



The Institute Of Chartered Accountants Of India  
(Set up by an Act of Parliament)  
Western India Regional Council



# Recent NFRA Orders & Changing Times for Auditors

*From Statutory to Forensic?*

Speaker:

**CA. Aniket Talati**

*Past President, ICAI*

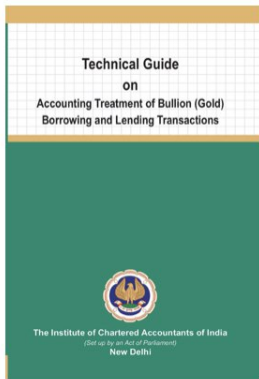
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*Chartered Accountants*



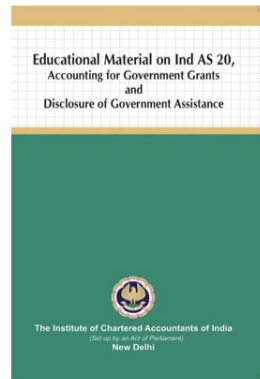
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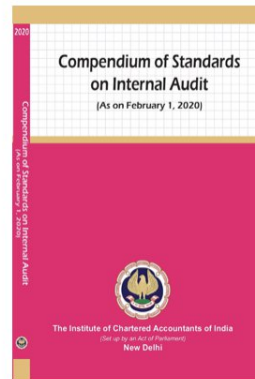
903OTH0106-0719-Technical Guide  
on Accounting Treatment of Bullio...

₹ 60.0



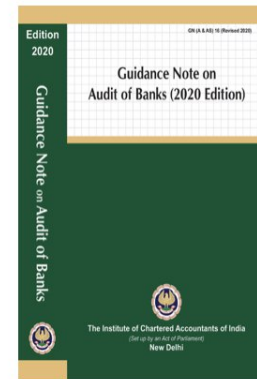
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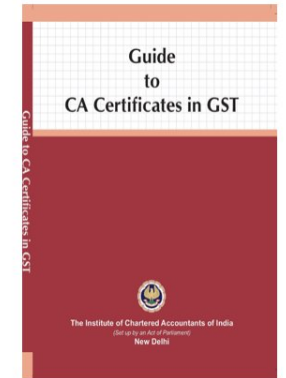
918IAC0100-0220-Compendium of  
Standards on Internal Audit (As o...

₹ 200.0



903OTH0110-0320-Guidance Note  
on Audit of Banks (2020 Edition)

₹ 700.0



922IDTC107-0220-Guide to CA  
Certificates in GST (February, 2020)

₹ 150.0





**NFRA**

Background & key  
learnings



# Background of NFRA

## Powers of NFRA under Section 132(4)(c) of Companies Act 2013

- The National Financial Reporting Authority (“NFRA”) was constituted on 1st October, 2018 by the Government of India under section 132(1) of the Companies Act, 2013(“the 2013 Act”). The NFRA had issued its first order on 22nd July, 2020 and since then has issued **58 orders** till **December 31, 2023**.
- These orders are issued generally when irregularities are noticed by some regulators e.g. SFIO, SEBI, Director General of Income Tax (Investigation), Media Reports, Ministry of Corporate Affairs (MCA) regarding irregularities observed by FRRB of ICAI except in case of DHFL matter wherein NFRA has initiated the investigation on Suo Moto.
- Orders are normally concluded with **debarment and imposition of penalty**.

**QUALITY** 





**A man only learns in two ways, one by reading, and the other by association with smarter people.” – Will Rogers**

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**“Audit work documentation, if performed in true spirit, leads to ‘thinking audit’ rather than ‘ticking audit’ - Dr Ajay Bhushan Pandey - NFRA Chairperson**

The observations/lapses in these orders are classified into following key themes of accounting and auditing:

- |  |   |
|--|---|
| 1. Independence requirements                                     | 7. Going Concern (GC) assessment            |
| 2. Engagement Quality Control Reviewer (EQCR)                    | 8. Auditing of Accounting Issues            |
| 3. Audit Evidence and Documentation                              | 9. Non-compliance with laws and regulations |
| 4. Performing Risk Assessment and Audit Execution                | 10. Presentations and Disclosures           |
| 5. Audit Reporting   | 11. Professional Misconduct                 |
| 6. Related Party (RP) Relationship, Transactions and Disclosures |   |

NFRA orders have highlighted observations /lapses on the part of Statutory Auditors in relation to compliance with SAs and other applicable regulatory requirements.





# Observations / Lapses in NFRA Orders

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## Independence Requirements

- Engagement Partner (EP) accepted the audit engagement despite owning the shares of the auditee Company through a Company which was wholly-owned by him and his family members and thereby violating applicable laws and Standard relating to conflict of interest and independence. (Order No65/2023)
- EP, proprietorship firm, had provided audit and non-audit services to 29 entities belonging to the concerned Group including its promoters. The audit firm of EP's daughter had provided audits as well as non-audit services to 27 entities of the concerned Group. Further, her firm was actively participating in making presentations etc. on behalf of EP's firm and a partner of her firm as partner of EP's firm in the Audit Committee meetings of the company. All these audit firms operate from the same address. (Order No. 23/14/2022)
- The firm was found to have either directly or indirectly provided prohibited services to the auditee or its holding company. (Order No. 20012/1/2020)

## Engagement Quality Control Reviewer (EQCR)

- No evidence in the file regarding the work performed by the EQCR partner. Further, having a checklist in file with response "Yes" and "No" is not sufficient audit procedures by EQCR partner. Para 25 of SA 220 that stipulates to document the reason and basis for conclusion. (Order No. 64/2023)
- Failure to have formal appointment of EQCR Partner even though the Company was listed. (Order No. 20012/2/20222)
- Acceptance of appointment as EQC reviewer without experience and authority i.e. 2 years' experience professional was assigned as EQCR to review the work of 32 years' experience EP which demonstrated that EQCR was without adequate experience and authority as reviewer. (Order No. 30/2023)
- Non-availability of EQCR in the firm as the firm was proprietary. NFRA considered his firm to be ineligible to carry out statutory audits of listed companies in absence of EQCR. (Order No. 023/2023)
- EQCR also failed to: review selected working papers related to significant judgements ; perform objective evaluation of the significant judgements made by engagement team; document his work properly and separately from the work of the audit team, to independently analyse and question the engagement team regarding the issues arising out of RBI inspections and directors etc.; prepare proper documentation related to discussion between the EQCR team and EP (Order No. 20012/1/2020)





# Observations / Lapses in NFRA Orders

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## Audit Evidence and Documentation

- No evidence as to who performed the work, who reviewed it and the date and extent of such review. (Order No. 62/2023)
- Failure to document discussion of significant matters with Those Charged With Governance (TCWG). (Order No. 62/2023)
- Failure to document allocation and division of work between joint auditors. (Order No. 20012/2/20222)
- No communication with TCWG regarding responsibilities of auditors, overview of planned scope of work etc. (Order No. 023/2023)
- No evidence at all of work performed on Internal Financial Control over financial reporting. (021/2023)
- Not seeking external confirmations for balances of debtors and creditors. (Order no. 23/05/2021)
- Misconduct in relation to the role of engagement partner due to non-availability of evidence of EP's review in file, designating other partner as EP in audit file instead of signing partner, no evidence of EQCR performed. (Order No. 20012/1/2020)
- Non-availability of engagement letter in the audit file. (Order No. 023/2023)
- Lack of documentation with regard to recoverability assessment of security deposits given several years back. (Order No. 58/2023)
- Failure to prepare documentation regarding Auditor's responsibilities relating to fraud in an Audit of Financial Statements ("FS"). (Order no. 62/2023)





# Observations / Lapses in NFRA Orders

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## Performing Risk Assessment and Audit Execution

- Ø Failure to perform Analytical Procedures in spite of substantial decrease in key financial parameters like revenue, PBT etc. (Order No. 62/2023)
- Ø Failure to conduct branch audit, reliance by EP on the work of illegally appointed branch statutory auditors. (Order No. 63/2023)
- Ø Failed to identify the deficiencies in internal control relating to the appraisal and sanction of loans. (Order No. 63/2023)
- Ø Lapses in fulfilling auditor's responsibilities relating to fraud even though the auditor was aware about FIR due to fraud against managerial personal of the auditee company. (Order No. 30/2023)
- Ø Failure to perform audit work for physical verification and valuation of PPE due to miscommunication between joint auditors. (Order No. 20012/2/2022)
- Ø Non-assessment of risk of material misstatement in balance of Trade Receivables even though the previous auditor had issued a qualified opinion. (Order No. 29/2023)
- Ø Failure to question the accounting policies related to trade receivables, improper disclosure, non-disclosure of credit risk profile of trade receivables and also to obtain external confirmation of outstanding trade receivables. (Order No. 21/2023)
- Ø Failure to perform risk assessment, determine materiality, analytical procedures, communicate with TCWG, reporting on fraud etc. (Order No. 21/2023)
- Ø Failure to report fraudulent loan transactions, fraudulent understatement of loan and evergreening of loans through structured circulation of funds. (Order No. 23/14/2022)
- Ø Failed to understand the nature of business and comprehend that a company which was a shell company used by promoters for financial manoeuvres and there was no operation in the company since its incorporation. (Order No. 23/14/2022/05)
- Ø Failed to understand the rationale for interest free loan given to a group company without business rationale. (Order No. 23/14/2022/05)
- Misconduct in evaluation of Risk of Material Misstatements – not considering certain serious RBI noncompliance while doing risk assessment. (Order No. 20012/1/2020)





