS 25 / Ind AS 34

7. Include all disclosures given in Part A Schedule IV

Time Limit

8. Compulsory – Standalone – Quarterly + year-to-date—within 45 days

Optional—Consolidated—Quarterly + year-to-date—within 45 days (decide at the end of first quarter it will be applicable for whole year) if company changes its option in any subsequent year it shall present relevant comparatives of previous year

9. Annual financial statements should be submitted within 60 days of end of the year.

Exemption

10. Companies listed on SME has some exemptions: - Instead of quarterly they have half yearly requirements further they don't have to present year to date financial statements.

Approval / Audit / Review

11. Quarterly / Annual Results—First Certification from CEO + CFO – Then approval by BOD

12. Quarterly / Annual Financial results submitted should be signed by Chairperson / MD / WTD & in absence of all of them then by director authorised by BOD

13. Quarterly + Year-to-date financial statements can be audited or unaudited. If unaudited it should be reviewed and accompanied with review report. If audited it should be accompanied with audit report.

14. Annual financial statements should be audited there is no option with them.

15. Audit / Review Should be conducted only by auditor having PEER Review Certificate

16. Limited review / Audit report should be placed before BOD before approval in case of quarterly and audit report in case of annual.

17. *If BOD directs rectify financial statements & revise pro-forma financial statements to incorporate modifications.*
18. *Review of Form B by stock exchanges & QARC*

19. *Financial Statements & Audit Reports Form A (Details of Unmodified Report) Form B(Details of Modified Report) should be as per format prescribed by SEBI from time to time.*

Management Discussion and Analysis

1. This section shall include discussion on the following matters within the limits set by the listed entity's competitive position:

   (a) Industry structure and developments*(Past Year)*
   (b) Outlook*(Future of economy & industry)*
   (c) Opportunities and Threats*(At Macro Level)*
   (d) Risks and concerns*(At Micro Level)*

   (e) Internal control systems and their adequacy*(ICS in Company)*
   (f) Material developments in Human Resources / Industrial Relations front, including number of people employed.*(HR Function in company)*

   (g) Segment–wise or product-wise performance*(Financial)*
   (h) Discussion on financial performance with respect to operational performance *(Operational)*

2. Disclosure of Accounting Treatment:

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.

Grievance Redressal Mechanism

1. The listed entity shall ensure that it is registered on the SCORES (SEBI Complaints Redress System) platform or such other electronic platform or system of the Board as shall be mandated from time to time, in order to handle investor complaints electronically in the manner specified by the Board.
2. The listed entity shall ensure that adequate steps are taken for expeditious redressal of investor complaints.
3. The listed entity shall file with the recognised stock exchange(s) on a quarterly basis, within twenty one days from the end of each quarter, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the

quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.

4. The statement as specified in sub-regulation (3) shall be placed, on quarterly basis, before the board of directors of the listed entity.

Preservation of Documents

The listed entity shall have a policy for preservation of documents, approved by its board of directors, classifying them in at least two categories as follows-

(a) documents whose preservation shall be permanent in nature;

(b) documents with preservation period of not less than eight years after completion of the relevant transactions:

Provided that the listed entity may keep documents specified in clauses (a) and (b) in electronic mode.

Share Transfer Agent

(1) The listed entity shall appoint a share transfer agent or manage the share transferfacility in-house:

Provided that, in the case of in-house share transfer facility, as and when the total number of holders of securities of the listed entity exceeds one lakh, the listed entity shall either register with the Board as a Category II share transfer agent or appoint Registrar to an issue and share transfer agent registered with the Board.

(2) The listed entity shall ensure that all activities in relation to both physical and electronic share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent registered with the Board.

(3) The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent, wherever applicable, within one month of end of each half of the financial year, certifying compliance with the requirements of sub- regulation (2).

(4) In case of any change or appointment of a new share transfer agent, the listed entity shall enter into a tripartite agreement between the existing share transfer agent, the new share transfer agent and the listed entity, in the manner as specified by the Board from time to time:

Provided that in case the existing share transfer facility is managed in-house, the agreement referred above shall be entered into between the listed entity and the new share transfer agent.

(5) The listed entity shall intimate such appointment, referred to in sub-regulation (4), to the stock exchange(s) within seven days of entering into the agreement.

(6) The agreement referred to in sub-regulation (4) shall be placed in the subsequent meeting of the board of directors:

Provided that the requirements of this regulation shall not be applicable to the units issued by mutual funds that are listed on recognised stock exchange(s).

