CA FINAL MAY - 19

NEW SYLLABUS

ADVANCED AUDITING AND PROFESSIONAL ETHICS

CA MD IMRAN

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC] and to secure all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

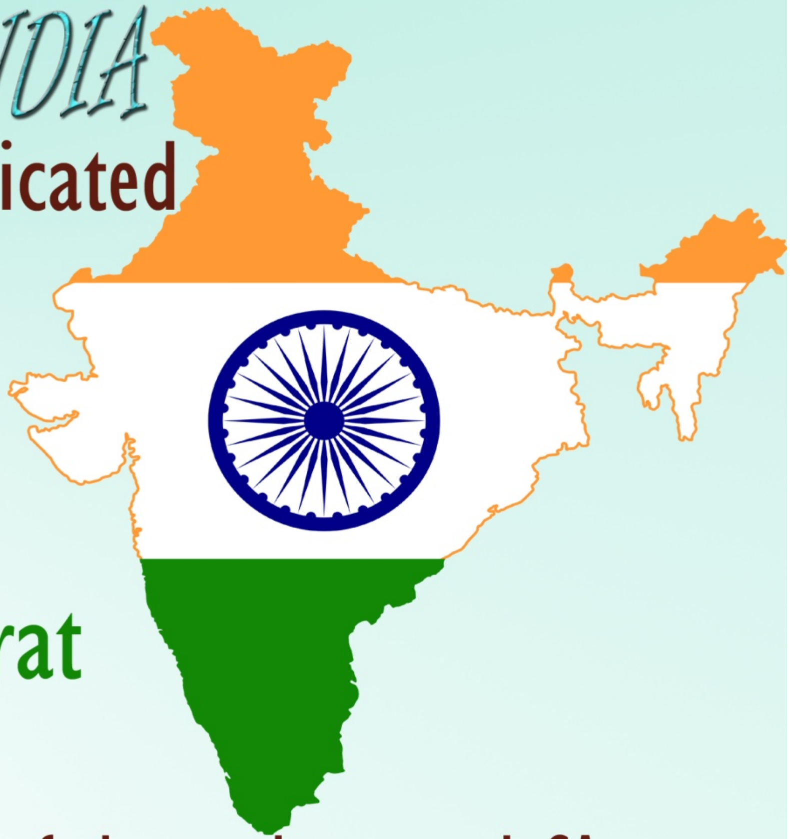
EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the [unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

I LOVE MY INDIA

This book is Dedicated to INDIA



Jai Hind

Jai Bharat

Congratulation to all of those who passed CA exam. Best of your success in the exam, life and your very brightful and successful future to you dear aspirant. The day you determined to become Chartered Accountant you are a CA. Let's confirm to the world by your result.

Yes there is 100% pass result for you because you are 100% certain let's do it.

य एष सुप्तेषु जागर्ति कामं कामं पुरूषो निर्मिमाण : ।

तदेव शुक्रं तद् ब्रह्म तदेवामृतमुच्यते ।

तस्मिंल्लोकाः श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ।।

I am very thankful to my best friend and senior for their contribution

CA AYESHA ZULFIKAR AGADI
CA ABHISHEK AGARWAL
CA ABIMANY
CA ADIL OBAID
CA. AJAY TIWARI
CA AJIT
CA AKARSH RANCHI
CA.AKASH JAIN
CA AKHTAR BHAI DELHI
CA ALOK SHARAN PRASAD
CA ANISH BHAGAT
CA. ANUP AGRAWAL
CA. ANURAG SINGHAL
CA.ARVIND KUMAR
CA ASHISH JAIN
CA ASIF
CA. AWADHESH KUMAR
CA AYESHA AGHADI
CA B N MISHRA DEOGHAR
CA SANAT
CA BAJRANG BHAIA RANCHI
CA BALAJI
CA BHAWESH KUMAR VOLTAS
CA BIPIN MISRA
CA BRAHAMDEO PARASHAD
CA. BREESKET SINGH
CA CS CMA SHAYAM KEDIA
CA CS CMA SITAKANTA PRUSTY
CA DEEPAK PATEL
CA DEEWAN SIR
CA DHIRAJ RANCHI
CA. DILIP KUMAR
CA DINESH KUMAR JAIN
CA YASIR
CA FARHAN RAHMAN
CA FIROOS BANGALORE
CA FIROZ AHMAD RANCHI
CA GAURAV MURARKA
CA GHANSHYAM AGARWAL
CA GIRISH GUJRAT NAHAR KAMAL
CA GIRISH NAHAR
CA.GITESH PODDAR
CA. R.P. GOENKA
CA J T RAGHU
CA. JAI SHANKAR
CA ROCKY KUMAR DANIEL
CA AMIT KESHRI
CA JAY PRAKASH SHARMA
CA KARAN THAKAR
CA KASHIF BHAI
CA KASHINATH GORAI BOKARO
CA MD MUMTAZ
CA MEHUL
CA MOHSIN SHAIKH
CA MUJAFFAR IQBAL
CA MUSTAKEEM UP
CA NAVEEN AGARWAL
CA NEERAJ
CA NIRANJAN KUMAR SINGH
CA P AGRAWAL DELHI
CA PALLAVI JAIN
CA PANKAJ AGARAWAL
CA PANKAJ KUMAR
CA PAWAN AGARWAL
CA PRASHANT KUMAR REDDY
CA PRAVEEN SHARMA
CA PUNAM KPMG
CA RADHIKA KABRA
CA RAGHAVENDRA ADIGA
CA RAJAN
CA.RAJEEV KUMAR
CA RAJIV
CA RAJNISH SIR
CA RAMANDEEP SIR
CA.RAVI AGARWAL
CA RAVI SHEKHAR
CA RISHAV MODI
CA RITESH
CA RITESH TIBREWAL
CA MD RIZWAN
CA ROHIT SIMDEGA
CA MD TABREZ SIDDIQUI
CA.S KUMAR
CA S SHIVAM
CA SABIR
CA. SACHIN AGRAWAL
CA.SACHIN MITTAL
CA SADAT
CA SADIQUE SEKH
CA.SANAT KUMAR
CA SAYEED ARSHAD
CA SHADAB
CA SHAKIL AHMAD
CA SHANKAR BHAIA
CA. SHANTANU SENGUPTA
CA SHEKHAR SUMAN
CA. SHRAWAN KUMAR
CA SHRIKANT DUBEY
CA SHUBHAM JAIN
CA SIDHART JAIN
CA SIRFARAJ AHMAD
CA SITA RAM KUMAWAT

CA KAUSHAL GST EXPERT
CA KISHOR KUMAR
CA KISHORE
CA KRISHNA PRASAD
CA. MADHAV GUPTA
CA M N THAKUR CMPDI
CA MAJHER MAJID
CA. MANISH AGARWAL
CA MANISH JAIN RANCHI
CA MANISH KUMAR AGARWAL
CA MANOJ SINGH KUSHWAH
CA VIKASH KUMAR
CA VINOD KUMAR GUPTA SAIL
CA. VIRENDRA KUMAR
CA VISHAL KHANNA CIRC
CA VISHAL PWC CAMPUS
CA.YOGESH SHARMA
CA. AMOL KUMAR LACHHIRAMKA
CA.ANIL KR JHA
ALL CHARTERED ACCOUNTANT
QUAIFIED AND FUTURE
CHARTERED ACCOUNTANT (FCA)

CA SK SHOUDHARY
CA SOURABH SIR
CA. NIRMAL K SINGH
CA SUBHAM DELHI
CA SUGANDHA SRIWASTAVA
CA SUJIT BPSCL MUJAFFAR FRND
CA SUMAN SHAW OIL
CA SURAJ KUMAR SAHOO
CA SURENDRA DHAKED
CA SWAPNIL ROY
CA. TARUN JAIN
CA TIRUMAL RAW
CA TIWARI JAYENDRA KUMAR
CA TRIPTI WAGADRE PWC
CA TUTION MALHOTRA RANCHI
CA VAIBHAV SAHAY
CA VIDEA SAGAR
CA VIKASH KHEDIA DHANBAD
CA. P C MISHRA

CONTENT

Disclaimer

CA FINAL Audit is very wide area covering every aspect of finance. It is almost impossible to cover everything. I personally found all the book available in the market is just a half or less cut copy of institute book, which neither give complete visualisation nor easy to remember, Although no one remember complete book to become CA, they remember just point and give their own explanation. I personally found it is only ICAI book which gives complete visualisation. You know well that words are nothing without its visualisation, to visualise you must have practical exposure under proper articleship training& READ ICAI AUDIT BOOK other than standards on auditing. It will help you to use of standards words and provide more elaboration.

This is mnemonics book it will help your answer to become perfect to score full marks. Because after reading out more than 2500 pages of audit book that is covering more than 25000 possible question we forget everything I could not lay down perfect answer of even a single question. When we will answer in exam paper it will look like general answer from a person who have never studied book and answering randomly. But major problem is that more of the time in CA FINAL some of the question unexpected that no one can Predict so it may be possible that whatever mnemonics we had remembered that question would have not been asked by ICAI then what? We have to keep patience think normally as we are auditor now answer question by using Out of box Game plan.

How to use this book:-

1. First of read entire book in detail ignoring mnemonics and visualise as your are playing video in your mind to whatever text written, and understand very well in detail.
2. Then to retain in your mind answer of every question perfectly use mnemonics and remember entire books with the help of mnemonics.
3. Remember every line and word of these notes very accurately and perfectly. In exam I have write whatever specifically asked, not merely what do I know. In exam have a patience to understand what is specifically asked, it is not like university exam, it is CA FINAL EXAM, Use analytical power to understand what is actually asked, what game is being played in question. This exam different from the other world because it is like game, question is asked not merely what is given in book but also for what is not given in books.
4. Remember CARO and CA Act accurately and as it is.
5. Remember important clause of form 3CD perfectly.
6. Our handwriting is not a benchmark for marking, but every benchmark for marking is set on the basis of readable writing so write only in readable writing. Writing fails benchmarks fails then we will get trapped in the crowed of average marking.
7. This is book is divided in three section Detailed book, Recall to revise & recall to test your result. First of all read entire book and understand in detail without considering mnemonics, then to remember take help of recall to revise section after you understand and remember please test your result whether everything are you able to recall.
8. Summary for SA 701 Communicating Key Audit Matters in the Independent Auditor’s Report has not been prepared completed detailed SA is given.

Chapter 1: Auditing Standards, Statements and Guidance Notes

SQC (Standard on quality control)		
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SA(standards on auditing)		
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23	550	Related Parties
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26	580	Written Representations
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36	800	SC - Audits of FS prepared in accordance with Special purpose Framework
37	805	SC - Audits of Single purpose FS and specific Elements, Accounts or items of a FS
38	810	Engagements to Report on Summary Financial Statement
	SRE (Standards on review engagement)	
39	2400	Engagements to Review Financial Statements
40	2410	Review of Interim Financial information performed by the Independent Auditor of Entity
	SAE (Standards on assurance engagement)	
41	3400	The Examination of Prospective Financial Information
42	3402	Assurance Reports on Controls at a Service Organisation
43	**3420**	Assurance engagement to report on compilation of pro forma financial information included in a prospectus.
	SRS (Standards on related services)	
44	4400	Engagements to Perform Agreed upon Procedures regarding Financial Information
45	4410	Engagements to Compile Financial Information

620 Using the work of Auditor's expert

600 Using the work of Another auditor

402 if Outsourced to service organisation

After accepting audit315,330,300

Befor accepting audit200,210

SQC-1,220

299 joint auditor

Section 143(10) of Companies Act, 2013- An auditor will comply with Standards on auditing. Failure to comply.Penalty 25,000-5,00,000. If knowingly 1,00,000-25,00,000. Imprisonment may be extend to one year.

STANDARD ON QUALITY CONTROL

SQC -1:Quality Control for firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

INTRODUCTION

Applicable for all firms to ensure quality of A.R.

Elements of Quality Control (HEAL ME)

1. **Human Resources:** Firm should have sufficient personnel to perform the engagement and enable firm to issue report.
2. **Engagement Performance:** Engagements are consistently performed in accordance with Professional Standards and Regulatory legal requirement.
3. **Acceptance and continuation of client relationship:** following point should be considered for Acceptance and continuation of client relationship.
   (i) Integrity of client.
   (ii) Competency of client.
   (iii) Compliance with Legal Ethical Requirement.
4. **Leadership Responsibilities for Quality within the Firm:** Promote an internal culture based on established Plan, policy and procedure which ensures quality of audit report and such culture should under firm leadership.
5. **Monitoring:** Ensure Policies and procedures relating to the system of Quality control are relevant, Adequate, Operating effectively, and complied with in practice.
6. **Ethical Requirements:** Established policy and procedure that ensure firm's personnel comply with Integrity, Objectivity, Professional Competence, Confidentiality and Professional Behaviour. **Independence:** Obtain annually in writing that firm's personnel are independent, unbiased and no relationship, interest exist with engagement.

SA 200

1. **Overall objective: Express opinion** on financial statement that financial statement prepared in all material respect and in accordance with applicable financial reporting framework and financial statement free from ROMM for that auditor obtain reasonable assurance on the basis of conclusion obtained after performing procedure in accordance with SA.
2. Financial statement consist of : ***BPCSNR***
   - Balance sheet
   - Profit and loss accounts
   - Cash flow statement
   - Statement of change in equity
   - Notes to accounts
   - Receipt and payment accounts (in case of NPO)
3. Ethical requirement : ***IOPCP IA$_4$ORS***
   - **Integrity-** Straight forward, honest & sincere in his approach of audit.

- **Objectivity –** Auditor must be fair and unbiased, he should not allow any biasness or prejudice to express opinion on financial statement, to ensure financial statement free from ROMM & to ensure financial statement complies with FRF.
- **Professional behaviour –** Auditor should act in a professional way with good reputation and should escape from conduct which disrepute the profession.
- **Confidentiality-** Auditor should not disclose client information to third parties unless permitted by client or required by law.
- **Professional competence –** Auditor should be competent to perform the engagement. Auditor and their staff should have adequate training, skill, experience and competency.
- **Independence –** Auditor should not get influenced by other anything else.
- **Audit documentation –** It refers to the working paper prepared and maintained by auditor during audit.
- **Audit Planning –** It enable effective and efficient audit in a timely manner.
- **Audit evidence–**Auditor should obtain SAAE. Auditor performs substantive & Compliance procedure to obtain SAAE. Substantive Procedure involved test of ABCD. Compliance Procedure involves evaluation of internal control.
- **Accounting system and internal control –** Auditor should understand accounting system and related financial internal control to conduct audit in more effective manner.
- **Other auditor's work-** Principle auditor uses the work of other auditor, internal auditor, auditor's expert, etc. For expressing opinion on financial statement of entity as whole
- **Reporting requirement**
- **Skill**

4. **Risk**

ROMM (Risk of Material Misstatement)

- ♦ **INHERENT RISK:** It is an integral part, do whatever you want to do that will remain therein. *The susceptibility of ABCD to misstatement that could be material either individual or aggregated with other statement, before consideration of an audit.*
- ♦ **CONTROL RISK:** Management procedure failed to prevent, detect and correct misstatement. Although it could be prevented, detected and corrected by management. *The susceptibility of ABCD to misstatement that could be material either individual or aggregated with other statements will not be prevented, detected and corrected misstatement.*

DETECTION RISK: it is the risk that auditor procedure to reduce the audit risk at acceptable low level will not detect a misstatement that exist and that could be material either individually or when aggregated with other misstatement. If it cannot be reduced to acceptable level then auditor should express qualified opinion or disclaimer of opinion as may be appropriate.

AUDIT RISK: It is risk of expressing inappropriate (unmodified) opinion on materially misstated financial statement. It is a function of ROMM and detection risk.

Risk at financial statement level : PICK	**Risk at assertion level (ABCD) : $FACT_2$** **Inherent audit risk at ABCD : $FACT_2$**
Professional judgment **Integrity of management** **Control** **Knowledge of the management.**	**Financial statement likely to be susceptible** **Amount of judgement involved in determining ABCD** **Complex and unusual transaction** **Transaction ONCB.** **Transaction with related parties.**

5. **Professional scepticism:** It is an auditor's attitude of critical analysis & not accepting anything without reasonable justification that is being alert and questioning mind with respect to FRF, CAE, Reliability of document, exception, unusual transaction, inappropriate assumption & estimate, keeping in mind that there may be any Circumstance may indicate the possible existence of fraud and error.
6. **Professional judgment :** Auditor made professional judgement for ROMM, Sampling, Materiality, NTE of audit, SAAE by utilising their experience, knowledge & skill.
7. **Inherent Limitation of Audit :** This is the reason because of which audit fail as mentioned below :-
    - *Complex internal control*
    - *Wrong judgment*
    - *Audit sampling*
    - *Fraud*
    - *Audit evidence is persuasive in nature rather than conclusive in nature.*

SA 210

1. **Precondition for an audit**
    - Management accept the responsibilities of preparation and presentation of financial statement in accordance with AFRF.
    - Providing the auditor with
        - ✓ Access to all information relevant to preparation and presentation of F.st.
        - ✓ Additional information as require by auditor.
        - ✓ Unrestricted access to those with in the entity .

2. ***Factor which make it appropriate to revise the term of the audit engagement:*** **RMC$_6$**

- ➢ Revision in the term of audit engagement
- ➢ Management misunderstood the objective of audit
- ➢ Change in the ownership
- ➢ Change in the operation
- ➢ Change in the Nature timing and extent of audit
- ➢ Change in the relevant industry
- ➢ Change in the AFRF.

3. **Audit procedure when management request change in TOAE.**

- ➢ Determine reason why management requested to change in TOAE.
- ➢ Is there any reasonable justification for changes, if yes then, auditor may accept the change and record reason.
- ➢ If there is no reasonable justification and *the auditor decided to withdraws, then :*
    - a. *Discuss with the appropriate level of management and TCWG, withdrawal from the engagement and the reason for the withdrawals.*
    - b. *Determine whether there is a professional or legal requirement to report to person who made the audit appointment or in some case to regulatory authorities, if yes then communicate, withdraws from the engagement and the reason for such withdraw*.

4. **Audit Engagement Letter**

For accept an audit auditor writes an **engagement letter** to client and get it acknowledge from client. It is a letter issued by auditor to their client, containing objective and scope of audit, auditor responsibilities, management responsibilities, Peer Review and Fees detail **to confirm the scope of audit**. When audit is carried out under any law and if law itself specify scope then you may send engagement letter in such a case it would be informative in nature.

Content of Audit Engagement Letter.

Title, Addressee, Introduction Para, Auditor's Responsibilities, Management's Responsibilities, Peer Review Clause, Fees, Acknowledgment Paragraph, Signature of the auditor, Date & Place of Signature(Specific location where the audit report is signed.

Title
Engagement Letter for audit of XYZ Ltd.
Addressee
To the Board of Director of Xyz Ltd.
Introductory paragraph
You have requested that we audit the balance sheet of (Name of the Company) as at 31stMarch, 20XX and the related profit and loss account and the cash flow statement for the year ended on that date. We are **pleased to confirm our acceptance** and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.
Auditor's Responsibility
Our responsibilities are to give opinion on financial statement. We will conduct our audit in accordance with the auditing standards issued by ICAI. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected.
Management's Responsibility
The responsibility for the preparation of financial statements on a going concern basis is that of the management. The management is also responsible for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period. The responsibility of the management also includes the maintenance of adequate accounting records and internal controls for safeguarding of the assets of the company and for the preventing and detecting fraud or other irregularities. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.
Peer Review Clause
We also wish to invite your attention to the fact that our audit process is subject to 'peer review' under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review.
Fees

Our fees will be billed as the work progresses.
Acknowledgment
If all the term & condition are acceptable, Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.
Signature *for* **X Y Z & Co. LLP** *Chartered Accountants* Firm's registration number: 00000000 **WWWWWW** *Partner* Membership number: 000000
Date and place of signature
Acknowledged on behalf of ____________Company by …………………….. (Signature) Name and Designation Date

SA 220

1. **Requirement of SA 220 HEAL ME**

- **Human Resources –** ensure right person are appointed to right job.
- **Engagement performance – EQCR** properly supervised and reviews the audit work. Engagement is performed in accordance with RLR, LER, maintain proper working paper and documentation.
- **Acceptance and continuation of client relationship –** Consider integrity of client and competency of client to comply with applicable law and regulation, relevant ethical requirement, etc.
- **Leadership responsibilities –** Engagement partner should take accountability and responsibility for engagement performance. Engagement quality control review should Plan, supervise, review the engagement performance. There should be adequate and timely communication from engagement partner to engagement team member and should resolve the conflict between team members.
- **Monitoring –** Work done by audit assistance should be properly monitored on regular basis to ensure policies procedure relating to quality control are adequate and operating effectively.
- **Ethical requirement** – complies with **IOPCPI. (Integrity, Objectivity, Professional competence, Confidentiality, Professional behaviour, Independence)**

SA 230

Introduction

Audit documentation is record of audit procedure performed relevant audit evidence obtain and the conclusion audit reach. It is basis of conclusion and evidenced that the audit was conducted in accordance with SA, ALRR & GAAP applicable in the circumstances. Auditor should document to the extent of that is sufficient to enable experienced auditor having no previous connection with that audit, to understand –

Nature timing extent of audit, result of audit procedure performed relevant audit evidence obtained and the conclusion the auditor reach and Significant matter arising during audit and conclusion reached thereon, **inconsistency** found and how it has been resolved, in case **departure from GAAP** how alternative audit procedure performed. Auditor should **assemble** audit files and working paper within 60 days of completion of audit, and it should be retained for not less than 7 year (As per Companies Act not less than 8 year but account can be reopen of more than 8 year). This audit documentation is the property of auditor, auditor may make portion, extract to make available to client at his discretion.

Documentation includes the following:

- → Understanding the entity.
- → Engagement letter (Agreement entered for scope of work.)
- → Time and cost constraints.
- → Audit programme.
- → Risk assessment.
- → Team discussion.
- → Working papers pertaining to significant areas.
- → Review points.
- → Communication with those charged with governance.
- → Basis for conclusions.
- → Reporting & completion.
- → Quality/Engagement quality control review.

1. **Purpose of audit documentation:** It **assists** the engagement team to plan and perform audit, made **accountable** to engagement team for their work, for **future** audit and for QCR.
2. **Matter to be specifically documented** ***DIDI***
   - **Discussion of significant matter with management and TCWG.**
   - **Inconsistency found and how it has been resolved**
   - **Departure from ALRR& GAAP and what alternative audit procedure performed**
   - **Inclusion of matter arising after the date of AR.**
3. **PERMANENT AUDIT FILE: MOA,AOA, Bye laws, Previous year Audit Report, Communication with retiring auditor, notes regarding significant accounting policies, MR.**
4. **CURRENT AUDIT FILE: Minutes, Audit Programme, External confirmation, planning process & analysis of ABCD,** copy or abstract of signed agreements, video / audio recording,
5. **Factor affecting amount of working paper ISCA N_3**
   - Identified ROMM.
   - Significant of audit evidence obtained.
   - Complexity and size of transaction & entity.
   - Audit methodology and tools.
   - NTE of audit
   - Nature of audit procedure performed.
   - Need to document a conclusion.

SA 240

1. **FRAUD verification procedure** ***ONPDW***

- Obtain RA that financial statement are FFROMM.
- Risk of **not** detecting the fraud high because executer concealed the way it is executed.
- Professional scepticism should be maintained.
- Discussion with AET should be made.
- Written representation should be obtained.

2. **RAP (Risk Assessment Procedure):** ***ATMOF***

- **Analytical procedure:** Analysis of plausible relationship among financial and non-financial data. It may indicate unusual, abnormal, unexpected relationship among financial and non-financial data. This would help to identify FRF,CAE& MM.
- **TCWG:** How TCWG oversight management's process and inquire TCWG whether they have knowledge of any actual, suspected or alleged fraud.
- **Management and other within the entity.**
    - Management assessment of ROMM.
    - Management process to identify and responds to FRF.
    - Management communication to TCWG.
    - Management communication to employee.
- **Other information and observation:** Consider whether other information obtained indicates ROMM.
- **Fraud risk factor evaluation:** it is indicator of ROMM. The auditor should discuss with engagement team. It may result from Fraudulent financial reporting or Misappropriation of Assets

Fraud risk factor - Fraudulent financial reporting- **HOTEL TIPS**

- **High turnover of senior level management.**
- **Oversight of TCWG ineffective.**
- **Transaction with related parties.**
- **Excess pressure on management.**
- **Lack of ethical standards.**
- **Transaction outside normal course of business.**
- **Inappropriate transaction.**
- **Personnel financial situation of management and TCWG.**
- **Significant decline in customer demand**

Fraud risk factor - Misappropriation of Assets

II. Fraud Risk Factors Relating to Misstatements Resulting from Misappropriation of Assets

1) Large amounts of cash on hand or processed.

2) Inventory characteristics, such as small size combined with high value and high demand.

3) Lack of an appropriate segregation of duties or independent checks.

4) Poor physical safeguards over cash, investments, inventory or fixed assets.

5Lack of mandatory vacations for employees performing key control functions.

3. **Responses :**
   i. **At financial statement level.**
      - ✓ **Professional scepticism, Assignment, Evaluate SAAE, Incorporate unpredictability. (PAIE)**
   ii. **At assertion level**
      - ✓ **Change in the nature timing and extent of audit. Change in NTE**

4. SPECIFIC SOLUTION, MENTIONED EVERYWHERE, WHEREVER FRAUD IS SUCH THAT AUDITOR UNABLE TO CONTINUE- 240/ 140(2)/ CARO Clause 3(x)/ 143(12)

- *SA 240*

The auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain SAAE to determine whether material misstatement exists.

Circumstance may indicate the possible existence of fraud and error.

The auditor should perform such modified or additional procedure as he determined to be appropriate

*In exceptional circumstances that bring in to the question to the auditor ability to continue the engagement or **U TEA OOFS**, the auditor shall:*

i. *Determine professional and legal responsibilities applicable in the circumstance.*
ii. *Consider whether it is appropriate to withdraws from the engagement if legally permitted.*
iii. *If the auditor withdraws:*
   a. *Discuss with the appropriate level of management and TCWG, withdrawals from the engagement and the reason for the withdrawals.*
   b. *Determine whether there is a professional or legal requirement to report to person who made the audit appointment or in some case to regulatory authorities, the auditor withdraws from the engagement and the reason for such withdraw.*

- **140(2): resignation of auditor-**An auditor is required to file ADT-3 on resignation within 30 days to Company, ROC , CAG (If govt, co). Failures to which auditor punishable with a fine which shall not be less than Rs. 50000 but may be extend to Rs. 500000.

- **CARO Clause 3(x) Reporting of Fraud**

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

- **143(12) : Reporting of fraud by auditor**

When an auditor comes to knowledge or reason to believe that fraud has been committed or is being committed against the company by any employee or officer, the auditor is required report immediately but not later than 2 days **to the board or audit committee**.

Board or audit committee will submit their reply or observation within 45 days to auditor. Then Auditor shall report **to central government** in form ADT-4 within 15 days of receipt of reply from board or audit committee, by speed post or Registered post with acknowledgment due.

However if fraud amount is **less than Rs. 1 crore** then report only it to Board/ Audit committee & disclosure require in board report.

Report consists of following particular: **NPA**

1. **N**ature of fraud with description
2. **P**arties involved.
3. **A**pproximate amount involved.
4. Remedial action taken.

AND such disclosure would not amount breach of any of his duties.

SA 250

1. **Introduction**
   Non- compliance means failure to comply or violation of applicable laws and regulation. It is an Act of omission or commission by the entity, or on its behalf, by those charged with governance, management or employees which may be intentional or unintentional which is being contrary to the prevailing laws & Regulation. Due to non- compliance huge penalty, charges & prosecution attracted on entity, even it may leads to entity inability to going concern that's why it is necessary for auditor to obtain SAAE regarding compliance with law and regulation.

2. **AUDIT PROCEDURE: GO and follow procedure INQUIRY, INSPECTION, PROFESSIONAL SCEPTICISIM, WR & WP**
   - **G**eneral understanding of ALRR, LER & AFRF and how entity applies with it.
   - **O**btain SAAE w.r.t compliance with laws and regulation that directly affecting determination of material amount and disclosure made in financial statement.
   - **Inquiry** with w.r.t to non- compliance with laws and regulation that may have effect on financial statement (Fundamental impact on operation and going concern).
   - **Inspection** of latest information of pending legal case, minutes and other evidence which shows non-compliance.
   - **Professional scepticisms** should be maintained to identify confirmation as to compliance with applicable law and regulation.
   - **Working paper**

- **Written representation** from management about possible non-compliance should be obtained.

3. Management Responsibilities with respect to compliance with laws and regulation.- *MEMBER*

M- Monitoring legal requirement.

E- Ensure employees comply with code of conduct.

M- Monitoring compliance of code of conduct by preparing checklist.

B- Better internal control should be designed, implemented and maintained.

E- Engaging Legal Advisor.

R-Register of Significant applicable laws and regulation should be maintained.

4. **Indicator of non- compliance of laws and regulation –*IMIPS* *and not a* *LOL***

- **Inquiry of management**
- **MOA & AOA**
- **Income tax return**
- **Previous year audit report**
- **Share holder record.**
- **Latest interim financial statement.**
- **Obtain written representation**
- **Latest position of pending legal cases.**

SA 260: Matter to be communicated to TCWG. (I.F.R.S)

- **Independent:** Communicate that auditor is subject independence, Statement stating that engagement team complied with LER regarding independence, and steps taken to provide safeguard against elimination of independence.
- **Finding:** Both finding should be reported qualitative as well quantities, significant difficulties encountered during audit.
- **Responsibilities:** Our responsibility is to express opinion on financial statement, our responsibilities doesn't relieve management or TCWG from their responsibilities.
- **Scope& timing of audit:** here auditor communicate planned scope and timing of audit, the auditor should communicate such timing that it do not compromise in effectiveness of audit.

SA 265:

DEFICIENCY –

1. Control is DIO in such a way that is unable to PDCM in the financial statement.

2. Control necessary to PDCM in the F.st is missing.

SIGNIFICANT DEIFICIENCY: Deficiency of sufficient important that it is necessary to merit the attention of TCWG.