# Observations / Lapses in NFRA Orders

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## Audit Reporting

- Issuing qualified opinions on SFS and CFS with 11 and 15 qualifications respectively despite the fact that the nature and effect of qualifications were material and pervasive to the FS instead of issuing Adverse Opinion or Disclaimer of Opinion. (Order No. 65/2023)
- Issuing a qualified opinion instead of adverse opinion for non-consolidation of the subsidiary. The assets & liabilities of the subsidiary constituted 19.20% and 28.96% respectively of the assets and liabilities of Parent. (Order No. 62/2023)
- Audit report not modified with respect to reporting on Unilateral extinguishment of trade payables and non-compliance with valuation of finished goods inventory. Included only as KAM without communicating these matters to TCWG. (Order No. 59/2023)
- Misuse of Emphasis of Matters for issuing a modified audit opinion. The auditor reported various matters under EOM para which by its nature requires modification in auditor's report due to nonavailability of sufficient appropriate audit evidence. (Order No. 27/2023)
- False reporting by auditor in independent auditor's report - this mainly includes non-inclusion of cash flow in FS and annual report uploaded on BSE, wrongly reporting the company as NBFC in CARO report though the Company was into the business of media and content syndication and not an NBFC, missing disclosures regarding SBN in FS but auditor's report states that it is included in FS. Lapses in audit conclusion since none of the above transactions were modified by the auditor in its audit opinion. (Order No. 23/30/2021)
- Non-consideration of observations of Internal audit reports wherein it was reported that management had not carried out any physical verification of PPE whereas the auditor in its report stated that it was carried out by management. (Order No. 29/2023)





# Observations / Lapses in NFRA Orders

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## Related Party (RP) Relationship, Transactions and Disclosures

- Ø Lapses in understanding the nature of RP relationship and transactions, failure in testing the completeness of RPs and transactions, failure in evaluating management override of controls, failure in verifying arm's length basis of RP transactions and failure to report these in CARO 2016. (Order No. 63/2023)
- Ø Failure to report non-disclosure of RP Loans on gross basis (Order No. 62/2023)
- Ø Failure to report outstanding balance of capital advances to a wholly owned subsidiary under RP disclosure. (Order No. 021/2023)
- Ø Failure to identify RP and RP transactions even though 100% sales were made to RP. (Order No. 23/30/2021/2)
- Ø Charged with failure to exercise professional skepticism while performing audit of fraudulent transactions with its subsidiary. (Order no. 23/14/2022)
- Ø Charged with recording of certain repayment cheques received from subsidiary to reduce the loan at year end without encashing these cheques. Further, the subsidiary's bank account does not have sufficient balance to clear the cheques. (Order No. 23/14/2022)
- Ø Failure to exercise professional judgement while performing the audit of RP transactions and balances, various items of cheques received but not realised and cheques issued but not cleared (as there were no sufficient bank balances available). This indicates the intention to suppress true balances of borrowings from RPs and present a sound financial position. Further, external party payments were done using NEFT or RTGS whereas the cheques were used only for RP transactions indicating additional factor of fraud. (Order no. 23/14/2022)
- Ø Failure to identify suspected fraudulent diversion of funds given as land advances to RPs which was outstanding at the beginning of the financial year and completely recovered during the year without purchasing any land. Release of huge amounts to RPs on the pretext of land advances, title disputes of land for which money is advanced and return of advances on the flimsy explanation of non-suitability of land, were required to be evaluated by auditors with professional scepticism. (Order no. 23/14/2022)
- Ø Failed to understand the rationale for interest free loan given during the year which in turn was given to the personal account of the promoter and his relatives. (Order No.23/14/2022/05)
- Ø Failure to detect fraudulent diversion of funds through various RPs in the form of loans and advances. (Order No. 28/2023)
- Ø Failure to exercise professional skepticism during verification of advance to subsidiary wherein the amount of advance granted was significantly higher as compared to the actual transactions. (Order No. 23/14/2022)
- Ø Charged with failure to exercise due diligence with respect to capital advances given to one group entity and the lapses include no board approval in place u/s 188 for such advances. (Order No.23/14/2022)





# Observations / Lapses in NFRA Orders

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## Going Concern (GC) assessment

- Non-assessment of GC or lapses relating to GC basis of accounting in spite of current period and accumulated losses, negative net worth, negative working capital, defaults in repayment of borrowings, discontinuation of many divisions etc. (Order no. 63/2023, 20012/2/20222, 23/14/2022/05, 20012/1/2020)

## Professional Misconducts

- Failure to maintain audit file and co-operate with NFRA. The auditor did not respond to NFRA emails seeking audit file and SQC policy despite several extensions of time. (Order No. 27/2023)
- Charged with tampering of audit files during the period NFRA asked to submit the audit file to the actual date of submission of audit file including creation of new Audit work papers during the said period. (Order No. 23/14/2022, 23/14/2022/05)





# Observations / Lapses in NFRA Orders

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## Auditing of Accounting Issues

- Ø Consolidated financial statements ("CFS") materially misstated due to non-consolidation of the subsidiary in CFS considering the investment is temporary in nature, relying blindly on the opinion of experts. (Order No. 63/2023)
- Ø Lapses in evaluation of unilaterally writing back of substantial liabilities and subsequent recognition of the amounts involved as gains. (Order No. 59/2023)
- Ø Failure in evaluation and attendance at physical verification of inventories and to report on incorrect accounting policy for valuation of inventories. (Order No. 59/2023)
- Ø Failure to report non-provisioning of land advances given. (Order No. 58/2023)
- Ø Failure to report on non-provisioning on dues outstanding for more than 3 years. (Order no. 58/2023)
- Ø Failure to perform Impairment testing under Ind AS 36 for investments in subsidiaries even though these subsidiaries were loss making. (Order No. 20012/2/2022)
- Ø Failure to report non-recognition of Interest Cost on Borrowings classified as NPAs but was only disclosed in notes to accounts. (Order No. 29/2023)
- Ø Allowing recognition of deferred tax assets in absence of virtual certainty supported by convincing evidence for sufficient future taxable income. Considering the company was making consistent losses, the assets should not have been recognised. (Order No. 27/2023)
- Ø Note to the FS states that provision for gratuity funds and leave encashment has been made on ad hoc basis whereas accounting policy states that provision is made based on valuation by independent actuary resulting in contradictory disclosures. (Order No. 27/2023)
- Ø Failed to report non-provision of Interest Costs on Borrowings from Bank and NBFCs resulting in understatement of loss eight times of reported loss. (Order No. 23/2023)
- Ø Non-provisioning for trade receivables- Unsecured, Considered Doubtful comprising 22% of total assets. (Order No. 23/2023)
- Ø Wrong amortization of certain expenses like Preliminary expenses, Listing expenses etc. which do not meet the definition of non-current assets as no future benefit is expected to flow. (Order No. 23/2023)
- Ø Outstanding foreign currency loan liabilities were carried at transaction date exchange rate and not re-evaluated using closing date exchange rate. (Order No. 20/2023)
- Ø Inflation of Revenue and Purchase by recording Open position Commodity Market Future Trading on daily basis instead of recording once on settlement date. (Order No. 23/05/2021)
- Ø Lapses in audit of inappropriate recognition of finance cost which was an extraordinary item since the underlying borrowings were not used for business purpose but shown as ordinary items in FS. (Order No. 23/14/2022)
- Ø Failure to carry out impairment testing even though there were consistent losses, erosion of net worth and defaults in repayment of loans taken from financial institutions. (Order No. 29/2023)





# Observations / Lapses in NFRA Orders

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## Non- compliance with laws and regulations

- Not considering flagged significant potential violations in National Housing Board (NHB) inspection reports issued under NHB directions. (Order no. 63/2023)
- Failure to report full particulars of loan to RP - Section 186(4) of the Companies Act, 2013 (Order No. 62/2023)
- Non-evaluation of utilisation of IPO proceeds- CARO 2016 even though approx. 44% of IPO proceeds were paid to one of its RP. (Order No. 59/2023)  
Erroneous Application of Financial Reporting Framework by the Company- the company has erroneously applied the provisions of Companies Act, 2013 while the Companies Act, 1956 was applicable for the reporting period. (Order No. 27/2023)
- The FS has been prepared under Accounting Standards instead of Indian Accounting Standards resulting in revision of audit report and full FS. (Order No. 20012/1/2022)

## Presentations and Disclosures

- Failure to report non-disclosure of Trade Payable covered under the Micro, Small and Medium Enterprises Development Act, 2006 (Schedule III of the Companies Act, 2013) (Order No. 62/2023)
- Inadequate disclosure in CARO due to failure to report the period of defaults in repayment of loans or borrowings to banks and FIs and dues to debenture holders. (Order No. 20012/2/2022)
- Non-evaluation of Income tax orders for demand resulted in non-provision or disclosure in the FS. (Order No. 25/2023)
- Multiple non-compliance with the format of FS not meeting the requirements of Division I of Schedule III. (Order No. 23/2023)
- Assets given on lease were wrongly shown under PPE as tangible assets instead of showing as receivable as per Schedule III. (Order no. 20/2023)
- Misstatement in cash flow statement- increase in short-term borrowing were shown as operating activity instead of financing activity, loans and advances to RPs should be shown as Investing activity but shown under operating activities. (Order No. 23/14/2022)
- Lapses in evaluation of corporate guarantee and creation of charge - non-disclosure of contingent liability given by the Company for corporate guarantee given in respect of loans taken by family members of promoters from banks and other private companies. Further, these transactions were not disclosed under RP note. (Order No. 23/14/2022)