KEY TO REMEMBER

1. There should be proper share transfer facility (Physical & Electronic)
2. Either In house or appoint Share Transfer Agent & Registrar to Issue registered with SEBI
So Separate share transfer agent is optional.
Compliance certificate for above 2 points duly signed by compliance officer & representative share transfer agent (if any) should be submitted within one & half month from end of financial Year
3. If shareholders cross 1 million then either get registered with SEBI as category II share transfer agent or appoint a share transfer agent.
4. If there is change in share transfer agent, tripartite agreement between Company + New STF agent + Old STF agent and in case in house to outside share transfer agent Company + STF
Inform SEBI within 7 days, Place it in subsequent BOD meeting.

Above regulation not applicable to listed mutual funds

CEO / CFO Certification

The following compliance certificate shall be furnished by chief executive officer and chief financial officer:

A. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
(1) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
(2) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

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

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

D. They have indicated to the auditors and the Audit committee
(1) significant changes in internal control over financial reporting during the year;

(2) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(3) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having significant role in the listed entity's internal control system over financial reporting.

KEY TO REMEMBER

-->No transactions fraudulent / illegal / against code of conduct
-->Responsible for Internal Financial Controls & Disclosed deficiencies to Audit Committee & Auditors
-->Informed Audit Committee & Auditors about Significant Frauds / Changes in Internal Financial Controls / Changes in Accounting Policies
-->Reviewed financial statements + Cash flow statement—Not Materially Untrue or Omission or Misleading + true & fair view + Compliance with AS & law

Compliance Certificate

Compliance certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance shall be annexed with the directors' report.

Compliance Officer and his Obligations

(1) A listed entity shall appoint a qualified company secretary as the compliance officer.

(2) The compliance officer of the listed entity shall be responsible for-

(a) Ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.

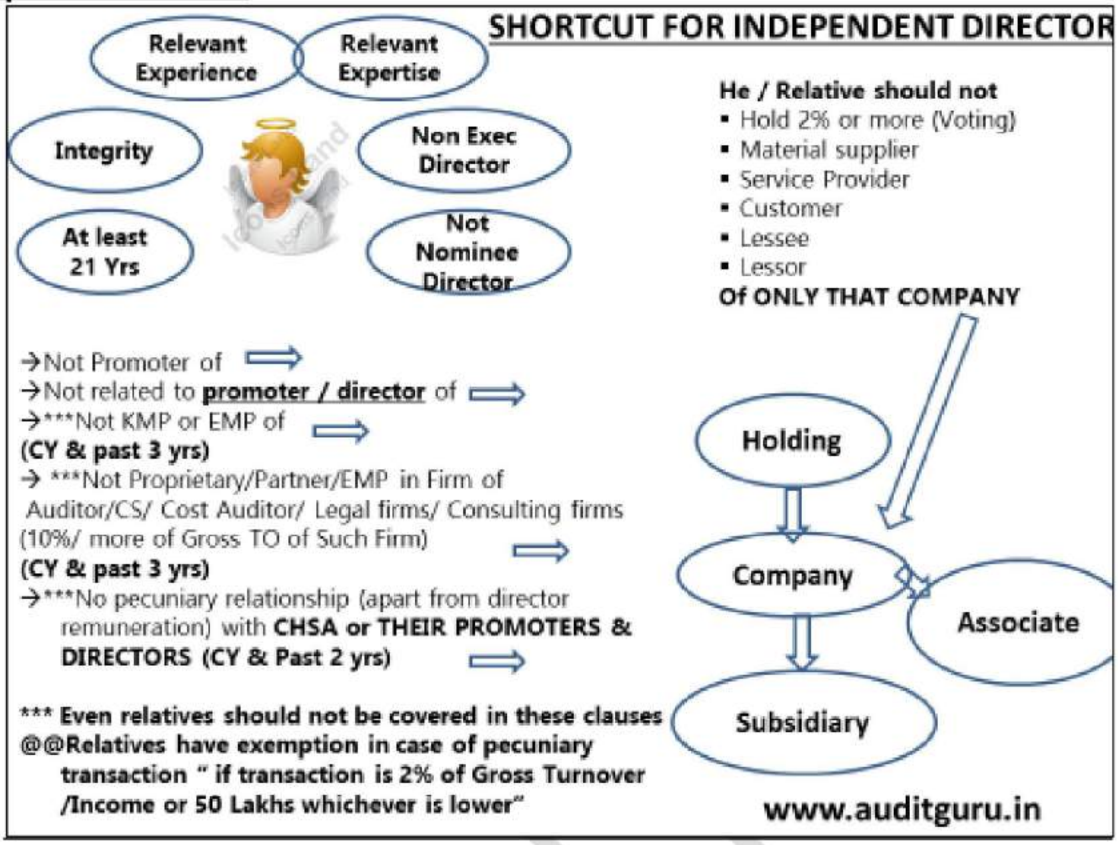
(b) co-ordination with and reporting to the Board, recognized stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time.