Indicators of significant deficiencies in internal control
 Evidence of ineffective control environment.
 Absence of risk assessment process within the entity.
 Evidence of an ineffective risk assessment process within the entity.
 Evidence of an ineffective response to identified risk.
 Misstatements detected by the auditor that were not prevented, detected and corrected by the entity's internal control.
 Evidence of managements inability to oversee the preparation of financial statements.
 Disclosure of material misstatement due to error or fraud as prior period items in the current years Statement of Profit and Loss.

COMMUNICATION :if deficiency then reported to management. If significant deficiency then it is reported to TCWG.

SA 299:

- **JOINT AUDITOR DEVIDE WORK & COORDINATE** share **RESPONSIBILITIES and may DIFFERENCE OF OPINION**
  1. **JOINT AUDIT –** When two or more practice unit appointed to conduct an audit due to voluminous of work, is known as joint audit.
  2. **Division of work –** They divide work among themselves on the basis of period, functional area, component of financial control, geographical location, identifiable unit, assets, liability, etc.
  3. **Co-ordination –** each joint auditor should co-ordinate with each other, mater found relevant to other auditor should be immediately communicated before the date of audit report.
  4. **Separate responsibilities in respect of work divide.**
  5. **Difference of opinion:** generally all arrived at unanimous opinion, however they are not bound by majority of opinion, and those disagree may provide their opinion through a separate report.

- **Responsibility of joint auditor when they are jointly and severally responsible in respect of audit conducted by them.** ***joint audior** got **NP** of **NBFC***
  - *Each* **Joint auditor entitled to relies on the work of other joint audit that it is carried out in accordance with GAAP.**
  - **Not divided audit engagement among the joint auditor.**
  - **Prevailing system of internal control.**
  - **NTE of audit procedure.**
  - *Information* **Brought to the notice of the joint auditors by any one of them.**
  - **Financial statements comply with disclosure requirement.**
  - **Compliance of** *Audit report* **with the requirement of relevant statute.**

SA 300

1. **Introduction**

Plan enables to conduct effective and efficient audit in a timely manner. Here we determine nature, timing and extent of audit. It should be flexible in nature so that revision is possible as the audit progress if circumstances arise. Audit plan ensure work completed in a **timely** manner, **assistants are properly utilised**, there is proper **co-ordination** in this regard and **proper attention given to critical areas.**

2. **Following are the steps in planning**
   a. **Preliminary engagement activities- check compliance with AS 220,200,210. That is preparing and sending engagement letter, compliance with ethical requirement, ensure quality control as per 220 and communication with predecessor auditor.**
   b. **Planning activity.**
   - **Over all audit strategy- knowledge of entity and its environment, ascertain NTE of audit.**
   - **Audit plan- SA 315,330 and other planned audit procedures.**

   c. **315 & 330**
   d. **Revision**

3. Following factor should be consider in developing overall audit plan:- TRAINING DAYS

a. Terms of auditor's engagement and any statutory responsibilities.
b. RAP to be applied to understand and analyse the extent of risk.
c. ALRR and accounting policies adopted by client and changes thereto.
d. Identification of significant audit areas and setting the materiality level.
e. Nature timing of reports or other communication.
f. Involvement of other auditor in the audit component.
g. NTE of audit.
h. Get the previous audit report,
i. Degree of reliance of IC.
j. Allocation of work.
k. Yardstick to determine materiality.
l. Staff requirement and co-ordination.

SA 315: Audit procedure

RAP & Related activity, Understand entity and its environment, Components of internal control, Identify and assess ROMM, Risks that require special audit consideration, Revision of risk assessment.

1. **Risk Assessment Procedure and related activity.**

- **RAP: ATMOF (Refer SA 240)**
- **Use obtained information to identify ROMM.**
- **Consider change on using last year audit working paper.**
- **Discussion of engagement partner among engagement team member and determine the matter to be communicated.**

2. **Understand entity and environment:- the auditor shall obtain and understanding of the following:**
   - **Relevant industry, regulatory and other external factor including AFRF.**

- **The nature of entity, including:**
  - ✓ **It operation**
  - ✓ **Ownership and governance**
  - ✓ **Nature of investment made by entity, how it is structured and how it is finance**
- **The entity's selection and application of accounting policies.**

3. **Component of INTERNAL CONTROL: *CRCIM***

Introduction

Internal Financial Controls / internal control definition

The Plan, Policies and Procedure of an organisation and all the method and procedure adopted by management of an entity to assist an achieving management objectives of ensuring as far as practicable 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. Following are the component of Internal control:-

- ➢ **Control environment:** First TCWG & Management should be honest, ethical, sound character, competent, integrity, etc. he should developed the culture of honesty, integrity and ethical behaviour. The strength in the control provides appropriate foundation for other component of control.
- ➢ **Risk assessment Process: evaluate entity has a process for *IEAA***
  - Identifying business risk
  - Estimating the significant of the risks
  - Assess the likelihood of their occurrence.
  - Action to address to those risks.
- ➢ **Control activity:** understand how entity IRCPT (initiate, record, correct, process transaction). Identify those control activity which are related to significant ABCD.
- ➢ **Information & communication: *TRIPS***
  - Transaction significant to financial statement.
  - Related accounting record & Reporting process used to process entity F.st.
  - Information system capture event and condition
  - Procedure by which significant transaction are initiated, recorded, processed, corrected as necessary.
  - Surrounding journal entries.
- ➢ **Monitoring-** How the significant financial reporting activity is being monitored, and how remedial action initiated for deficiency in internal control.

4. **Significant Risk that require special audit consideration. DCR of TT**
   - ➢ **Degree of subjectivity with regard to assumption and estimate.**
   - ➢ **Complexity of transaction**
   - ➢ **Risk of fraud**
   - ➢ **Transaction with related parties.**
   - ➢ **Transaction outside normal course of business.**
5. **Revision of risk assessment.**

If additional audit evidence obtain is inconsistent with the original audit evidence, then the auditor shall revise the assessment and modify the further planned audit procedure accordingly.

SA 320

1. **Introduction**
   Material item is the assertion of financial statement which affects decision of user of financial statement on either discloser is made or not made on financial statement. It is very subjective in nature; it depends on nature and size of entity & nature and size of item. Generally what amount would be material or not material is determined by management and TCWG of entity. However there is another materiality level which is determined by auditor is known as **performance materiality** auditor has to consider such materiality level while auditing. Performance materiality level is set by auditor, lower than the actual materiality level to ensure, aggregate of uncorrected misstatement could not exceed actual materiality set by entity.
   Determination of materiality is a matter of professional judgement; generally certain percentage is often applied on chosen benchmark.
2. **Audit procedure to determine performance materiality :-** **REFRENCE**
   - Relative volatility of benchmark
   - Entity's ownership structure and the way it is financed.
   - Focused and material item on which user give more attention for example profit.
   - Related AFRF & ALRR.
   - Elements of financial statement.
   - Nature of entity.
   - Common financial information needs.
   - Entity surrounding circumstance.

SA 330:

Introduction

The objective of auditor is to obtain SAAE through designing and implementing appropriate responses to the assessed ROMM.

Responses to assessed ROMM - NTE

- **Nature of the audit technique and procedure-** More audit procedure if assessed risk is high & less audit procedure if assessed risk is low.
- **Timing of audit procedure-** Full year transaction should be cover if assessed risk is high & Part of the transaction may be covered if assessed risk is low.
- **Extent of audit procedure-** Sample size should be extended if assessed risk is high & Sample size may be reduced if assessed risk is low.

Factor that may warrant retest of control: ***D_3PSC***

- Deficient control environment

- Deficient monitoring of control
- Deficient general IT control
- Personnel changes that significantly affect the application of the control.
- Significant manual element to the relevant control.
- Changing circumstances that indicate the need for change in the control.

SA 402:

1. **Audit procedure**
   Understand how user entity uses the service of service organisation including
   DN3

- Degree of interaction between them.
- Nature of service provided by service organisation
- Nature and Materiality of transaction processed by the SO.
- Nature of relationship between them.

2. **Sub-service organisation**
   i. Information will obtained about DN3 at sub-service organisation
   ii. Service organisation report either includes or exclude. Sub-service organisation relevant control objective related control. This two method name as inclusive method or carve-out method respectively. In case of it is excluded in such a case user auditor is require to apply SA 402, at sub service organisation.
3. **Source of information about nature of service provided by SO.** ***I M RUSTAM***
   - Initiating, recording or processing transaction as agent of user entity.
   - Maintenance of the user entity's accounting record.
   - Report by service organisation's internal auditors or regulatory authorities on control at the service organisation.
   - User manual.
   - System overview.
   - Technical manual.
   - Audit report of Service organisation. Type I or type II Report as the case may be required by circumstances. Refer SAE 3402
   - Management of assets.

SA 450:

1. **Introduction**

While conducting an audit of financial statement, Auditor comes to knowledge of many misstatements, which is either material or immaterial, Auditor response to such misstatement in accordance with procedure prescribed under this SA.

While dealing and discussing with the management/ TCWG some misstatement get resolved and some unresolved. Auditor has to consider the affects of uncorrected material misstatement in financial statement.

2. **Audit Procedure to evaluate identified and uncorrected misstatement.**

ACCECWD

1. Accumulation of identified misstatements
2. Consideration of identified misstatement as the audit progresses.
3. Communication for correction of misstatement to management.
4. Evaluating the effect / Impact of uncorrected misstatement.

   C I A of T A TA

   C- Change in earning or other assertion as a result of such uncorrected misstatement.

   I- **I**ncorrect selection or application of accounting policies.

   A-Analytical procedure used to evaluate entity's financial information.

   T- **T**ransaction with the related parties.

   A-Applicable legal regulatory requirement has been followed.

   T- Transaction outside the normal course of business.

   A-Affect compliance with debt covenant or other contractual requirement.
5. Communication uncorrected misstatement to those charged with governance.
6. Written representation TCWG that uncorrected misstatement is trivial and will not affect financial statement or decision of user of financial statement.
7. Documentation of all misstatement identified during and whether such is rectified or not.

3. **Misstatement may result from -** IOWAI

   - Inaccuracy in gathering and collecting data.
   - Omission of an amount of disclosure.
   - Wrong estimate and judgement of management.
   - Application of accounting policies inappropriately.
   - Incorrect accounting estimate arising from overlooking or clear misinterpretation of fact.

SA 500:

1. **Introduction**

Auditor should obtain SAAE to draw conclusion on which his opinion is based. Audit evidence obtained by auditor is persuasive in nature rather than conclusive in nature.

2. Method / Source to Obtain audit evidence: ***ICAI Obs Rep***

Inspection-Examining document, record, other corroborative evidence to examine EOV (Existence, ownership and valuation).

Computation- Checking mathematical accuracy.

Analytical review procedure- Evaluation of financial information through analysis of plausible relationship among financial and non- financial data, is known as analytical procedure.

Inquiry and confirmation- Questioning the management to obtain clear understanding of their intention, integrity, etc.

Observation- Looking at a procedure performed by other.

Re-performance – Independent execution of procedure or control that was originally performed by management.

3. **Audit procedure:**
   a. **Risk assessment procedure: (ATMOF)**
   b. **Other procedure**
      i. **Compliance Procedure (I.C)-** Test designed to obtained reasonable assurance that internal control on which audit reliance is to place are in affects. Here we check existence, effectiveness and continuity of internal control.
      ii. **Substantive Procedure (Test MPCOVER for ABCD):** Test designed to obtained reasonable assurance as to completeness, accuracy and validity of data produced by accounting system. It also includes Analytical procedure.
         M- Measurement.
         P- Presentation
         C- Completeness / cut off procedure.
         O- Occurrence/ ownership
         V- Valuation
         E- Existence
         R- Right and obligation.
4. **Evaluation of Management Expert work: CCO/Obtain understanding/Evaluate ASK**
   - Evaluate Competence, capabilities and objective of that expert.
   - Obtain understanding of work of mgt expert.
   - Evaluate Assumption, source data and knowledge use by that expert.

5. **Reliability of Audit evidence.**
   - **External** more reliable that internal,
   - **written** more reliable than oral,
   - **Directly** obtained more reliable than indirectly,
   - **Original** is more reliable than Photocopy.

SA 501

INVENTORY – AUDIT PROCEDURE

Inventory is material assertion of financial statement. Physical verification is the responsibility of management; an auditor responsibility is to examine EOV (Existence, ownership and valuation). Auditor should attend inventory counting unless impracticable to **EIPO**, if due to unavoidable circumstance unable to attend physical count, then request management to provide alternate days for attending physical counting on alternative date in such a case **roll forward procedure or roll backward procedure** is carried out to know the position at balance sheet date. Estimate the physical quantity and its value and satisfy with assertion made in financial statement and ensure management procedure is properly complied.

Auditor should attend inventory counting unless impracticable to **EIPO**
Evaluate management's procedure to control and record results of the physical inventory counting.
Inspect the inventory.
Perform test counts.
Observe the performance of management's count procedure.

If unable to obtain SAAE regarding inventory then QO or DO as the case may be.

LITIGATION AND CLAIM – AUDIT PROCEDURE

1. **Same as** HOW TO IDENTIFY SUBSEQUENT EVENT:***IMLOL***
   - **Inquiry of management.**
   - **Minutes of board meeting.**
   - **Latest interim financial statement.**
   - **Obtain written representation**
   - **Latest position of pending legal cases.**

SEGMENT INFORMATION – AUDIT PROCEDURE : IAS *is a segment* **UPSC**

- **Identification of reportable segment.**
- **Accounting policy consistently applied.**
- **SAAE should be obtained.**

- **Understanding the method used by management in determining the segment.**
- **Performing analytical procedure.**
- **Sales, transfer and elimination of inter segment transfer.**
- **Compliance with AS-17, Comparing expected budget with actual.**

SA 505 :

INTRODUCTION

Obtaining direct confirmation from third party with respect to assertion made in financial statement to obtain more persuasive audit evidence because external evidence is more reliable then the internal evidence. Two types of confirmation request is used Positive confirmation request and negative confirmation request to obtain external confirmation, **Negative confirmation request provides less persuasive audit evidence as compare to positive confirmation request.** It is after considering the level of inherent and control risk. Reply of positive confirmation request is necessary whereas reply of negative confirmation request is not necessary (reply only when disagree), to obtain SAAE.

External confirmation process: *DSDSRR*

- **Determining the item for which confirmation is to obtain**
- **Selecting the appropriate third party**
- **Designing the confirmation request**
- **Sending the confirmation request**
- **Receive confirmation response**
- **Reconciling the assertion as per confirmation and response by third party.**

The auditor should consider the following factors before designing the confirmation request- PLASTIC

P-Prior experience in audit.

L-Layout and presentation of confirmation.

A-Assertion to be addressed.

S-Specified identification of risk of material misstatement.

T-The method of communication.

I-Information on which confirmation is required.

C-Class of transaction to be covered.

SA 510

1. **Introduction-**

Whenever auditor accept new engagement wherein he was not an auditor of entity for previous year, either previous year financial statement would have not been audited, or audited by previous auditor. Auditor audits current year financial statement wherein opening balance is brought forward from previous year, so this standard provides guidance how to obtain SAAE regarding opening balance. If auditor unable to obtain SAAE then auditor should modify his opinion.

2. **audit procedure when previous year audit report unaudited -**

O_2 C_2A **O***btain confirmation*

- Obtain confirmation from account receivable or debtor.
- Obtain confirmation from account payable or creditor.
- Check subsequent realisation of debtor.
- Cheque subsequent payment made to creditor.
- Accounting policies consistently applied.
- Obtain confirmation in relation to bank balance.

3. **Audit procedure when previous year audit report audited by previous year auditor.**
   - Current year auditor can place reliance on previous year audit report, ensure that in current year opening balance correctly brought forward from previous year audited report.
   - Check type of opinion expressed in previous year audit report, if in previous year unmodified opinion then simply check balance correctly brought forward. However if in previous auditor report modified, then verify whether the qualification made in previous has been resolved or not. If resolved then unmodified opinion, if it is not resolved then modify current year audit report.

SA 520

1. **Introduction**
   Evaluation of financial information through analysis of plausible relationship among financial and non- financial data, is known as analytical procedure. To identify unusual, abnormal, unexpected relationship among financial and non-financial data, assertion, etc. This would help to identify FRF,CAE& MM. When Analytical procedure used at the timing of Planning, is Known as **preliminary analytical procedure**. When it is applied at the time of review financial statement and form a conclusion it is known as **substantive analytical procedure.**
2. **Type of analytical review procedure-**
   - **Ratio analysis – evaluation of relationship among different assertion shown in the financial statement, for example Debt-equity ratio, Current assets ratio, etc.**

- **Trend analysis- It shows movement of assertion/ item over a period of time. Here we analyse trend of information keeping benchmark previous year information.**
- **Comparison method – compare current year information with the previous year**
- **Reasonableness – Ask a question whether is it reasonable or not.**

3. **Audit consideration while analytical procedure: *SRED***
   - **Suitability of SAP**
   - **Reliability of data**
   - **Expectation of auditor for such.**
   - **Determine the difference between expectation and actual. Investigate unusual item and significant fluctuation and corroborate such by inquiry of management and by other audit procedure.**

SA 530

1. **Introduction**

   Sampling - Application of audit procedure on less than 100% of item with in a population, where in each item have equal chances of selection.

   Select **audit sample** from **entire audit population** in such a manner that sample is representative of population. Perform audit procedure on selected audit sample to obtain SAAE. The process of dividing the population in to sub population is known as **stratification.**
2. **Steps in sampling**
   - i. **Defined entire population**
   - ii. **Choose Sample selection Method / technique- *HRSM***
     - **Haphazard selection sampling technique –** Pick sample from population in an **unstructured way** where in each item have equal chances of selection.
     - **Random Selection sampling technique –** Use random number table generated from random number generator.
       - **Simple random sampling -** Here each item have equal chances of selection.
       - **Stratified sampling technique –** First entire population is stratified then random selection sampling technique is applied.
     - **Systematic sampling technique-** Define population and select sample in a very structured manner.

- **Block Selection technique-** Entire audit population is stratified in systematic blocks of continues item of similar characteristics, then selection of item from each blocks is done.
- **Cluster sampling technique-** Entire audit population is stratified in number of cluster then number of cluster is randomly selected.

❖ **Monetary unit sampling technique –**value weighted selection technique is used.

3. **Two major method in which size of the sample and the selection of individual item of the sample technique are determined.**

   (i) **Statistical sampling:** This is a method of audit testing which is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances. With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected.

   (ii) **Non-statistical sampling:** With non-statistical sampling, judgment is used to select sample items. Because the purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

4. **Sampling Risk /** *risk factors you should keep in mind for sampling technique.*

   It is a risk of selecting wrong sample. It is a risk that auditor conclusion based on sample may vary if entire population is subjected same audit procedure. Following two risks

   ➢ **Risk of incorrect acceptance:** Erroneous conclusion that control is more effective than actual and material misstatement doesn't exist when in fact it exist.

   ➢ **Risk of incorrect Rejection:** Erroneous conclusion that controls are less effective than actual and material misstatement exist whereas in fact doesn't exist.

5. **Non- sampling risk**

   ➢ **Anomaly: very rare and odd in nature.**

6. **Tolerable misstatement**

   It is the monetary amount set by the auditor in respect of which auditor seek to obtain an appropriate level of assurance that the actual misstatement in the population doesn't exceed monetary amount set by the auditor that is tolerable misstatement. It is the application of performance materiality, it may be the same amount or lower than the performance materiality.

SA 540

1. **Introduction:** It is an approximation / estimation made by management for any assertion of financial statement in the absence of precise means of measurement. It requires management to calculate fair value or management estimate, Judgement, assumption, etc. Auditor is to evaluate reasonable of such assumption and estimation and make their own judgement based on his experience and competence, compare it with mgt estimate. If difference arises then direct management to adjust.
2. **Procedure applied by auditor:** ***TREAT MICRO***
   - **To understand the methods adopted by management to calculate the accounting estimates.**
   - **Review and test the procedures followed by management in relation to accounting estimate.**
   - **Environment under which the estimate are made.**
   - **Assumption**
   - **Testing of calculation based on accounting estimate**
   - **Make independence estimate and compare it with the given accounting estimate.**
   - **Investigate unusual and abnormal variation or range between auditor's point estimate and management point estimate.**
   - **Complex accounting estimate then take help of expert**
   - **Review and consider the events occurring after the balance sheet date.**
   - **Obtain understanding of AFRF.**

SA 550

1. **HOW TO IDENTIFY RELATED PARTIES:** ***IMIPS***
   - **Inquiry of management**
   - **MOA & AOA**
   - **Income tax return**
   - **Previous year audit report**
   - **Share holder record.**
2. **AUDIT PROCEDURE :** *O related parties* ***U LOVE & RESPECT IPS***
   - Understand RPRT
   - Life insurance policies acquired by entity
   - Obtain written representation that all RP identified and disclosed.
   - Verify minutes of meeting of board of directors or shareholders.
   - Entries made in the register maintained U/s 189 of CA 2013.
   - Relationship with the guarantors and guarantees given
   - Examine the contract and agreement with related party.
   - Statement of conflict of interest from mgt and TCWG.

- Participation in unincorporated partnerships with other parties.
- Examine the confirmation from bank, legal and third parties.
- Check whether any fraud risk exists due to transaction with related party.
- Transactions under contracts whose terms are changed before expiry.
- Internal control ; whether such IC
  - Identify and disclose RPRT in accordance with AFRF.
  - AASTAA with related parties.
  - AASTAA which is ONCOB.
- Professional scepticism
- Share information with in the engagement team.

3. if related parties transaction found to **biased** then Evaluate
   - Rational of transaction whether such suggest FRF or concealment of MOA.
   - Term of transaction consistent with management explanation.
   - Transaction accounted and disclosed in accordance AFRF.

SA 560

1. **Introduction**

   Event occurring between the date of financial statements and date of audit report, and fact that became known to the auditor after the date of audit report.

2. **HOW TO IDENTIFY SUBSEQUENT EVENT:** ***IMLOL***
   - **Inquiry of management.**
   - **Minutes of board meeting.**
   - **Latest interim financial statement.**
   - **Obtain written representation**
   - **Latest position of pending legal cases.**

3. **AUDIT PROCEDURE:** ***ROAR***
   - Reading minutes of meeting of shareholder and BOD.
   - Obtaining an understanding of management procedure to identify subsequent event.
   - Ask mgt and TCWG. About ***THE IAS SENA***
     - There has been any development in contingency.
     - High and unusual accounting estimate.
     - Event occurred which are relevant to recoverability of assets.
     - Increase in capital or debt.
     - Any assets compulsory acquired by government.
     - Situation which are relevant for measurement of accounting estimate or provision.

- Sale or acquisition of assets.
- Event occurred which question the appropriateness of accounting policies.
- New commitment, borrowing and guarantee have been entered into?
- Any assets have been destroyed.

- Reading the entity latest subsequent interim financial statements.

SA 570

1. **INTRODUCTION**

   Going concern is fundamental accounting assumption as to whether entity will continue in foreseeable future in the next *one* year. It has neither intention nor necessity to liquidate or curtail the majority of operation within in next one year that is why depreciation is provided, assets is capitalised, etc. If it is not expected to continue for foreseeable future depreciation and provision not provided, assets is disclosed at realisable value and liabilities at payable value. It is management responsibilities to determine going concern assumption is appropriate or not. **Auditor has to obtain SAAE regarding appropriateness of use of GCA to ensure whether there is any material uncertainties exist.** However audit report is not a guarantee toward future viability.

2. **Indicator of inappropriateness of use of GOING CONCERN ASSUMPTION**

   I. **OPERATIONAL INDICATOR.**
      - **Labour difficulties.**
      - **Mgt lock out.**
      - **Loss major buyer.**
      - **Lack of raw material.**
      - **Emergence of new competitors.**
      - **Sale of assets.**
      - **Management intention to liquidate.**
      - **Significant revision of operation.**

   II. **FINANCIAL INDICATOR**
      - **Adverse key financial ratio.**
      - **Default in loan repayment.**
      - **Non- compliance of loan agreement.**
      - **Unable to pay creditor.**
      - **Unable to pay dividend**
      - **Short term borrowing used for long term purpose.**
      - **Withdrawal of support by creditors.**
      - **Negative operating cash flows.**

   III. **Other indicator.**

- **Change in government policy.**
- **Natural calamities.**
- **Non- compliance of statutory requirement.**

3. ***PROCEDURE TO BE APPLIED BY AUDITOR:* SLICES**
   - Subsequent events after the balance sheet date.
   - Latest position of pending Legal cases.
   - Interim financial statements.
   - Cash flow statements.
   - Examine Minutes of BOD & shareholder
   - Status of Debt compliance and applying analytical procedure.
4. ***AUDITOR REPORT:***
   - UNQUALIFIED: when GCA is appropriate.
   - ADVERSE: If GCA is inappropriate.
   - UNQUALIFIED WITH EOM PARA: GCA appropriate but resolved by mgt explanation.
   - QUALIFIED: When mgt explanation found to be inadequate.

SA 580:

Introduction

Written representation obtained by auditor from management to confirm certain matter or to support other audit evidence, but doesn’t include financial statement, assertions & supporting books/ records. It is corroborative audit evidence it is not substitute of audit evidence.

Written representation letter provided by management to the auditor, if management doesn’t provide then auditor itself write and get acknowledge from management. If management doesn’t provide one or more requested written representation letter, the auditor shall:

- ✓ Discuss with the management.
- ✓ Re-evaluate the integrity of management.
- ✓ Determine the effect of opinion.

OBTAIN WRITTEN REPRESNETATION FOR – *RSS* *in* *UPLC &TT*

1. *Related parties*
2. *Subsequent event*
3. *Selection and application of accounting policies,*

4. *Uncorrected misstatement individually and in aggregate immaterial.*
5. *Preparation and presentation of financial statement.*
6. *Litigation claim.*
7. *Compliance with ALRR.*
8. *Transaction recorded is reflected in financial statement.*
9. *Title of Assets subject to lien and consignment.*

SA 600

1. ***Introduction***

   Principle auditor express opinion on financial statement, if entity consist of two or more component then principle auditor uses the work of auditor of component (Other auditor) because principle auditor is responsible for the audit opinion on the whole of the group financial statement.

   COMPONENT CONSIST OF ***ABSDJ***

- Associate
- Branch
- Subsidiary companies
- Division
- Joint venture

2. **AUDIT PROCEDURE-** ***VIPCAPTAIN***
   - **Visit component if auditor thinks it is necessary.**
   - **Instruct reporting requirement**
   - **Principle auditor has right to examine books of account and other records of components.**
   - **Consider significant finding of other auditor.**
   - **Advising the other auditor about the use of his work and ensuring co-ordination.**
   - **Principle auditor will be responsible for his opinion on the entity as a whole and should indicate division of responsibility with the other auditor in the report.**
   - **The principle auditor should obtain SAAE to ensure adequacy of work of other auditor.**
   - **Advising significant account requirement reporting requirement.**
   - **In planning whether to use work of another auditor Professional competencies of other auditor should be consider if other auditor other than CA.**
   - **Nature, timing and extent of audit procedures to be understood.**

SA 610 **USING THE WORK OF INTERNAL AUDITOR**

- Internal audit function includes ***GIR***
  - Governance
  - Internal control process: ***I***am***CFO***
    - ✓ **Internal control:** *IAF may assigned to review control, evaluate operation and recommend improvement*

- ✓ **Compliance with law and regulation:** *IAF may assigned to review compliance with L&R.*
- ✓ **Financial and operating information:** *IAF may assign to review the means to identity, recognise, measure, classify and report FAOI.*
- ✓ **Operating activity:** *IAF may assign to review economy, efficiency &effectiveness of operating activities*.

- Risk management

- Using the work of internal auditor :

Determining the nature and extent of work of the internal audit function that can be used & audit procedure when using the work of internal audit function ***SATAILO psrd***

- ✓ Systematic and disciplined approach.
- ✓ Adequate and SAAE has been obtained.
- ✓ Technical training and proficiency of internal auditor.
- ✓ Appropriateness of conclusion reached in the circumstances.
- ✓ Inconsistency, exceptional or unusual matter disclosed by internal auditor has been resolved.
- ✓ Level of competencies of internal audit function.
- ✓ Objective of internal auditor w.r.t internal audit function's organisational status and relevant policies and procedure.
- ✓ Properly planned, supervised, reviewed and documented.

Determining the nature and extent of work that can be assigned to internal auditor providing direct assistance

The external auditor shall consider

- amount of judgment involved in Planning and performing audit & evaluating the audit evidence,
- assessed ROMM and
- threats to objectivity and level of competency of internal auditor

However, external auditor will not use internal auditors to provide direct assistance in following case:

- **Audit procedure involves making significant judgment.**
- **ROMM is high.**
- **Audit procedure related to work which has already been reported to TCWG/management.**

Audit procedure when using internal auditor to provide direct assistance

1. *Obtain written agreement from the entity that the internal auditors will allowed to follow external auditor instruction and entity will not intervene in the work of internal auditor.*
2. *Obtain written agreement from internal auditor that they will maintain confidentiality.*
3. *External auditor will direct, supervise and review the work performed by internal auditor*

SA 620

Some time to obtain audit evidence auditor uses work of audit expert. Auditor expert is an expert having expertise in the field other than accounting and auditing. Lawyer, valuer, engineer, Actuaries, etc are example of auditor expert. Expert appointed by management is known as management expert it is covered in SA 500.

Audit procedure for using the work or auditor expert.

Understand competency(cco) of Auditor expert &enter in to an **agreement** then **evaluate relevance and reasonableness of Assumption, source data and knowledge.**

1. **Understanding the field of expertise of the auditor's expert. Determine NSO of expert's work and evaluate adequacy of that expert's work.**
2. **Competence, capabilities and objective of that expert including inquiry regarding interest and relationship that may create a threat to that expert's objectivity.**
3. **Auditor expert: An individual having expertise in the field other than accounting and auditing.**
4. **Agreement with auditor's expert regarding NSO, Role and responsibilities, NTE Of communication and confidentiality.**
5. **Evaluating the relevance and reasonableness of expert's finding, Assumption used, Source data and knowledge of that expert**

If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purpose, the auditor shall agree to perform further audit procedure with that expert and perform further audit procedure.