**CAQD**

Background & key  
learnings





# Analysis of Modified opinion

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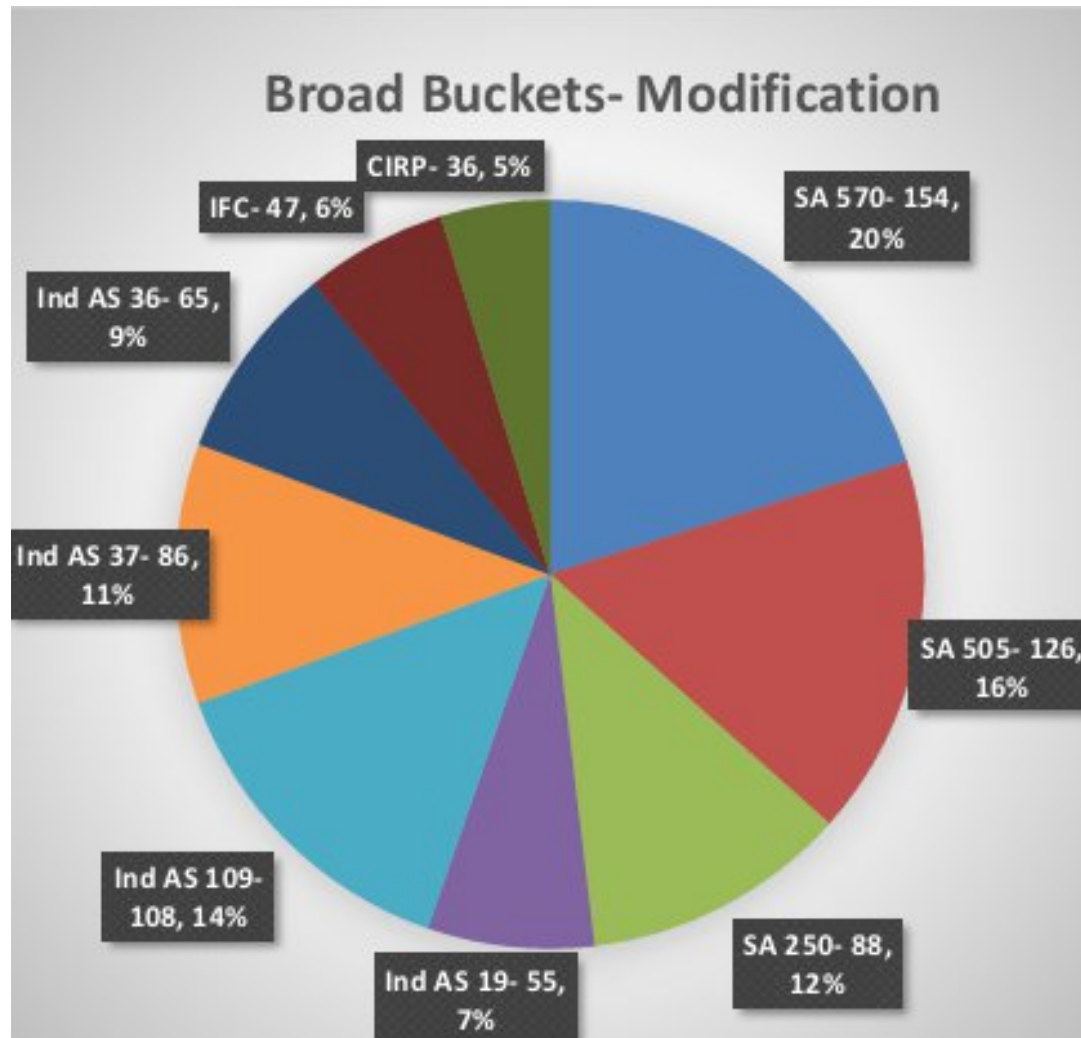
The Centre for Audit Quality Directorate (CAQD) has reviewed the annual reports for the year ended 31st March 2022, of certain Companies listed on the Bombay Stock Exchange (BSE). Of the 4261 companies reviewed, 344 Independent Audit reports were found to contain Modified Opinions. These reports spanned 93 industry types and such modified opinions included Qualified Opinions numbering to 318, Adverse Opinions in 9 cases and Disclaimer of Opinions were found to be issued in 17 Company Audit reports.

## Key Findings:

- **SA 250-Consideration of Laws and Regulations in an Audit of Financial Statements:** In 88 audit reports, the auditors had expressed modifications owing to non-compliance of various provisions of Companies Act 2013, FEMA, Income-tax Act, GST, SEBI & RBI rules pertaining to NBFCs.
- **SA 505-External Confirmations:** In the case of 126 audit reports, the auditors were unable to obtain confirmation from Third Parties to validate and confirm the balances as reflected in the financial statements.
- **SA 570-Going Concern:** In the case of 154 audit reports, the auditors were of the opinion that material uncertainty existed in relation to the going concern status of the entity.
- **Ind AS 19-Employee Benefits:** In 55 audit reports, the auditors had expressed modifications owing to non-compliance of the requirement under Ind AS 19 pertaining to employee benefits which include actuarial valuation, payments etc.
- **Ind AS 36-Impairment of Assets:** In the case of 65 audit reports, either the impairment testing was not carried out by the management or the auditors were unable to comment on appropriateness of impairment assessments as undertaken.
- **Ind AS 37-Provisions, Contingent Liabilities and Contingent Assets:** In 86 audit reports, the auditors had expressed modification owing to non-creation of provision under Ind AS 37, further in few cases matter was sub-judice and / or disputed.
- **Ind AS 109-Financial Instruments:** In the case of 108 audit reports, either there was non recognition/ provision of interest amount or non-reconciliation/ confirmation of balances or non provisioning in the context of Expected Credit Losses.
- **Corporate Insolvency Resolution Process (CIRP) Under IBC:** In the case of 36 audit reports, the companies were under the process of CIRP or were in the process of initiating insolvency proceedings.
- **Internal control over financial reporting (ICoFR):** In the case of 47 audit reports, the auditors were of the opinion that either the internal controls were not operating effectively, or the companies had inadequate internal control.



# Analysis of Modified opinion



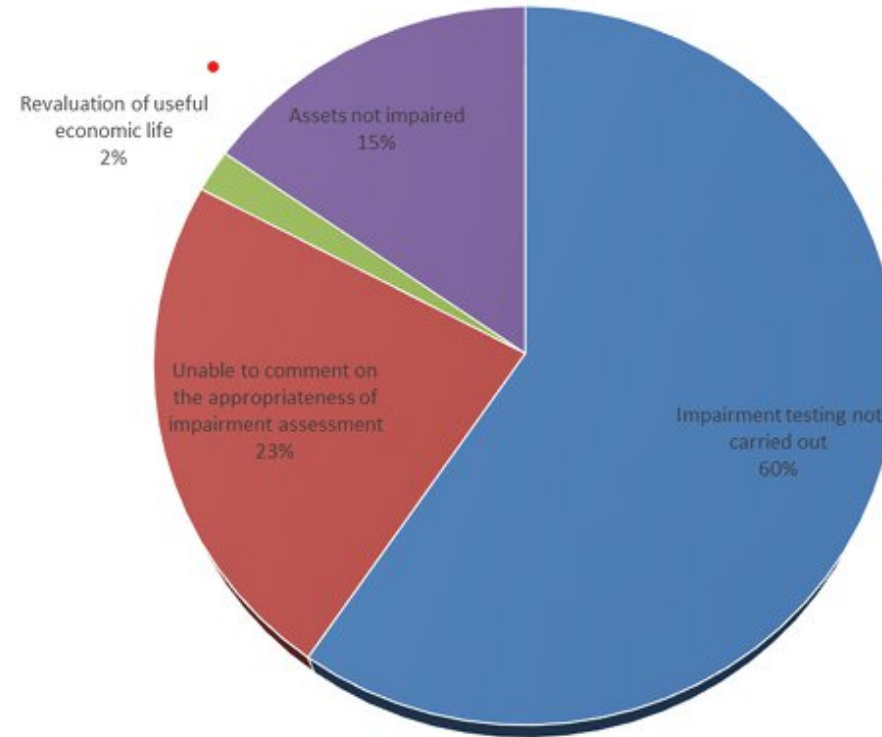
About 73% of the modifications reported in the auditor's report belong to the following 5 heads:

- SA 570 – Going Concern
- SA 505 – External Confirmations
- IND AS 109 – Financial Instruments
- SA 250 – Consideration of Laws and Regulation in an Audit of Financial Statements
- IND AS 37 – Provisions, Contingent Liabilities and Contingent Assets



# Basis of Modification under: Ind AS 36

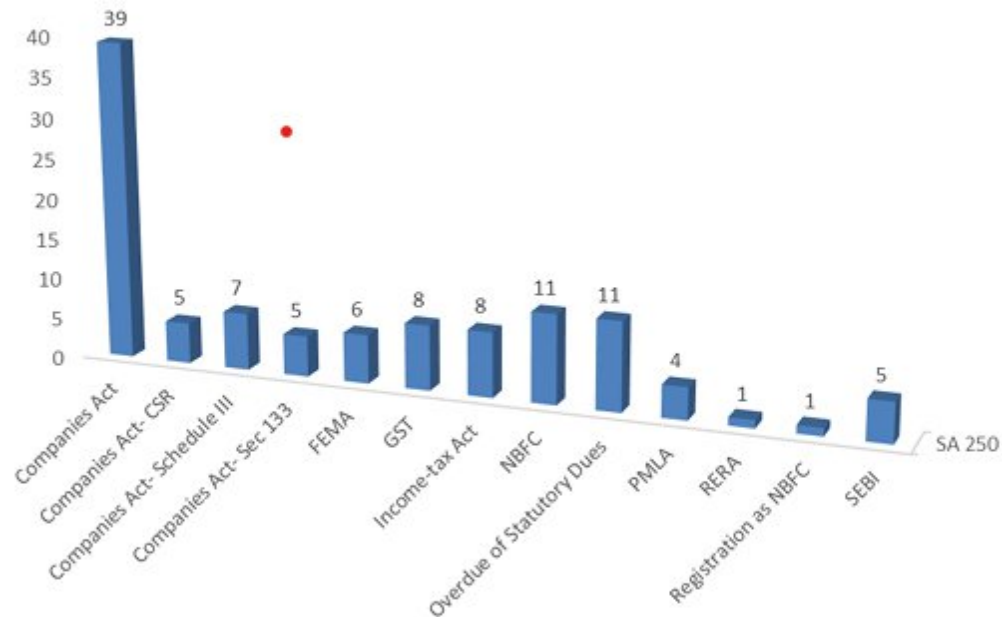
Basis for Modifications under Ind AS 36: Impairment of Assets





# Basis of Modification under: SA 250

Basis of Modifications under SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements



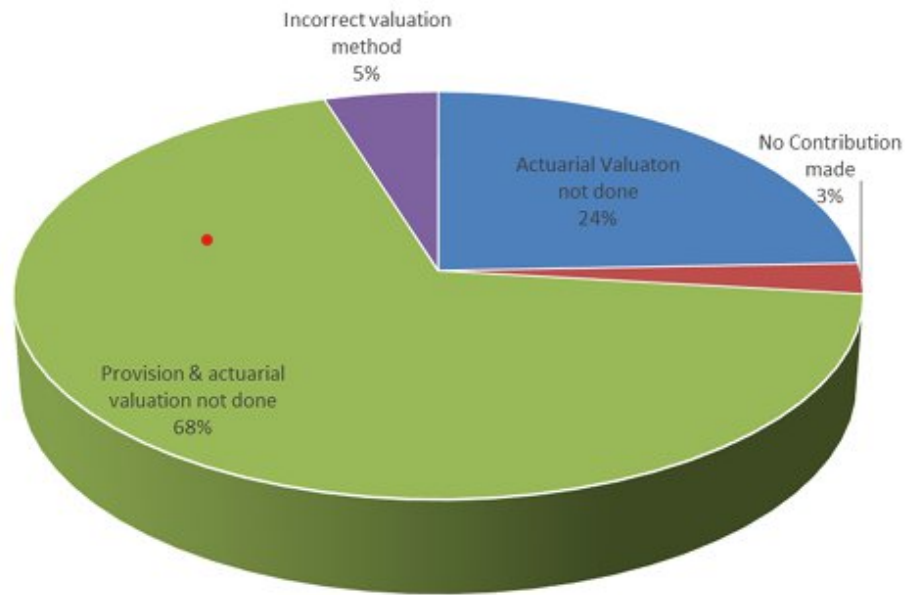
The major modifications under Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250) can be categorised under the following:

- Provisions of the Companies Act
- Provisions of Section 45 IA of RBI Act (NBFC)
- Overdue of statutory dues
- Provisions of the Income-tax Act & Goods and Services Tax Act



# Basis of Modification under: Ind AS 19

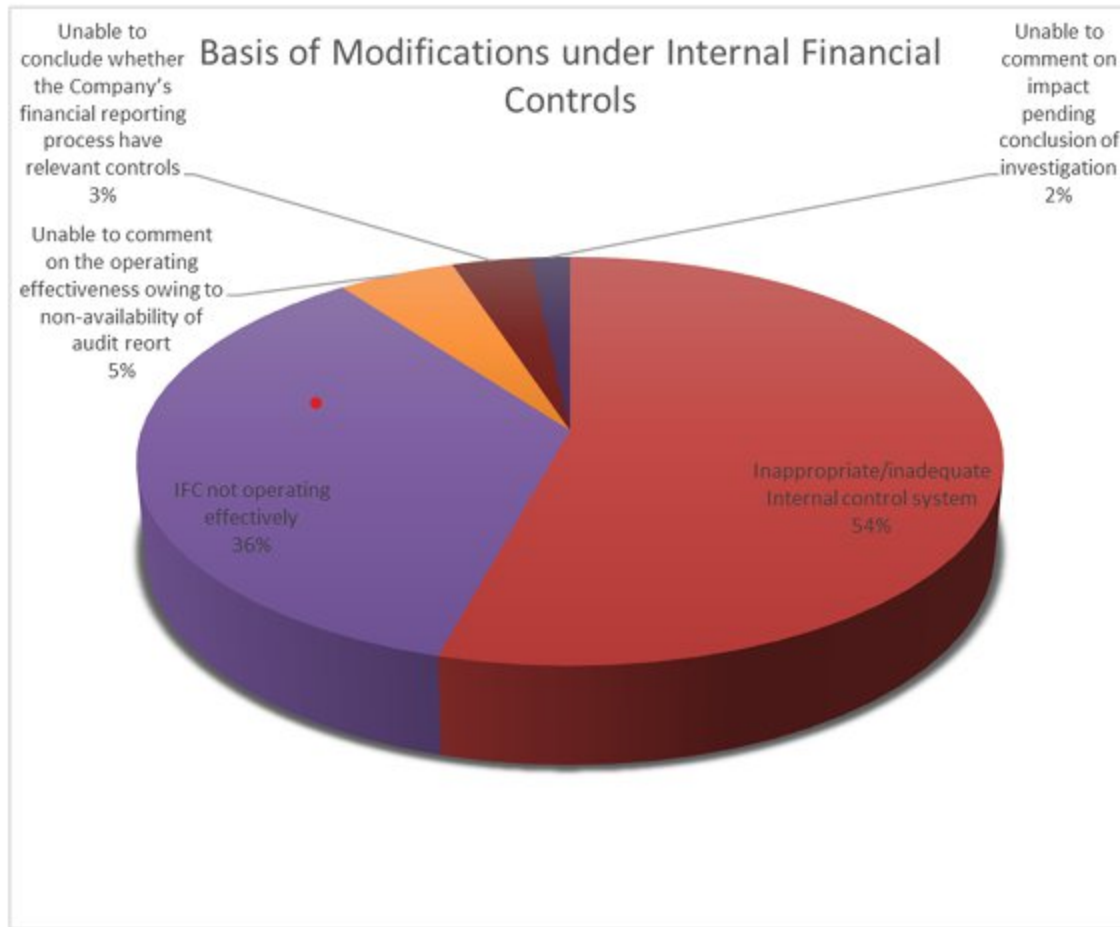
Basis of Modifications under Ind AS 19: Employee Benefits



The pie chart depicts that approximately 68% of the total modifications under Ind AS 19 “Employee Benefits” are related to no provision or actuarial valuation performed by the company in the financial statements



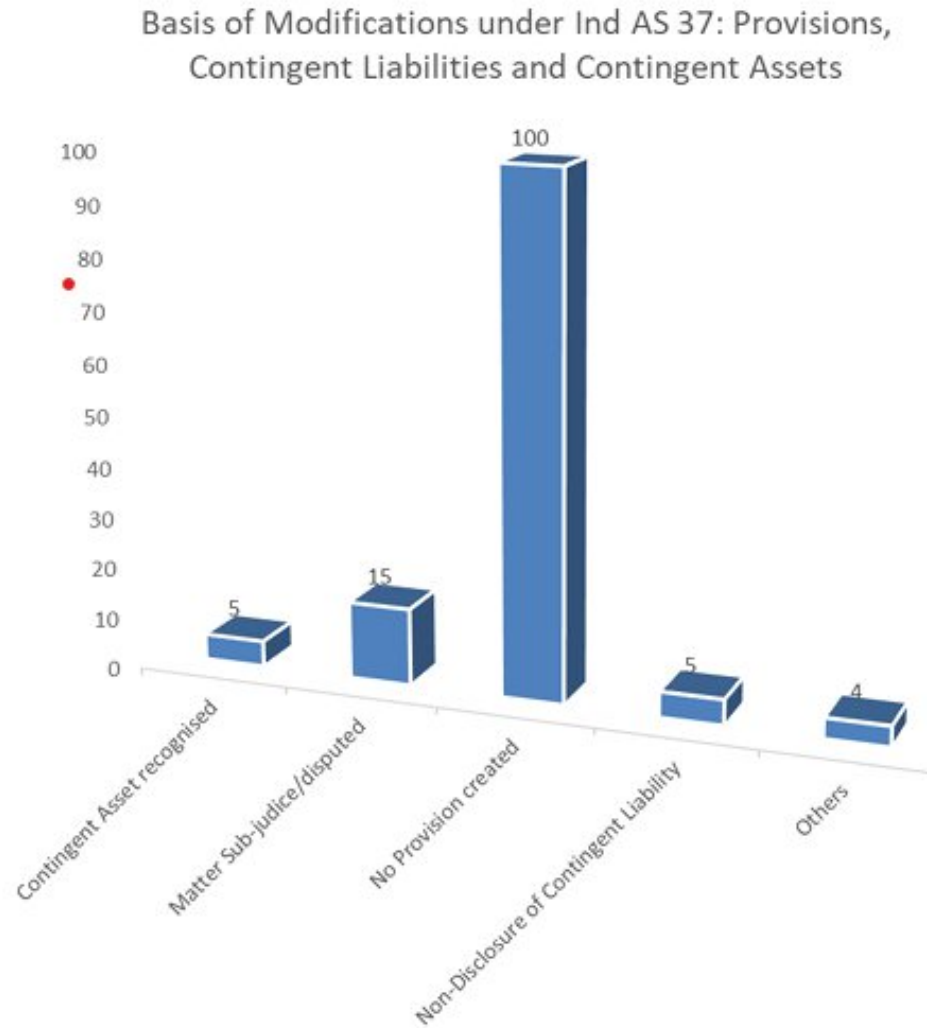
# Basis of Modification under: Internal Financial Controls



Around 54% of modifications under Internal Financial Controls pertain to inadequate/inappropriate internal control system and approximately 36% pertain to ineffective internal controls or material weaknesses.