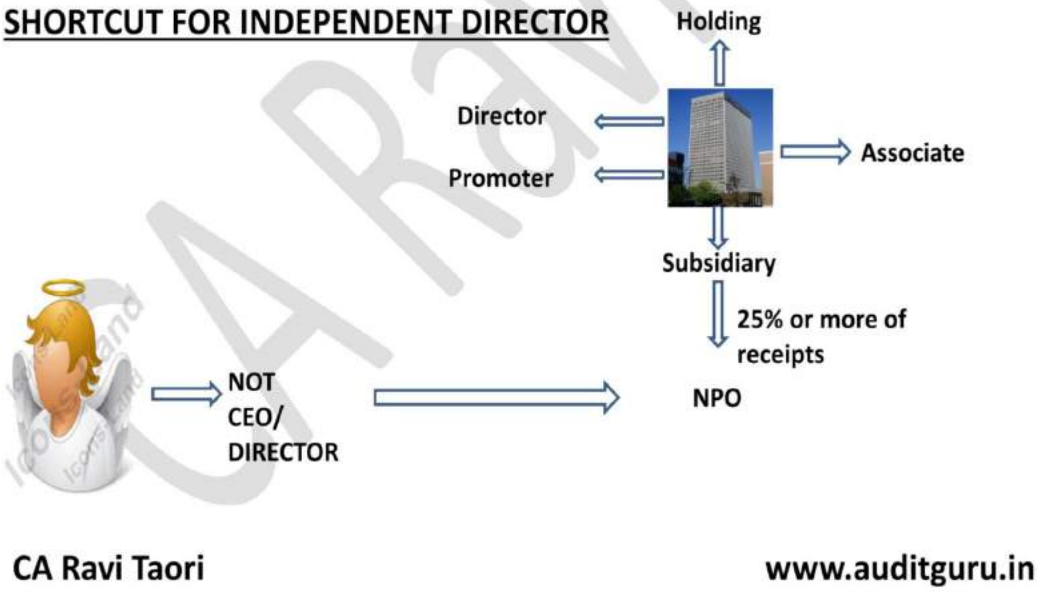
(c) Ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations.

(d) Monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors:

Provided that the requirements of this regulation shall not be applicable in the case of units issued by mutual funds which are listed on recognized stock exchange(s) but shall be governed by the provisions of the Securities and Exchange Board of India (Mutual Funds)Regulations, 1996.

Independent Director





General Principles of Corporate Governance

Principles are given for following areas

A. The Rights of Shareholders (Right to information / participation / vote/ protection of minority shareholder /address grievances / timely information of meetings etc / avoid insider trading)

B. Role of Stakeholders in Corporate Governance (Directors / Employees / Associates Suppliers / Dealers / Customers:- Sufficient & Reliable Information / Encourage Participation / Effective Redress / Effective Whistle Blower Mechanism)

C. Disclosure and Transparency (Timely / Accurate / As per standards / Equal / Efficient Access to users)

D. Responsibilities of the Board

1. Key Functions (Reviewing Corporate Strategy / Plan / Objectives / Budgets / Implementation / Managing Key Executives / Conflict of Interest)
2. Other Responsibilities (Corporate Culture / Establishing Committees / Director Training)
3. Disclosure of Information (Material Interest in any transaction / Operational Transparency to board & maintaining confidentiality)

Audit Committee

Particulars	LODR	Companies Act
Applicability	All listed companies but some are exempted (Same as applicability of LODR)	As per Section 177 all listed companies, Public companies having paid up capital 10 crores or more, turnover 100 crores or more, Loan/Borrowing/ Debenture/ Deposit exceeding 50 crore are supposed to have AUDIT COMMITTEE.
Composition	Minimum 3 Directors ($2/3^{rd}$ IDs)	Minimum 3 Directors (Majority IDs)
Qualifications	All members should be "Financially Literate" At least one Expert	Majority including Chairman should be able to "able to understand FST"
Chairman	Should be ID	Silent
Secretary	Company Secretary of Company.	Silent
Number of meetings	**Audit Committee shall meet at least 4 times in a year, Gap between 2 meetings should not be more than 4 months.**	**Silent**
Quorum	2 Members or $1/3^{rd}$ of members whichever is higher. (At least 2 IDs)	Silent
Invitees to committee Meetings	Finance Head / Head of Internal Audit / Representative of Statutory Auditor /	Auditor / Key Managerial Person can attend and have right to be heard with respect to audit report but cannot vote
Presence at AGM	Chairman of Audit Committee should be present at AGM	Silent

*Refer Annexure for role of Audit Committee (last page of chapter)

Mandatory Review by Audit Committee

The audit committee shall mandatorily review the following information:

(Start of the year)

(1) The appointment, removal and terms of remuneration of the chief internal audit or shall be subject to review by the audit committee.