SA 700

What is unmodified opinion?

When conclude that financial statement prepared in

- all material respect,
- In accordance with applicable financial reporting framework.
- Free from risk of material misstatement.
- It doesn't contain any reservation and qualification.

Opinion

In order to form an **opinion**, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
(a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;
(b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
(c) The evaluations required by paragraphs 12-15.

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1-A3)

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) The financial statements adequately disclose the significant accounting

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The information presented in the financial statements is relevant, reliable, comparable and understandable;

(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A4)

(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12-13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:

(a) The overall presentation, structure and content of the financial statements; and

(b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5-A10)

Two financial reporting frameworks

As indicated in paragraph A8, the financial statements may be prepared in accordance with **two financial reporting frameworks**, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 35-36 refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial

statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in India and with International Financial Reporting Standards).

(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., International Financial Reporting Standards) in accordance with SA 705.

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards issued by the Institute of Chartered Accountants of India (national auditing standards) and International Standards on Auditing (Ref: Para. 44)

A42. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards, i.e., the Standards on

Auditing issued by the Institute of Chartered Accountants of India when, in addition to complying with the national auditing standards, the auditor complies with each of the ISAs relevant to the audit.
A43. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in ISAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs. In
Such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

43. If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a **minimum, each of the following elements**: (Ref: Para. A41)
(a) A title;
(b) An addressee, as required by the circumstances of the engagement;
(c) An introductory paragraph that identifies the financial statements audited;
(d) A description of the responsibility of management (or other appropriate term, see paragraph 24) for the preparation of the financial statements;
(e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
• A reference to Standards on Auditing and the law or regulation; and
• A description of an audit in accordance with those Standards;
(f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework, see paragraph 37);
(g) The auditor's signature;
(h) The date of the auditor's report; and
(i) The place of signature.

Circumstances include the following: **• Audit of a complete set of separate general purpose financial statements of an entity prepared in accordance with the requirements of XYZ Law of India under a compliance framework.** **• The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.** **• The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph**
Title
Independent Auditor's Report
Addressee
To the Members of Xyz Ltd.
Subtitle
Report on the Audit of the Financial Statements
Opinion
We have audited the accompanying Standalone financial statements of **M/s. XYZ Private Limited ("*the Company*")** which comprises the Balance Sheet as at March 31, 2018, the Statement of Profit and Loss, (statement of changes in equity)[i] and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)].[ii] In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in

India, of the state of affairs of the Company as at March 31, 20XX, and profit/loss, (changes in equity)[iii]and its cash flows for the year ended on that date

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 43(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SA 701.*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity)[iv] and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate implementation and maintenance of accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate **internal financial controls,** that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the company's financial reporting process

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Emphasis of Matters (Optional)

We draw attention to the following matters in the Notes to the financial statements:

1. Note X to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company.
2. Note Y in the financial statements which indicates that the Company has accumulated losses and its net worth has been fully / substantially eroded, the Company has incurred a net loss/net cash loss during the current and previous year(s) and, the Company's current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in Note Y, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However, the financial statements of the Company have been prepared on a going concern basis for the reasons stated in the said Note.

Our opinion is not modified in respect of these matters.

Other Matter (Optional)
Mention any other matter that is financially or operationally significant to the company, if required. Our opinion is not modified in respect of this matter.
Signature *for* **X Y Z& Co. LLP** *Chartered Accountants* Firm's registration number: 00000000 **WWWWWW** *Partner* Membership number: 000000
Place of signature Date

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Circumstances include the following: **• Audit of a complete set of separate general purpose financial statements of an entity prepared in accordance with the requirements of XYZ Law of India under a compliance framework.** **• The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.** **• The report is unmodified and does not include either an Emphasis of Matter paragraph or an Other Matter(s) paragraph** **Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.**
Title
Independent Auditor's Report
Addressee
To the Members of Xyz Ltd.
Subtitle
Report on the Audit of the Financial Statements
Opinion
We have audited the accompanying Standalone financial statements of **M/s. XYZ Private Limited ("*the Company*")** which comprises the Balance Sheet as at March 31, 2018, the Statement of Profit and Loss, (statement of changes in equity)[i] and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)].[ii] In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and profit/loss, (changes in equity)[iii]and its cash flows for the year ended on that date
Basis for Opinion
We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for

our opinion.
Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Responsibilities of Management and Those Charged with Governance for the Financial Statements
The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity)[iv] and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate implementation and maintenance of accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate **internal financial controls,** that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors are also responsible for overseeing the company's financial reporting process
Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
Emphasis of Matters (Optional)
We draw attention to the following matters in the Notes to the financial statements: 1. Note X to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company. 2. Note Y in the financial statements which indicates that the Company has accumulated losses and its net worth has been fully / substantially eroded, the Company has incurred a net loss/net cash loss during the current and previous year(s) and, the Company's current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in Note Y, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However, the financial statements of the Company have been prepared on a going concern basis for the reasons stated in the said Note. Our opinion is not modified in respect of these matters.
Other Matter (Optional)
Mention any other matter that is financially or operationally significant to the company, if required. Our opinion is not modified in respect of this matter.
Report on Other Legal and Regulatory Requirements
Report on Other Legal and Regulatory Requirements 1. As required by the Companies (Auditor's Report) Order, 2016 (pp"the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure A, a statement on the matters specified in the paragraph 3 and 4 of the order.

2. As required by Section 143 (3) of the Act, we report that:

Duties to make report ------ I B_2A_3D MIS

Mnemonics	**I**	**B**	**B**	**A**	**A**	**A**	**D**	**M**	**I**	**S**
Clause	**a**	**B**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**

a) **Information and explanation-** whether he has sought and obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of audit and if not, the detail there of and affect of such information on the financial statement.

b) **Books of accounts-** whether in his opinion proper books of accounts as required by law have been kept by the company so far it appear from examination of those books and proper return adequate for the purpose of his audit have been received from branch not visited by him.

c) **Branch office-** Whether the report on the accounts of any branch office of the company audited by a person other than company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report.

d) **Agreement-** Whether the company's balance sheet and profit and loss account dealt with in report are in agreement with the books of account and returns.

e) **Accounting Standards-** Whether in his opinion the financial statement comply with the accounting standards.

f) **Adverse affect-** the observation or comment of the auditors on financial transaction or matter which have any adverse affect on the functioning of the company.

g) **Disqualified –** Whether any director is disqualified from being appointed as a director under section 164(2).

h) **Maintenance of books of accounts-** any qualification, reservation or adverse remarks relating to the maintenance of accounts and other matters connected therewith.

i) **Internal financial control-** whether the company has adequate internal financial controls system in place and the operating effectiveness of such control.

j) **S**uch other matter as may be prescribed.

Rule 11

1. Disclosure of **impact of pending litigations on financial position**.
2. Provisions **for Material Foreseeable losses on long term contracts** made.
3. Any **delay in transferring amounts to IEPF.**

Signature
for **X Y Z& Co. LLP**
Chartered Accountants
Firm's registration number: 00000000
WWWWWW
Partner
Membership number: 000000

Place of signature
Date

Standard on Auditing (SA) 701

Communicating Key Audit Matters in the Independent Auditor's Report

Introduction

Scope of this SA

1. This Standard on Auditing (SA) deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.

2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1–A4)

3. The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole.

Communicating key audit matters in the auditor's report is not:

(a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;

(b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);[1]

(c) A substitute for reporting in accordance with SA 570 (Revised)[2] when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or

(d) A separate opinion on individual matters. (Ref: Para. A5–A8)

5. This SA applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This SA also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.[3] However, SA 705 (Revised) prohibits the auditor from communicating key audit

matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.[4]

Effective Date
6. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018[*].

Objectives
7. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

Definition
8. For purposes of the SAs, the following term has the meaning attributed below:
Key audit matters— Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Requirements
Determining Key Audit Matters
9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)
(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.[5] (Ref: Para. A19–A22)

(b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)
(c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)

10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (Ref: Para. A9–A11, A27– A30)

Communicating Key Audit Matters
11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:
(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para.
A31–A33)

Key Audit Matters Not a Substitute for Expressing a Modified Opinion
12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter. (Ref: Para. A5)

Descriptions of Individual Key Audit Matters
13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. A34–A41)

(a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45)

(b) How the matter was addressed in the audit. (Ref: Para. A46–A51)

Circumstances in Which a Matter Determined to Be a Key Audit Matter is Not Communicated in the Auditor's Report

14. The auditor shall describe each key audit matter in the auditor's report unless: (Ref: Para. A53– A56)

(a) Law or regulation precludes public disclosure about the matter; or (Ref: Para. A52)

(b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

15. A matter giving rise to a modified opinion in accordance with SA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

(a) Report on these matter(s) in accordance with the applicable SA(s); and

(b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

Form and Content of the Key Audit Matters Section in Other Circumstances

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. A57– A59)

Communication with Those Charged with Governance

17. The auditor shall communicate with those charged with governance:

(a) Those matters the auditor has determined to be the key audit matters; or

(b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A60–A63)

Documentation

18. The auditor shall include in the audit documentation:[6] (Ref: Para. A64)

(a) The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;

(b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and

(c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

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Application and Other Explanatory Material

Scope of this SA (Ref: Para. 2)
A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.

A2. Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by SA 260 (Revised)[7] and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgments made by the auditor in forming the opinion on the financial statements as a whole, because they are often related to the areas of significant management judgment in preparing the financial statements.

A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report.

A4. SA 320[8] explains that it is reasonable for the auditor to assume that users of the financial statements:
(a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
(b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
(c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
(d) Make reasonable economic decisions on the basis of the information in the financial statements.
Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the intended users of the financial statements.

Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report (Ref: Para. 4, 12, 15)

A5. SA 700 (Revised) establishes requirements and provides guidance on forming an opinion on the financial statements.[9] Communicating key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. SA 705 (Revised) addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.[10]

A6. When the auditor expresses a qualified or adverse opinion in accordance with
SA 705 (Revised), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur.

Separating the communication of this matter from other key audit matters described in the Key Audit Matters section, therefore, gives it the appropriate prominence in the auditor's report (see paragraph 15). The Appendix in SA 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph A58 of this SA illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.

A7. When the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements:

• Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).

• If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion
(see paragraph A47).

A8. SA 706 (Revised)[12] establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13[13]. SA 706 (Revised) provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that SA.[14]

Determining Key Audit Matters (Ref: Para. 9–10)

A9. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period.

A10. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).[15]

A11. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this SA does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period.

Matters that Required Significant Auditor Attention (Ref: Para. 9)

A12. The concept of significant auditor attention recognizes that an audit is risk based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.[16] When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.[17]

A13. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial statements may be particularly relevant in the auditor's determination of key audit matters.
A14. Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.

A15. Various SAs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

• SA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.[18]

The SAs acknowledge potential difficulties in relation to, for example:

○ Related party transactions[19], in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.

○ Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.[20]

• SA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.[21] For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.[22]

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with SA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.

A17. Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial statements, and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)-(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.

A18. In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks
Identified in Accordance with SA 315 (Ref: Para. 9(a))

A19. SA 260 (Revised) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.[23]

Paragraph A13 of SA 260 (Revised) explains that the auditor may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.

A20. SA 315 defines a significant risk as an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

A21. However, this may not be the case for all significant risks. For example, SA 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.[24] In addition, SA 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.[25] Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10.

A22. SA 315 explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.[26] Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgments Relating to Areas in the Financial Statements that Involved Significant Management Judgment, Including Accounting Estimates that Have Been Identified as Having High Estimation Uncertainty (Ref: Para. 9(b))

A23. SA 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.[27] In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.

A24. However, users of the financial statements have highlighted their interest in accounting estimates that have been identified as having high estimation uncertainty in accordance with SA 540[28] that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgment and are often the most complex areas of the financial statements, and may require the involvement of both a management's expert and an auditor's expert.

Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Period (Ref: Para. 9(c))

A25. Events or transactions that had a significant effect on the financial statements or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.[29] Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

A26. Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgments may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

Matters of Most Significance (Ref: Para. 10)
A27. Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance often provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged

with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgment.

A28. The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit.

A29. Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:

- The importance of the matter to intended users' understanding of the financial statements as a whole, in particular, its materiality to the financial statements.
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
- The nature and extent of audit effort needed to address the matter, including:

  - The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
  - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgments become more subjective.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

A30. Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period is a matter of professional judgment. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter.
Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.

Communicating Key Audit Matters
Separate Key Audit Matters Section in the Auditor's Report (Ref: Para. 11)
A31. Placing the separate Key Audit Matters section in close proximity to the auditor's opinion may give prominence to such information and acknowledge the perceived value of engagement-specific information to intended users.

A32. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. For example, such information may be organized in order of relative importance, based on the auditor's judgment, or may correspond to the manner in which matters are disclosed in the financial statements.

The requirement in paragraph 11 to include subheadings is intended to further differentiate the matters.

A33. When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended March 31, 20X1").

Descriptions of Individual Key Audit Matters (Ref: Para. 13)

A34. The adequacy of the description of a key audit matter is a matter of professional judgment. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit.

Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity).

A35. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.

A37. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

A38. Although the auditor's opinion on the financial statements does not extend to the other information addressed by SA 720[30] the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.

A39. Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with SA 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 18.

Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 13)

A40. Paragraphs 13(a)-(b) requires the description of each key audit matter to address why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters is not a mere reiteration of what is disclosed in the financial statements. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.

A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example:

• When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.
• When the auditor concludes in accordance with SA 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under SA 570 (Revised) are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or noncompliance with loan agreements, and related mitigating factors.[31]

Why the Auditor Considered the Matter to Be One of Most Significance in the Audit
(Ref: Para. 13(a))

A42. The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter.

Accordingly, the requirements in paragraphs 9–10 and the application material in paragraphs A12–A29 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.

A43. The relevance of the information for intended users is a consideration for the auditor in determining what to include in the description of a key audit matter. This may include whether the description would enable a better understanding of the audit and the auditor's judgments.

A44. Relating a matter directly to the specific circumstances of the entity may also help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods.

A45. The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:

• Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.

• New or emerging accounting policies, for example entity-specific or industry specific matters on which the engagement team consulted within the firm.

• Changes in the entity's strategy or business model that had a material effect on the financial statements.

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

A46. The amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of professional judgment. In accordance with paragraph 13(b), the auditor may describe:

• Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
• A brief overview of procedures performed;
• An indication of the outcome of the auditor's procedures; or
• Key observations with respect to the matter, or some combination of these elements.
Law or regulation or national auditing standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.

A47. In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial statements as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the auditor's opinion, care may be necessary so that language used in the description of a key audit matter:

• Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.

• Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language.

• Takes into account how the matter is addressed in the related disclosure(s) in the financial statements, if any.
• Does not contain or imply discrete opinions on separate elements of the financial statements.

A48. Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgment required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry developments. It may also be useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.

A49. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs 14–15 of SA 620.[32]

A50. There may be challenges in describing the auditor's procedures, particularly in complex, judgmental areas of the audit. In particular, it may be difficult to summarize the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.

A51. As noted in paragraph A46, the auditor may also provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

Circumstances in Which a Matter Determined to Be a Key Audit Matter is Not Communicated in the Auditor's Report (Ref: Para. 14)

A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

A53. As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

A54. The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgment in determining whether to communicate the matter by:

• Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity (e.g., if law, regulation or certain financial reporting frameworks permit delayed disclosure or non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure.
Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b).

• Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate.
• Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated.

The auditor also may consider it necessary to obtain a written representation from management as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.

A56. The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgment. Accordingly, the auditor may consider it appropriate to obtain legal advice.

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

A57. The requirement in paragraph 16 applies in three circumstances:
(i) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
(ii) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.
(iii) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.
A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters to communicate in our report.

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

Communication with Those Charged with Governance (Ref: Para. 17)

A60. SA 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.[33] The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit atters at the time the financial statements are being finalized for issuance.

A61. Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion.

Communication with those charged with governance recognizes their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.

A62. The communication with those charged with governance required by paragraph 17(a) also addresses the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor's report (see paragraphs 14 and A54).

A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to reevaluate the auditor's determination that there are no key audit matters.

Documentation (Ref: Para. 18)

A64. Paragraph 8 of SA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments. In the context of key audit matters, these professional judgments include the determination, from the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. The auditor's judgments in this regard are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual matter (see paragraph A39), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). However, this SA does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention

SA 705

1. INTRODUCTION

Modify opinion when financial statement not free from material misstatement or fails to obtain sufficient appropriate audit evidence. Three types of modification QO,AO,and DOO

QO: Subject to reservation.

AO: Financial Statement doesn't show true and fair view.

DOO: Unable to obtain SAAE.

2. TYPES OF MODIFIED REPORT ON RESPECTIVE CIRCUMSTANCES

Nature of Matter Giving Rise to the Modification	***Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements***	
	Material but not pervasive	Material and Pervasive
Financial statements are materially misstated	**Qualified opinion**	**Adverse opinion**
Inability to obtain sufficient appropriate audit evidence	**Qualified opinion**	**Disclaimer of opinion**

First give basis of QO, AO & DOO then opinion paragraph as follows:

QO: Except for the effect of matter described in the basis for qualified opinion paragraph, financial statement prepared in all material respect and in accordance with AFRF.

AO: in the auditor's opinion because of significant of matters described in the basis of adverse opinion paragraph. Financial statement have not prepared in all material respect in accordance with AFRF when reporting in accordance with compliance framework.

DOO: Because of significant of the matters described in the basis for disclaimer of opinion paragraph, the auditor's has not able to obtain SAAE to provide basis for auditor opinion. The auditor doesn't express opinion on the financial statement.

Description of Auditor's Responsibility When the Auditor expresses qualified or Adverse Opinion

26. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion

Description of Auditor's Responsibility When the Auditor Disclaims an Opinion

27. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the financial statements. The auditor shall also amend the description of the auditor's responsibility and the description of the scope of the audit to state only the following: "Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter(s)described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion".

SA 706

1. **INTRODUCTION**

EOM or OM Para given after the Opinion Para when some additional explanatory Para required, although it doesn't affect unqualified opinion.

2. **EOM:** It is used for Matter adequately presented in financial statement but in auditor opinion it is of such importance that it specially requires attention of user of financial statement. It is fundamental to user understanding.
3. **OM:** It is used for assertion not made in financial statement but in auditor's opinion it is relevant to user understanding.
4. **EXAMPLE:**
   - EOM paragraph: We draw our attention to note no xxx to the financial statement which describe uncertainty related to outcome of law suit filed against the company by xyz ltd. Our opinion is not qualified in respect of this matter.
   - OM Paragraph: We didn't audit the financial statement of certain subsidiaries, whose financial statement reflect total assets (net) as on march/ 31/2016 total revenue (net) etc whose report furnished to us by management and our opinion is based solely on the report of other auditor. Our opinion in not qualified in respect of this matter.
5. **Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary**

A1. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

SA 710

MEANING AND INTRODUCTION

Corresponding figure: Prior period report included as integral part, Intended to read only in relation to the amounts and other disclosure. Auditor Express opinion only for Current year.

Comparative Financial Statement: Prior period report is not included as integral part rather it is attached to current period financial statement for comparison. Auditor express opinion on both year if audited.

SCOPE AND OBJECTIVE

It describes auditor responsibilities with regard to comparative information in an audit of financial statement, when pervious financial statement audited by predecessor auditor or not audited.

AUDIT PROCEDURE TO BE FOLLOWED BY THE AUDITOR: PAAAW

1. Professional scepticism should be adopt where doubt about material misstatement.
2. Accounting policies consistently applied.
3. Agreement of comparative information with the amounts and other disclosures presented in the prior period.
4. Applicable financial reporting framework had been followed while preparing comparative information and such information is classified appropriately.
5. Written representation for all period should be obtained.

REPORTING RESPONSIBILITIES OF THE AUDITOR FOR CORRESPONDING FIGURES.

1. **When the prior period audit reports are clean:** Then do not refer in opinion Para.
2. **When the prior period audit reports are modified:** Then refer in opinion Para and also modify current year audit report. No need to refer when such matter has been resolved.
3. **When the prior period financial statements are materially misstated:** Then write in opinion Para that Prior period financial statement audited by predecessor auditor and corresponding opinion.
4. **When prior period financial statement not audited:** Write in OM Para that Corresponding figure unaudited.

REPORTING RESPONSIBILITIES OF THE AUDITOR FOR COMPARATIVE FINANCIAL STATEMENT.

1. **When the prior period audit reports are modified:** Auditor's opinion refers to each period.
2. **When auditor's has different opinion for prior period:** In OM Para write suitable reason.
3. **When the prior period financial statements audited by predecessor auditor :** Write in OM Para Predecessor auditor and their opinion.
4. **When prior period financial statement not audited :** Write in OM Para that comparative Financial Statement unaudited.

SA 720

INTRODUCTION AND BACKGROUND

Other information: Some time with audit report other information like director report, financial highlight, financial ratio, speech, etc are included.

REQUIREMENT OF THE STANDARDS

1. **Reading other information:** Read other information with a view to identify to any material inconsistency but auditor is not expected to verify other information.
2. **Identify the material inconsistency:** If it is found prior to audit report then follow **SA 705.** If it is found subsequent to audit report Request management to make Revision of other information. If management deny then appropriate legal action should be taken or take advise from auditor legal council.

SA 800

INTRODUCTION

Some time financial statements are prepared in accordance with Special Reporting Framework rather than General Reporting framework for Specific user. For example: financial statement prepared on cash basis, to meet requirement of regulator like SEBI, etc.

Objective of the standards

Provide guidance as regard to acceptance, planning, performance of engagement and forming opinion.

Requirement to be followed by auditor

1. **Following point should be consider when accepting the engagement**
    - SA 210,
    - Purpose for which financial statement is prepared
    - Intended user,
    - Management step to determine acceptability of AFRF,
    - Consideration of the financial information need of user,

- Financial Reporting established by authorised organisation and Conflict between the financial reporting standards and
- The additional legislative requirement.

2. **Consideration when planning and performing the audit**
   - Application of all SA relevant to audit and whether special consideration require in the circumstances

     -Requirement of **SA 200** on applicability of SAs and absence condition in current circumstances

     - Requirement of **SA 315** with regard to Entity selection and application of accounting policies.
   - In case of special purpose financial statement, any thresholds agreed for materiality, irrespective of that **SA 320** will be applicable.
   - Communication with the management and TCWG. However **SA 260** will not be applicable where TCWG is not responsible for overseeing the preparation of financial statement.
3. **Forming an opinion and reporting considerations**

   In addition to SA 700 refer description of AFRF, purpose of intended user, Management responsibilities regarding acceptability of AFRF, write in EOM Para that this audit report is not suitable for other purpose.

SA 805

Introduction

Single financial statement : for example Cash flow statement, Stock Statement, Etc.

Specific Elements: Cash and Bank balance, Account Receivable, Inventory, and Provision for income tax.

Applicable on Single financial statement or specific element , when it is prepared in accordance with General Purpose Framework or Special Purpose Frameworks.

Requirement to be followed by auditor / Engagement acceptance consideration

1. **Following point should be consider when accepting the engagement**

   SA 210 require compliance of all AS relevant to audit, Relevant ethical requirement, Acceptability of FRF, Agreeing the term of audit engagement as per SA 210 and consider expected form of opinion in circumstances.
2. **Consideration when planning and performing the audit**

   Apply all SAs as necessary in the audit of FS,

   Obtain sufficient appropriate audit evidence,

   If Auditor of complete set of financial statement is same as auditor of single financial statement, then he can use evidence obtained during audit of complete set of financial statement, but separate opinion on each.

3. **Forming an opinion and reporting considerations**
    - Apply SA 700, as necessary.
    - If also engaged to report on full FS, express separate opinion on each engagement.
    - If expressed Adverse or Disclaimer of opinion on complete set of financial statement then do not express unmodified opinion on single financial statement, however for Elements consider whether unmodified opinion is necessary if no then modify opinion if yes then express unmodified opinion but it should not published together with A.R. on whole financial statement.

SA 810

1. WHAT IS ***SUMMARY FINANCIAL STATEMENTS***?

Financial statement derived from full set of financial statement, presented in considerable less detail than complete financial statement.

2. **Special point to be mentioned by auditor in his audit report- SFS ROAD**

- **Substitute-** A Caveat should be given that reading abridge FS is not a **substitute** of for reading the detail AFS.
- **Framework** - Reference to **framework** followed in preparing SFS.
- **Such**- If the AR on AFS contains QO, AO, DOO, EMP or OMP then the AR on SFS should also contain **such**.
- **Reference** - Give **reference** to SA 810.
- **OPNION –**Based on our examination and explanation given to us, SFS financial statement which are derived from financial statement are fair summary of financial statement.
- **Accompanied-**A.R on SFS always **accompanied** with AR on FS. Where SFS is not accompanied with AFS then evaluate whether describe clearly from whom or where audited financial statement available.
- **Date - Date** on SFS should not earlier than AR on FS.

SA 2400 & 2410

SRE 2400 Applicable when review is conducted by independent *practitioner*(Other than company's statutory auditor).

SRE 2410 Applicable when review is conducted by statutory *auditor* of companies.

Review of interim financial information performed by the independent auditor of the entity. It refers to independent examination of financial information whereby only limited procedure are applied mainly *inquiry and analytical procedure*. As per requirement of SEBI all listed companies must published

interim financial information or quarterly information which has to be reviewed either by the independent auditor or practitioner.

Procedure applied under review of financial statement. ***O W** don't **IRRITATE** for 2400*

- **Opinion paragraph- negative assurance as follows**
  Based on our review nothing has come to our attention which causes us believe that the accompanying financial *information* do not give true and fair view of the statement of affairs of the entity and its CFS in accordance with AFRF.
- **Written representation for *RSS* *in* *UPLC &TT*. Confirmation for assertion made in financial statement.**
- **Inquiry related to the entity's business, transactions, Contingencies and commitments.**
- **Ratio analysis.**
- **Read report of other practitioner/ auditor of component.**
- **Inquiry about the procedure for accounting.**
- **To compare the financial statement with the anticipated result.**
- **Accounting policy followed consistently and appropriately, it should comply with applicable accounting standards**
- **To compare the financial statement with the previous period.**
- **Enquiry concerning action taken in shareholder and BOD meeting.**

SAE 3400:

1. **INTRODUCTION**
   Forecast is for short term for one or two year, whereas projection is for longer period for more than two year or more.
2. **Consideration before accepting the engagement**
   - **Intended user**
   - **Distribution**
   - **Assumption realistic or not**
   - **Period cover**
3. **Audit procedure:** ***AMU examine KMP Stability, Maintain of WP and express opinion***
   - ✓ **Assumption:** Obtain SAAE for assumption used in making forecast. Ensure whether it is best estimate assumption or hypothetical assumption, if it is best estimate assumption then it should not be unreasonable it should be reasonable and management should believe that situation will exist, if it is hypothetical assumption then it should be consistent with the purpose of information, here management believe that it may or may not.
   - ✓ **Method used for making the forecast**
   - ✓ **Underlying data**
   - ✓ **Knowledge of entity and environment should be obtained to ensure all significant assumption identified and followed in preparation of prospective financial information.**
   - ✓ **Management competencies and experience regarding preparation of prospective financial information.**

- ✓ **Previous audit report**
- ✓ **Stability of business.**
- ✓ **Maintain working paper: source of information, basis of forecast, assumption audit plan, NTE,WR.**

The auditor should obtain written representations from management regarding:-

(1) the intended use of the prospective financial information,

(2) the completeness of significant management assumptions and

(3) management's acceptance of its responsibility for the prospective financial information.

- ✓ **OPINION (NEGATIVE ASSURANCE)**: *forecast* (**PROJECTION):** *Based upon our examination and explanation given to us, nothing has come to our observation that causes us to believe that best estimate assumption* (**HYPOTHETICAL ASSUMPTION)** *which are basis for preparation of forecasted financial statement* (**PROJECTED FINANCIAL STATEMENT)** *are not realistic in nature. The forecasted FS* (**PROJECTED FINANCIAL STATEMENT)** *have been prepared as per financial reporting framework which is consistently followed from the previous period.*
  This is neither audit nor review. Hence, no opinion or assurance is given on forecasted financial statement(**PROJECTED FINANCIAL STATEMENT)**. *We have only validated the best estimate assumption* **(HYPOTHETICAL ASSUMPTION)**.

SAE 3402.

1. TYPE 1 AND TYPE 2 REPORT OF SERVICE ORGANSATION'S AUDITOR

TYPE 1 REPORT	TYPE 2 REPORT
Description of IC are designed properly	*Description of the IC is designed Properly and operating efficiently & effectively.*
Description of SO system prepared by mgt.	Description of SO system prepared by mgt.
Opinion of SO's auditor about the description of SO's system and suitability of design	Opinion of SO's auditor about the description of SO's system and suitability of design
At specified date.	Throughout the specified period
---------------------	*Description of operating effectiveness of IC.*
---------------------	*Description of TOC performed by SO's auditor.*

SAE 3420

Assurance engagement to report on compilation of pro forma financial information included in a prospectus.

1. **Introduction**

   Proposed form of financial information shown together with the adjustments **to illustrate the impact of an event or transaction** on *unadjusted financial information* as if the event had occurred or the transaction had undertaken at earlier date.

2. Factor to be considered before accepting such assignment. ***IPMC$_3$S***

   i. Initially evaluate wording of ALRR & Relevant law or regulation to determine expected form of opinion.

   ii. Practitioner his own capabilities & competence to perform the engagement.

   iii. Management accept its responsibilities. ***CPT***
   - Compilation of proforma financial information
   - Providing the practitioner with
     - ✓ Access to all information
     - ✓ Additional information
     - ✓ Access to those with in the entity and entity's advisor.
   - To disclose and describe the applicable criteria.

   iv. Consideration of type of modified opinion expressed on AFS where UFI is extracted from AFS.

   v. Consider whether the sufficient understanding of **entity** and its accounting and financial reporting practice can be obtained if **entity's HFS** has never been audited.

   vi. Consider whether the sufficient understanding of **acquire** and its accounting and financial reporting practice can be obtain if **acquirer's HFS** has never been audited.

   vii. Suitability of applicable criteria.