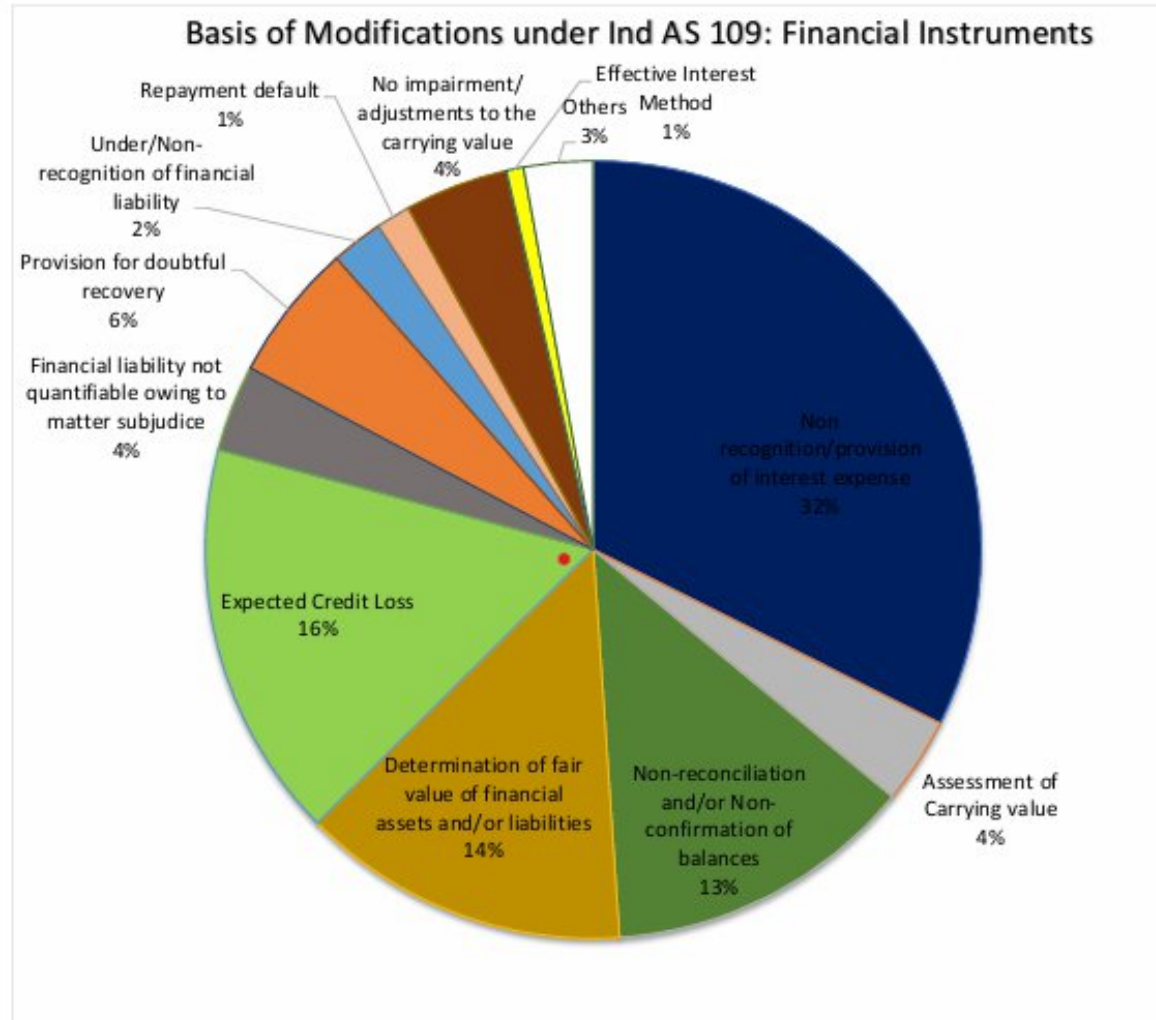
# Basis of Modification under: Ind AS 37



The major modifications under Ind AS 37 “Provisions, Contingent Liabilities and Contingent Assets” pertains to non-creation of provisions by the entities.



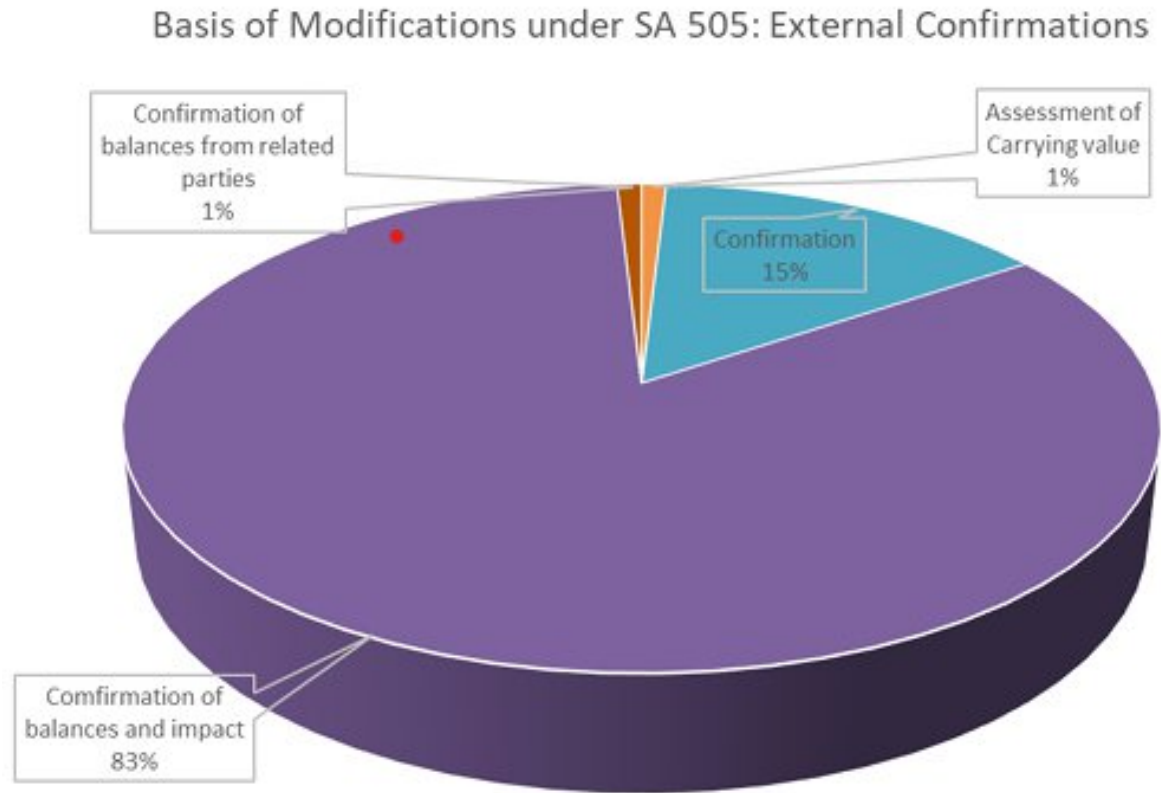
# Basis of Modification under: Ind AS 109



In around 32% of the cases, the Companies have not recognised or provided for Interest Expense and 16% account for the Expected Credit Loss.



# Basis of Modification under: SA 505

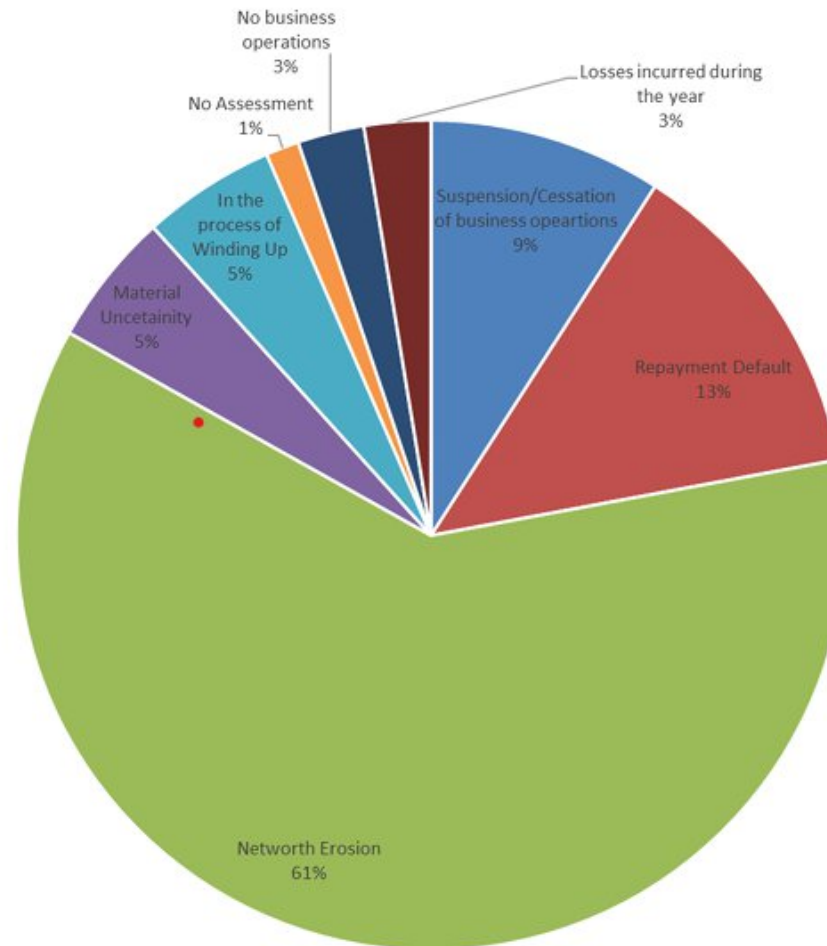


An analysis has been drawn showing that around 81% of the confirmations were not received from the third party and the impact on the financial statements of not receiving such external confirmation were modified by the auditor for the sample selected for studies.



# Basis of Modification under: SA 570

Basis of Modification under SA 570: Going Concern







# ICAI Publications to refer

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## Center for Audit Quality

- 1 [Utility for Determining Materiality](#)
- 2 [Review and Monitoring Tool for Standards on Auditing Compliance](#)
- 3 [Utility on Engagement Letters](#)
- 4 [Firm Manual Model Referencer](#)
- 5 [Analysis of Modified Opinions](#)
- 6 [Compilation of Significant Audit Matters](#)





# Definition

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*“Assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.*