(Quarter End)

(2) Statement of deviations:

- **(a)** Quarterly statement of deviation(s) including report of monitoring agency, inapplicable, submitted to stock exchange(s) in terms of Regulation 32(1).
- **(b)** Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7)

(During the year)

(3) Statement of significant related party transactions (as defined by the audit committee), submitted by management;

(4) Management letters / letters of internal control weaknesses issued by the statutory auditors;

(5) Internal audit reports relating to internal control weaknesses; and

(Year End)

(6) Management discussion and analysis of financial condition and results of operations;

Report on Corporate Governance

Annually

A. There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Noncompliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted.

Quarterly

- The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within fifteen days from close of the quarter.
- Details of all material transactions with related parties shall be disclosed along with the report mentioned in clause (a) of sub-regulation (2).
- The report mentioned in clause (a) of sub-regulation (2) shall be signed either by the compliance officer or the chief executive officer of the listed entity.

Subsidiary

Corporate governance requirements with respect to subsidiary of listed entity:

- At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, incorporated in India.

"Material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
Explanation -The listed entity shall formulate a policy for determining 'material' subsidiary.

- The audit committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.

- The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.

- The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.

Explanation- For the purpose of this regulation, the term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted material subsidiary for the immediately preceding accounting year.

- A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal.

- Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal.

- Where a listed entity has a listed subsidiary, which is itself a holding company, the provisions of this regulation shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

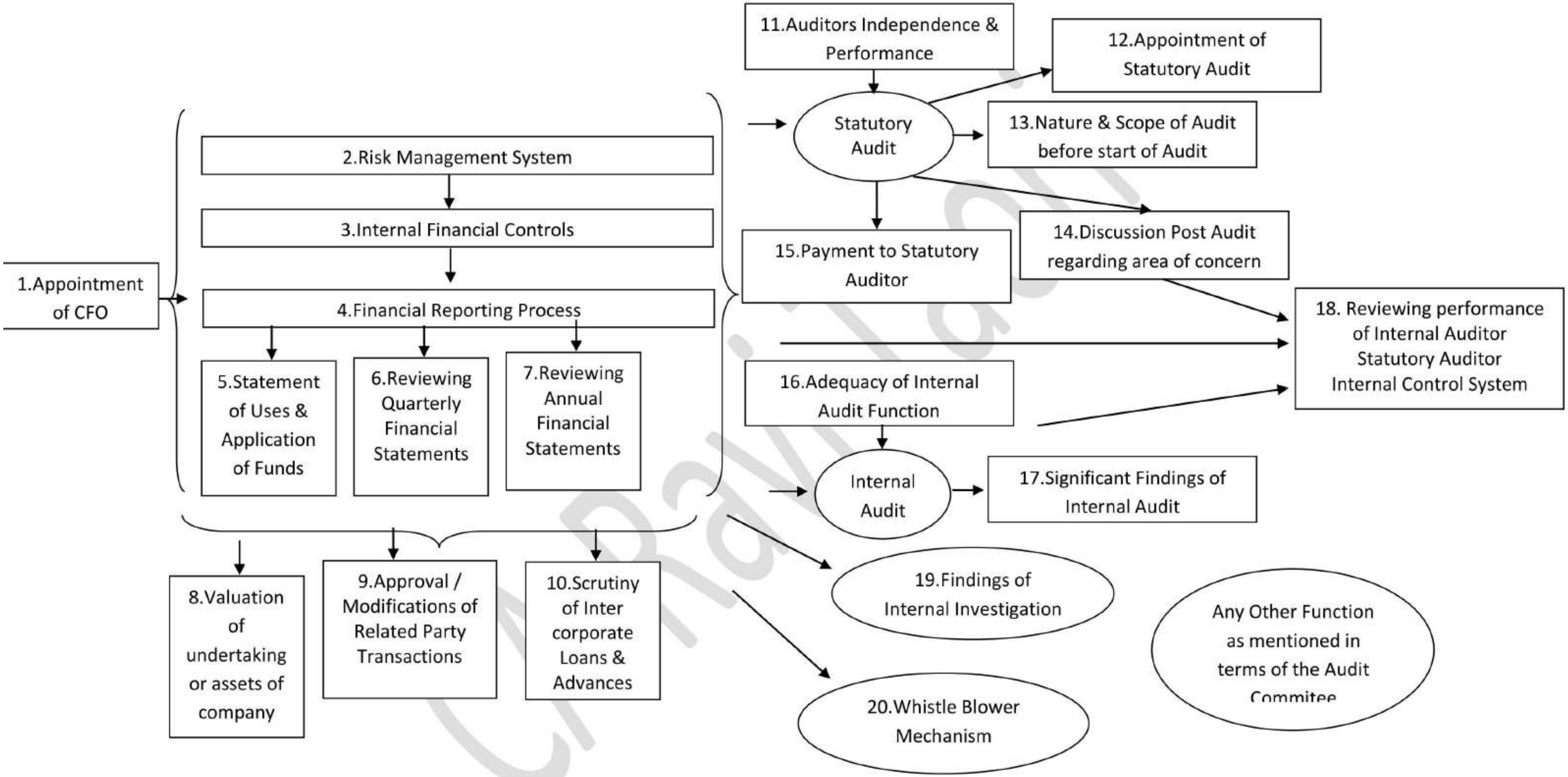
KEY TO REMEMBER

Listed holding companies should pay attention, supervise functioning of unlisted subsidiaries. There are more requirements for Unlisted Material Subsidiaries (Contributed 20% or more of consolidated net income or net worth in immediately preceding accounting year)