3. HOW TO PLAN AND PERFORM SUCH ENGAGEMENT.

a. Assessing the suitability of applied criteria.
b. Understanding how responsible party has compiled the pro forma financial information.
c. Obtaining evidence about appropriateness of source of information use to prepare PFI.
d. Obtaining understanding appropriateness of Source from which it has been extracted.
e. Obtain written representation.

SRS 4400

Here auditor called accountant/ practitioner. No any independency required.

AUDIT PROCEDURE: ***visualise following steps --- only CA & CA appointed to perform agreed upon procedure of ACCounts***

- Client engages an auditor to perform agreed upon procedure on a particular area. Procedure dictated by client and that procedure limited to only that client for such assignment.
- Auditor sends engagement letter to confirm scope of work.
- Client approves engagement letter.

- Auditor performs agreed upon procedure.
- Auditor submits report on factual finding to client.
- Client makes rectification in case of required.
- Client then submits the financial statement to statutory auditor.

Reporting some extract

Title: report on factual finding.

Auditor's responsibility: Our responsibility is to apply agreed upon procedure and give observation.

Disclaimer: this is neither audit nor review; hence no any opinion or assurance will be given.

SRS 4410

Introduction

Here Chartered Accountant known as Practitioner or Accountant. Practitioner uses accounting expertise for compilation of financial information for that he collect, classify and summarise financial information as provided by client. Here independence is not required. While compiling financial information practitioner should comply with this SRS.

While compilation of financial information if practitioner comes to aware of the fact that information provided by management is incomplete, incorrect or unsatisfactory in nature, he should follow procedure as laid down below:-

- Inquiry of management
- Assess internal control
- Verify any matter
- Verify any explanation

If management refused to provide additional information then withdraws from engagement.

AUDIT PROCEDURE: ***visualise following steps-------*** **CP** ***hour is for*** **CP (Ca in Practice)** ***not for*** **IPC** ***students***

- **Client engages a practitioner to compile financial statement.**
- **Practitioner sends engagement letter to confirm scope of work.**
- **Client approves the engagement letter.**
- **Practitioner collects, classify, summarise & compiles the financial statements based on books and records as per AFRF & ALRR.**
- **Inquiry of management to assess the reliability and completeness of information provided, assess the internal control prevailing in the entity, verification,**
- **Practitioner submits report on unaudited financial statements to the client.**
- **Client submits the financial statement to statutory auditor for the audit purpose.**

If there is some non- compliance of ALRR, AS, Etc, then report to management to adjust, if management refused to adjust then report it to notes to account.

Practitioner Responsibilities **HEAL ME**

- **Human Resources –** ensure right person are appointed to right job.
- **Engagement performance – EQCR** properly supervised and reviews the audit work. Engagement is performed in accordance with RLR, LER, maintain proper working paper and documentation.
- **Acceptance and continuation of client relationship –** Consider integrity of client and competency of client to comply with applicable law and regulation, relevant ethical requirement, etc.
- **Leadership responsibilities –** Engagement partner should take accountability and responsibility for engagement performance. Engagement quality control review should Plan, supervise, review the engagement performance. There should be adequate and timely communication from engagement partner to engagement team member and should resolve the conflict between team members.
- **Monitoring –** Work done by audit assistance should be properly monitored on regular basis to ensure policies procedure relating to quality control are adequate and operating effectively.
- **Ethical requirement** – complies with **IOPCP. (Integrity, Objectivity, Professional competence, Confidentiality, Professional behaviour)**

MANAGEMENT RESPONSIBILITIES: CMPSE

1. **Completeness and accuracy of underlying data and complete disclosure of all material and relevant information to the accountant.**
2. **Maintaining adequate accounting record and other record and internal control and selecting and applying appropriate accounting policies.**
3. **Preparation and presentation of financial statements in accordance with applicable law and regulation, in any.**
4. ***Establishing control to*** **Safeguard the assets of entity and preventing and detecting fraud or other irregularities.**
5. **Establishing control for ensuring that the activities of the entity are carried out in accordance with the applicable law and regulation and preventing and detecting and non-compliance.**

Chapter 2: Audit Planning, Strategy and Execution

Refer SA 300, 320

Chapter 3: Risk Assessment and Internal Control

Refer SA 315,330

Chapter 4: Special Aspects of Auditing in an Automated Environment

1. ***INTRODUCTION, DEFINITION AND SCOPE OF CIS AUDIT.***
   It is an examination of financial information in CIS system to ascertain system efficiency, system effectiveness and safeguard of assets & IS resources, to ensure authorised and correct input, correct processing of data, availability of information to authorised person, protection of IS resources, segregation of duties and DIO of IT control.
2. **APPROACH OF AUDIT IN AN COMPUTERISED ENVIRONMENT**
   - **Auditing around the computer**
     Here auditor not actively involved in examining computer, computer is used only for taking print out, and audit is done on whatever report generated by computer. It is also known as black box approach. In BBA auditor is not require expert knowledge of computer, programming skill or internal structure.
   - **Auditing through the computer**
     Here auditor actively involved examining CIS, the audit is conducted on CIS. Here auditor takes helps of different CAATs, software, expert. It is also known as white box approach, in WBA auditor is require expert knowledge of CIS, Programming skill, internal structure and coding. Here auditor verifies input, processing, storage and output.
3. ***RISK AND INTERNAL CHARACHTERISTICS IN CIS ENVIRONMENT***
   There is no any **TRANSACTIOIN TRAIL**&**SEGREGATION,** *but* **UNIFROM PROCESSING**&**ERROR** *happens, there is* **AUTOMATIC TRANSACTION** & **OTHER CONTROL** but also require **MANAGEMENT SUPERVISION** &**CAAT**.
   - **TRANSACTIOIN TRAIL- lack of transaction trail**
   - **SEGREGATION- lack of segregation of duties.**
   - **UNIFROM PROCESSING- uniform processing of data.**
   - **ERROR- systematic error is executed.**
   - **AUTOMATIC TRANSACTION- Automatic transaction performed without human intervention.**
   - **OTHER CONTROL- require other control**
   - **MANAGEMENT SUPERVISION- there should be adequate management supervision.**
   - **CAAT- Computer assisted audit technique require.**
4. ***ROLE OF COMPUTER ASSISTED AUDIT TECHNIQUE IN A CIS ENVIRONMENT***
   CAAT is technique applying through computer which is used to verifying the data processed by it.

   - CAAT is used when lack of audit trail, lack of visible output and absence of input.
   - CAAT is used to perform Substantive procedure, test of detail and analytical procedure, Sampling
5. ***FACTOR TO BE CONSIDERED WHETHER USE CAAT OF NOT:*** ***CAAT***
   - Computer knowledge.
   - Availability of CAAT.
   - Amount of cost effectiveness
   - Timing: certain transaction available for very short time of span and may not be available in machine readable form, auditor should make adequate arrangement for the retention of such data.

6. ***Online real time system and batch processing system***
   i. Online real time system
      - Costly
      - Continuous updation
      - Transaction processes concurrently.
      - Huge internal control require
      - No audit trail.
   ii. Batch processing system
      - Processed in a lot
      - Cheaper
      - Easy
      - Outdated information
7. ***Characteristics of an effective audit programmed system***

   ***VENDOR** se **SAMPLING** le kart **PROCESSING** karne me **AASU** nikal ate hai.*

   - **VENDOR:** Vendor should provide adequate technical support from installation to processing and also should be ready to provide after sales services.
   - **SAMPLING:** Since sampling technique is applied for audit, so system should be able to perform sampling and evaluate result of sampling.
   - **PROCESSING:** The package should be capable to process different types of application file and also should be able to operate under multi programming situation.
   - **ADAPTIBILITY:** The system should be compatible for various types of computer.
   - **ACCEPTABILITY:** it should be acceptable to both auditor and computer centre.
   - **SIMPLICITY:** it should be simple to use.
   - **UNDERSTABILITY:** it should be readily understandable by the member of IT staff, auditor and audit team.
8. ***Specific problem which may arise in implementation of internal control in CIS system***

   OR affect of computer on internal control- DAS$_3$

   - **Delegation of authority and responsibilities:** In CIS it is very difficult to delegate responsibilities to some person, because information system is shared within organisation among different person
   - **Adequate document and record:** It is require in manual system, wherein audit trail easily accessible, but in CIS transaction may IRCPT without adequate document record that’s why audit trail is also missing.
   - **Security:** In CIS it is very costly to provide safeguards against unauthorised access & also against loss physical hard disk, because all the information is concentrated in just hard disk, which is portable.
   - **Segregation of duties:** In a manual system different person responsible for perform different duties, but in a computerised information system a person may perform from initiating of transaction till finalisation, for example raising invoice till payment.
   - **Supervision:** Supervision in CIS should be built in system itself because it is not possible to supervise all the personnel who are using information system.
9. **Effect of computer on auditing**

Change in evidence collection

Change in evidence evaluation.

10. Characteristics of online computer system

- Online access
- Validation check
- Processing control
- Programme access.

11. ***Major class of control used in CIS to enhance it reliability.*** ***A_4E_3CPR***

First auditor should evaluate preventive, detective and corrective controls then following

- Accuracy control
- Authenticity
- Audit trail
- Assets safeguard
- Existence
- Effectiveness
- Efficiency
- Completeness
- Privacy
- Redundancy

12. Control which operate over date moving in to or throughout the computer.
Or review of check and control in a CIS environment.

IAR SOPDO

✓ Input control ***2C 2R 3F***

- **Check digit** – Error made in transcribing and keying the data can have a serious consequence, control employed against this types of error is check digit.
- **Completeness**: control employed to avoid loss of data is known as completeness control.
- **Record**- Record check employed to determine which sign is valid for numeric field and to determine maximum length to record data.
- **Reasonableness**- reasonableness check employed to determine whether result is suitable and reasonable as per expectation.
- **Form-**Pre printed form to be used for repetitive nature transaction.
- **Field** – Certain check employed in the field to determine format of data, alpha or numeric character and allowable range.
- **File-** validation check is used to determine right data/file is being processed

✓ Access control: ***ACCESS***

- Access control- access allowed to authorised personnel.
- Call back-
- Computer application control.
- Entry log
- Encryption

- Software & hardware access control
- Segregation

✓ Record control

✓ Storage control ***ABCDEF***

- Against eraser
- Beginning table.
- Cryptography
- Data base backup
- External level
- File backup

✓ Output control

✓ Processing control ***PROCS***

- Processing run
- Range
- Overflow
- Cross footing
- Sign.

✓ Documentation control

✓ Organisation Structure control

Chapter 5: Audit of Limited Companies

Section	Particular
DECLARATION AND PAYMENT OF DIVIDEND	
2(35)	**Meaning of dividend**
	Dividend refers to that portion of profit which is distributed among shareholder. Dividends mean final dividend and interim dividend. Final dividend declared after closing of book that is after closing of financial year whereas interim dividend means dividend distributed in between two AGM. To declare dividend, first it is recommended by board than it require approval of shareholder in general meeting. Declaration of dividend is an item of ordinary resolution. Member at AGM may declare dividend at lower than rate or amount recommended by board but they cannot increase it. AOA which authorise to declare dividend at higher than rate recommended by board is void.
123	**Condition for declaration and payment of dividend**
	Dividend can be distributed out of current year profit, brought forward profit, and grant from government. Carry forward and unabsorbed losses to be set off before declaration of dividend. There is no any condition to transfer to general reserve before declaration of dividend, A company may transfer such appropriate percentage of profit to reserve as it may deem fit. If in current year there is loss, then there is no any condition for declaration of dividend out of carry forward surplus in profit of loss, but there are following condition for declaration of dividend out of free general reserve:- **Rule 3** a) Dividend **rate** should be less than average rate of dividend declared in 3PFY. b) Maximum permissible withdrawal from general reserve is **10%** of (paid up share capital + free reserve). c) First **set off** carry forward losses from above withdrawal reserve. d) Balance in the general reserve should not be less than **15%** of paid up share capital.
123(3)	**Interim dividend** can be declared by board out of surplus in P&L account or Profit of current financial year. Rate of dividend should be less than average rate of dividend declared in 3PFY.
123(5)	(a) Dividends are payable in cash. Dividends that are payable to the shareholder in **cash** may be paid by **cheque** or **warrant** or in any **electronic mode.** (b) Dividend shall be payable only **to the registered shareholder** of the share or to his order or to his banker. (c) Nothing in sub-section 5 of section 123, shall prohibit the capitalization of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company.
124	**Unpaid dividend and investor education protection fund.**
	Dividend shall be transfer to separate bank account within 5 days from date of declaration of dividend, and it should be paid (or Post Dividend Warrant) within 30 days from date of declaration of dividend. A dividend remaining unpaid or unclaimed for 30 day or more shall be transferred to separate bank account

	known as unpaid dividend account with in 7days from the expiry of said period of thirty days. ***Prepare a statement containing name, their last known address and unpaid dividend, within 90 days of making above transfer to UDA, and place it on the website of company.*** **Interest** @ 12% payable by company for delay in making above transfer. Any Person claiming to be entitled to any money transferred to UDA may apply to the company for the payment of money claimed. Any money transferred to UDA remain unpaid or unclaimed for **7** year from the date of such transfer, including accrued interest, shall be transferred to **IEPF**(Investor Education Protection Fund) **Transfer of share to IEPF-** All shares in respect of which dividend has not been **paid or claimed** (after declaration) for 7 **consecutive** year or more, shall be transferred to IEPF. Provided that claimant of shares entitle to claim the transfer of share from IEPF. **In case if contravention-** The company shall be punishable with a fine which shall not less than 5,00,000 but which can be extend to 25,00,000 rupees, and every officer of company who is in default shall be punishable with a fine which shall not be less than 1,00,000 but which may extend to 5,00,000 rupees.
125	**Investor Education Protection Fund**
	Transfer to DADU GI SIR to IEPF if it remains unpaid for 7 year. **Deposits matured but remain unpaid** **Application money pending for refund.** **Debenture matured but remains unpaid.** **Unpaid dividend.** **Grant due for refund.** **Interest of DADU** **Sale proceeds of fraction share** **Interest or other income** **Redemption amount of preference share.**
126	**Dividend, etc to be held in abeyance**
	If transfer is pending and transferor has not authorised to transferee to receipt dividend it shall be kept in abeyance
127	**Failure to distribute dividend within 30 days.**
	Dividend shall be transfer to separate bank account in a scheduled bank within 5 days from date of declaration of dividend, and it should be paid within 30 days from date of declaration of dividend. If company failed to pay within 30 days then company would be liable to pay interest @ 18% pa. If director is knowingly a party of default then he would be liable for penalty not less than 1000 per day during which failure continues & imprisonment which may extend to 2 year. If dividend transferred to separate bank account remains unpaid for 30 days then transfer to unpaid dividend account within 7 days. If it remains unpaid for 7 year from unpaid dividend account then transfer it to IEPF. However there is no default if NODAD not paid within 30 days.

	NODAD (Non- Payment without co. Default, Operation of any Law, Disputed, Adjusted against any due, Direction give to the companies but same has not been complied and it is communicated to shareholder)

DECLARATION AND PAYMENT OF DIVIDEND			
Q.no	**Question**	**Answer**	**Section**
1	Whether Declaration of dividend at a rate higher than the rate proposed by board is valid?	No, it is not valid. Member at AGM may declare dividend at lower than rate or amount recommended by board but they cannot increase it	Regulation 80. Table F of Schedule-I
2	What are the liabilities of the company and director in case of non-payment of dividend within the time limit?	Company would be liable to pay simple interest @ 18% pa. For director penalty not less than 1000 per day during which failure continues & imprisonment which may extend to 2 year.	127
3	What are the consequences of payment of dividend to shareholder made after 45 days ?	Company would be liable to pay simple interest @ 18% pa. For director penalty not less than 1000 per day during which failure continues & imprisonment which may extend to 2 year.	127
4	Whether Board is entitled to revoke the interim dividend?	Interim dividend once declared, like final dividend, is a debt due from the company, Accordingly ones declared **cannot** be revoked unless: Declaration of dividend is ultra vires. Or where company cease to be going concern	127
5	Is it permissible to declare dividend @20% out of reserve or out of profits retained in the P&L A/c.	From out of profits retained in the P&L A/c. – can declare, no any restriction. From out of reserve - Comply with **Rule 3 of the companies (Declaration and payment of dividend) Rule, 2014.**	Rule-3
6	Is it permissible to declare dividend @15% out of free reserve?	From out of reserve - Comply with **Rule 3 of the companies (Declaration and payment of dividend) Rule, 2014.**	Rule - 3

<table>
<tr><td colspan="2">ACCOUNTS OF COMPANIES</td></tr>
<tr><td>128</td><td>Location, manner, period of maintenance and inspection of books of accounts</td></tr>
<tr><td></td><td>The book of accounts shall be kept at registered office; however it may be kept at other place but should be informed to ROC within 7 days. The books of accounts shall be maintained on accrual basis and double entry accounting system should be followed. Maintained in a manner so as to give true and fair view. It shall be kept and maintain for 8 year.
CG Under Section 128(5) issued a direction for keeping books of account longer than 8 years, reopening of accounts can be made for such longer period.
Book of accounts can be maintain in electronic mode in a manner as prescribed in rule- 3 BRICKS
➡ Books of accounts remain accessible in INDIA.
➡ Retain in a form in which it is originally generated.
➡ Information receipt from branches should not be altered.
➡ Capable of being displayed in a legible form.
➡ Keep proper system of storage, retrieval, Display and printout.
➡ Server should also be physically located in INDIA.
Intimate to registrar NIL on annual bases. (Name of service provider, IP Address, Location of Service provider)
INSPECTION OF BOOKS OF ACCOUNTS
The books of accounts can only be inspected by director during business hour. Member / shareholder is not entitle to inspect books of accounts even hold entire share capital unless authorised by board, member in general meeting or article of association provides.
Right of access by the auditor of a holding company to the accounts and records of the associate company, whose accounts are required to be consolidated. As per the recent amendment, this right has been extended to associates also.</td></tr>
<tr><td>129</td><td>Financial Statement</td></tr>
<tr><td></td><td>It consist B/S, SPL, CFS, Statement of change in equity and annexure forming part of above. It should be complied with accounting standards, if departure from accounting standards then deviation, reasons and effect should be disclosed. It should be signed by Chairperson if he authorised otherwise two director one of whom shall be managing director and also by CEO,CFO and CS (if appointed).
Rule-6 Consolidated financial statement.
Provided this rule shall not apply in respect of preparation of CFS by a company it meets ALL following condition:-
1. It is a Wholly owned subsidiary or Partially owned subsidiary and other member intimated and such person not object to the company not presenting CFS;
2. Unlisted company or not in the process of listing. &
3. Immediate or ultimate HOLDING company files CFS with the registrar.</td></tr>
<tr><td>130</td><td>Re-opening of accounts on court or tribunal order</td></tr>
<tr><td></td><td>A company shall not re-open it books of accounts or recast its financial statement</td></tr>
</table>

	unless an application in this regard is made **TO the court or tribunal** by- (a) The central government (b) The income tax authority (c) The SEBI (d) Any other statutory regulatory body or authority or **(e) any person concerned** **and** **an order made by court of competent jurisdictional or the tribunal to the effect that-** **i. Relevant earlier account prepared in *fraudulent manner*; or** **ii. The affairs of the company were *mismanaged* during the relevant period, because of which casting a doubt on the reliability of financial statement.** Provided court or tribunal shall give a notice to the central government, Income tax authorities, SEBI and shall take in to consideration representation made by them. ***As per the recent amendment in the section has been brought enabling the Court/ Tribunal to give notice to any other party/ person concerned. Now on reopening of accounts show cause notice can be served to auditor also.***
131	**Voluntary revision of financial statement on obtaining approval from tribunal.**
	If appears to the director of company that financial statement or Board's report do not comply with section 129 or 134, they **may revise** financial statement or revised board report in respect of any of the **three preceding financial year** after obtaining **approval of tribunal**& an **order passed by tribunal shall be file with Registrar.** Reason for revision should be disclosed in board's report. Provided tribunal shall **give a notice** to the central government & Income tax authorities and shall **take in to consideration representation** made by them. Provided further that revision shall not be made more than once in a financial year.
132	Constitution of National Financial Reporting Authority
	The Central Government appoints NFRA on 21st March, 2018 as the date on which the provisions of subsections (3) and (11) of section 132 of the said Act shall come into force. **The role of National Financial Reporting Authority shall be as follows :-** (a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be; (b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed; (c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed
133	**Central government to prescribe Accounting Standards**
	Provided until NFRA (National Financial Reporting Authority is constituted) Central Government may prescribed accounting standards on the recommendation of ICAI

in consultation with and after examination by NACAS (National Advisory Committee on Accounting Standards)

134(1) **Signing**

Financial statement including consolidated financial statement if any shall be signed by least of the following before approval by board.

1. Chairperson of the company where he is authorised. or
2. Two directors, one of whom should be managing director. and
3. Other Chief Executive Officer, if he is director in the company.
4. Chief Financial Officer and Company secretary of the company wherever they are appointed.

Signing of Board report by -

1. Chairperson of the company where he is authorised. or
2. Two directors, one of whom should be managing director.

134 (3) ***Content of Boards report***

END FDN ELRS in RDMC & RCE

Mnemonics	E	N	D	F	D	N	E	L	R	S	R	D	M	C	R	C	E
clause	a	b	c	ca	d	e	f	g	h	i	j	k	l	m	n	O	p

(Extract of annual return, Number of board meeting, Director Responsibilities Statement, Fraud Reported by auditor, Declaration given by independent director, Nomination remuneration committee, Explanation on every qualification reservation or adverse remarks makes by auditor or CS, Loan-Guarantee or investment u/s 186 , Related parties, State of companies affairs, Reserve created, Dividend recommended, Material change and commitment, Conservation of energy-technology absorption-foreign exchange earnings and outgo, Risk management policy, Corporate Social Responsibilities, Evaluation by board it own performance in case of public company having paid up share capita 25 crore or more.)

134(5) ***Director Responsibilities Statements***

Director responsibilities statement shall disclose as to whether : AAJ PG *kal* ID

Mnemonics	A	AJ	P	G	I	D
Clause	a	b	c	D	e	f

Director responsibilities statement shall disclose as to whether

A-- Financial Statement complies with Accounting Standards.

AJ- Accounting policies is selected and applied consistently.
Judgments and estimates made are reasonable and prudent.

P- Proper and Sufficient care has been taken for

- **Maintenance of adequate accounting record.**
- **Safeguard of assets**
- **Prevention and detection of fraud and other irregularities.**

G- Annual account prepared on **going concern basis.**

<table>
<tr><td></td><td colspan="2">I-- Internal financial control with reference to financial statement followed by the company are operating effectively.
D- Devised proper systems to ensure compliance with all applicable law and regulation.</td></tr>
<tr><td>135</td><td>Corporate Social Responsibilities.</td><td>App- N/N/T-5/500/1000 Duties- FRMI, Not CSR- NPO_2.
Composition of committee – exceeding 3 director at lease 1 independent.</td></tr>
<tr><td></td><td colspan="2">Responsibilities to expenses 2% percentage of Average net profit made during 3 immediate PFY for welfare of social, education, force, sports, technology, etc.
Applicability:-
If company have Net profit, Net worth or Turnover -5/500/1000 Crore respectively in any of the financial year. Ones applicable will continue to apply unless company cease to full all the above criteria for consecutive 3FY.
Duties of CSR committee:- FRMI
Formulate CSR policy, Recommend the amount to be expenses on CSR activity, Monitor CSR policy & Institute transparent monitoring policy.
Activity not amounting to CSR activity:- Rule 4&6 : NPO_2
Normal course of business, political party, outside INDIA, own employee.
Manner of implementing CSR activity
CSR Activity can be undertaken
i. By company itself.
ii. By Company itself through trust, registered society, u/s 8 Company.
iii. Through trust, registered society, u/s 8 Company established by CG/SG/ Entity established by act of parliament or state legislature.
iv. Through any other entity other than above but should have track record of undertaking similar project or programme.</td></tr>
<tr><td>136</td><td>Circulation of financial statement.</td><td>21/14 Days</td></tr>
<tr><td></td><td colspan="2">Circulate FS, CFS, Auditor's report & Annexure thereto to every member, trustee and other who entitled to receipt within 21/14 days.
14 day for u/s 8 co, and for other 21 days.</td></tr>
<tr><td>137</td><td>Filling of financial statement and other with the registrar.</td><td>30/180 Days</td></tr>
<tr><td></td><td colspan="2">Every company shall file financial statement with the ROC within 30 days of AGM irrespective of AGM held, not held, adjourned, etc. However in case of one person company it is 180 days</td></tr>
<tr><td>138</td><td>Internal audit.</td><td>App- DPBT-25/50/100/200</td></tr>
<tr><td></td><td colspan="2">DEFINITION
Independent management function of examination of financial, operation and administrative aspect for evaluation of internal control, risk management, value addition to TCWG.
Applicability
For every listed company, every unlisted public company having DPBT-25/50/100/200 & for every unlisted private company have Borrowing / Turnover 100/200 respectively crore or more at any point of time during PFY.</td></tr>
</table>

	(DPBT (*D profit before tax*): Deposit, Paid up capital, borrowing, turnover) **Eligibility** Chartered accountant or cost accountant **Whether in practice or not.**

ACCOUNTS OF COMPANIES

1	Whether a member holding 76% of the equity shares of the company is entitled to inspect the books of account?	No, Inspection can be made by director. 206- ROC, Authorised government officer. 212 – Officer of SFIO. MEMBER may inspect after get appointed as director by using his majority voting power.	128
2	Can a director appoint an agent for inspection of books of accounts?	Yes may appoint Vakhariavssuperme general film Exchange Co.	128
3	Whether financial statement signed by two directors is valid?	No, It should be signed by Chairperson if he authorised otherwise two director one of whom shall be managing director and also by CEO,CFO and CS (if appointed).	129
4	What are the consequences of filling of financial statement after 10 months?	Every company shall file financial statement with the ROC within 30 days of AGM irrespective of AGM held, not held, adjourned, etc. If AGM adjourned then un adopted financial statement within 30 days & adopted financial statement within 30 days of AGM in which adopted. However in case of one person company it is 180 days of beginning of financial year. 403- may be filled with in next 270 days on payment of additional fees	137
5	Can a director acknowledge debt of the company to themselves?	No, The directors are the agents of the company and therefore it is not competent for the board to authorise the giving of a definite promise to pay them. (Coliseum (borrow) Ltd)	
6	Whether books of account can be kept at place other than registered office?	Yes, The book of accounts shall be kept at registered office; however it may be kept at other place by board resolution and should be informed to ROC within 7 days.	128
7	Whether books of account can be prepared on cash basis?	No, The books of accounts shall be maintained on accrual basis and double entry accounting system should be followed.	128
8	Whether unaudited financial statement can be circulated?	No, 136- Circulate FS, CFS, Auditor's report & Annexure thereto to every member, trustee and other who entitled to receipt within 21/14 days. 134- Signed copy of every financial statement will be circulated along with auditor's report and board report. It is mandatory to circulated auditor's report along with financial statement.	134 136
9	Whether unaudited financial statement can be filed?	No, Every company shall file financial statement, Consolidated financial statement, account of subsidiary and annexure forming part of above. With the ROC within 30 days of AGM irrespective of AGM held, not held, adjourned, etc. As per section 137, the auditor's report shall be attached to every financial statement.	134 137

AUDIT AND AUDITORS	
139	**Appointment, Reappointment and rotation of auditor.**
	Every company shall appoint an Auditor at first AGM and on subsequent AGM when previous auditor completed his tenure or on vacancies for every financial year. **Concept of rotation of auditor** Concept of rotation of auditor applicable on for listed company and ***certain prescribed company***(**Rule-5 :** *all unlisted public company having PUSC of Rs. 10 crore or more;* all private limited company having PUSC of Rs. ~~20 crore~~ **50 Crore** or more *and company other than above but having borrowing from financial institution of Rs 50 core or more)*. Rotation of auditor means a company is required to change his auditor on completion of specified period of time for certain period of time. Currently, **Rule-6** maximum period for which an individual can be appointed as an auditor of a company is one term of 5 consecutive year and firm for two term of 5 consecutive year, there after such auditor (individual or firm) would not be eligible for appointment in the same company for 5 year, it is known as cooling period of 5 year. However appointment is not made for 5/10 year that is, it would be ratified by Ordinary Resolution at every AGM for every year but tenure of office of auditor doesn't expire on the last date on which AGM was due to be held, so if AGM is not held auditor can continue his office. **Ratification for appointment of auditors is not required at every AGM when auditors have been appointed for five years** - *Proviso to section 139(1) omitted as per Companies (Amendment) Act, 2017.* **Procedure for appointment of auditor** **Rule 3** Manner and Procedure of Selection and Appointment of Auditors **1.** Qualification and experience of proposed auditor will be consider by board or audit committee (in case co. Require to constitute AC) **2.** Board or audit committee shall regard to any order passed or proceeding pending for professional misconduct against the proposed Auditor. **3.** In case the company is not required to constitute audit committee board shall consider and recommend an individual or firm as auditor to member in AGM. **4.** In case company is required to constitute to audit committee ➨ Audit committee shall consider and recommend an individual or firm as auditor to board. ➨ Board shall consider the recommendation of AC and make their own further recommendation if agrees. ➨ If board disagree then refer back the recommendation to AC for consideration by citing reason. ➨ If board continue to disagree then AC record reason for disagreement and send it own recommendation for consideration at AGM. ➨ If board agrees then shall recommend the name of individual or firm at AGM as recommended by Audit committee.

Time period

Appointment of first auditor				
	By CAG	**By BOD**	**By Share holder**	**Total**
Government Co.	Within **60** days	Next **30** days, Where CAG failed to do so.	Next **60** days	150 days,
Other then Govt. Co.	NA	Within **30** days,	Next **90** days	120 days,
The auditor so appointed shall hold the office till conclusion of first AGM.				

Appointment of Subsequent auditor	**Time limit**
Government Co.	**Within 180 days from commencement of the financial year.**
Tenure- up to conclusion of next AGM.	
Other then Govt. Co.	**By Member in AGM**
Tenure- up to conclusion of 6^{th} AGM Provided ratification by OR in intervening AGM. If no ratification by OR in intervening AGM, then BOD will appoint the Auditor. The tenure of whose is till conclusion of next AGM.	