# Definition

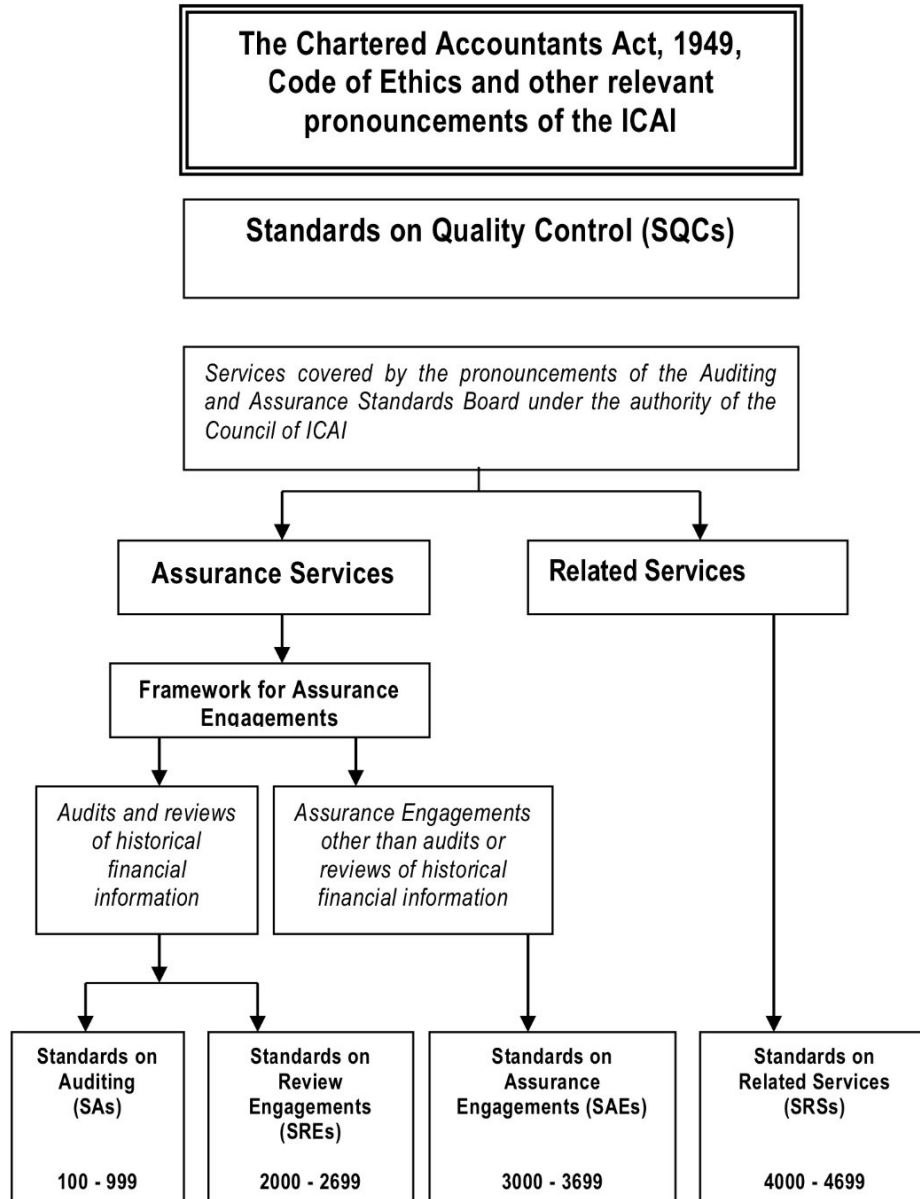
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Forensic Accounting and Investigation Standards (FAIS), "Forensic Accounting" is defined as the practice of discovering evidence and facts to support findings and conclusions related to investigations. It involves examining financial records and other evidence to detect and investigate potential fraud or financial





Structure of Standards issued by the Auditing and Assurance Standards Board under the Authority of the Council of ICAI



# Ethical Principles

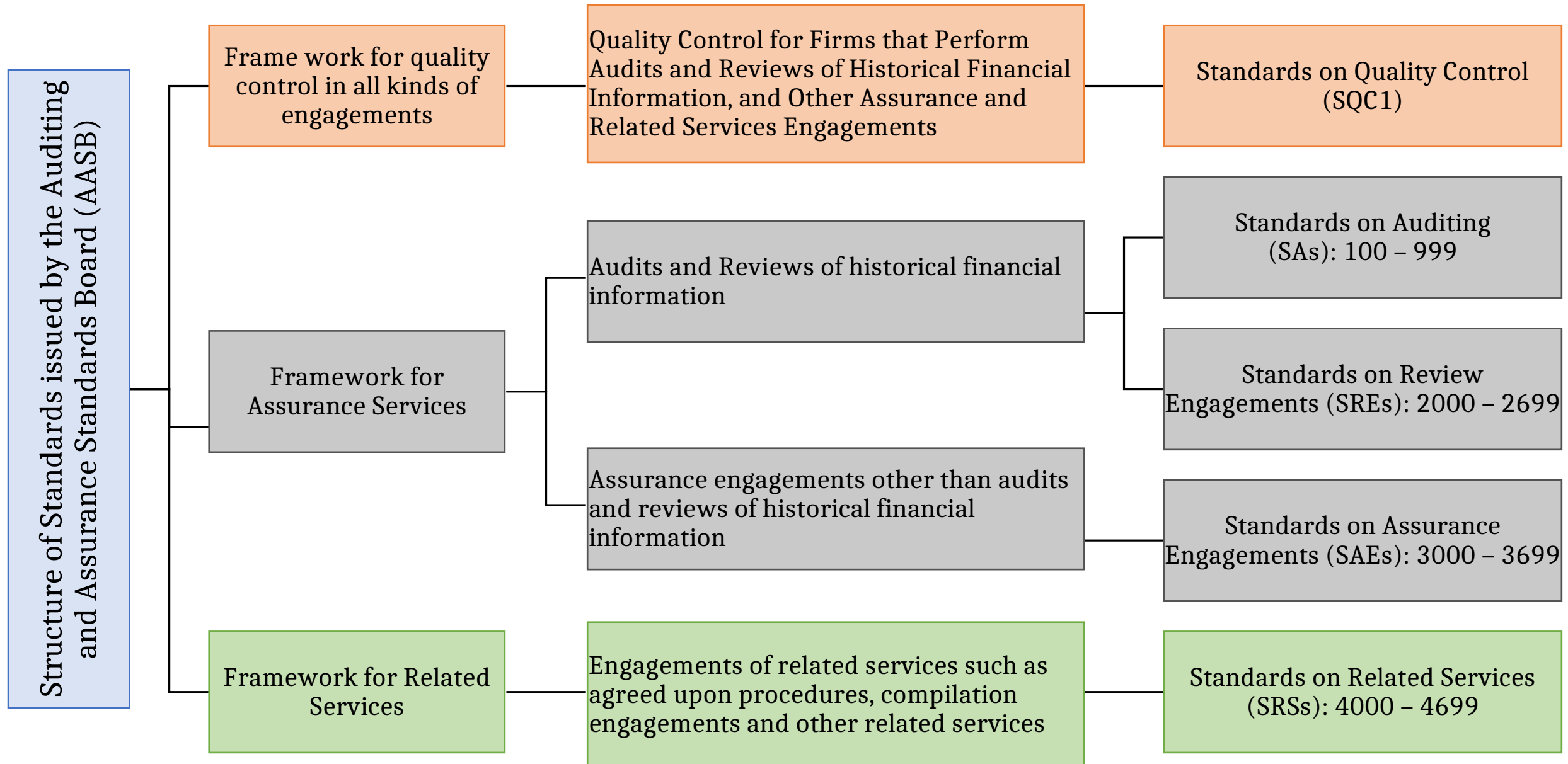
- The Chartered Accountants Act, 1949
- Code of Ethics
- Other Relevant Pronouncements

## FRAMEWORK FOR ASSURANCE ENGAGEMENTS

- Applies to SAs, SREs, SAEs
- Does not apply to SRSs ( since no assurance is provided)



# Engagement Standards – An Overview





# Hierarchy of Audit - Review - Compilation

**Framework of auditing assurance and other related services**

	Auditing	Audit Related Services		
<i>Nature of Service</i>	<i>Audit</i>	<i>Review</i>	<i>Agreed-Upon Procedures</i>	<i>Compilation</i>
Comparative level of assurance provided by the auditor	High assurance, but not absolute	Moderate assurance	No assurance	No assurance
Report provided	Positive assurance on assertion (s) "In our Opinion"	Negative assurance on assertion (s) "Nothing has come to our attention"	Factual findings of procedures	Identification of information complied. Not attempt to verify



Assurance type		Nature of work	Example of conclusion	Positives
<b>Audit</b>	Reasonable assurance	Detailed testing and substantiating of balances	"the financial statements <i>present</i> a true and fair view".	- Higher level of assurance - Higher level of examination
<b>Review</b>	Limited assurance	Enquiries and analysis, less detailed	" We have <i>not</i> become aware of any matter to cause us to believe the financial statements <i>do not</i> present a true and fair view".	- Generally cheaper than an audit - Doesn't require a Registered company auditor



# Engagement Standards – An Overview

## Framework of auditing, assurance and other related services

	<b>Auditing</b>	<b>Review and Assurance</b>	<b>Related Services</b>	
<b>Nature of services</b>	Audit	Review	Agreed upon procedures	Compilation
<b>Level of assurance</b>	High assurance (not absolute)	Moderate assurance	No assurance	No assurance
<b>Report provided</b>	Positive assurance on assertion “In our opinion .....true and fair view	Negative assurance on assertion “Nothing has come to our attention”	Factual findings of procedures	Identification of information complied. Not attempt to verify





# SQC-1

Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements





# Standard on Quality Control (SQC) 1

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## Elements

The **objective** of SQC – 1 is that the firm should **form a system of quality control** intended for providing **reasonable assurance** that a firm and its employees adhere to the professional standards and legal and regulatory requirements and that the reports which are issued by such firm or its engagement partners are apt in the circumstances.

According to SQC – 1, the firm's system of quality control shall include policies and procedures addressing each of the elements as mentioned in the diagram. (Details elucidated in subsequent slides)

The quality control policies and procedures should be documented and communicated to the firm's personnel.



# Elements of SQC - 1

## Element – 1: Leadership responsibilities for quality within the firm

- To promote **internal culture that quality is essential** in performing engagements by discussions with the team
- Managing Partner or equivalent must assume **responsibilities for firm's system** of quality control
- **Leadership** must set an **example** by their **own conduct**
- **Communicate** the system of quality control to the personnel through **formal newsletters, workshops and training**
- To recognize that the **firm's business strategy** is subject to the **overriding** requirement of the firm's **commitment to quality**
- To design the **processes** to deal with any non compliances





# Element – 1: Leadership responsibilities for quality within the firm

The Firm can satisfy this objective by establishing and maintaining the policies and procedures described below:

**Policy 1 – The Firm's Managing Partner assumes ultimate responsibility for the Firm's system of QC**

Ultimately responsible for the **design, implementation and operating effectiveness** of the Firm's system of QC

**Disciplinary action** may be warranted if failure in adherence to the Firm's policies and procedures regarding performance quality and commitment to ethical principles

**Policy 2 – Commercial considerations do not override the quality of the work performed.**

continually **evaluate client relationships** and specific engagements

**fee considerations** and **scope of services** should not infringe upon quality of work, documentation and other QCs



# Element – 1: Leadership responsibilities for quality within the firm

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

## Policy 3 – Performance evaluation, compensation, and advancement

**reward** partners and staff **for the quality** of their work and their compliance with professional standards

takes into consideration the **Firm's feedback** based on monitoring results and peer reviews

## Policy 4 – Deploy Sufficient and appropriate resources for the development, communication, and support of its QC policies and procedures

**designated QC partner** with authority, and resources responsible for QC

**reviewing the Firm's QC policies** and procedures periodically



# Elements of SQC - 1

## Element – 2: Ethical requirements

- To establish policies with a notion that the firm and the personnel adhere to the related ethical requirements as provided in the Code of Ethics

Objectivity

Integrity

Confidentiality

Professional  
Competence

Due Diligence

Professional  
Behaviour

- To develop a conceptual approach to independence for assurance engagements, including aspects such as threats to independence, accepted safeguards and the public interest and to obtain written confirmation every year.