<u>All Unlisted Subsidiaries</u>
1. Bring to notice of BOD of listed company all significant transactions & arrangements (exceed 10% of totals as per preceding year) entered by such subsidiary
2. Minutes of BOD meetings should be placed at BOD meeting of listed company.
3. Audit Committee should review financial statements (in particular investments)

<u>Material Unlisted Subsidiaries</u>
1. At least one independent director from holding company should be director at such company.
2. Shall not dispose shares and reduce holding below 50% or cease control unless approved by special resolution or approval by court / tribunal
3. Shall not sale / dispose / lease more than 20% of assets during financial year unless approved by special resolution or approval by court / tribunal

Above requirements will also be applicable for listed subsidiaries with respect to its subsidiaries.)


1.Appointment of CFO
2.Risk Management System
3.Internal Financial Controls
4.Financial Reporting Process
5.Statement of Uses & Application of Funds
6.Reviewing Quarterly Financial Statements
7.Reviewing Annual Financial Statements
8.Valuation of undertaking or assets of company
9.Approval / Modifications of Related Party Transactions
10.Scrutiny of Inter corporate Loans & Advances
11.Auditors Independence & Performance
Statutory Audit
12.Appointment of Statutory Audit
13.Nature & Scope of Audit before start of Audit
14.Discussion Post Audit regarding area of concern
15.Payment to Statutory Auditor
16.Adequacy of Internal Audit Function
Internal Audit
17.Significant Findings of Internal Audit
18. Reviewing performance of Internal Auditor Statutory Auditor Internal Control System
19.Findings of Internal Investigation
20.Whistle Blower Mechanism
Any Other Function as mentioned in terms of the Audit Commitee

BANK AUDIT

1. CONDUCTING AN AUDIT

The audit of banks or of their branches involves the following stages –

Initial steps

i. Initial consideration by the Statutory auditor

Planning related steps

ii. Establish the Overall Audit Strategy
iii. Determine Audit Materiality
iv. Develop the Audit Plan
v. Audit Planning Memorandum

Risk Assessment & Response Related Steps

vi. Understanding the Bank and Its Environment including Internal Control
vii. Understand the Bank's Accounting Process
viii. Understanding the Risk Management Process
ix. Assess Specific Risks *(Demonetisation Effect)*
x. Assess the Risk of Fraud including Money Laundering
xi. Risk Associated with Outsourcing of Activities
xii. Identifying and Assessing the Risks of Material Misstatements
xiii. Response to the Assessed Risks
(100 % checking for big transactions from 8th Nov to 31st Dec)
xiv. Engagement Team Discussions

Other

xv. Consider Going Concern
xvi. Stress Testing
xvii. BASEL III framework.

Initial steps

i. Initial consideration by the statutory auditor

a. Initial Audit Engagement: Standard on Auditing (SA) 300, "Planning an Audit of Financial Statements" requires that the auditor shall undertake the following activities prior to starting an initial audit:

(a) Performing procedures required by SA 220, "Quality Control for Audit Work" regarding the acceptance of the client relationship and the specific audit engagement; and

(b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

As per Clause (8) of the Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice cannot accept position as auditor previously held by another chartered accountant without first communicating with him in writing.

b. Declaration of Indebtedness: The RBI has advised that the banks, before appointing their statutory central/circle/branch auditors, should obtain a declaration of indebtedness.

c. Internal Assignments in Banks by Statutory Auditors: The RBI decided that the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year.

d. Terms of Audit Engagements: SA 210, "Terms of Audit Engagements" requires that for each period to be audited, the auditor should agree on the terms of the audit engagement with the bank before beginning significant portions of fieldwork. It is imperative that the terms of the engagement are documented, in order to prevent any confusion as to the terms that have been agreed in relation to the audit and the respective responsibilities of the management and the auditor, at the beginning of an audit relationship.

e. Establish the Engagement Team: The assignment of qualified and experienced professionals is an important component of managing engagement risk. The size and composition of the engagement team would depend on the size, nature, and complexity of the bank's operations.

f. Opening Balances in Initial Engagement: The auditor needs to perform the audit procedures as mentioned in SA 510 "Initial Audit Engagements-Opening Balances" and if after performing that procedures, the auditor concludes that the opening balances contain misstatements which materially affect the financial statements for the current period and the effect of the same is not properly accounted for and adequately disclosed, the auditor should express a qualified opinion or an adverse opinion, as appropriate.