Filling of casual vacancies.		
	By CAG	**By BOD**
Government Co.	Within 30 days	Next 30 days, Where CAG failed to do so.
Other then Govt. Co.	NA	Within 30 days,

In case casual vacancies arise due to resignation of auditor, the appointment by the board shall be approved by share holder in general meeting convened within 3 month of the recommendation of board.

FURNISHING OF CERTIFICATE AND CONSENT BY AUDITOR ON APPOINTMENT.

1. Furnish written consent for such appointment. And
2. A certificate stating auditor satisfied criteria as prescribed in sec 141. & appointment is made in accordance with rule-4.
   Rule-4 LPP Eligible.

- **List of proceeding pending against the proposed auditor for professional misconduct disclosed in certificate.**
- **Proposed appointment is as per the term provide under the Act,**
- **Proposed appointment is within the limit laid down by or under the authority of the Act,**
- **Eligible for appointment and is not disqualified for appointment under this Act or CA Act,1949**

Transition period extended by other six month

	Earlier it was 3 year (01.04.2014 -31.03.2017), Now a new provision inserted that comply with the act within first AGM after three year of the commencement of this Act.
140	**Removal, resignation of auditor and giving of Special notice.**
	140(1): removal **Rule 7** Removal of Auditor before expiry of his term For removal of auditor board shall pass a board resolution, then make application to CG for taking approval in form ADT-2, On receipt of approval from CG, within **60 days of approval** Hold general meeting pass Special resolution. However before taking any action of removal a ROOBH shall be given. *ROOBH(Reasonable opportunity of being heard)* **140(2)(3): resignation of auditor** **Rule 8** Resignation of Auditor An auditor is required to file ADT-3 on resignation within 30 days to Company, ROC , CAG (If govt, co). Failure to which auditor punishable with a fine which may extend to Rs. 50000 **or the remuneration of the auditor, whichever is less** but which may extend to five lakh rupees as per section 140(3). **140(4): Special notice.** A special notice require to remove an auditor providing expressly that retiring auditor shall not appointed and appointing some other person in place of retiring auditor. However special notice not require if he has completed consecutive tenure of 5 year/ 10 year. **Right to make representation** Auditor entitles to make representation in writing and he may request to company to circulate representation to the member of the company. Company shall state the fact of representation in any notice of the resolution given to the member and shall send a copy of representation to every member to whom notice of the meeting is sent. If it is received too late the auditor may request to read out at the meeting Representation need not be read out if it is found that auditor abused his position. **140 (5) Direction by Tribunal to change auditor in case of fraud.** If it is satisfied to tribunal that auditor of the company acted in fraudulent manner or abetted or colluded in any fraud, tribunal may pass an order suomoto or on application by CG or other, direct the company to change the auditor. Such auditor shall not be eligible for appointment as auditor (or Firms of auditor) for 5 year.
141	**Eligibility, qualification and disqualification of auditor.**
	Qualification – Chartered Accountant **Section 141(3) : Disqualification:- BOP & SIG** *ne mil kar* **BRFC** *kardia***144** *laga kar*

Mnemonics	**B**	**O**	**P**	**SIG**	**B**	**R**	**F**	**C**	**144**
clause	**a**	**b**	**c**	**d**	**e**	**F**	**g**	**h**	**i**

a) **Body corporate** other than LLP

	b) **Officer or employee** of the company c) **Partner or person in employment** of such officer or employee of the company **d) Security, indebtedness and guarantee** ▪ A person who or his relative or partner is holding any security of CHASS *(except share held by all **relative** up to face value of **Rs. 1 lakh,** if at any time after appointment share held by relative exceed **Rs. 1 lakh,** then take corrective action within next **60** days so as to maintain the limit.)* ▪ A person who or his relative or partner is indebted in excess of **Rs. 5 lakh** to CHASS. ▪ A person who or his relative or partner has given a guarantee or provided any security in respect of indebtedness of third parties in excess of **Rs. 1 Lakh** to CHASS. *(CHASS- Company, Holding company, Associate Company, Subsidiary, Subsidiary of such holding company.)* e) **Business relationship** in the nature of commercial transaction other than **(Rule 10)** ▪ Commercial transaction which are in the nature of professional services. ▪ Commercial transactions which are in ordinary course of business of the company at ALM(arm's length price) company engage in HATH(Hospital, Airline, telecommunication and hotel & such other similar business. **With** CHASS including a subsidiary of such associate company. f) **Relative** is director or key managerial person (CEO,CFO, CS, WTD) g) A person who is in **full time employment** elsewhere. Or holding audit of more than 20 companies (excluding one person company, small company (PUSC<50 lacs / TO <200 Lacs), dormant companies and private companies having paid up share capital less than Rs. 100 crore.) ***Additional Requirement : such company has not committed default in filing its financial statements under section 137 and annual returns under section 92 of the Act to the registrar as per notification dated 13 June 2017.*** h) A person who has been **convicted** by a court of an offence involving fraud and 10 year has not been elapsed from date of such conviction. *i)* Any person (ca) whose subsidiary, associate company or any other form of entity is engaged as on the date of appointment in consulting and specialised services as provided in sec **144**. *(however section 144 restriction is for service to company, holding company & subsidiary company; so if on the date of appointment this service is being provided to other company there is no any objection)* *Relative means father, mother, brother, sister, son, daughter, wife of son and husband of daughter, wife of brother, husband of sister including above step except step daughter.* **141(4) –** If subsequent to appointment any disqualification occurs then vacates his office.
142	**Remuneration of auditor**

It shall be decided and **fixed only at general meeting**, however in case of first auditor it shall be fixed by board. It consists of audit fees, reimbursement of expenses and any facilities extended to auditor.

143 (1)	Duties to make inquiry	LTILPC

Mnemonics	L	T	I	L	P	C
clause	a	B	c	d	e	f

a. **Loan and advance** made on the basis of securities properly secured, and term on which they have agreed not prejudicial to interest of company.
b. **Transactions represented merely by book entries are** prejudicial to interest of company.
c. **Investment-** if company is not an investment company or banking company whether so much of assets consisting of share, debenture or other securities sold at a price less than at which it has been purchased.
d. **Loan and advance** made by the company have been shown as deposit.
e. **Personal expenses** have been charged to revenue.
f. **Cash** is received for share allotted for cash, if not then account balance shown is correct and not misleading

143(3)	Duties to make report	I B_2A_3D MIS

Mnemonics	I	B	B	A	A	A	D	M	I	S
clause	a	b	c	d	e	f	g	h	i	j

a) **Information and explanation-** whether he has sought and obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of audit and if not, the detail there of and affect of such information on the financial statement.
b) **Books of accounts-** whether in his opinion proper books of accounts as required by law have been kept by the company so far it appear from examination of those books and proper return adequate for the purpose of his audit have been received from branch not visited by him.
c) **Branch office-** Whether the report on the accounts of any branch office of the company audited by a person other than company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report.
d) **Agreement-** Whether the company's balance sheet and profit and loss account dealt with in report are in agreement with the books of account and returns.
e) **Accounting Standards-** Whether in his opinion the financial statement comply with the accounting standards.
f) **Adverse affect-** the observation or comment of the auditors on financial transaction or matter which have any adverse affect on the functioning of the company.
g) **Disqualified –** Whether any director is disqualified from being appointed as a director under section 164(2).
h) **Maintenance of books of accounts-** any qualification, reservation or

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adverse remarks relating to the maintenance of accounts and other matters connected therewith.
i) Internal financial control- whether the company has adequate internal financial controls system in place and the operating effectiveness of such control. (Exemption- *)
j) Such other matter as may be prescribed.
Rule 11
1. Disclosure of impact of pending litigations on financial position.
2. Provisions for Material Foreseeable losses on long term contracts made.
3. Any delay in transferring amounts to IEPF.
* exemption for one person company, small company,
</td></tr>
<tr><td>143(12)</td><td>Reporting of fraud by auditor</td></tr>
<tr><td></td><td>
Rule 13 Reporting of Frauds by auditor
When an auditor comes to knowledge or reason to believe that fraud has been committed or is being committed against the company by any employee of officer, the auditor is required report immediately but not later than 2 days to the board or audit committee.
Board or audit committee will submit their reply or observation within 45 days to auditor. Then Auditor shall report to central government in form ADT-4 within 15 days of receipt of reply from board or audit committee, by speed post or Registered post with acknowledgment due.
However if fraud amount is less than Rs. 1 crore then report only it to Board/ Audit committee & disclosure require in board report.
Report consists of following particular: NPA
1. Nature of fraud with description
2. Parties involved.
3. Approximate amount involved.
AND such disclosure would not amount breach of any of his duties.
4. Remedial Action taken
</td></tr>
<tr><td>144</td><td>Auditor not to render certain cervices | IAD AI IMRAN</td></tr>
<tr><td></td><td>
The auditor shall not provide any of the following services directly or indirectly to company, holding company or subsidiary company.
Investment advisory services.
Actuarial services.
Design and implementation of any financial information system
Accounting and book keeping service.
Internal audit
Investment banking service
Management service
Rendering of outsources financial services.
Any other as may be prescribe
Not prescribed any service yet.
Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company shall not be eligible for appointment as an auditor of a company.
</td></tr>
</table>

<table>
<tr><td></td><td colspan="2"></td></tr>
<tr><td>145</td><td colspan="2">Auditor to sign audit report.</td></tr>
<tr><td></td><td colspan="2">Audit report shall be signed by the person who is appointed as auditor.</td></tr>
<tr><td>146</td><td colspan="2">Auditor to attend general meeting.</td></tr>
<tr><td></td><td colspan="2">It is compulsory for an auditor to attend general meeting either himself or through his representative (ca in practice that should be qualified to be an auditor).</td></tr>
<tr><td>147</td><td colspan="2">Punishment for contravention</td></tr>
<tr><td></td><td><u>FOR AUDITOR</u> for contravention of section 139,143,144 or 145 i.e for (ARNS- Appointment, Reporting, Not to render certain services, Signature)
25,000-5,00,000 or four times the remuneration of the auditor, which ever is less .
If knowingly
50,000-25,00,000 or eight times the remuneration of the auditor, which every is less
And maximum imprisonment may be 1 year.

The auditor shall be liable to refund remuneration received from the company. and pay for damages to the company statutory bodies or authorities or to members or the creditors of the Company for loss arising out of incorrect or misleading statements of particulars made in his audit report.</td><td>FOR <u>COMPANIES & OFFICER IN DEFAULT</u>
<u>Section 139-146</u><table><tr><td>Company</td><td>Officer in default.</td></tr><tr><td>25,000-5,00,000</td><td>10,000-1,00,000 and maximum imprisonment may be one year</td></tr></table></td></tr>
<tr><td></td><td colspan="2">Other Amendment
Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in an fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil criminal as provided in this Act or in any other law for the time being in force, for such act shall be the partner or partners concerned of the audit firm and of the firm jointly and severally Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.</td></tr>
</table>

AUDIT AND AUDITORS

<table>
<tr><th>Q.no</th><th>Question</th><th>Answer</th><th>Section</th></tr>
<tr><td>1</td><td>Whether appointment of an individual can be made for 10 year?</td><td>No,
<u>Rule-6</u> maximum period for which an individual can be appointed as an auditor of a company is one term of 5 consecutive year and firm for two term of 5 consecutive year, there after such auditor (individual or firm) would not be eligible for appointment in the same company for 5 year, it is known as cooling period of 5 year.</td><td>139</td></tr>
<tr><td>2</td><td>Whether auditors are liable if they rely on incorrect certificate relating to value of stock?</td><td>Yes,
SA 200/500/580
Auditor has no right to rely upon other evidence, where physical verification is possible. Auditor's duties :
Ensure companies has efficient recording system
Verify books of accounts
Reconsider the reliabilities of certificate.</td><td></td></tr>
<tr><td>3</td><td>Whether first director of government companies can be appointed by board?</td><td>No,
<table>
<tr><th colspan="5">Appointment of first auditor 139(6)</th></tr>
<tr><th></th><th>By CAG</th><th>By BOD</th><th>By Share holder</th><th>Total</th></tr>
<tr><td>Government Co.</td><td>Within 60 days</td><td>Next 30 days, Where CAG failed to do so.</td><td>Next 60 days</td><td>150 days,</td></tr>
<tr><td>Other then Govt. Co.</td><td>NA</td><td>Within 30 days,</td><td>Next 90 days</td><td>120 days,</td></tr>
<tr><td colspan="5">The auditor so appointed shall hold the office till conclusion of first AGM.</td></tr>
</table></td><td>139(6)</td></tr>
<tr><td>4</td><td>Whether purchase of goods of ₹ 5 laces or more in credit by the auditor from the company results in vacation of office?</td><td>Yes,
Disqualification - A person who or his relative or partner is indebted in excess of Rs. 5 lakh to CHASS.</td><td>141(3)(d)</td></tr>
<tr><td>5</td><td>Whether auditor can enter in to partnership with the employee of the company?</td><td>No,
Disqualification - Partner or person in employment of such officer or employee of the company</td><td>141(3)(c)</td></tr>
<tr><td>6</td><td>Validity of decision of the companies that the auditor shall not carry out a comprehensive audit.</td><td>Invalid/void.
Scope of audit is as governed by the provisions of the companies Act, 2013 and standards of auditing. Neither the board of directors not the member can restrict the scope of audit.</td><td>143</td></tr>
<tr><td>7</td><td>Whether auditor is entitle to inspect the minute's book?</td><td>Yes,
a) Access to books of accounts and vouchers: Every auditor of a company shall have a right of access at all times to the books of accounts and vouchers of the company, whether kept at the registered office of the company or at any other place.</td><td>143 (1)</td></tr>
<tr><td>8</td><td>What are the consequences of no comment made by the auditor in his audit report w.r.t matter contained in section 143(1)?</td><td>Nothing,
Auditor is not required to report on the matters specified in section 143(1), unless he has any special comments to make on any of the items referred to therein.</td><td>143 (1)</td></tr>
</table>

9	Whether signing of audit report by the chartered accountant who is manager of audit firm valid if he is not a partner but employee?	Audit report shall be signed by the person who is appointed as auditor.	**145**

Companies (Auditor's Report) Order,2016

1. **Exempted class of companies**
   - Banking companies
   - Insurance companies
   - u/s 8 companies
   - one person companies
   - small companies
   - private companies (**not being subsidiary or holding of public companies**) and following condition should be satisfied:
     - Paid up Share capital + **Reserve and Surplus*** ≤ 1 crore
     - Borrowing ≤ 1 Crore
     - Turnover** ≤ 10 Crore (including revenue from discontinuing operation)

*Including revenue reserve& reduction of debit balance of SPL.

** excluding sales tax, excise duty, sales return and commission.

2. **Paragraph 3 of CARO, 2016**
   Every audit report made by auditor u/s 143 of companies Act,2013 shall contain the matter specified in paragraph 3 and 4. If answer to matter referred in paragraph 3 is unfavourable or qualified then auditor shall state the basis of such unfavourable or qualified answer as the case may be. If Auditor is unable to express opinion, then disclose such fact together with reason, why unable to express an opinion.

16 clause of paragraph 3 of CARO 2016

For clause 3(i) to 3(viii)

F I L L – DCS &make no **DEFAULT IN REPAYMENT OF LOANS & BORROWINGS.**

(Fixed assets, inventories, Loan to Related parties u/s 189, Loans- Investments guarantees and securities U/s 185 & 186, Deposits, Cost Records U/s 148), Statutory Dues.

For clause 3(ix) to 3(xvi)

I *listen* **FM Nidhi** *but with* **Related parties Prefer Non-cash transaction** *to finance it from* **NBFC**.

(IPO, Fraud, Managerial Remuneration, Nidhi Companies, Related parties transaction, Preferential allotment, Non Cash Transaction, NBFC)

Clause 3

(i) F – FIXED ASSETS

(a) Whether the company is maintaining **proper records** showing full particulars, **including quantitative details and situation of fixed assets**,

(b) Whether these fixed assets have been **physically verified** by the management **at reasonable intervals**; whether any material **discrepancies** were noticed on such verification and if so, whether the same have been **properly dealt** with in the books of account.

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

(ii) I – Inventories

a. Whether **physical verification** of inventory has been conducted **at reasonable intervals** by the management.
b. Whether any **material discrepancies** if any, were noticed and if so, whether they have been **properly dealt** with in the books of accounts.

(iii) L – Loans outstanding from Related parties covered U/s 189:

a. Whether the company has **granted any loans,** secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act,2013. If so, **the number of parties and the amount** involved in the transaction.

b. whether the **terms and conditions** of the grant of such loans are **not prejudicial** to the company's interest;

c. whether the **schedule of repayment** of principal and payment of interest has been **stipulated** and whether the repayments or receipts are **regular**;

d. if the amount is **overdue**, state the total amount overdue for more than **ninety days**, and whether **reasonable steps** have been taken by the company for **recovery** of the principal and interest;

(iv) L- Loans, Investments guarantees and securities U/s 185 & 186

a. In respect of loans, investments, guarantees, and security whether provisions of **section 185 and 186 of the Companies Act, 2013 have been complied with.** If not, provide the details thereof.

(v) D –Deposits:

a. In case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed there under, where applicable, have been **complied with**? If not, the nature of such contraventions should be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

(vi) C- Cost Records U/s 148 of Companies Act 2013:

Whether maintenance of **cost records** has been **prescribed** by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 whether such accounts and records have been **made and maintained.**

(vii) Statutory Dues:

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

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

(viii) Default in repayments of Loans or Borrowings:

Whether the company has **defaulted** in repayment of loans or borrowing to a financial institution, bank, government or dues to debenture holders? **If yes, the period and the amount of default to be reported.**(in case of defaults to banks, financial institutions, and government, lender wise details to be provided).

(ix) IPO

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

(x) Fraud

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

(xi) Managerial Remuneration – Compliance of section 197 of Companies Act 2013

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

(xii) Nidhi Companies – Compliances of Nidhi Rules 2014:

a. Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of **1: 20** to meet out the liability.
b. Whether the Nidhi Company is maintaining **ten per cent** unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.

(xiii) Related parties transaction Compliances with Section 177 & 188 for:

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

(xiv) Preferential allotment and private placement Compliance with section 42 for:

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

(xv) Non Cash Transaction Compliance with section 192 for:

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

(xvi) NBFC Compliance with section 45-IA of RBI Act

Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

COST AUDIT

1. Introduction
   Verification of cost required to ensure that adherence to cost accounting Standards, principle, plans and objective. It is examination of costing record, costing statement and other related data to ascertain true and fair view of cost records. It is conducted by CMA.
2. ***ADVANTAGE OF COST AUDIT.***

To management

- Reliable data
- Check on wastage
- Inefficiency identified
- Corrective action can be taken
- It facilitates management by exception
- Valuation of closing stock
- Detection of error or fraud.

To society

- Fixation of price
- Increase in price with increase in cost production appropriately

To shareholders

- To ensure that the proper record audit kept for material wages oh etc
- Optimum utilisation of their resources.
- Fair valuation of closing stock
- Ensure fair return

To government

- Cost plus contract
- Fixation of ceiling price
- Protection to certain industry.
- Settlement of disputes
- Promoting healthy competition in industry.

3. ***Programme for cost audit: following matter should be included in cost audit programme*** **TBS_3M_4**

- Treatment of interest & royalty.
- Basis of allocation of overhead to cost centre.
- System of recording salary wages overtime
- System of budgetary control
- System of internal auditing
- Method of costing in used
- Method of accounting of raw material, wastage,
- Method of accounting of depreciation
- Method of stock taking and its valuation.

4. ***Verification of cost statement and other data.***
   - Licence installed capacity
   - Utilisation capacity
   - Reconciliation with financial book
5. ***In determining True and fair view of cost production following point to be considered*** **CMA PAPA**
   - Costing principle applied on consistent basis.
   - Material item have been considered while arriving at cost
   - Accepted cost accounting principle has been applied while arriving at the cost.

- Prescribed form has been followed while preparing cost sheet.
- Abnormal losses ignored in determination of cost
- Prior period adjustment has been eliminated in cost sheet
- Adherence to cost record and audit rule 2014

6.

<table>
<tr><td>148</td><td>Power of central government to order maintenance of cost records and conduct of cost audit</td></tr>
<tr><td></td><td>
Maintenance of cost records is compulsory for domestic or foreign company engage in specified industry/sector/product/service as listed in table of rule 3.
Conduct of cost audit is mandatory for classes of company engage in specified industry/sector/product/service as per rule 4.
Companies (cost record and audit) rule,2014
➧ Maintenance of cost record
1. Company should engage in any one of 39 industries as specified in table of rule 3.
2. Overall turnover Rs. 35 crore or more (including turnover unspecified product)
➧ Cost audit as per rule 4.
<table>
<tr><th>For industries engage in table (A) regulated sector</th><th>For industries engage in table (B) non-regulated sector</th></tr>
<tr><td>➢ Overall turnover Rs. 50 crore or more.
➢ Turnover of covered product under table A/B of rule 3, is 25 crore or more</td><td>➢ Overall turnover Rs. 100 crore or more.
➢ Turnover of covered product under table A/B of rule 3 is Rs. 35 crore or more.</td></tr>
</table>
Table A – Regulated sector-Telecommunication FD in GPS (6)
➢ Telecommunication Services
➢ Fertilizers
➢ Drugs and pharmaceuticals
➢ Generation, transmission, distribution and supply of electricity.
➢ Petroleum product
➢ Sugar and industrial alcohol.
Table B –Unregulated sector- other 33 industries.
Out of 33, 6 sector is mentioned below: T_2M_2 CS
➢ Turbo jets and turbo propellers
➢ Tyres and tubes
➢ Machinery and mechanical appliance for defence.
➢ Medical devices- production, import, supply, trading
➢ Cement
➢ Steel
</td></tr>
</table>

Exemption from cost audit.

1. Which is operating in SEZ (Special Economic Zone).
2. Which is engaged in generation of electricity for captive consumption.
3. Whose revenue from export, in foreign exchange exceeds 75% of total revenue.

Additionally, the auditor is also required to report as per **clause (vi) to Paragraph 3 of the CARO, 2016, which is discussed below:**

"Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained."

Audit Procedures and Reporting:

The Order requires the auditor to report whether cost accounts and records have been made and maintained. The word "made" applies in respect of cost accounts (or cost statements) and the word "maintained" applies in respect of cost records relating to materials, labour, overheads, etc. The auditor has to report under the clause irrespective of whether a cost audit has been ordered by the central government.

The auditor should obtain a written representation from the management stating :

Whether cost records are required to be maintained for any product(s) or services of the company under section 148 of the Act, and the Companies (Cost Records and Audit) Rules, 2014; and whether cost accounts and records are being made and maintained regularly.

The auditor should also obtain a list of books/records made and maintained in this regard.

The Order does not require a detailed examination of such records. The auditor should, therefore, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained. He should, of course, make such reference to the records as is necessary for the purposes of his audit.

It is necessary that the extent of the examination made by the auditor is clearly brought out in his report. The following wording is, therefore, suggested:

"We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 148 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained."

Where the auditor finds that the records have not been written or are not prima facie complete, it will be necessary for the auditor to make a suitable comment in his report.

Chapter 6: Audit Reports

Refer SA 700, SA 701, SA 705, SA 706

Chapter 7: Audit Reports & Certificates for Special Purpose Engagement

Refer :

SA 800 SA 805 SA 810
SRE 2400
SRE 2410
SRS 4400
SRS 4410

Chapter 8: Audit Committee and Corporate Governance

1. Corporate governance

Share holder is the owner of company, they appoint BOD to manage the company.So it is the responsibility of senior manager to monitor and control every function and activitiy of the organisation to achieve stakeholder objective. However mangement may misuse the resources for thier personel benefit, that is why concept of corporate governance has been introduced.

Corporate governance is the system by which companies are directed and governed by the management in the best interest of the stakeholders and other ensureing better management, greater transparency and timely financial reporting.

The indian corporate governance depends on listing order discloser requirement 2015 (LODR) & Companies act 2013.

Applicability of LODR Regulations [Regulation 3]: 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):

Applicability

(a) specified 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 noncumulative preference shares;
(c) Indian depository receipts;
(d) securitised debt instruments;
(e) security receipts (added w.e.f. September 06, 2018);
(f) units issued by mutual funds;
(g) any other securities as may be specified by the Board.

All listed companies except:

(a) Companies with a **paid up capital up to 10 crore** and **net worth up to 25 crore.**
(b) Companies whose equity share listed on SME / SME-ITP Platform.

2. **Audit Committee under Section 177 of the Companies Act, 2013:** As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, **every listed public company** and the following classes of companies shall constitute an Audit Committee –

   (a) all public companies with a paid up capital of ten crore rupees or more;
   (b) all public companies having turnover of one hundred crore rupees or more;
   (c) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more

3. *ROLE OF AUDIT COMMITTEE* MIRROR

- ✓ **Making inquiry about the performance of internal auditor** and discussing with them on significant finding./ **Monitor end used of funds raised through the public offer,**
- ✓ **Inquiry about the company's financial and risk management policies**, whistle blowers mechanism and scrutiny of inter corporate loans and advances.

- ✓ **Recommend the appointment external auditor/ Recommend the appointment and removal of internal auditor.**
- ✓ **Review of company's financial reporting process./ related party transaction approval.**
- ✓ **Other aspects** related to adequacy of internal controls, internal audit function and analyzing the reasons for defaults in payment of depositors, debenture holders, and dividend.
- ✓ **Review the annual financial information** before submission to the boards. Focusing on **Director Responsibilities statement.**

4. ***Disclosure***

Report on corporate governance require following disclosure.

Or Matter to be addressed in clause 49 regarding corporate governance.

RAD$_2$ on MD &IPS

- Remuneration of director
- Accounting treatment
- Disclosure of formal letter of appointment.
- Disclosure in annual report.
- Management of subsidiaries companies.
- Disclosure of resignation of director.
- Information related to related party transaction
- Proceed from public issue, right issue, preferential issues etc.
- Shareholder information.

Meeting of Audit committee

Four audit committee meeting in a year the gap between two board meeting should not exceed 120 days. Quorum for audit committee meeting is 2 or 1/3rd of member of audit committee whichever is greater.

Chapter 9: Audit of Consolidated Financial Statements

1. Definition

The financial statement of a group presented as those of a single entity. Preparation and presentation of consolidated financial statement (CFS) is the responsibilities of Parent's management. Parent is an entity that has one or more subsidiaries, associate or joint venture. As per section 129 of Companies Act, 2013 Subsidiaries includes joint venture associates. Consolidated financial statement consist of Consolidated balance sheet, consolidated statement of profit and loss, Consolidated cash flow statement , notes to accounts and annexure forming part of financial statement.

No consolidation when investment is temporary because it is held for disposal in near future.

2. Auditor's responsibilities while auditing: ***PARENTS***

- Planning the audit of consolidated financial statement.
- Analyse the accounting policy of parent company, subsidiary, associates and joint venture.
- Review the investment in other entities and procedure followed by parent company to identify the subsidiary company, associate and joint ventures.
- Examine the statutory report of parent companies.
- Nature, extent and timing of audit procedures.
- To review the working papers of prior period related to subsidiary associates and joint venture.
- Study and rely on work of other auditors and ensure co-ordination.

3. Auditor's responsibilities while reporting

When Parent auditor has audited component	When parent auditor has not audited all components	When component Auditor Reports on different Accounting framework	When component Auditor Reports on different Auditing framework	Components are not audited
Separate reports on Standalone and Conso FS	Separate reports on Standalone and Conso FS	Separate reports on Standalone and Conso FS	Separate reports on Standalone and Conso FS	Separate reports on Standalone and Conso FS
	disclose the extent of info audited by another auditor	Check whether conversion in INDIAN GAAP is proper or not	Component FS should be audited separately under Indian Auditing Framework	Consider modification in opinion in the report on Conso FS

4. Permanent consolidated adjustments.

There is some adjustment which is required to be made on first occasion of preparation of consolidated financial statement:-

- Preparation of cost of control to determine goodwill and capital reserve. It is the difference between cost of investment and true value of investment.
- Determination of minority interest at the date on which investment is made on subsidiary.

5. Current period consolidated adjustment.

There are some adjustments that are made in every accounting period for consolidated financial statement is prepared:-

- Determining the minority share in post acquisition profit.
- Cancellation of contra item.
- Elimination of unrealised profit on intercompany transaction.
- Harmonisation of accounting policies.

Chapter 10: Audit of Banks

1. ***Principle governing bank audit:-*****CCC** of **IB$_3$P$_2$S$_3$**at **RBI**.
    - ***Companies' act 1956, companies act 2013.***
    - ***Cooperative society act, 1912***
    - ***Credit information companies regulation act (CICRA), 2005***
    - ***Information technology act.2000***
    - ***Banking regulation act, 1949***
    - ***Banking companies (acquisition and transfer of undertaking) Act,1970***
    - ***Banking companies (acquisition and transfer of undertaking) Act,1980***
    - ***Prevention of money laundering Act,2002***
    - ***Payment and settlement System act, 2007***
    - ***State bank of India act, 1955***
    - ***State bank of India (Subsidiaries banks) Act,1959***
    - ***Securitisation and reconstruction of financial assets & enforcement of security interest Act,2002 (SARFAESI)***
    - ***RBI Act,1934.***
2. ***Non-performing assets***

   Assets become NPA when it cease to generate income for bank.
    - **Term loan**- interest & instalment remain overdue for a period of more than 90 day.
    - **Agriculture**- A loan granted for short duration crop will be treated as NPA if the instalment of principle or interest remain overdue for 2 crop season & in respect of loan grantedforlong duration crop if instalment of principle or interest overdue for 1 crop season. Short duration crop means crop season less than one year and long duration crop means crop season one year or more.
    - **Working capital / Cash credit –**
        - If out of order for 90 days or more.
        - when debit exceed credit balance, no any credit takes place for 90 days & credit balance not enough to cover even interest.

3. ***Classification of advance***
    - Standard (.4%, real estate 1%, Agricultural advance- .25%, real estate housing- .75%)
    - Sub standard – (NPA for 1 year)(secure 15%, unsecure 25%)
    - Doubtful – (Sub standard for 1 year) (unsecure 100%, secure for 1year 25%, 1-3 year 40%, >3year 100%)
    - Loss(100%)
4. **Income recognition**

   Generally accrual basis, NPA cash basis, income from MF cash basis.
5. **Reversal of income**

   Advance becomes NPA at close of the year. Income recognised during the year should be reversed.