## Element – 2: Ethical Requirements

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

### Policy 1 – Personnel adhere to ethical requirements

designate an **Independence and Ethics partner** and all professional personnel should attend training in ethics and independence

regularly **consulting the ICAI's journal** and website for information about changes in professional ethics and **independence standards**/requirements

### Policy 2 – Procedures to communicate independence requirements to Firm personnel

informing personnel of their responsibilities through **preparing and maintaining a list** of entities **with which financial and business relation is prohibited**

providing frequent **reminders of professional responsibilities** to personnel to be cautious that their independence or objectivity is not impaired



## Element – 2: Ethical Requirements

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

### Policy 3 – Identify and evaluate possible threats

(that may be created by using the same senior personnel on an audit or attest engagement over a long period of time)

consider relevant information about **client engagements**, including the **scope of services**, to enable him to evaluate the overall **impact**, if any, **on independence requirements**.

to promptly **report circumstances** and relationships **that create a threat** to independence

### Policy 4 – Withdraw from the engagement if threat cannot be reduced

**Consulting within the Firm**, and with legal counsel

**safeguards** to reduce threats to independence to an acceptable level **cannot be effectively applied**



## Element – 2: Ethical Requirements

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

### Policy 5 – Obtain written confirmation within firm

**written representations** from Firm personnel, upon hire and on an annual basis and **reviewing and resolving reported exceptions**

**engagement partner to sign** a step in the engagement program attesting to **compliance with independence requirements**

### Policy 6 – Procedures for confirming the independence of another Firm that performs part of the engagement.

practice aids that prescribe the **form and content and frequency** of independence representations

**representations** be documented in the engagement working papers file



## Independence confirmation form (1/2)

# Illustrative Annual Firm Personnel Independence Confirmation

## INSTRUCTIONS

All partners and employees are required to complete a confirmation regarding their independence.

This declaration covers the period from \_\_\_\_\_ (date) to \_\_\_\_\_ (date). This confirmation should reach \_\_\_\_\_ (MP) on or before \_\_\_\_\_ (date).

## DETAILED DECLARATIONS

Make the declarations below. If you do not agree, explain in a separate annexure why the 'disagree' responses are not independence-impairing situations.

#	Declaration	Agree	Disagree
1.	During the period, I or my immediate family members <sup>7</sup> did not have investments in an entity <sup>8</sup> to which I rendered any assurance services.		
2.	During the period, I or my immediate family members did not have a borrowing from an entity to which I rendered any assurance services.		
3.	During the period, I or my immediate family members did not give a loan to an entity to which I rendered any assurance services or to an officer, director, or major shareholder of that entity.		
4.	During the period, I and my immediate family members were not an executor, administrator, or trustee of a trust/estate, and have authority to make investment decisions for the trust/estate, that had an investment in an entity to which I rendered any assurance services.		
5.	During the period, I and my immediate family members were not associated with an entity to which I rendered any assurance services, in an accounting or financial reporting oversight role.		

<sup>7</sup> "Immediate family members" means the partner or employee's spouse and dependents.

<sup>8</sup> "Entity", wherever referred to in this table, includes its holding and subsidiary companies.



## Independence confirmation form (2/2)

6.	During the period, I and my immediate family members did not obtain a new, or make significant changes to an existing, insurance product of any kind, from an insurance company to which I rendered any assurance services.		
7.	During the period, to the best of my knowledge, I and my immediate family members did not have a business relationship with or joint investment (e.g, partnership interests) in (a) an entity to which I rendered any assurance services or with (b) an officer, director, or major shareholder of that entity.		
8.	During the Period, I have advised the Independence and Ethics Partner of the Firm if I have been engaged in employment negotiations with an entity to which I rendered any assurance services.		

Explain below why, in your opinion, a 'disagree' response to any of the declarations above is not an independence - impairing situation:

### REPRESENTATION

FOR THE PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

By submitting this independence confirmation, I represent that:

- I have read and understand the Firm's independence policies applicable to me and my immediate family, and understand the applicable independence restrictions.
- To the best of my knowledge, I have provided accurate and complete responses to the items in this confirmation. Except as otherwise indicated by my answers above, I have complied with the applicable independence policies, including those policies that pertain to my immediate family.
- I understand that it is my responsibility to comply with the Firm's independence policies and to seek appropriate consultation within the firm when I have any questions relating to my compliance with the Firm's independence policies.
- I understand that my responses are an element of the Firm's independence quality control system and are subject to review by firm management. Further, I understand I will be subject to disciplinary action if I do not cooperate or comply with Firm's independence policies.

Sign \_\_\_\_\_ Office \_\_\_\_\_

Name \_\_\_\_\_ Date \_\_\_\_\_



# Elements of SQC - 1

**Element – 3: Acceptance and continuance of client relationships and specific engagements – consider the integrity of the clients.**

## **For example: Identifying**

- The **business reputation of the owner, KMP** and others charged with governance
- **Attitude towards** the issues such as **good governance**, internal control environment and accounting standards
- **Reasons** for such **proposed appointment** of firm and non-reappointment of the firm been engaged previously
- Whether the owner/KMP are specifically concerned with keeping **firm's fee to the lowest as possible**
- Whether the **firm is competent for performing such engagement and has the time, capabilities, and resources in doing so**





# Illustrative Client/Engagement Acceptance and Continuance Form

Client Name:

Engagement Name:

Period End:

Relationship:

Is this a new client relationship?	Yes	No
Is this a new engagement?	Yes	No
If not a new client relationship, age of the relationship		
If this is a recurring engagement, year of first performance and periodicity (e.g., annual, quarterly)		



# CAF / EAF

## (2/4)

### Prior Audit Information:

### Detailed Current Period Analysis:

*(For continuing clients/engagements, this analysis should be prepared afresh at the beginning of each period)*

#	Does the engagement term have reasons to have concerns about:	Yes <sup>10</sup>	No	Not Applicable
1.	Management's characteristics and integrity			
2.	Management's overall commitment to reliable financial reporting			
3.	Management's commitment to reliable accounting process and information system			
4.	Organizational structure			
5.	Management structure and control			
6.	Characteristics and integrity of significant related parties			
7.	Nature of services to be provided and reports expected			
8.	Ethical considerations in providing the expected service, or in associating the name of the Firm with the client/engagement			
9.	Management's methods of assigning authority and responsibility			
10.	Senior management control methods			
11.	Impact of computers			
12.	Activities of those charged with governance			
13.	Nature of the business			



# CAF / EAF

## (3/4)

#	Does the engagement term have reasons to have concerns about:	Yes	No	Not Applicable
14.	Business environment			
15.	Significant pressure on management to report certain financial results			
16.	Going concern assumption			
17.	Conditions surrounding the audit engagement			
18.	The Firm's ability to comply with auditing standards			
19.	Accounting issues that may present unacceptable risk			
20.	Significant transactions and business relationships			
21.	Financial roles and responsibilities			
22.	Likelihood of intentional misrepresentation			
23.	Likelihood of fraud			
24.	Lack of implementation of appropriate internal controls			
25.	Independence and conflicts of interest-threats to independence			
26.	The Firm's ability to complete the engagement with professional competence			
27.	Any other matters:			



# CAF / EAF

(4/4)

Conclusion on client/engagement acceptance or continuance by engagement partner:

\_\_\_\_\_

Signature of engagement partner

Date : \_\_\_\_\_

Concurrence on client/engagement acceptance or continuance by Firm's managing partner, risk management partner, or equivalent:

\_\_\_\_\_

Signature of engagement partner/equivalent

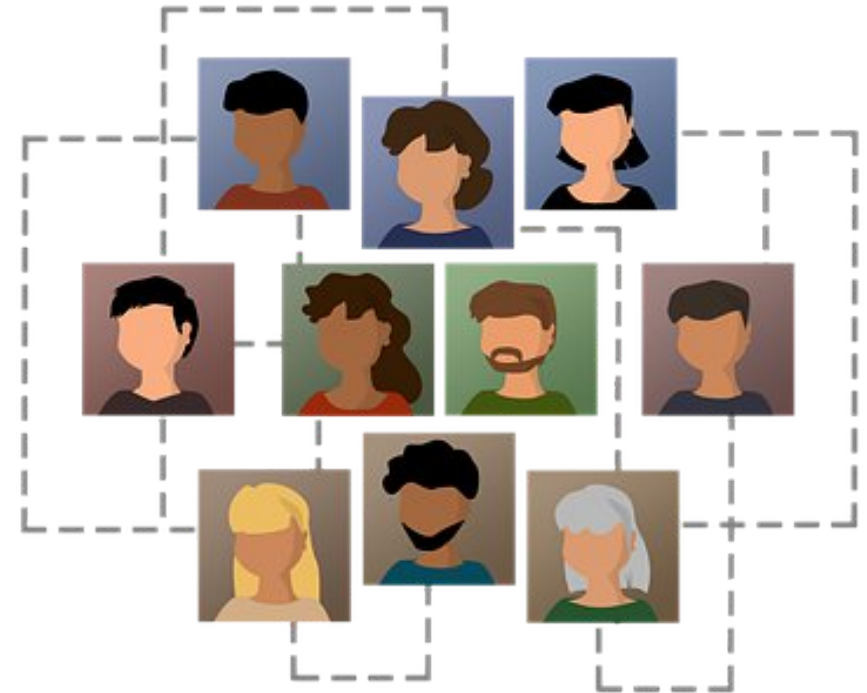
Date : \_\_\_\_\_



# Elements of SQC - 1

## Element – 4: Human Resources

- To provide the reasonable assurance that the firm has sufficient personnel with the capabilities, competence, and commitment to ethical principles
- Such policies and procedures may address the personnel issue such as:
  1. Recruitment,
  2. Performance evaluation,
  3. Career development,
  4. Promotion,
  5. Compensation and
  6. estimation of personnel needs