Planning Related Steps

ii. Establish the Overall Audit Strategy**:** SA 300 "Planning an Audit of financial Statements states that the objective of the auditor is to plan the audit so that it will be performed in an effective manner. For this purpose, the audit engagement partner should:

- establish the overall audit strategy, prior to the commencement of an audit; and *(Apart from advances, foreign currency operations, e payments should be carefully checked, data breach effect)*
- involve key engagement team members and other appropriate specialists while establishing the overall audit strategy, which depends on the characteristics of the audit engagement.

iii. Determine Audit Materiality: The auditor should consider the relationship between the audit materiality and audit risk when conducting an audit. The determination of audit materiality is a matter of professional judgment and depends upon the knowledge of the bank, assessment of engagement risk, and the reporting requirements for the financial statements. *(Generally, 5% of profits. We keep lower materiality we work more, risk reduces)*

iv. Develop the Audit Plan: SA 300 deals with the auditor's responsibility to plan an audit of financial statements in an effective manner. It requires the involvement of all the key members of the engagement team while planning an audit. Before starting the planning of an audit, the auditor must perform the procedures as defined under SA 220, "Quality Control for an Audit of Financial Statements" for reviewing the ethical and independence requirements. In addition to this, the auditor is also required to comply with the requirements of SA 210, "Agreeing the Terms of Audit Engagement".

v. Audit Planning Memorandum: The auditor should summarise their audit plan by preparing an audit planning memorandum in order to:

- Describe the expected scope and extent of the audit procedures to be performed by the auditor. *(HO, Zonal Offices, Branches. Time & Resources)*
- Highlight all significant issues and risks identified during their planning and risk assessment activities, as well as the decisions concerning reliance on controls. *(Ind AS application)*
- Provide evidence that they have planned the audit engagement appropriately and have responded to engagement risk, pervasive risks, specific risks, and other matters affecting the audit engagement. *(Quarterly checking of Ind AS implementation)*

Risk Assessment & Response Related Steps

vi. Understanding the Bank and Its Environment including Internal Control: An understanding of the bank and its environment, including its internal control, enables the auditor: *(Nationalised Bank Vs Banking Company)*

- to identify and assess risk;
- to develop an audit plan so as to determine the operating effectiveness of the controls, and to address the specific risks.

vii. Understand the Bank's Accounting Process: The accounting process produces financial and operational information for management's use and it also contributes to the bank's internal control. Thus, understanding of the accounting process is necessary to identify and assess the risks of material misstatement whether due to fraud or not, and to design and perform further audit procedures. *(Which software? Finacle, BaNCS, Flexcube ect)*

viii. Understanding the Risk Management Process: Management develops controls and uses performance indicators to aid in managing key business and financial risks. An effective risk management system in a bank generally requires the following:

- Oversight and involvement in the control process by those charged with governance:
  Those charged with governance (BOD/Chief Executive Officer) should approve written risk management policies. *(Credit Risk / Operational Risk / Market Risk)* The policies should be consistent with the bank's business objectives *(Balancing growth & risk)* and strategies, *(Education Sector)* capital strength, management expertise, *(Real Estate Loans)* regulatory requirements and the types and amounts of risk it regards as acceptable.

- Identification, measurement and monitoring of risks:
  Risks that could significantly impact the achievement of bank's goals should be identified, measured and monitored against pre-approved limits and criteria. *(Exposure to Real Estate Sector)*

- Control activities:
  A bank should have appropriate controls to manage its risks, including

  - Credit Risk
    - Verification and approval of transactions, *(Loan approval process)*
    - Setting of limits *(Limits for loan approval)*

  - Operational Risk
    - Effective segregation of duties (particularly, between front and back offices),
    - Reconciliation of positions and results, *(Say CASH reconciliation)*
    - Physical security *(Adequate guards for cash & investment certificates)*

  - Market Risk
    - Reporting and approval of exceptions *(reporting big losses on investments)*
    - Contingency planning *(war, recession, demonetisation)*
    - Accurate measurement and reporting of positions, *(Bond related data for market risk)*

- Monitoring activities: Risk management models, methodologies and assumptions used to measure and manage risk should be regularly assessed and updated. This function may be conducted by the independent risk management unit. *(Internal Audit, Revenue Audit, Concurrent Audit)*

- Reliable information systems: Banks require reliable information systems that provide adequate financial, operational and compliance information on a timely and consistent basis. Those charged with governance and management require risk management information that is easily understood and that enables them to assess the changing nature of the bank's risk profile.