6. ***Verification of advance/loan*** : **FINALIST**
    - Follow up
    - Insurance
    - NPA
    - Authority of bank to sanction
    - Loan document
    - Interest calculation
    - Security hypothecation/ stock statement
    - Turnover in account

7. **SCOPE OF CONCURRENT AUDIT**: verification of activity or transaction concurrently as its takes place. It is mandatory to cover at least 50% of total advance & 50% of total deposit. While selecting consider large branches, special branch, large problem branch, other branches at his discretion. Following area to be covered in concurrent audit:-
   - KYC
   - Advance
   - Housing loan
   - Vehicle loan
   - TDS
   - Locker
   - Cash
   - Interest
   - Forex
   - Information system
   - Cash credit
   - NPA
   - Housekeeping
   - Customer dealing
   - Privacy
   - Security
   - Segregation of duties
   - Charges

8. **Classification of investment- HTM (Held to maturity)/ HFT (Held for trading)/AFS (Available for sale)**

   HTM: Maximum investment in this category is 25% of total investment however excluding **RBI**
   - **R**ecapitalisation bond
   - **B**ond, debenture & long term loan.
   - **I**nvestment in subsidiary and joint venture.

   Profit from sale of HTM investment transferred to capital reserve whereas loss to statement of profit and loss.

   HFT: This investment is kept for trading purpose and held for not more than 90 days. Value it at lower of **cost** or **realisable value.** Generally this investment valued at once in a month. Gain is recognised in investment fluctuation reserve.

   AFS: Those investments which do not fall under HTM and HFT are classified as AFS. Value it at lower of **cost** or **realisable value.** Generally this investment valued at once in a 3 month. Gain is recognised in investment fluctuation reserve.

9. **Tool for controlling inflation.**

- **Cash reserve ratio**-it refers to that portion of investment which is require to keep with RBI. Currently it is 4% of demand and time liabilities (DTL).
- **Statutory liquidity ratio** (SLR)- bank will maintain reserve 20%-40% of DTL with itself in the form of cash, gold and unencumbered securities. Currently it is 20%. Compliance of SLR should be checked on 12 odd dates in different month of a financial year not being Friday. These dates are prescribed by RBI. This report sent to top management of bank and RBI. This report cover two aspect:
  - ✓ **Correctness of DTL-** it is a sum of deposit in saving bank a/c, CC and FD.
  - ✓ **Maintenance of liquid assets**

  Audit procedure for SLR audit:
  - Understand RBI circular regarding composition of DTL.

- Consolidation of weekly trial balance as on Friday and theses are consolidated to determine DTL.
- Verify above DTL determined by bank and also examine valuation of securities as per RBI guideline.
- Examine consolidation prepared include information in respect of all branches.
- Report number of unaudited branch in his report.

Chapter 11: Audit of Insurance Companies

1. ***INSURANCE:*** It is contract of indemnity where by insurer cover the risk against adverse circumstances in consideration of premium received. There should be no risk assumption without receipt of premium. Minimum capital requirement for re-insurance business is 200 core and for other insurance business is 100 crore.
2. ***REINSURANCE***: Agreement between the ceding companies and reinsurance companies where in ceding company agree to cede and reinsurance companies agree to accept certain specified share of risk or liabilities upon term set out in the agreement.
3. ***FACULTIVE REINSURANCE***: separate contract entered for each particular risk. Negotiations at each stage of acceptance.
4. ***TREATY REINSURANCE:*** one contract is entered for all the risk within the scope of treaty. Following two types of treaty reinsurance:-
   - Proportional treaties- all the risk is shared in proportion to premium. Four types of PT- Quota share treaties, surplus treaty, auto-fac treaty, pools
   - Non-proportional treaties- here loss amount is predetermined and liability is distributed in between the ceding company and Reinsurance Company on the basis of losses. Four types of NPT- Excess of loss treaty, excess of loss cover on prevent basis, excess of loss cover on non-proportionate basis and stop loss treaties.
5. ***CHECK LIST FOR REINSURANCE INWARD AND REINSURACNE OUTWARD;*** **AICP LC BAA**
   - **Agreement –** Cession and acceptance should be in accordance with agreement.
   - **Internal control-**
   - **Commission-** commission has been calculated as per the term of agreement.
   - **premium**
   - **Lose intimation-** on regular basis loss is accounted and claimed.
   - **Claim share** – verify outstanding claim by list of outstanding claim.
   - **Balance confirmation** – confirm the balance of individual account to ensure whether any provision require.
   - **As -11**
   - **Arrangement**
6. **CO- INSURANCE**; one business risk shared by more than one insurance company among them one is designated as leader who is responsible for issue of certificate and receive premium and for other administrative conveyance. Here agreement between insurance companies to share loss is also known to insured, whereas in reinsurance it was known to only insurance company.

   Incoming coinsurance: other insurance company receive their share of premium from leader and credit in their account. Auditor should see that the premium account is credited on the basis of statement received from leading insurer.

   Outgoing coinsurance: leader insurer distribute premium to other co-insurer. Auditor should scrutinise the transaction relating to outgoing business.
7. **Commission:** commission to authorised agent at appropriate rate, Standard rate of commission is 10%. Verify TDS, INTERNAL CONTROL, account treatment of O/S Commission and confirmation.
8. ***Claim***: auditor verify
   a. Provision for the unsettled claim not exceeding the ensured amount
   b. Sanction
   c. Reason for delay

   d. Coinsurance for fair proportion
   e. Intimation of loss within the reasonable time.

9. ***premium***
   a. Internal control
   b. Due date of collection
   c. Credited to separate account.
   d. Service check
   e. No risk assumption without receipt of premium
10. **Unexpired risk Reserve** on premium for marine hull **100%** other (fire, marine cargo, marine freight and miscellaneous) **50%.**
11. **Solvency margin:** it means excess of assets over liabilities at all time. Solvency margin to be maintained is **50% of minimum capital (for reinsurance-100 & for other 50).**
12. **Investment policy for insurance company as per IRDA guideline.**

Rule – 3	1. 20% in govt. Securities. 2. 30% in govt. Securities including other approved. 3. 5% in housing 4. 10% in infrastructure and social structure. 5. 55% in other unapproved
Rule-2	Higher of following: 1. 10% of total assets OR 2. 2% of share capital & debenture of concerned company.
Rule-3	Investment in other than approved investment can be up to 25%.

Chapter 12: Audit of Non Banking Financial Companies (NBFC)

1. **Definition:** Financial institution whose principle business is to accepting deposit and granting loan that is of financial institution but other than bank, It deals in investment in share, hire purchase agreement, and equipment leasing and also deals in residual activity such as Chit fund, Mutual Fund & Nidhi company, but doesn't includes any institution whose principle business is that of agricultural and Construction Company. NBFC do not issue cheque and demand draft, NBFC can't accept demand deposit and retail deposit. Minimum required capital for NBFC is Rs. 2 crore.
   NBFC have to obtain registration from RBI, it must transfer 20% profit before tax to Reserve fund.
2. There are seven **categories of NBFC** companies:-
   NBFC Micro *provides* LOAN *for* INVESTMENT *in* INFRASTRUCTURE & DEBT FUND.
   - **Assets finance company-** Whose principle business is to finance purchase of assets to be used for economic activity. It should finance at least 60% of total assets for purchase of such assets & at least 60% of income should come from financing of such assets.
   - loan company,
   - investment companies,
   - **Infrastructural finance company** – 75% of total investment should be in infrastructure.
   - **Core Investment Company** – 90% of total investment in equity share, debenture, and preference share of group companies, out of which 60% in equity share.
   - investment debt fund and
   - NBFC- Micro.
3. **NBFC** governed by RBI, and require prior registration; however following companies have been exempted from obtaining registration. **HIV SaNaM** Chited me.
   - ✓ Housing finance company.
   - ✓ Insurance company.
   - ✓ Venture capital Company.
   - ✓ Stock Broking Company.
   - ✓ Nidhi Company.
   - ✓ Merchant banking company.
   - ✓ Chit Fund Company.

1. ***Check list for equipment leasing company, hire purchase company, loan company :*** **CITI V DWANA**
   - ➢ Credit appraisal
   - ➢ Internal control

- Term and condition
- Instalment
- Verify share and Security held by NBFC.
- Direct payment to vendor has been made or not.
- Written representation
- Analytical review procedure
- Non- performing assets
- Accounting.

2. *Audit of investment companies.* ***ICAI*** *audit investment of* ***INDIA***

- Investment certificate physically verified
- Capital gain on sale of securities has been recognised or not?
- Authorisation for sale purchase of investment has been obtained or not?
- Income recognition
- Interest
- No loan grant on security of its own share
- Dividend on investment has been received or not?
- Inspect list of subsidiary group companies
- Accounting standards 13 compliance

Chapter 13: Audit under Fiscal Laws

Tax audit is compulsory for following assessee under section 44AB of income tax act 1961.

1. If gross turnover* of business exceed 100 lakh
2. If gross receipt of profession exceed 50 lakh.
3. Assessee falling under presumptive taxation but declaring profit at lower than the presumptive prescribed income rate. U/s 44AD-8%, 44ADA– 50%, 44AE- Rs. 7500 pm, 44BB-10%, 44BBB-10%.

   For assesse receiving payment through banking channel/digital means rate u/s 44AD is 6%.*excluding (Deducted while determining turnover if it is all ready included in T/O)

   The provisions of section 44AD are applicable to such resident assessee who is an Individual, Hindu Undivided Family and Partnership Firm but not Limited Liability Partnership Firm.

- Sales return in the current of any year.
- Trade discount,
- Discount allowed on sales invoice.
- Special rebate in the nature of trade discount
- Sales proceeds fixed assets & non trade investment.
- Sales proceeds of investment unless investment company.
- Reimbursement of expenses should not form part of turnover.

Including

- Any tax collected on sales of goods. However,
- Cash discount otherwise allowed in cash invoice/ memo is in the nature of financing charges and is not related to turnover, therefore should not be deducted from turnover.

Who can conduct tax audit

A chartered accountant in practice can do tax audit up to 60 assessee, excluding assessee falling under persumptive taxation. **(Audit conducted under section 44AD, 44ADA and 44AE shall not be considered in above limit)**

As per section 44AB of the income tax Act 1961, the tax auditor should report whether in his opinion the particular in respect of form 3CD are true or correct. It is the primary responsibilities of assessee to prepare the information in form 3CD.

Circumstances under which chartered accountant in practice can not to do tax audit of an entity if he related to such entity in following manner:

1. Doing Accounting / book keeping.
2. Relative is having substantial interest.
3. Indebted for an amount exceeding 10000.

Section 278 of income tax act- 7 year of rigorous imprisonment for CHARTERED ACCOUNTANT on submission of false information.

Form for tax audit

Form 3CA	For the assessee whose account is require to be audited under any law. For example – company Statutory audit applicable for- company No applicable for- partnership firm, individual,
Form 3CB	For the 1. assessee who is not required to get his account audited under any law. 2. For the assessee whose accounting year is different from financial year.
Form 3CD	Annexure to above audit report, it is containing 41 clause.

Form 3CD.

1	Name of the assessee. As per PAN,
2	Address of the assessee. As communicated by assessee to ITD.
3	Permanent Account Number Mandatory field without it e-filing cannot be completed
4	Liable to pay **indirect tax** like excise duty, sales tax, Service tax, sales tax, custom duty etc, if yes then furnish **registration number.**
5	Status of the assessee. (individual, huf, company, etc.)
6	Previous year
7	Assessment year
8	**Relevant clause of 44AB under which audit has been conducted. (a- for business, b- for profession, c- for 44AE, 44BB&44BBB, AND clause d- for 44AD)**
9	Partnership firm/AOP- 1. Name and PSR. 2. Any changes in PSR.
10	Nature of business and any changes there to.
11	**Books of accounts. Prescribed, maintained and examined.**
12	**Business falling under presumptive taxation, if yes then indicate the amount and relevant section. (44AD, 44AE, 44B, 44BB, 44BBA, etc.)**
13	**Method of accounting, any changes in such and detail thereof.** Serial number | Particulars | Increase in profit | Decrease in profit

		(Rs.)	(Rs.)

13 (d)- Any adjustment is required to be made complying with ICDS.

13 (e) – If yes then, Detail of such adjustment in respective ICDS.

ICDS	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)	Net effect (Rs.)

13 (f) – Disclosure of following as ICDS.

14 Method of valuation of closing stock. & if deviate from 145A then affect thereof.

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

15 Capital assets converted in to stock in trade.

16 Amount not credited to profit and loss account. (Sec 28, refund of tax, escalation claim, capital receipt, any other exempted income.)

(*a*) the items falling within the scope of section 28;
(*b*) the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax where such credits, drawbacks or refunds **are admitted as due by the authorities concerned;**
(*c*) escalation claims accepted during the previous year;
(*d*) any other item of income;
(*e*) Capital receipt, if any.

17 Land or building or both transferred at less than SDV. Taxable U/s 50C or 43CA.

Details of property	Consideration received or accrued	Value adopted or assessed or assessable

18 **Particulars of depreciation** allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form :—

(*a*) Description of asset/block of assets.
(*b*) Rate of depreciation.
(*c*) Actual cost of written down value, as the case may be.
(*d*) **Additions/deductions** during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –
(*i*) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
(*ii*) change in rate of exchange of currency, and
(*iii*) Subsidy or grant or reimbursement, by whatever name called.
(*e*) Depreciation allowable.
(*f*) Written down value at the end of the year

19 Amount admissible under specific section of income tax act and debited, short debited or not debited to profit and loss.

Section	Amount debited to profit and loss account	Amounts **admissible** as per the provisions of the Income-tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income-tax Act, 1961 or Income-tax Rules,1962 or any other guidelines, circular, etc., issued in this behalf.
32AC		
33AB		
33ABA		

35(1)(*i*)		
35(1) (*ii*)		
35(1)(iia)		
35(1)(*iii*)		
35(1)(*iv*)		
35(2AA)		
35(2AB)		
35ABB		
35AC		
35AD		
35CCA		
35CCB		
35CCC		
35CCD		
35D		
35DD		
35DDA		
35E		

20

1. Bonus, commission paid to an employee as profit or dividend.
2. Contribution received from an employee under various fund.

Serial number	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities

21

(a) Amount debited to profit and loss in the nature capital, personnel, advertisement expenditure etc,(Inadmissible under Income tax Act) following item:

Nature	Serial number	Particulars	Amount in Rs.
1. Advertisement, capital or personnel expenditure. **2. Contribution to political party.** **3. Club expenses.** **4. Fines and penalty** **5. Other fines and penalty.** **6. Expenses prohibited by law.** **7. TDS.** **8. Interest on capital** **9. Partnership firm** **10. Payment of expenditure in cash exceeding 20000/35000.** **11. Payment to opening creditor.** **12. Provision for gratuity.** **13. Contribution to unrecognised employee and provident fund.** **14. Contingent liability.**			

	<table><tr><td>15.Expenses on exempt income. 16.Interest on capital borrowed</td><td></td><td></td><td></td></tr></table> **(b)** Amounts inadmissible under section 40(a) **(c)** Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof; **(d)** Disallowance/deemed income under section 40A(3)
22	Amount inadmissible under section 23 of the Micro Small and Medium Enterprises Development Act,2006
23	Payment to specified person U/s 40A(2)(b)
24	**Deemed profit/ gain U/s 32AC, or 33AB or 33ABA or 33AC.**
25	Any amount of profit chargeable to tax under section 41 and computation thereof. Remission / cessation of trading liabilities, recovery of already allowed deduction.
26	In respect of any sum referred to in clauses (a),(b), (c), (d), (e) or (f) of section 43B**(Section 43B deduction allowed only on payment basis for bonus, interest, tax, employer contribution, leave encashment.)**, the liability for which:
	(A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was (*a*) paid during the previous year; (*b*) not paid during the previous year; (B) was incurred in the previous year and was (*a*) paid on or before the due date for furnishing the return of income of the previous year under section 139(1); (*b*) Not paid on or before the aforesaid date. (State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)
27	CENVAT credit, prior period item debited to profit and loss.
28	Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia) **(Share without inadequate consideration covered u/s 56(2)(viia) taxable as IFOS.)**, if yes, please furnish the details of the same
29	Whether during the previous year the assessee received any **consideration for issue of shares which exceeds the fair market value** of the shares as referred to in section 56(2)(viib)*, if yes, please furnish the details of the same. ***(Consideration for share issued exceed FMV in case of share issued at premium covered u/s 56(2)(viib) taxable as IFOS.)**
30	Amount borrowed / repaid otherwise account payee cheque (on hundi, bill of exchange . u/s 69D
31	**1. Loan deposit taken/ accepted in cash exceeding 20000 other wise than by account payee cheque u/s 269SS.** **2. Repayment of loan/ deposit in cash exceeding 20000 other wise than by account payee cheque u/s 269 T.** **Particulars of each specified sum in an amount exceeding the limit specified in section 269SS / 269T taken or accepted during the previous year:-** (i) name, address and Permanent Account Number (if available with the assessee) of the person from whom specified sum is received; **(ii)** amount of specified sum taken or accepted; **(iii)** whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;

	(iv) in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.
32	**Detail of brought forward loss, depreciation, speculation loss.**

Serial Number	Assessment Year	Nature of loss/ allowance (in rupees)	Amount as returned (in rupees)	Amounts as assessed (give reference to relevant order)	Remarks

33	Section wise deduction claimed under chapter VIA or Chapter III(Sec 10A,10AA)
34	**TDS**
35	In case of trading concern mention QUANTITY detail of GOODS and RAW MATERIAL.
36	In case of domestic companies Detail of dividend distribution tax U/s 115O.
	(*a*) total amount of distributed profits; (*b*) amount of reduction as referred to in section 115-O (1A)(i); (*c*) amount of reduction as referred to in section 115-O (1A)(ii); (*d*) total tax paid thereon; (*e*) dates of payment with amounts.
37	If Cost audit then mention of qualification and disqualification and detail thereof.
38	If audit conducted under central excise act then mention of qualification and disqualification and detail thereof.
39	If service tax audit then mention of qualification and disqualification and detail thereof.
40	Detail of accounting ratio. (total turnover, gross profit/turnover, net profit/ turnover, stock in trade/ turnover, material consumed/ finished goods produced)

Serial number	Particulars	Previous year	Preceding previous year
1. Total turnover of the assessee			
2. Gross profit/turnover			
3. Net profit/turnover			
4. Stock-in-trade/turnover			
5. Material consumed/finished goods produced			

41	**Detail of demand, refund under any tax law other than income tax and wealth tax.**

…………………………………………………

*(Signature and stamp/seal of the signatory)

Place : _____________ Name of the signatory

Date : _____________ Full address ……………………………………

Notes :

1. *This Form has to be signed by the person competent to sign Form No. 3CA or Form No. 3CB, as the case may be.

Accounting standards under income tax act, 1961

Sec 145 – Method of accounting and accounting standards

ICDS(Income computation disclosure standards) for assessee chargeable under head of PGBP or IFOS & follow MERCANTILE BASIS OF ACCOUNTING.

Accounting standards	**ICDS(Income computation disclosure standards)**
1,2	**I,II**
7	**III**
9,10,11,12,13	**IV,V,VI,VII,VIII**
16	**IX**
29	**X**
Difference between AS and ICDS	
ACCOUNTING STANDARDS – 1 DISCLOSURE OF ACCOUNTING POLICIES	
SELECTION OF ACCOUNTING POLICIES Selection of accounting policies should be made in following order: 1. Select such accounting policies, so as to give true and fair view. 2. Consider prudence, substance over form and materiality.	The concept of materiality and prudence omitted from here.
Conservatism concept is followed. Expected loss should be recognised	Expected loss shall not be recognised unless permitted by ICDS.
All **accounting policies** followed in preparation and presentation of financial statement should be separately disclosed at one place separately. Accounting policies means accounting principle and method of applying those principles adopted in the preparation and presentation of financial statement.	It is not mentioned where the accounting policies would be disclosed.
ACCOUNTING STANDARDS -2 VALUATION OF INVENTORIES	
Determination of cost Following method is used in determining of cost 1. Actual cost Cost of purchase including cost of conversion and other cost to bring the inventories in current location and position. 2. Standards cost	ICDS doesn't permit Standard cost.

3. Retail selling price – Profit %	
Valuation: Finished goods and WIP should be valued at lower of cost or Net realisable value. Raw material should be valued at cost, however if finished goods in which such raw material is to be used , is expected to sold at lower of cost, then Raw material should valued at lower of replacement cost or Actual Cost.	In case of dissolution of partnership inventory should be valued at net realisable value.
ACCOUNTING STANDARDS- 7 CONSTRUCTION CONTRACT	
Para 35: Recognise expected loss on contract entered irrespective of degree of completion, when contract cost expected to exceed contract revenue. Actual cost ###### Less: Revenue recognised ###### Actual loss up to current year ###### **Provision for expected loss** Total expected loss $\frac{Current\ year\ loss}{Degree\ of\ copletion}$ ###### Less: loss recognised ###### Provision to be made ######	Anticipated losses are not allowed to be recognised. Actual loss allowed only on the basis of stage of completion. Once a contract crosses 25% revenue should be recognised.
ACCOUNTING STANDARDS -9 REVENUE RECOGNITION	
Rendering of Services: There are two method to recognise revenue from rendering of serves- Proportionate completion method and Completed Services method. *Proportionate Completion Method:* It is used when services provided in more than one act. *Completed Services Method:* It is used when services provided in single act.	Only *Proportionate Completion Method allowed.*
ACCOUNTING STANDARDS – 10 ACCOUNTING FOR FIXED ASSETS	
Cost of fixed assets in case of exchange: Fair value of assets given or obtained whichever is more clearly evident.	Value of tangible fixed assets would be recorded at actual cost

Revaluation: It is optional. It should be on class of assets uniformly. Revaluation should be adjusted in cost or carrying amount, there should be no any adjustment in accumulated depreciation on account of depreciation. Revaluation profit should be credited to Revaluation reserve. Revaluation loss to be adjusted with revaluation reserve to the extent of revaluation reserve beyond that should be debited to Statement of Profit and loss accounts.	Revaluation concept is not there.
ACCOUNTING STANDARDS-11 THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE	
PARA 38 & 39 of AS 11: When Forward contract entered for speculation purpose then Premium (difference between exchange rate and forward) should not be considered. Only on sale the difference between contract rate and sale rate will be recognised in the profit and loss account.	All gain or losses shall be recognised only on settlement.
PARA 13: Foreign currency monetary item should be reported as closing rate on balance sheet date, the difference transfer to exchange difference and such exchange difference to Statement of Profit and Loss accounts.	No mark to market. All gain or losses shall be recognised only on settlement.
ACCOUNTING STANDARDS-12 GOVERNMENT GRANT	
Recognition: Government grant should be recognised when subsidies received from government or certain to receive. Grant may be in many forms their types and recognition is given as follows. **Income grant, Expenses grant or bailout grant:** Credited to statement of profit and loss. **Grant for promoter contribution or for situation in backward area:** Credited to capital reserve. **Grant for non-depreciable assets:** Credited to capital reserve. **Grant for Depreciable assets:** It is having	Government grant should be treated as either revenue receipt or as reduction from cost of fixed assets based on purpose for which grant is given. Recognition of grant shall not be postponed beyond the date of actual receipt.

two optional treatments either net method or gross method. *Net method: initially grant is deducted from assets and assets net of grant is depreciated over life of assets.* *Gross method: Grant is deferred over life of assets in the ratio of depreciation.*	
<u>ACCOUNTING STANDARDS-13 ACCOUNTING FOR INVESTMENT</u>	
INVESTMENT: Investment means assets held for earning income or appreciation.	Include securities held as stock in trade.
<u>ACCOUNTING STANDARDS-16 BORROWING COST</u>	
FOREIGN EXCHANGE LOSS DUE TO BORROWING Recognise exchange loss on foreign borrowing but to the extent of difference between estimated cost of local borrowing and Actual borrowing cost. This exchange loss in addition to borrowing cost.	Borrowing cost will not include exchange difference.
Qualifying assets means, Assets which takes substantial period of time to get ready to use or sale, that is exceeding 12 month.	Qualifying assets means 1. Land, building, machinery, plant or furniture, being tangible assets. 2. Know-how, patent, copyrights, trademarks, licences, franchises or any other business or commercial of similar nature, being intangible assets. 3. Inventory that require a period of exceeding 12 month to a saleable condition.
SUSPENTION OF CAPITALISAITON OF BORRWING COST Capitalisation of borrowing cost is suspended when active development is not taking place in due to abnormal reason in extended period.	It is removed.
<u>ACCOUNTING STANDARDS – 29 PROVISION, CONTINGENT ASSETS AND CONINGENT LIABILITIES</u>	

Provision is present obligation arising during the past event settlement of which result in an outflow of resources embodying economic benefit and which can be measured using substantial degree of estimation. Provision should be made in books of accounts for such.	A provision can be recognised when it is reasonably certain that an outflow of economic resources will be required to settle an obligation.
CONTINGENT ASSETS Neither any disclosure in financial statement nor any provision is required to be made. However, it is usually disclosed in report of approving authority.	Contingent assets can be recognised when there is reasonable certainty of realisation.

Relevant section of direct tax only for knowledge and understanding purpose no need to remember for audit.

50C	**SPECIAL PROVISION FOR FULL VALUE OF CONSIDERATION IN CERTAIN CASES** **For Capital Assets being land, building or both if FVCR is less than the SDV then SDV to be taken as FVCR. If SDV exceed FAIR VALUE then Assessing Officer may refer to Valuation Officer. Where values determined by Valuation officer exceed SDV then SDV should be taken as FVCR.**
43CA	**SPECIAL PROVISION FOR FULL VALUE OF CONSIDERATION IN CERTAIN CASES FOR OTHER THAN CAPITAL ASSETS** For IMMOVABLE PROPERTY BEING land, building or both held as stock in trade if FVCR is less than the SDV then SDV to be taken as FVCR. If SDV exceed FAIR VALUE then Assessing Officer may refer to Valuation Officer. Where values determined by Valuation officer exceed SDV then SDV should be taken as FVCR. PTBR : Where Date of Agreement and Date of Registration is not same then option to take SDV as of Date of agreement, if prior transaction is on Date of Agreement in other than cash. **This option is available to seller who involved in Real estate.**

SECTION	ASSESSEE	ASSETS GIFTED	MODE	TAXABLITY	ASSESSABLE VALUE (IFOS)
56(2)(vii)	Individual and HUF (*Here assessee has option to take SDV of as on date of agreement if initially full or part consideration received in other than cash as on DOA or prior to DOA.	MONEY	Without consideration	If >50000	Whole
		IMMOVABLE PROPERTY	With consideration	If SDV exceeds Purchase price by more than 50000	SDV-Purchase Price
			Without* consideration	If SDV* > 50000	Whole
		MOVABLE PREPERTY (only ISJADPSAB)	With consideration	If Fair value exceeds Purchase price by more than 50000	Fair value-Purchase Price
			Without consideration	If Fair value > 50000	Whole
56(2)(viia)	Closely held company (other than widely held, eg.public)	Share	With consideration	If Fair market value exceeds Purchase price by	Fair market value-Purchase Price

				more than 50000	
			Without consideration	If Fair market value > 50000	Whole
56(2)(viib)	Closely held company (other than widely held, eg.public)	Consideration for issue of share	**NA**	**Applicable when issue price exceed face value**	**Consideration – fair market valu**

SECTION	CONTENT
28	Taxable income under head of PGBP
29	Computation of profit and loss u/h of PGBP considering section 29 to 43B
Admissible Expenditure	
30	Rent, Rates, tax, Repair and insurance of building
31	Repair and insurance of plant and machinery and furniture.
32(1)(ii)	Depreciation
32(1)(iia)	Additional Depreciation
35	Expenditure on Scientific research
35ABB	Amortisation of telecom licence fee
35AC	Expenditure on eligible project Scheme
35AD	Deduction of expenditure on specified business
35CCA	contribution to association or institution for carrying out RDP.
35CCC	Expenditure on Agricultural extension project
35CCD	Expenditure of Skill development project
35DDA	Amortisation of expenditure on VRS.
35D	Preliminary expenses
36	Other deduction as specified
37(1)	deduction of other genuine business expenses
Inadmissible expenditure	
37(2B)	Contribution to political party or amount paid on violation of law
40(a)(i)	Amount paid to Non-resident without deducting tax
40(a)(ia)	Amount paid to resident without deducting tax
40(a)(ii)	Payment of income tax
40(a)(iia)	Payment of wealth tax
40(a)(iii)	Payment made to non-resident as salary without deducing TDS
40(a)(iv)	Payment to provident fund without secure that TDS will be deducted there from.
40(a)(v)	Payment of taxes in respect of non monetary perquisities
40(b)	Deduction in respect of payment to partner
40(ba)	Disallowance applicable to AOP/BOI
40A(3)	Expenses not deductible under certain circumstances
Certain taxable income	
41	Profit chargeable to tax

41(1)	Taxability of Recovery of Expenditure and Remission and cessation of trading liabilities
43A	Foreign exchange fluctuation
43B	Disallowance of unpaid liability
Actual cost of assets acquire and WDV	
43(1)	Actual cost of assets
43(6)	WDV
Audit and accounts	
44AA	Compulsory maintenances of accounts
44AB	compulsory Audit
Presumptive taxation	
44AD	Presumptive income of person engage in business other than transport
44AE	presumptive income of person engage in business of transport
Certain deduction and exemption	
Deduction under section 80	It is deducted from gross total income
Exemption under section 10	It doesn't form part of gross total income

28	**Taxable income under head of PGBP**

Memory technique : BPSC DPS PINK

B- Benefit and perquisites arising from business or profession.

P- Profit and gain of any business or profession.

S- Sale of import entitlement licence.

C- Cash compensatory support.

D- Duty Drawback.

P- Profit on the transfer of duty entitlement passbook.

S- Self contributories and Self Beneficiary (Trade Association,RWA,Club,etc) , income from Specific Services.

P- Profit on duty free replenishment certificate.

I- Interest, Salary, Bonus, Commission or remuneration received by partner to the extent allowed u/s 40(b).

N- Not Carrying out any activity.

K- Key man insurance policy.

35AC	**Expenditure on eligible project Scheme**

35AD	**Deduction of expenditure on specified business**

150% or 100% deduction of capital expenditure on specified business or 100% deduction of revenue expenditure of specified business, incurred before commencement of business.

150% for following:

Memory technique : H2PWC

H- Housing project under affordable housing scheme.

H- Hospital with at least 100 beds facilities.

P- Production of fertilizer.

W- Warehousing facilities.

C- Cold chain facilities for agricultural produce.

Presumptive taxation

44AD	Presumptive income of person engage in business other than transport

Applicable to sole proprietor, individual, HUF and firm carrying any business having a gross turnover not exceeding rupees one crore. No any deduction of expenditure, deduction under section 30 to 38 deemed to have been allowed. However, deduction under section 40(b) would be available to firm.

Presumptive rate of income is **8%** of gross turnover/gross receipt.

44AE	presumptive income of person engage in business of transport

For assessee engage in the business of plying, hiring, leasing goods carriage vehicle not owing exceeding 10 goods carriage vehicle.

Presumptive rate of income is rupees 7500 per month per vehicles.

43B	Disallowance of unpaid liability

Following are certain expenditure in respect of which deduction allowed only on payment basis.

Memory technique: BITEL

B- Bonus or commission payable to employee.

I- Interest payable on any load or borrowing.

T-tax, due or cess.

E- Employer contribution to retirement fund.

L- Leave encashment.

II. Audit provisions under Indirect Tax Laws

"audit" means the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the rules made thereunder."

Types of Audit under GST

GST envisages three types of Audit.
(1) Audit of accounts [Section 35(5) read alongwith section 44(2) and rule 80]
(2) Audit by Tax Authorities wherein the Commissioner or any officer authorised by him, can undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. [Section 65 and rule 101]
(3) Special Audit wherein the registered person can be directed to get his records including books of account examined and audited by a chartered accountant or a cost accountant during any stage of scrutiny, inquiry, investigation or any other proceedings; depending upon the complexity of the case. [Section 66 and rule 102]

Audit of Accounts [Section 35(5) read along with section 44(2) and rule 80] As per sub-section 5 of section 35 read along with section 44(2) and rule 80 of the CGST Rules, 2017 stipulates as follows:

(i) Every registered person must get his accounts audited by a Chartered Accountant or a Cost Accountant if his aggregate turnover during a FY exceeds Rs. 2 crores.	Such registered person is required to furnish electronically through the common portal along with Annual Return a copy of: Audited annual accounts A Reconciliation Statement, duly certified, in prescribed FORM **GSTR9C.**

Reconciliation Statement will reconcile the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars, as may be prescribed.

Audit under section 65: Section	Description	Remarks
Section 65	Audit by tax authorities	The audit under Section 66 is a special audit to be conducted by a Chartered Accountant or Cost Accountant nominated by the Commissioner whereas the audit under Section 65 is a routine audit by the tax office.

Special Audit under section 66:

Availing the services of experts is an age old practice of due process of law. These experts have done yeoman service to the process of delivering justice. One such facility extended by the Act is in Section 66 where an officer not below the rank of Assistant Commissioner, duly approved, may avail the services of a Chartered Accountant or Cost Accountant to conduct a detailed examination of specific areas of operations of a registered person. Availing the services of the expert be it a Chartered Accountant or Cost Accountant is permitted by this section only when the officer considering the nature & complexity of the business and in the interest of revenue is of the opinion that:

- Value has not been correctly declared; or
- Credit availed is not within the normal limits.

It would be interesting to know how these 'subjective' conclusions will be drawn and how the proper officers determines what is the normal limit of input credit availed.

Circumstances for Notice for Special Audit: An Assistant Commissioner who nurses an opinion on the above two aspects, after commencement and before completion of any scrutiny, enquiry, investigation or any other proceedings under the Act, may direct a registered person to get his books of accounts audited by an expert. Such direction is to be issued in accordance with the provision of Rule 102 (1) FORM GST ADT-03

The Assistant Commissioner needs to obtain prior permission of the Commissioner to issue such direction to the taxable person.

Identifying the expert is not left to the registered person whose audit is to be conducted but the expert is to be nominated by the Commissioner.

Time Limit to Submit the Audit Report: The Chartered Accountant or the Cost Accountant so appointed shall submit the audit report, mentioning the specified particulars therein, within a period of 90 days, to the Assistant Commissioner in accordance with provision of Rule 102(2) FORM GST ADT-04.

Extension in Submission of Audit Report: In the event of an application to the Assistant Commissioner by Chartered Accountant or the Cost Accountant or the registered person seeking an extension, or for any material or sufficient reason, the due date of submission of audit report may be extended by another 90 days.

Considering the special nature of this audit, i.e. audit having been conducted under other proceedings or under other laws; this does not preclude the proper officer from exercising this option.

While the report in respect of the special audit under this section is to be submitted directly to the Assistant Commissioner, the registered person is to be provided an opportunity of being heard in respect of any material gathered in the special audit which is proposed to be used in any proceedings under this Act. This provision does not appear to clearly state whether the registered person is entitled to receive a copy of the entire audit report or only extracts or merely inferences from the audit. However, the observance of the principles of natural justice in the proceedings arising from this audit would not fail the taxable person on this aspect.

Expenses for Examination and Remuneration for Audit: The expenses for examination and audit including the remuneration payable to the auditor will be determined and borne by the Commissioner.

As in the case of audit under section 65, no demand of tax, even *ad interim*, is permitted on completion of the special audit under this section. In case any possible tax liability is identified during the audit, procedure under section 73 or 74 as the case may be is to be followed

During the course of audit, the registered person to afford the auditor with the necessary facility to verify the books of account and also to furnish the required information and render assistance for timely completion of the audit. As per the CGST Rules on Assessment and Audit Rules, the auditor shall verify the documents on the basis of which the accounts are maintained and the periodical returns/statements are furnished. While conducting the audit, the auditor is authorized to:

- Verify books & records
- Returns & statements
- Correctness of turnover, exemptions & deductions
- Rate of tax applicable in respect of supply of goods and/or services
- The input tax credit claimed/availed/unutilized and refund claimed.

Some of the best practices to be adopted for GST audit among others could be:

The evaluation of the internal control *viz-a-viz* GST would indicate the area to be focused. This could be done by verifying:

(a) The Statutory Audit report which has specific disclosure needs in regard to maintenance of record, stock and fixed assets.

(b) The Information System Audit report and the internal audit report.

(c) Internal Control questionnaire designed for GST compliance

i (i) The use of generalised audit software to aid the GST audit would ensure modern practice of risk based audit is adopted.

ii (ii) The reconciliation of the books of account or reports from the ERP's to the return is imperative.

iii (iii) The review of the gross trial balance for detecting any incomes being set off with expenses.

iv (iv) Review of purchases/expenses to examine applicability of reverse charge applicable to

goods/services. The foreign exchange outgo reconciliation would also be necessary for identifying the liability of import of services.
v (v) Quantitative reconciliation of stock transfer within the State or for supplies to job workers under exemption.
vi (vi) Ratio analysis could provide vital clues on areas of non-compliance.

Form GST ADT-04
[See Rule 102(2)]
Reference No. :
Date :
To,

GSTIN ....
Name ....
Address ....
Information of Findings upon Special Audit
Your books of account and records for the F.Y...................... has been examined by .... (chartered accountant/cost accountant) and this Audit Report is prepared on the basis of information available/documents furnished by you and the findings/discrepancies are as under :

Short payment of	Integrated tax	Central tax	State/UT tax	Cess
Tax				
Interest				
Any other amount				

You are directed to discharge your statutory liabilities in this regard as per the provisions of the Act and the rules made there under; failing which proceedings as deemed fit may be initiated against you under the provisions of the Act.

Signature ....
Name ....
Designation ....

Chapter 14: Special Audit Assignments

A.ENVIRONMENT AUDIT

3. Introduction

It is verification of information contained in environmental report to examine environmentally related data regarding environment Risk, policies, strategies, cost, liabilities, environmental performance, etc. To express an opinion and issue compliance based report or impact based performance report. It can be performed by external agency or internal expert. Chartered Accountant can also perform environmental audit but with help of expert.

4. *Factor to be considered while environment audit* ENVIRONMENT

- Environment safety
- **No wastage** of natural resources such as water, raw material, energy, etc.
- Very hygienic- availability of proper system to eliminate industrial unhygienic state.
- Information and reporting
- Regulation
- Occupational health- Adequate safeguard should be available against hazardous.
- No damage to society
- Medical facilities for worker.
- EIA Suggestion: environmental impact assessment are prerequisites to start an industry
- No pollution
- Total layout and design of pollution control equipment to meet regulatory authorities' requirement.

5. Environmental statement :- N DCP G Q DPA

- Name and address
- Date of last environment audit
- Consumption of water and other raw material in CY & PY.
- Pollution generated in air and water along with output, type of pollution and the deviation from standards.
- Generation of hazardous waste in CY & PY.
- Quantity of solid waste generated in CY & PY.
- Disposal practice to dispose different type of waste.
- Practice in operation for conversion of natural resources.
- Additional investment proposal for environment protection including abatement of pollution.

B. ENERGY AUDIT

a. **Definition:** an activity to assess pattern of using energy by an equipment or factory, compare it with the standards & identify energy saving opportunity.

b. **Method of energy audit**

- Preliminary energy audit : **PAPA Validate installed equipment** *for energy audit*

- ✓ Plant visit- Initially Visit plant and Walk through audit of 2-3 days.
- ✓ Audit plan
- ✓ Portable equipment- Carry Portable equipment to check energy consumption.
- ✓ Analysis of data obtained personally or supplied by the unit.
- ✓ Validation of installed equipment to check whether showing proper reading.

❖ Detailed energy audit: **Studies ROAD & F**ocus on cost reduction

- ✓ Studies the major energies consuming equipment.
- ✓ Recommending improvement.
- ✓ Optimize the usage of energy.
- ✓ Advise to replace the high energy consuming machine with more efficient and effective equipment.
- ✓ Detailed analysis.
- ✓ Focus on cost reduction.

C. Audit of Mutual fund

The audit report should contain.

Information and explanation- whether he has sought and obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of audit and if not, the detail there of and affect of such information on the financial statement.

Balance sheet and Revenue Account-Whether the balance sheet and Revenue Account give a true and fair view of the scheme, statement of affairs and surplus or deficit in the fund for the accounting period to which the balance sheet or as the case may be revenue accounts relates.

Accounting Policies – The statement of accounts has been prepared in accordance with the accounting policies and standards as specified in the ninth schedule.

Agreement- Whether the company's balance sheet and Revenue Account are in agreement with the books of account of the fund.

D. AUDIT OF MEMBER OF STOCK EXCHANGE

1. ***Why margin***
   - ➢ Due to fluctuation
   - ➢ It is deposited by member with clearing house of stock exchange.
   - ➢ To restrict and prevent excessive speculation.
   - ➢ Margin protect member by providing funds to cover anticipated fluctuation.
2. ***Types of margin***
   - ➢ **Volatility margin**- to curb excessive volatility, it prevent building of excessive o/s, it may be on particular security
   - ➢ **Gross exposure margin**–It is calculated on an aggregate of net cumulative o/s position calculated on continuous basis on all security. Exchange will determine its own rate of gross exposure margins and additional volatility margin based on its own risk of perception.

- **MTM margin**- to cover loss of the day, notional loss if the net cumulative outstanding position were closed at different price at which it had been entered.

3. **Dematerialised security**- two demate accounts are opened one for hold and other for trade. Security first transfer to pull then from pull account to client account.
4. **Settlement system**- rolling settlement system-T+2 days , Trades of single days settle with in two business days.
5. **Order matching rule**- order is first numbered then best buy order matched with best sell order, if it is matched then it is called active order and if not then it is passive order.
6. ***Type of market***
   - ***Normal market-*** only regular lot size share or multiple thereof are traded in the normal market. Special attributes for trading can be attached in normal market. The settlement date is T+2 days.
   - ***Odd lot market-*** only odd lot size share (other than regular lot size) traded. Here order size is less than regular lot size. Special attributes for trading cannot be attached in normal market.
   - ***Spot market-***It is similar to normal market except pay in and pay out takes on place on same date
   - ***Auction market-*** it is initiated by stock exchange to meet out shortage and bad delivery.
7. ***Order book SARSO***
   - Stop loss book
   - Auction book
   - Regular lot book
   - Spot book
   - Odd lot book
8. **Contract note**
   It is an agreement between client and member. It is issued within 24 hour from time of transaction from member to client.
9. ***SEBI check list for audit in respect of contract note issued by stock broker***
   - Issue to client within 24 hour
   - Brokerage shown separately
   - Stamp, sign , duplicate
10. **Circuit filter –** it is the price bands set the upper and lower limit within which Price of stock can fluctuate on any particular day, SEBI directed to apply circuit filter if price fluctuate more than 20%.However now it is restricted to 10% rather than 20% by SEBI. If Circuit filter made applicable for whole market known as market wide circuit filter.
11. ***Order type and condition***
    - **Time related condition**- **Day order** valid only for the day if it is not matched then cancelled at the end of day. **Immediate or cancel order**- open for few moment allowed buy sale as order released if not matched then immediately cancelled if partial matched then remaining cancelled.
    - **Price related condition**- **limit price order**- facilitates to specify the price at which agree to buy or sell, **market price order**- demand supply determined the price, **stop loss price order-** facilitates to specify maximum and minimum price at which order should be released.
    - **Quantity related condition**- **disclosed quantity**- allowed to disclose a portion of actual quantity, **short sell**- selling security without having it have to squared off on the same day.

Chapter 15: Audit of Public Sector Undertakings

1. ***Government auditing*** refers to examination of financial, operational, Administrative aspect of government enterprises. Government enterprises consist of Government company, Government Corporation &, Government Department. CAG (Comptroller of Auditor General) is Supreme Authority of Government Enterprises, CAG is appointed by president . Audit of Government Company & Government Corporation is headed by Committee on Public Undertaking (COPU). Audit of Government Department is headed by Public Account Committee (PAC).

2. ***Propriety audit***
    - **Prudence-** The expenditure should not prima facie more than the occasion demand. Same degree of prudence should be exercise as it would exercise in respect his own money.
    - **Proper sanction-** It should proper sanctioned by Sanctioning authority.
    - **General benefit-** That funds are not utilised for the benefit of a particular person or group of person.
    - **No special incentive-** Apart from agreed remuneration and reward no other special incentive should be offered.
    - **Financial morality-** The care which is given to his own money, the same care should be given to the public money and avoid unnecessary expenditure.

3. ***Propriety audit elements in companies act 2013***
    - **Loan and advance** made on the basis of securities properly secured, and term on which they have agreed not prejudicial to interest of company.
    - **Transactions represented merely by book entries are** prejudicial to interest of company.
    - **Personal expenses** have been charged to revenue.
    - **Cash** is received for share allotted for cash, if not then account balance shown is correct and not misleading

4. ***Comprehensive audit:*** **COMPERIR**

    It is for assessing the effectiveness and efficiency of public sector enterprises

    Capacity utilisation
    Operational efficiency
    Measure of cost
    Planning, produce minimum wastage
    Economy and efficiency
    Research and development
    Internal control operating effectively on continuous basis
    Repair and maintenances programme on timely basis

5. **Performance audit:** It is an objective and systematic examination to provide independence assessment of the performance of government department, organisation, programme, activity or function to ensure:-

✓ The provisions of the Central government & state government Act complied, adequate and enforced properly to safeguard the revenue of the State;

- ✓ An internal control mechanism existed in the Government Department and was adequate and effective to prevent leakage of revenue.
- ✓ Efficiency and effectiveness in government department.

It includes economy audit, efficiency audit and effectiveness audit.

Economy audit	**Efficiency audit.**	**Effectiveness audit.**
1.Resources used in an economical manner. 2.Minimising the cost of resources. 3.Unnecessary expenses should be avoided. 4.Proper quotation should be obtained from different Supplier. 5.Reason for the uneconomical practice.	1.Efficient utilisation of resources without any wastage. 2.Duplicate of work should be avoided. 3.Planning should be proper. 4.Sound procurement practice. 5.Reason for inefficient practice.	1.Whether programme achieved their objective. 2.Identify way to make programme better. 3.Assess the compliance of law and regulation. 4.Reason for ineffective practice.

Chapter 16: Liabilities of Auditors

A civil action against the auditor may either take the form of claim for damages on account of negligence or that of misfeasance proceeding for breach of trust or duty:
(I) **Damages for negligence:** Civil liability for mis-statement in prospectus under section 35 of the Companies Act, 2013, are:
(1) Where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who—
(a) is a director of the company at the time of the issue of the prospectus;
(b) has authorized himself to be named and is named in the prospectus as a director of the company or has agreed to become such director either immediately or after an interval of time;
(c) is a promoter of the company;
(d) has authorised the issue of the prospectus; and
(e) is an expert referred to in sub-section (5) of section 26,
shall, without prejudice to any punishment to which any person may be liable under section 36, be liable to pay compensation to every person who has sustained such loss or damage.

(2) No person shall be liable under sub-section (1), if he proves—
(a) that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or
(b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.
(c) ***that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by sub-section (5) of section 26 to the issue of the prospectus and had not withdrawn that consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.***
(3) Notwithstanding anything contained in this section, where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities of a company or any other person or for any fraudulent purpose, every person referred to in subsection (1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.
It may be noted that the term “expert” as defined in Section 2(38) of the Companies Act, 2013 includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force. Also that under Section 26 of the Act a statement may be considered to be untrue, not only becauseit is so but also if it is misleading in the form and context in which it is included.
The liability would arise if the written consent of the auditor to the issue of the prospectus, including the report purporting to have been made by him as an “expert” has been obtained.
2. Punishment for Fraud- As per Section 447 of the Companies Act, 2013, without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud 1[involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower] shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:

It may be noted that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.
It may also be noted that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.]

3. Liabilities under Income Tax Act 1961: In connection with proceedings under the Income Tax Act 1961, a Chartered Accountant often acts as the authorised representative of his clients and attends before an Income Tax Authority or the appellate tribunal. His liabilities under the Income Tax Act of 1961 are as below:

(i) Under Section 288: A person who has been convicted of any offence connected with any Income Tax proceeding or on whom a penalty has been imposed under the said Act (except under clause (ii) of sub section (1) of Section 271) is disqualified from representing an assesses. The Chief Commissioner/Commissioner of Income Tax has been given powers to determine the period of such disqualification of a person.
Section 288 (4) & (5) of the Income Tax Act, 1961
Sub section 4 of Section 288 of the Income Tax Act:

No person-
(a) who has been dismissed or removed from Government service after the 1st day of April, 1938; or
(b) Who has been convicted of an offence connected with any income tax proceeding or on whom a penalty has been imposed under this Act, other than a penalty imposed on him under [clause(ii) of sub section (1) of section 271 [or clause(d) of sub-section (1) of section 272A]; or
(c) who has become an insolvent; or
(d) who has been convicted by a court for an offence involving fraud, shall be qualified to represent an assesse under sub-section (1), for all times in the case of a person referred to in clause(a), for such time as the Principal Chief Commissioner or Chief Commission or Principal Commissioner or Commissioner may, by order determine in the case of a person referred to in clause (b), for the period during which the insolvency continues in the case of a person referred to in clause (c),and for a period of ten years from the date of conviction in the case of a person m referred to in clause (d).

Sub section 5 of Section 288 of the Income Tax Act:
If any person-
(a) who is a legal practitioner or an accountant is found guilty of misconduct in his professional capacity by any authority entitled to institute disciplinary proceedings against him, an order passed by that authority shall have effect in relation to his right to attend before an income-tax authority as it has in relation to his right to practice as a legal practitioner or account, as the case may be;
(b) Who is not a legal practitioner or an accountant, is found guilty of misconduct in connection with any income-tax proceedings by the prescribed authority, the prescribed authority (Chief Commissioner or Commissioner having requisite jurisdiction) may direct that he shall thenceforth be disqualified to represent an assesse under sub section (1).
A Chartered Accountant found guilty of professional misconduct in his professional capacity by the Council of the Institute of Chartered Accountants of India, can't act as an authorised representative (for any matter within the definition of a member in practice)
for such time that the order of the Council disqualifies him from practising.
(ii) **Under Section 278:** "If a person abets or induces in any manner another person to make and deliver an account or a statement or declaration relating to any income [or any fringe benefits] chargeable to tax which is false and which he either knows to be false or does not believe to be true or to commit an offence under sub-section (1) of section 276C, he shall be punishable,-
Section 278 of the Income Tax Act, 1961:
(i) in a case where the amount of tax, penalty or interest which would have been evaded, if the declaration, account or statement had been accepted as true, or which is willfully attempted to be evaded, exceeds [twenty five] hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine;

(ii) in any other case, with rigorous imprisonment for a term which shall not be less than three months but which may extend to [two] yeas and with fine

(iii) Under Rule 12A of the Income Tax Rules: Under this rule a Chartered Accountant who as an authorised representative has prepared the return filed by the assessee, has to furnish to the Assessing Officer, the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return.

Where the Chartered Accountant has conducted an examination of such records, he has also to submit a report on the scope and results of such examination. The report to be submitted will be a statement within the meaning of Section 277 of the Income Tax Act.

Thus, if this report contains any information which is false and which the Chartered

Accountant either knows or believes to be false or untrue, he would be liable to rigorous imprisonment which may extend to seven years and to a fine.

(iv) Under Section 271J of the Income Tax Act: As per new section inserted by the Finance Act, 2017 if an accountant or a merchant banker or a registered valuer, furnishes incorrect information in a report or certificate under any provisions of the Act or the rules made thereunder, the Assessing Officer or the Commissioner (Appeals) may direct him to pay a sum of ten thousand rupees for each such report or certificate by way of penalty. [section 271J]

Chapter 17: Internal Audit, Management and Operational Audit

A. **Internal audit**:

1. **Introduction:** it is an independent management function of examination, evaluating and monitoring the adequacy and effectiveness of internal control. Internal audit is independent management function of examination of financial, operational and administrative aspect of enterprises in order to-

- Suggest improvement
- Add value and strengthen the governance mechanism
- Strategic risk management.
- Improvement in internal control.

2. Applicability:

Section	Particular	**Deposit**	**Paid up share capital**	**Borrowing or loan**	**Turnover**
	Mnemonics	*D*	*Profit*	*Before*	*Tax*
138	**Internal audit**				
	Every Listed comp.				
	Unlisted public co.	≥25	≥50	≥100	≥200
	Private Co.	----	----	≥100	≥200

3. **Scope of internal auditor's work / control objective of auditor :*CEO*** taken internal audit service from ***IS*** officer ***SE***

- Compliance with policies, plan and procedure.
- Evaluation of various operations of entities.
- Organisation structure of the enterprises and its congruence with its objectives.
- Internal control system and procedure
- System regarding custodian and safeguard of assets
- System of collecting data both monetary and non-monetary.
- Efficient and economical use of various resources.

4. Essential future of good internal audit report - SMART & SOCCRU

- Summary
- Mention membership number
- Readable
- Accuracy
- Timeliness
- Specific
- Objectivity
- Clarity
- Conciseness
- Recommendation
- Unbiased

B. Management audit.

1. Introduction

Management audit concern itself with whole field of activities of concern, from top to bottom, primarily concerned with whether the general management is functioning smoothly and satisfactorily. It is an audit of management.

2. **Need for management audit:** it **Assist** and **Helpful** in **Detecting Problem**

- Assist the organisation in accomplishing desired objectives.
- Helpful for sick industries to detect the problem and provide suggestion.
- Detecting and overcoming current problem
- Problem of public sector undertaking due to poor management.

3. **Planning and organising management audit- basic future. D LAST Frequency.**

- ***Devising the statement of policies***- Policies should contain scope of activity to be performed by management auditor. It should be quite specific and clear.
- ***Location of audit function within the organisation-*** There should be separate department for the management auditor and should work independently without undue pressure.
- ***Allocation of personnel***- Management auditor should have knowledge, competencies, skill.
- ***Staff training programme-*** A continuous training programme is necessary for achieving the quality in performing the audit assignment to improve auditing standards.
- ***Time and other aspect.***
- ***Frequency***- Frequency of audit in accordance with the type of industry.

4. **Management audit report . Interim ORS**

- Interim written report.
- Oral report.
- Regular written report.
- Summary written report.

5. **Behavioural aspect encountered in management audit.**

Causes:-

- Staff/ line conflict: Superiority feeling, lack of cooperation.
- Control: report may have adverse affect, fear of criticism, and fear of changes.
- Resistance to change.

Solution:-

- ✓ Create friendly atmosphere.
- ✓ Review finding before final submission.

- ✓ Minimum interface with regular work.
- ✓ Work for constructive benefit.
- ✓ Reporting method should be participative.

C. OPERATIONAL AUDIT.

1. "Operational audit undertaken at the instance of management for providing it with information and appraisal of operational activities." It is extension of internal audit in to operational areas. Main objective of operational auditing is fulfilment of plan, sound business requirement; setting up objective, achievement is compared with performance yardsticks.
2. **Broad objectives of operational audit.**
   - **Appraisal of controls-** Result of operation is largely a matter of control, if control are effective, result can be attained will be subject of other limiting constraints.
   - **Evaluation of performance-** While performance evaluation internal auditor is heavily dependent upon availability of acceptable standards and evaluate control aspects related to performance.
   - **Appraisal of objectives and plans-**Here auditor accumulate information and obtain evidence to measure effectiveness, efficiency and economy.
   - **Appraisal of organisational structure-** organisation structure should be in conformity with the management objective. Delegation and assignment of responsibilities should be fixed, clear and should not overlap.

Chapter 18: Due Diligence, Investigation and Forensic Audit

A. Investigation

1. ***Definition**: Critical and in depth examination to obtain conclusive audit evidence. There may be specific purpose to establish statement of fact. It is analytical in nature and require questioning, alert, very active person and mind being capable of observing, collecting and evaluating fact, that is very curious to go in depth.*
2. ***Types of investigation**: 1. Statutory (inspector, SFIO) 2. Non- statutory*
   Central government may order investigation in to the affair of the companies only after considering: **TRIPS**
   - Tribunal order/ court order
   - Registrar of companies report.
   - Inspector's report
   - Public interest consideration.
   - Special resolution passed by companies for investigation.
3. **Investigation of higher sale but declining net profit**.
   - PVR
   - Variable cost
   - Fixed
   - Selling price
   - High debt equity ratio.
4. ***investigation of abnormal wastage of raw material***
   - short supply
   - labour negligence
   - lack of control
   - new product
   - Frequently shutdown.
5. ***Investigation of hidden liabilities*. CATCH CRAWL**
   - Contingent liabilities not shown in books.
   - Any show cause notice.
   - Tax liabilities under direct tax and indirect tax.
   - Claim against the companies including third parties claims.
   - High future lease liabilities.
   - Claim of labour under negotiation.
   - Retirement benefit of employee which are unfounded.
   - Agreement to buy back share at stated price.
   - Warranty & product liabilities.
   - Long pending sales tax assessment
6. ***Investigation of overvalued assets.* ARABIAN PM**
   - Assets under litigation
   - Risk of obsolete plant and machinery.

- Assets value which have impaired due to sudden fall in market value.
- Baseless and useless project expenditure.
- Investment carrying very low rate of return.
- Assets which are fictitious in nature.
- Non- moving inventories, Unused assets
- Physical verification
- Market value and Fair market value.

7. ***Investigation on behalf of incoming partner.***
    - History of partner
    - CPTFILE
8. ***Investigation on behalf of the bank for proposed advance***
    - The purpose for which loan is required
    - Credit worthiness and reputation of BOD
    - Feasibility of project report, Entity ability to achieve it objective.
    - MOA /AOA
    - Empower to borrow the money
    - Historical background of company director and promoter.
    - For company provision of Section 180(1)(c) has been duly complied.

9. DUE DILIGENCE

10. **Definition:** This term is used in case of corporate restructuring. Due diligence is performed to check whether is it desirable or feasible to acquire or merge in case of corporate restructuring- amalgamation, internal construction, merger. Whether any synergy will result from merger or not. Objective of due diligence is to give proper and adequate advice.
11. ***Type of due diligence***. CPT FILE
    - Commercial or operational due diligence- Focus on operational aspect of the company.
    - Personnel due diligence- This focus on HR department of the company.
    - Tax due diligence- Tax effect resulting from merger.
    - Finance due diligence- Reliability of financial information.
    - Information system due diligence- how effective are IT system.
    - Legal due diligence- how entity comply with applicable law and regulation and statutory liability.
    - Environmental due diligences- study entity's environment its flexibility and addictiveness to acquirer entity.
12. ***Key area to be covered in due diligence / Financial due diligence*** : ***FCA** of **HP** has checked **TLP***
    - Financial statement
    - Cash flow statement- To check company is financially sound, regular realisation from debtor and payment to creditor.
    - Accounting policies
    - History
    - Project report
    - Tax
    - Legal

- Personnel

13. **Content of due diligence report :** **TOBA$_{\text{CPTFILE}}$SE**

- Term and scope of verification
- Objective of due diligence
- Brief history of company and promoter.
- Assessment of
  - Commercial due diligence
  - Personnel due diligence
  - Technical due diligence
  - Finance due diligence
  - Information system due diligence
  - Legal due diligence
  - Environmental due diligence
- SWOT analysis and suggestion
- Executive summary.

Chapter 19: Peer Review and Quality Review

1. *Introduction*

The term "peer review" would mean review of work done by a professional, by another professional of similar standing

As per the Statement of Peer Review issued by the Institute of Chartered Accountants of India, Peer Review - means **an examination and Review of the systems and procedures to determine whether the same have been put in place by the Practice unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards and whether the same were consistently applied in the period under review. The examination and review of a practice unit would be carried out by a "reviewer", i.e., a member, selected from a panel of reviewers maintained by the Board. The term "practice unit" means members in practice, whether practising individually or as a firm of Chartered Accountants.**

Peer review doesn't heart confidentiality of information because at the time it is clearly written in engagement letter that our audit is subject to peer review.

2. *SCOPE / FOCUS OF PEER REVIEW- TQC of CA*

Training programme for staff

Quality of reporting.