ix. Identifying and Assessing the Risks of Material Misstatements: SA 315 requires the auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures, controls, and to address the specific risks. *(Risk of cyber fraud is much bigger than cash theft at ATM)*

x. Assess Specific Risks: The auditors should identify and assess the risks of material misstatement at the financial statement level which refers to risks that relate pervasively to the financial statements and potentially affect many assertions. *(Demonetisation)*

xi. Assess the Risk of Fraud including Money Laundering: As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor's objective is to identify and assess the risks of material misstatement in the financial statements due to fraud, to obtain sufficient appropriate audit evidence on those identified misstatements and to respond appropriately. The attitude of professional scepticism should be maintained by the auditor so as to recognise the possibility of misstatements due to fraud. *(Frauds Multiple Username Passwords, Charge on FD)*
The RBI has framed specific guidelines that deal with prevention of money laundering and "Know Your Customer (KYC)" norms. The RBI has from time to time issued guidelines ("Know Your Customer Guidelines – Anti Money Laundering Standards"), requiring banks to establish policies, procedures and controls to deter and to recognise and report money laundering activities.

xii. Risk Associated with Outsourcing of Activities: The modern-day banks make extensive use of outsourcing as a means of both reducing costs as well as making use of services of an expert not available internally. There are, however, a number of risks associated with outsourcing of activities by banks and therefore, it is quintessential for the banks to effectively manage those risks. *(Credit Card Verification, Small loan reviews etc)*

xiii. Engagement Team Discussions: The engagement team should hold discussions to gain better understanding of banks and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements.

xiv. Response to the Assessed Risks: SA 330 "The Auditor's Responses to Assessed Risks" requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. The auditor should design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

Other

xv. Consider Going Concern: In obtaining an understanding of the bank, the auditor should consider whether there are events and conditions which may cast significant doubt on the bank's ability to continue as a going concern.

xvi. Stress Testing:
RBI has required that all commercial banks shall put in place a Board approved „Stress Testing framework" to suit their individual requirements which would integrate into their risk management systems. *(A bank stress test is an analysis conducted under unfavorable economic scenarios designed to determine whether a bank has enough capital to withstand the impact of adverse developments. HSBC & Standard Chartered are most vulnerable UK banks to 'China stress test')*

xvii. BASEL III Framework
The Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) has undertaken an extensive review of the regulatory framework in the wake of the sub-prime crisis. In the document titled „Basel III: A global regulatory framework for more resilient banks and banking systems", released by the BCBS in December 2010, it has inter alia proposed certain minimum set of criteria for inclusion of instruments in the new definition of regulatory capital. *(It is for good financial health)*

2. AUDIT COMMITTEE

i. Constitution:- In pursuance of RBI circular September 26, 1995, a bank is required to constitute an Audit Committee of its Board. The membership of the audit committee is restricted to the nominees of the Central Government and the RBI , Executive Director, Chartered Accountant director and one of the non-official directors. *(5 types of members)*

ii. Important Function:- One of the functions of this committee is to provide direction and also oversee the operations of the total audit function in the bank.

iii. Internal Audit:- The committee also has to review the internal inspection/audit function in the bank, with special emphasis on the system, its quality and effectiveness in terms of follow up.

iv. Staff Traning:- Considering the coverage of this audit assignment and the specialised nature of work there is also a need for training to be imparted to the staff of the auditors. This training has to be given in specialised fields such as foreign exchange, computerisation, areas of income leakage, fraud prone areas, determination of credit rating and other similar specialised areas. The bank can organise such training programmes at various places so that it can ensure the quality of audit.

v. Concurrent Audit & Statutory Audit:- The method of appointment of auditors, their remuneration and the quality of their work is to be reviewed by the Audit Committee. It is in this context that periodical meetings by the members of the audit committee with the concurrent auditors and statutory auditors help the audit committee to oversee the operations of the total audit function in the bank.

12. 9 VERIFICATION OF SECURITY AGAINST ADVANCES:

B	(i)	Secured by tangible assets*	2,735,499,707
	(ii)	Covered by bank / government guarantees	63,453,979
	(iii)	Unsecured	855,996,626
		Total	3,654,950,312

From the view point of security, advances are to be classified in the balance sheet in the following manner:

(a) Secured by tangible assets
(b) Covered by bank/government guarantees
(c) Unsecured

An advance should be treated as secured to the extent of the value of the security on the balance sheet date. If only a part of the advance is covered by the value of the security as at the date of the balance sheet, that part only should be classified as secured; the remaining amount should be classified as unsecured. As mentioned earlier, the Reserve Bank has specified that advances against book debts may be included under the head "secured by tangible assets".

The following points are relevant for classifying the advances based on security.

(a) Security Meaning

"Security" means tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters, etc.