Compliance with EPT (Ethical Profession & Technical) standards.

Compliance with guideline issued by institute with regard to article assistants, Audit assistance, fee charged, number of audit undertaken etc.

Attestation services systems and procedures.

3. *REVIEWER ELIGIBILITY*

Peer reviewer should be in **practice** for **10 year,** provide **declaration. Should not be** GOD (guilty, offence and obligation) & disciplinary action should not be initiated against by Institute.

Eligibility to be a Reviewer

Peer Reviewer shall: -

(a) Be a member with at least **10 years** of experience in practice;
(b) Is in Practice as per the Chartered Accountants Act, 1949.
(c) Should have undergone the requisite **training** as prescribed by the Board.
(d) Should furnish **a declaration** as prescribed by the Board, at the time of acceptance of Peer Review appointment.
(e) Should have **signed the Declaration of Confidentiality** as prescribed by the Board.
(f) Should have conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.

For being a Reviewer a member should **not** have: -

(i) **Disciplinary action** / proceedings pending against him
(ii) Been found **guilty** by the Council or the Disciplinary Board or Committee at any time.
(iii) Been **convicted by a** Competent **Court** whether within or outside India, of an offence involving moral turpitude and punishable with transportation or **imprisonment**.
(iv) Any **Obligation** or conflict of interest in the Practice Unit or its Partners /Personnel.

A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.

4. *Following are not regarded as assurance services (Exception to assurance service). RTP MECD*

- Representation before various authority
- Taxation matter
- Preparing any information (IT return)
- Management consultancy Engagement.
- Expert as a witness, Expert as providing expert opinion on point of principle.
- Compilation of financial statement
- Due diligence

5. ***Procedure for selection of practice unit.***

Board inform to practice unit along with three name of reviewer, practice unit choose any one of them within 7 days. Now board inform such selected practice reviewer. Reviewer will give his consent within 7 days to Board. Board will give reviewer consent to practice unit. Now practice unit file questioners & list of last three year client of assurance service within 15 days to reviewer, now reviewer select any initial sample. Review informs such selected sample two weeks in advance.

Now execution begins after initial meeting perform off site procedure. Reviewer within 15 days plan for site visit perform on site procedure, Reviewer perform **compliance procedure** onsite for that co-ordinate with the practice unit, now Reviewer obtain SAAE by performing inspection, inquiry & observation (substantive procedure). An attempt will be to complete review within 90 days from the date of initiation of review by PRB.

Reporting to PRB by review.

Area of control for reporting stage of peer review.

Or

Compliance procedure: Review the general control in respect of *I AM CS*

- **Independence-** Practice unit have of policy and procedure which ensure independence, objectivity and integrity, and how practice unit comply with such policy and procedure.
- **Administration office-** Does the practice unit maintain staff register, Client record and proper library containing relevant books.
- **Maintenance of professional skill and standard-** Does the practice unit have continuing education programme and programme for developing expertise in specified area.
- **Consultation outside-** Has the practice unit any policy for consulting expert and a network of consultant.
- **Staff recruitment, supervision and development-** How practice unit plan, supervise, review and documented work of audit assistant? Does the practice unit have guideline for assignment of responsibilities and accountabilities.

Substantive procedure: review working paper & documentation to ensure work has been carried out as per EPT (Ethical, professional and technical standards).

Collection of evidence by peer reviewer – IOI (Inspection, Observation & Inquiry.

Inspection of documentation.

Observation at site on performance and function of audit engagement.

Inquiry from Partner or proprietor, it may originate from documentation or questionnaire.

Chapter – 20 PROFESSIONAL ETHICS

THE CHARTERED ACCOUNTANT ACT, 1949

First Schedule				
Part-I	Part-II	Part-III	Part-IV	
For CA in	Practice	Service	in practice or not	in practice or not
Clause	12	2	3	1, Point 2

First Schedule

Part – I

Fees of **PRACTICE,PAY** or **ACCEPT** in **PARTNERSHIP,** to **SECURE** work don't **SOLICIT** or **ADVERTISE** only **COMMUNICATION TO PREVIOUS AUDITOR** and comply with **COMPANY ACT** never Charge **FEE IN %** or **ENGAGE IN ANY OTHER BUSINESS** or **ALLOW TO SIGN REPORT**

Part – II

Do not **PAY** or **ACCEPT** fee in service

Part – III

Representing self as **FCA, doesn't SUPPLY INFORMATION TO ICAI** or **GIVES FALSE INFORMATION** while inviting professional work is a professional misconduct.

Part – IV

Other misconduct if **HELD IMPRISONMENT 6 month or less** or **DISREPUTE the PROFESSION OR INSTITUTE**

Part – I

A Chartered accountant in practice deemed to be guilty of professional misconduct if he

1	Allows any person to **practice** in his name as a CA unless such person is also a CA in practice and is in partnership with or employed by him.
2	**Pays** or allows or agree to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than ▪ Member of the institute or ▪ Partner or ▪ Retired Partner or ▪ The Legal Representative of a deceased partner or ▪ Member of any other professional body* or ▪ With such other persons having prescribed qualifications** , for the purpose of rendering such professional services from time to time in or outside India.
3	**Accepts** or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute. *However he can accept from member of any other professional bodies* or person having prescribed qualification**.*
4	Enters into **partnership** with any person other than ▪ a CA in practice, or ▪ member of any other professional bodies having prescribed qualification, or ▪ a person resident without India who but for his residence abroad would be entitled to be registered as a member under clause (v) of sub-section (1) of Sec 4, or ▪ Whose qualifications are recognised by the CG or the Council for the purpose of permitting such partnerships.
5	**Secures** any professional business, either through the services of a person who is not an employee/ partner of such CA or by means which are not open to a CA. Provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item

	(2), (3) and (4) of this part. That is, *he can accept from member of any other professional bodies* or person having prescribed qualification**.*
6	**Solicits** clients or professional work either directly or indirectly by through ▪ Circular, ▪ Advertisement ▪ Personal Communication or ▪ Interview or ▪ By any other means; However, he can i) Apply/ request/ invite/secure / accepting professional work from other practicing CA. ii) Respond to tenders, enquiries issue by various users of professional services or organisation from time to time and secures professional work as a consequence. But no roving inquiry. **Provided he shall not respond to any tender unless minimum fees for the assignment is prescribed or the areas are also open for other professional along with CA.** **Website is allowed to keep on pull mode &On Website, Client names and fees charged can be displayed if required by Law**
7	**Advertises** his professional attainments or services, or uses any designation or expressions other than CA on professional documents, visiting cards, Letter heads or sign boards *But, he can write down any degree of university or he may advertise through write-up.* *He can advertise for recruiting staff/ clerk for their office or client, for sale of business property in the professional capacity as trustee, receiver or liquidator.* *<u>Quick response code</u> on the visiting card permitted provided code doesn't contain information which is not permitted in visited card.*
8	Accepts a position as auditor previously held by another CA or restricted state auditor without 1st **communicat**ing with him in writing. Note- *communication should be made only by RPAD (Registered post acknowledgement due) or by hand against an acknowledgement in writing.*
9	Accepts an appointment as auditor of a company without 1st ascertaining from it whether the requirements of Section 139, 140 and 142 read with section 141 of the **Companies Act,** 2013 in respect of such appointment have been duly complied with.
10	Charges or offers to charge, accepts or offers to accept in respect of any professional employment, **fees** which are based on a **%** of profits or which are contingent upon the findings or results of such work/ employment, except as permitted under any regulation made under this Act. ***Note:*** *Permissible case: LCD – as a **L**iquidator/ Receiver in case of liquidation wherein fees based on % if realisation , as **C**o-operative society auditor wherein fees based on % of working capital/profit. As **D**irect tax valuer wherein fees based on % of value of property.* **Fund Raising Services (IPO/FPO)** **Debt recovery services** **Cost optimisation** **Certain management consultancy services.** **Any other service as decided by the council**
11	Engages himself in **any business or occupation** other than the profession of CA unless permitted by the council so to engage: *However, he may become a director of a company (not being a MD or a WTD) provided he or any of his partners is not an auditor of such company.* *Regulation 190A*

	Occupation for which permission is generally granted : ***Authorship of ALL PRINCES*** **A**uthorship of book and article **A**gricultural activity **L**eadership in Charitable and non commercial organisation **L**ife insurance agency license for getting renewal commission. **P**rivate tutorship / Part time tutorship under coaching organisation of institute. **R**ecovery consultant in the banking sector. **I**nsurance surveyor and loss assessor **N**otary public, magistrate, justice of peace **C**A in employment under CA on practice. **E**ditor of professional journal, Examination paper valuer & Elective public office like MP, MLA, MLC. **S**uch other as may specified by institute.
12	⌗ Allows a person not being a member of the Institute in practice, or a member not being his partner to **sign** on his behalf or on behalf of his firm, any Balance sheet, P&L A/C, Report or financial statements. ***Note:*** *so, only CA himself or his partner can sign on B/s, P/L, Report on financial statement, production certificate under excise, or at any other place where CA sign is mandatory, however power to sign can be delegated to assistant for document of routine work, questionnaire, where in CA sign is not mandatory.*

***Professional bodies – BT$_4$** (Bar council of India, The ICSI, The ICWAI, The Indian institute of architects, the institute of actuaries of India.)

****Person having prescribed qualification – AB$_4$C$_2$M** (Actuary, Bachelor in engineering, Bachelor in technology, Bachelor in architecture, Bachelor in law, company secretary, Cost accountant & Master in business administration)

Part II

A member of the Institute (Other than a member in Practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person-

1	⌗ **Pays** or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.
2	⌗ **Accepts** or agrees to accept any part of fees, profits or gains from (**A BCCL**) an agent, a Broker, a CA, customer of such company or a Lawyer, or of such employer by way of commission or gratification.

Part III

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

1	⌗ Not being a fellow **(FCA)** of the Institute, acts as a fellow of the Institute; *Note- A person after becoming CA can use ACA after his name. And can use FCA after his name only after continuous practice in India for at least 5 year.*
2	⌗ Does not supply the information called for, or does not comply with the requirements asked for, by the **I**nstitute, **C**ouncil or any of **it**s Committees, **D**irector(Discipline), **B**oard of Discipline,

		Disciplinary committee, **Q**uality Review Board or the **A**ppellate Authority **(ICI DBD QA)**.
3	⌗	while inviting professional work from another CA or While responding to tender or inquiries, or while advertising through a write up or anything as provided for in Clauses (6) and (7) of Part I of this schedule gives information knowing it to be **false**.

Part IV

A member of the Institute, Whether in practice or not, shall be deemed to be guilty of other misconduct, if he

1	⌗	Is held guilty by any civil or criminal court for an offence which is punishable with **imprisonment** for a term not exceeding **6 months**. *(Note: if imprisonment tenure is exceeding six month, will be covered in part III of second schedule.)*
2	⌗	In the opinion of the Council, Brings **disrepute** to the profession or the Institute as a result of his action whether or not related to his professional work.

Second schedule

Part-I		Part-II	Part-III
For CA in	**Practice**	**in practice or not**	**in practice or not**
Clause	**10**	**4**	**1**

Second schedule

Part – I

Do not **DISCLOSES INFORMATION** or **CERTIFIES REPORT** unless examined or do not **EXAMINE ESTIMATE** where **SUBSTANTIAL INTEREST.** Guilty of professional misconduct if failed to disclose **MATERIAL FACT** or **MATERIAL MISSTATEMENT** or is **GROSSLY NEGLIGENCE** or failed to obtain **SUFFICIENT INFORMATION** or to report **MATERIAL DEPARTURE** or to keep money of client in **SEPARATE BANK ACCOUNTS**

Part – II

Do not **CONTRAVENS ANY PROVISION, DISCLOSE CONFIDENTIAL INFORMATION, INCLUDES FALSE PARTICULAR IN IFRS** or **DEFALCATE MONEY.**

Part – III

Other misconduct if **held IMRISONMENT EXCEEDING 6 month**

Part I

A chartered accountant in practice is deemed to be guilty of professional misconduct, if he:

1	⌗	**Discloses information** acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force. Ref 143(12)
2	⌗	**Certifies** or submits in his name, or in the name of his firm, a **report** of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another CA in practice.
3	⌗	Permits his name or name of his firm to be used in connection with the **estimate** of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for accuracy of the forecast. Note- *Can examines prospective financial information in accordance with SAE 3400.*
4	⌗	Expresses his opinion on financial statements of any business or enterprise in which he, his firm or a partner in his firm has a **substantial interest**.
5	⌗	Fails to disclose a **material *fact*** known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement not

	misleading where he is concerned with that financial statement in a professional capacity.
6	⌗ Fails to report a ***material misstatement*** known to him to appear in a financial statement with which he is concerned in a professional capacity.
7	⌗ Does not exercise due diligence or is ***grossly negligent*** in the conduct of his professional duties.
8	⌗ Fails to obtain **sufficient information** which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion
9	⌗ If he fails to invite attention to any **material departure** from generally accepted audit procedures applicable to the circumstances.
10	⌗ Fails to keep money's of his client other than fees or remuneration or money meant to be expended in a ***Separate banking A/C*** or to use such monies for purposes for which they are intended within a reasonable time.

Part II

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

1	⌗ Contravenes any of the **provisions** of this Act or the Regulation made there under or any guidelines issued by the Council. ***Note- Refer provision, regulation & guideline as summarised below.***
2	⌗ Being an employee of any company, firm or person **discloses confidential information** acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the Employer.
3	⌗ Includes in any **(IFRS)** information, form, Return, Statement to be submitted to the **I**nstitute, **C**ouncil or any of **i**ts Committees, **D**irector(Discipline), **B**oard of Discipline, **D**isciplinary committee, **Q**uality Review Board or the **A**ppellate Authority **(ICI DBD QA)**. Particular knowing them to be **false**.
4	⌗ **Defalcates** or embezzles money's received in his professional capacity.

Part III

1	⌗ A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with **imprisonment** for a term **exceeding 6 months.**

Council guideline	
Chapter	
II	**Conduct of a member being an employee**
	• A member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.
III	**Appointment of a Member as Cost auditor**
	• A member of the Institute shall not accept:-
	When he is auditor of the company or interested in any manner in the company.
IV	**Opinion on financial statements when there is substantial interest**
	• Member shall not express opinion when there is substantial interest (Relatives).
V	**Maintenance of books of account**
	• A member of the Institute in practice or the firm of CA's of which he is a partner, shall maintain and keep in respect of his / its professional practice, proper books of account including the following:-
	i) a Cash Book;
	ii) a Ledger.

VI	**Tax Audit assignments under Section 44AB of the Income-Tax Act, 1961**
	• The audits conducted U/S 44AD, 44AE and 44AF of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "Specified number of tax audit assignments".
	• Specified number of tax audit assignments means 60 tax audit assignments per partner in the firm, in a FY, whether in respect of corporate or non-corporate assessee.
VII	**Appointment of an Auditor in case of non-payment of undisputed fees**
	• A member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another CA for carrying out the statutory audit under the companies Act, 2013 or various other statutes has not been paid:
	• Provided that in the case of sick unit ---> above prohibition will not apply
	• Sick Unit----> Net worth is negative
	• The provision for audit fee in accounts signed by both - The auditee and the auditor shall be considered as "Undisputed" audit fee.
VIII	**Specified number of audit assignments**
	• Sec 141(3)(g) A CA cannot holding audit of more than**20 companies** excluding one person company, small company, dormant companies and Private companies having paid up share capital less than Rs. 100 crore. However over all limit lay down by ICAI is 30 companies including all above.
IX	**Appointment as Statutory auditor**
	A CA shall not accept statutory audit of PSU/Listed Co./Govt. Co or other public company having turnover of Rs. 50 Crores or more in a year, if he already engaged in providing any service from where he is getting fees in excess of fees payable for carrying out statutory audit.
X	**Appointment of an auditor when he is indebted to a concern**
	A CA will not accept audit of a concern wherein he is indebted or given guarantee of Rs, 10000 or more.
XI	**Directions in case of unjustified removal of auditors**
	• A member of the institute in practice shall follow the direction given, by the Council or an appropriate committee or on behalf of any of them, to him being the incoming auditor(s) not to accept the appointment as auditor(s), in the case of unjustified removal of the earlier auditor(s).

REGULATION

Regulation	Provision
43	A CA engage maximum number of article as follows 1 — A CA continuous in practice for a period of up to 3 year. 2 — A CA continuous in practice for any period from 3 year to 5 year. 7 — A CA continuous in practice for any period from 5 year to 10 year. 10 — A CA continuous in practice for any period from 10 year or more.
46	CA in practice can give articleship only to student of CA stream

<table>
<tr><td>47</td><td>No loan should be taken from articles or his relatives.</td></tr>
<tr><td>48</td><td>Stipend to article clerk should be paid on monthly basis and by way of account payee cheque as per the limits prescribed as follows
<table>
<tr><th>Cities population</th><th>1st year</th><th>2nd year</th><th>For remaining period</th></tr>
<tr><td><4 lakhs</td><td>1000</td><td>1500</td><td>2000</td></tr>
<tr><td>4- <20 lakhs</td><td>1500</td><td>2000</td><td>2500</td></tr>
<tr><td>≥20 lakhs</td><td>2000</td><td>2500</td><td>3000</td></tr>
</table></td></tr>
<tr><td>60</td><td>The working hour of article clerk should not start beyond 11AM in morning and should not end before 5 PM. Minimum working hour in a week is 35 hours and maximum in a week is 45 hour.</td></tr>
<tr><td>65</td><td>Article is prohibited to undertake any business unless ICAI permission is obtained.</td></tr>
<tr><td>66</td><td>Misbehaviour by the article</td></tr>
<tr><td>67</td><td>Misbehaviour by principal.</td></tr>
</table>

<table>
<tr><th colspan="2">PROVISION</th></tr>
<tr><td>Section</td><td></td></tr>
<tr><td>2(2)(iv)</td><td><u>Management consultancy service – A CA in practice can provide MCS</u>
Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of “Management Consultancy and other Services”.
The expression “Management Consultancy and other Services” shall not include the function of statutory or periodical audit, tax (both direct taxes and indirect taxes) representation or advice concerning tax matters or acting as liquidator, trustee, executor, administrator, arbitrator or receiver, but shall include the following-

(i) Financial management planning and financial policy determination.*
(ii) Capital structure planning and advice regarding raising finance.*
(iii) Working capital management.*
(iv) Preparing project reports and feasibility studies.*
(v) Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc.
(vi) Budgeting including capital budgets and revenue budgets.
(vii) Inventory management, material handling and storage.
(viii) Market research and demand studies.
(ix) Price-fixation and other management decision making.
(x) Management accounting systems, cost control and value analysis.
(xi) Control methods and management information and reporting.
(xii) Personnel recruitment and selection.
(xiii) Setting up executive incentive plans, wage incentive plans etc.
(xiv) Management and operational audits.
(xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition.
(xvi) Business Policy, corporate planning, organisation development, growth and diversification.
(xvii) Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads.
(xviii) Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP.</td></tr>
</table>

	(xix) Acting as advisor or consultant to an issue, including such matters as: a. Drafting of prospectus and memorandum containing salient futures of prospectus. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI. b. Preparation of publicity budget, advice regarding arrangements for selection of (i) ad-media, (ii) centres for holding conferences of brokers, investors, etc., (iii) bankers to issue, (iv) collection centres, (v) brokers to issue, (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material (In doing so, the relevant provisions of the Code of Ethics must be kept in mind). c. Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies. d. Advice on the post issue activities, e.g., follow up steps which include listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work. *Explanation* - For removal of doubts, it is hereby clarified that the activities of broking, underwriting and portfolio management are not permitted. (xx) Investment counselling in respect of securities [as defined in the Securities Contracts (Regulation) Act, 1956 and other financial instruments.] (In doing so, the relevant provisions of the Code of Ethics must be kept in mind). (xxi) Acting as registrar to an issue and for transfer of shares/other securities. (In doing so, the relevant provisions of the Code of Ethics must be kept in mind). (xxii) Quality Audit. (xxiii) Environment Audit. (xxiv) Energy Audit. (xxv) Acting as Recovery Consultant in the Banking Sector. (xxvi) Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999, including Insurance Brokerage.
27	BRANCH OFFICE A CA can have a more than one branch office provided each office is headed by separate CA. However in following case can have a branch without separate in charge :- Member can in-charge of two office provided second office located in same premises, or in the same city or within 50 Kms from municipality limit of city in which first office is situated.
4	ENTRY OF NAME IN REGISTER OF MEMBER Pass CA final exam, complete article ship & Complete GMCS. *Membership number will be allotted to you if you make an application for which fixed membership fee is require is to be paid periodically. You may have qualification of CA without having membership number. Membership number not requires for job, It is require only if you are in practice.*

Solution of question asked in Past examination

THE CHARTERED ACCOUNTANT ACT, 1949

			First Schedule	
	Part-I	**Part-II**	**Part-III**	**Part-IV**
For CA in	**Practice**	**Service**	**in practice or not**	**in practice or not**
Clause	**12**	**2**	**3**	**2**

Part – I

A Chartered accountant in practice deemed to be guilty of professional misconduct if he

1	No any question
2	1. Pays to article or assistance any % of profit along with stipend. 2. Share any remuneration with any person other *member of any other professional bodies* or person having prescribed qualification**.* 3. *Repays car loan as 10% of gross professional fees.* 4. *Payment for acquisition of practice unit to other than widow or legal representative.*
3	*1.* Share any remuneration with any person other *member of any other professional bodies* or person having prescribed qualification**.*
4	1. Enter in to partnership with person other than a CA in practice, or member of any other professional bodies having prescribed qualification. 2. Enters into partnership with CPA or ICAEW. *Note- CA Act not applicable for CA Practicing outside India, so there is no any restriction regarding entering in to partnership with any person outside India for CA practicing outside India.*
5	No any question
6	1. Secure any professional work from other then CA or person having prescribed qualification. 2. Represent himself as management expert and uses name of his firm while speech. 3. Kept their website on other than pull made (push mode not allowed) and also portraying name of client and fees charged without any requirement of law. 4. Sent life sketch and glorious record to any government authority. 5. Writes firm name on any book of which he is author. 6. Makes roving enquiry to enter his firm name on empanelment or to secure work.
7	1. Represent himself as management expert and uses name of his firm name while speech. 2. Prints visiting cards mentioned designation CA as well as Advocate. However there is no any default on mentioning the name of the entire firm in which he is partner, on his letter head.
8	*1. Communicate with previous auditor by other than RPAD (Registered post acknowledgement due) or by hand against an acknowledgement in writing.* *2. Accept tax audit, vat audit ,etc without communicating with previous auditor.* *However there is no any default on accepting internal audit without communicating with statutory auditor.*
9	1. Accept a position of auditor by board resolution where resolution in share holder meeting requires.
10	*1. Charges fee on % of loan finance on preparing project report.* **2.** *Charges fees on % basis as position other than receiver, liquidator or valuer of direct tax&*

	Fund Raising Services (IPO/FPO) **Debt recovery services** **Cost optimisation** **Certain management consultancy services.**
11	1. Engages himself on derivative as consultant. 2. Accept appointment as MD/WTD. 3. Accept a position of MD of holding company being a statutory auditor of Subsidiaries Company. 4. Become editor of monthly journal which analyse the performance of stock market However permission granted of journal in the nature of professional journal for example CA journal, company audit journal.
12	*1. Delegate power to article to sign on production certificate under excise, stock certificate.* *2. Issue POA to an employee who is CA to sign on reports and financial statement.*

Part II

A member of the Institute (Other than a member in Practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person-

1	*No any question*
2	1. Recommend a lawyer to his employer and receipt referral fee from lawyer.

Part III

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

1	*No any question*
2	1. Fails to submit form 18 in spite of repeated request from ICAI. 2. Fails to reply regarding date of leaving job, wherein he was employed, in spite of many reminders from ICAI. 3. Didn't fill the requisite (like information about engage in other business, etc) column while applying for COP.
3	*No any question*

Part IV

A member of the Institute, Whether in practice or not, shall be deemed to be guilty of other misconduct, if he

1	*No any question*
2	1. Agrees to file I.T return free of bank manager as well as staff, in lieu of loan sanction. 2. Fails to return books of account of client without any reasonable causes. 3. His cheque dishonour due to insufficient fund. 4. Misappropriate fund of ICAI as office bearer of regional council. 5. Fails to repay the loan of fund obtain from being a concurrent auditor of bank.

Second schedule

	Part-I	Part-II	Part-III
For CA in	**Practice**	**in practice or not**	**in practice or not**
Clause	**10**	**4**	**1**

Part I

A chartered accountant in practice is deemed to be guilty of professional misconduct, if he:	
1	1. Share any information of client at public speech, bank, etc without client permission. 2. Allow access to working paper to any third party without client permission.
2	1. Issue certificate of consumption of raw material on the basis of data appearing in minutes of BOD meeting without examining.
3	1. Certify project report in a manner which shows that he has vouched for accuracy of forecast. 2. Certify project report which was in contravention of SAE – 3400. 3. Prepare project report in accordance with SAE – 3400 or not in accordance with SAE – 3400.
4	1. Certify financial statement of a concern in which his wife is director holding substantial interest. 2. Express an opinion on financial statement of an enterprise wherein he, his relative, or his partner has substantial interest. Interest as per AS – 18.
5	1. Fails to report about non-creation of sinking fund. 2. Fails to disclose loan from provident fund taken by client. 3. Fails to report any irregularities in operation of provident fund. Note - *however he would not be held guilty if representation made before I.TAX authority found to be false, if that information or data provided by client.*
6	1. Fails to report contradictory matter. **Note - *however he would not be held guilty if*** *Representation made before I.TAX authority found to be false, if that information or data provided by client.*
7	1. Certify any figure without examining record. 2. Fails to complete the audit or submit audit report within the specified period of time. 3. Issue audit report without examining the account & advised client to include sale under negotiation in actual sales figure. 4. Fails report that client maintain two set of book, knowingly. 5. Signed financial statement later on it is found stock is being overvalued. **Note - *however he would not be held guilty if*** Fails report that client maintain two set of book because of it was not in his knowledge.
8	1. Issue a circulation certificate on the basis of outward memos. 2. Certify circulation of weekly magazine without examining financial or other record. 3. Fails to confirm the true value of investment from proper sources.
9	No any question
10	1. Fails to keep money of client in separate bank account for specified period of time to pay specified liabilities on due date. 2. Deposit in their saving account, amount means to investment in portfolio of client. 3. Initially deposit in their account later on paid due of client on due date.

Part II

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he	
1	1. Permits to article to attain college during office hour. 2. Obtain a loan from company whose MD is father of article. 3. Accept an assignment of management consultancy service remuneration from that exceed fee of audit assignment already taken.

	4. Doesn’t maintain proper books of accounts. 5. Fails to pay stipend of article every month by account payee cheque.
2	No any question
3	1. File an application for empanelment wherein include CA P as partner, although CA P was not partner as on date of application. 2. Submit information about article college timing which is not in conformity with actual college timing.
4	No any question
Part III	
1	No any question

Out of box game plan

Use these Initiating sentence & golden words to answer unexpected question and general question.

Beyond coverage

Initiating Sentence	**Golden word**	**Object**
The auditor shall **determine** whether The auditor shall **evaluate** whether The auditor shall **conclude** whether The auditor shall **ascertain** whether The auditor shall **assess** whether The auditor shall **inquire** whether The auditor shall **perform audit procedure** The auditor shall **perform additional audit procedure** The auditor shall **perform audit procedure as require.** The auditor shall **take in to account the extent of risk** The auditor shall **request management to provide written representation** The auditor shall **reconsider** the The auditor shall **re-evaluate** The auditor shall **re-assess** The auditor shall **revise materiality** The auditor shall **take appropriate action** The auditor shall **obtain** SAAE The auditor shall **express** The auditor shall **discuss** the matter with management & TCWG The auditor shall **communicate** The auditor shall **inspect** The auditor shall **obtain an understanding of** The auditor needs to consider whether Including whether	SAAE (Sufficient appropriate audit evidence), ROMM(Risk of Material Misstatement), NTE (Nature timing extent) of audit, NCOB (Normal course of business), FFR(Fraudulent financial reporting), MOA(Miss appropriation of Assets), RPRT (Related Party Relationship transaction),AFRF(Applicable financial reporting framework), FRF(Fraud risk factor), NSO(Nature Scope Objective of audit), ALRR(Applicable Legal regulatory requirement), LER(Legal ethical requirement), RLR(Regulatory Legal requirement) , PS(Professional scepticism), MPAE(More persuasive audit evidence), ABCD(Account Balance classes of transaction and disclosure),AASTAA(Authorise approve significant transaction and arrangement),Management & TCWG, Relevance, Reliability, Reliable audit evidence (RAE), Review and appraisal, Planning and performing audit (PAPA), Deficient, Future viability, Alert, Other audit procedure, Oversight of management and TCWG, Unusual, Due diligence, Design and implementation, Design implementation and operation, Relevant to financial reporting, Significant, Justifiable, Pervasive to financial Statement (PTFS), Test of Control-Substantive Procedure, Compliance Procedure, Potential consequence, Existence and condition of inventory, Event and condition, More persuasive audit evidence, Effectiveness of control, Integrity, Susceptible, Contradict, corroborative, Relieve, On use of type-1 or type-2 report reference to SO in report doesn't diminish the user's auditor responsibilities for that opinion, Consider reliability of Written Representation, Compliance with applicable legal and regulatory requirement, Assess, evaluate , Adequate, Reasonable assurance, Extend audit procedure, Individual or in aggregate, Complete set of financial statement, Single financial statement, Unless required by law and regulation, Standards on Review Engagement (SRE), Standards of assurance engagement (SAE), Standards of related services (SRS), At assertion level, At financial Statement Level, Conclude, EOV (Existence, ownership & valuation), CAE (Contradictory Audit Evidence), AET(Audit Engagement Team), TOAE (Term of Audit Engagement), Internal audit function(IAF), U TEA OOFS(Unable To Express An Opinion On Financial Statement), DIO (Design, Implementation & Operation), GAAP (Generally Accepted Audit Procedure), IRCPT (Initiating, Recording, correcting, processing Transaction)	In accordance with type of question. Like Minutes book Register Books of Accounts etc.