(b) Primary Vs Collateral Security

While classifying the advances as secured, the primary security *(if loan is given to buy house, then house is primary security)* should be applied first and for the residual balance, if any, the value of collateral security should be taken into account. If the advance is still not fully covered, then, to the extent of bank/government guarantees available, the advance should be classified as „covered by bank/government guarantee". The balance, if any, remaining after the above classification, should be classified as „unsecured".

(c) Multiple Loans Common Security (Single Borrower)

There may be situations where more than one facility is granted to a single borrower and a facility is secured, apart from primary and collateral securities relating specifically to that facility, by the residual value of primary security relating to any other credit facility (or facilities) granted to the borrower. In such a case, in the event of shortfall in the value of primary security in such a credit facility, the residual value of primary security of the other facility (or facilities, as the case may be) may be applied first to the shortfall and the value of collateral securities should be applied next.

(d) Multiple Loans Common Security (More than one Borrower)

In the case of common collateral security for advances granted to more than one borrower *(Loan taken by 4 brothers and home is given as collateral by all of them in their individual loan)*, if there is a shortfall in value of primary security in any one or more of the borrowal accounts, the value of collateral security may be applied proportionately to the shortfall in each borrowal account.

(e) Margin requirement breached

An account which is fully secured but the margin in which is lower than that stipulated by the bank should nevertheless be treated as fully secured for the purposes of balance sheet presentation.

(f) Government Guarantee

Government guarantees include guarantees of Central/State Governments and also advances guaranteed by Central/State Government owned corporations and financial institutions like IDBI, IFCI, ICICI, State Financial Corporations, State Industrial Development Corporations, ECGC, DICGC, etc.

(g) Bank Guarantee

Advances covered by bank guarantees also include advances guaranteed against any negotiable instrument *(say bill of exchange drawn on bank or DD issued by bank)*, the payment of which is guaranteed by a bank.

(h) Amount Exceeding Guarantee

Advances covered by bank/government guarantees should be included in unsecured advances to the extent the outstanding in these advances exceed the amount of related guarantees.

(i) ECGC / DICGC Guarantee

Advances covered by ECGC/DICGC guarantees should be treated as covered by guarantees to the extent of guarantee cover available. The amount already received from DICGC/ECGC and kept in sundry creditors account pending adjustment should be deducted from advances.

(j) Supply Bills
Advances against supply bills, unless collaterally secured, should be classified as unsecured even if they have been accepted by the drawees.

(k) Self Cheques
Cheques purchased including self-cheques (i.e., where the drawer and payee are one and the same) should be treated as unsecured.

(l) Documentary bills under delivery-against-payment
All documentary bills under delivery-against-payment terms (i.e., covered by RR/Airway Bill/Bill of lading) for which the documents are with the bank as on the balance sheet date should be classified as "secured".

(m) Documentary bills under delivery-against-acceptance terms
Documentary bills under delivery-against-acceptance terms which remain unaccepted as at the close of 31st March (i.e., for which the documents of title are with the bank on this date) should be classified as secured. All accepted bills should be classified as "unsecured" unless collaterally secured.

Practical Question asked in RTP

As a branch auditor of a Nationalised bank, how would you classify the following advances based on securities?

(i) Advances covered by ECGC/DISGC guarantees.
(ii) An account which is fully secured but the margin in which is lower than that stipulated by the bank.
(iii) Advances covered against cheques purchased including self cheques.
(iv) Advances against supply bill?

Answer

This question is Not about NPA classification it is about Secured VS Unsecured. Depending on nature advances are divided in 3 parts as explained below from HDFC Bank

(i) Advances covered by ECGC (Export Credit Guarantee Corporation of India Limited)/DICGC (Deposit Insurance and Credit Guarantee Corporation) guarantees.	If there is loan of 100 and guarantee is 60%, 60 will be shown under covered by bank / government guarantees and 40 will be shown in unsecured. Further if Rs 5 is received from ECGC / DICGC then it is accounted as Cash Dr 5, To Sundry Creditors 5 but for presentation it will be netted 60-5=55 will be shown under guaranteed amount.
(ii) An account which is fully secured but the margin in which is lower than that stipulated by the bank.	Loan = Rs 100 | Security = Rs 110 (Margin 10), as per agreement margin should be 25, so it is 15 short but still for presentation it will be shown as secured as security covers whole loan.

(iii) Advances covered against cheques purchased including self cheques.	Loan= Rs 100 | Cheque of any person or Self Cheque = Rs 105 but whole loan will be treated as unsecured, unless there is any other tangible collateral security.
(iv) Advances against supply bill. (Bill which shows that we have supplied bill to customer & amount is receivable)	Loan = Rs 100 | Supply Bill = Rs 150 | Whole loan of Rs 100 will be treated as unsecured unless something else is offered as collateral security.