# Element – 4: Human Resources

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

## Policy 1 – Assign personnel based on the knowledge, skills, and abilities

designate a partner responsible for **assigning personnel to engagements**

requiring approval of partner and manager assignments from the MP in the case of **high-risk or significant client engagements.**

## Policy 2 – Personnel participate continuing professional education and development (CPED) activities

completing external CPED programs including

- **self-study courses,**
- becoming **members** of professional organizations,
- serving on **professional committees,** writing for professional publications, and
- **speaking to professional groups**



# Elements of SQC - 1

## Element – 5 Engagement Performance

- How assignment is to be performed? (professional requirement)
- How team is to be briefed about the objectives of the assignment?
- How to supervise and review the work performed? (tracking the progress, modify planned approach, etc.)
- How to appropriately document the work performed?
- When and how to take Consultation in case of complicated issues?
- Consultation – It includes discussion with the expert within or outside the firm and the firm should ensure that nature, scope and conclusions of consultation are properly documented.

### How to resolve difference of opinion?

#### Difference of opinion may exist between:

Engagement Partner and Reviewer	Engagement Partner and Independent consultants	Engagement Partner and staff
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# Element – 5 Engagement Performance

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

## Policy 1 – Planning for engagements that meets professional, regulatory, and the Firm's requirements

**developing or updating background information** on the client and the engagement and considering **client significance to the Firm.**

developing a **planning document** which includes the various records

## Policy 2 – Qualified engagement team members review work performed by other team members

**evidence of** appropriate **review of documentation** of the work performed, conclusions reached, the financial statements, and the report

**engagement documentation is reviewed** to determine nature, timing, and extent of work performed are appropriate and do not need revision



# Element – 5 Engagement Performance

The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

## Policy 3 – Deal with and resolve differences of opinion, document and implement conclusions reached

all **differences** of professional judgment are **resolved** and that the **report not be released until the matter is resolved**.

**conclusions** reached are appropriately **documented**

## Policy 4 – Consultation is taken when appropriate

**informing personnel** of the Firm's consultation policies and procedures

**documenting the issue** on which consultation was sought and the **results** of the consultation, including any **decisions taken**, the **basis** for those decisions, and how they were implemented



# Element – 5 Engagement Performance

## Engagement Documentation – Property of the firm

- Completion and assembly of final engagement files
- To maintain:
  - confidentiality,
  - safe custody,
  - integrity,
  - accessibility and
  - retrievability of files
- Retention of engagement documentation – for **SEVEN years as per Para 83 of SQC – 1**

## Engagement Quality Control Review (EQCR):

*(To be completed before issuing report)*

- Require EQCR for all audits of financial statements of the listed entities
- Set out criteria for all other audits and reviews of historical financial information, other assurance and related services engagements and evaluation to be done to determine whether EQCR has to be done or not
- To decide the nature, timing and extent of EQCR, criteria for the eligibility of the reviewers and documentation requirements
- To maintain the objectivity of the EQCR (For eg: reviewer is not selected by engagement partner, does not participate or make decisions for engagement team, etc.)



# Elements of SQC - 1

## Element – 6: Monitoring

- The firm should **ensure that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively** and complied within the practice.
- Ongoing **consideration and evaluation** of the system of quality control includes analysis of:
  - **New developments of professional standards** and regulatory and legal requirements
  - **Written confirmation** of compliance on independence
  - Continuing **professional development**
  - Decisions related to **acceptance and continuance** of client relationships and engagements





# Elements of SQC - 1

## Element – 6: Monitoring

Inspection cycle which ordinarily spans for three years to be organized such that the completed engagements of each partner is selected once in a cycle.

At least annually, the firm should communicate the results of monitoring of its quality control system to engagement partners, managing partner or other appropriate personnel.

**Information communicated** shall include:

- Description of **monitoring procedures** performed
- **Conclusion** drawn from such procedures
- Description of **systematic, repetitive and or significant deficiencies** and actions taken to resolve or amend those deficiencies



# Standard on Quality Control (SQC) 1

## Documentation

### The firm should establish policies and procedures requiring

- Appropriate documentation to provide evidence of the operation of each element of its system of quality control.

### How much matters are documented is the firm's decision. For eg:

- **Large firms** may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections.
- **Smaller firms** may use more simpler and informal methods such as manual notes, checklists and forms.

### Factors to consider when determining the form and content of documentation

- **Size of the firm** and the number of offices
- **Degree of authority** both personnel and offices have
- **Nature and complexity** of the firm's practice and organization

### Retention of documents

- For a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation





## Retention – Para 83

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*In the specific case of audit engagements, the retention period ordinarily is **no shorter than seven years** from the date of the auditor's report, or, if later, the date of the group auditor's report."*



# Standards on Auditing (SA)

## Audits of historical financial information





# Standards on Auditing (SA)





# Standards on Auditing (SA)

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# Standards on Auditing (SA)



# Standards on Review Engagement (SRE)

Reviews of historical financial information





# Standards on Assurance Engagement (SAE)

**Assurance engagements other than audits and reviews of historical financial information**



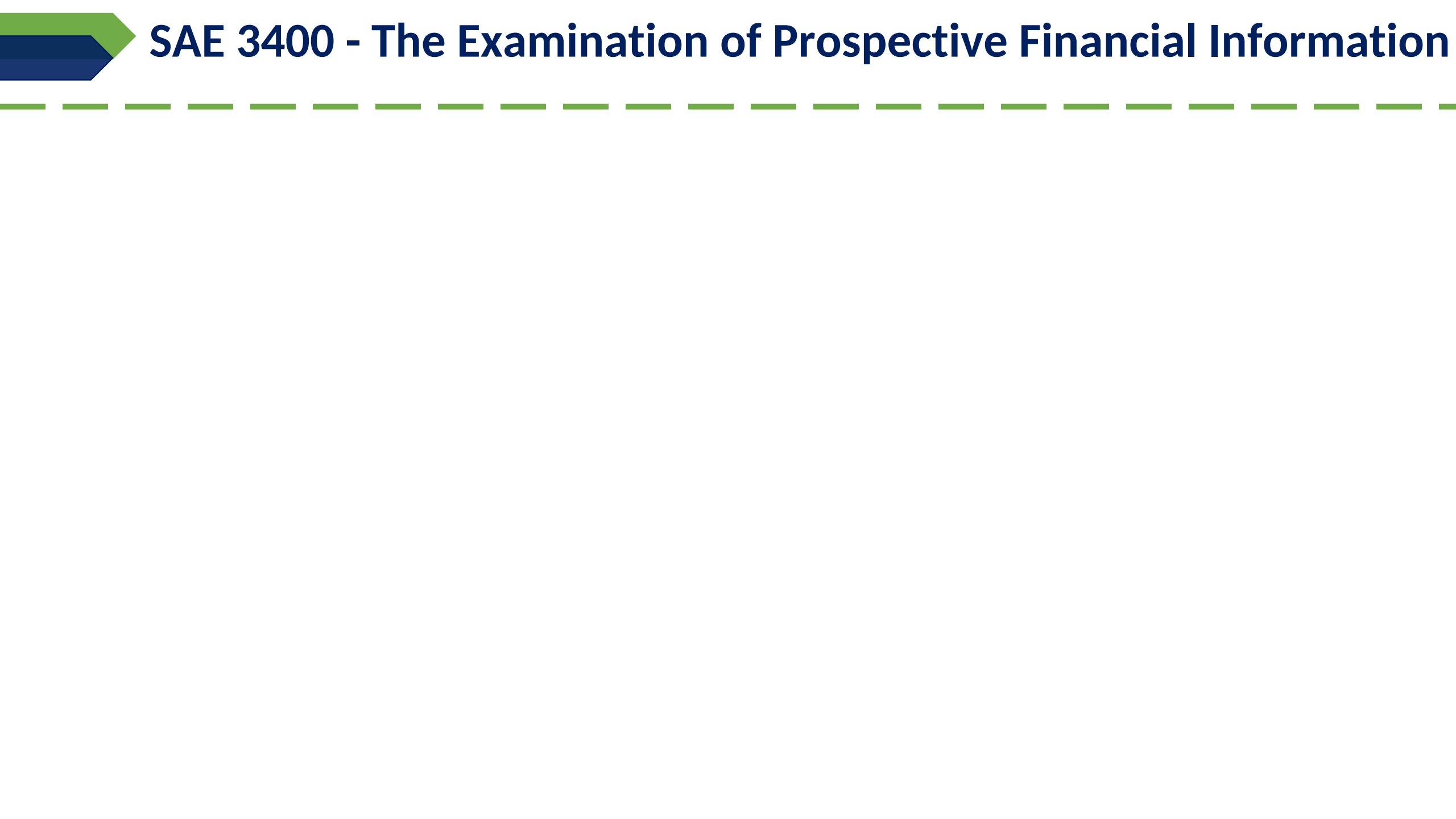




# SAE- 3400

The Examination of Prospective  
Financial Information





# SAE 3400 - The Examination of Prospective Financial Information



# SAE 3400 - The Examination of Prospective Financial Information

## Acceptance of Engagement



## Responsibilities

Management is responsible for the preparation of prospective financial information and the Auditor is required to validate and report on the same.



# SAE 3400 - The Examination of Prospective Financial Information

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## Period Covered





# SAE 3400 - The Examination of Prospective Financial Information

## Knowledge of the Business





# SAE 3400 - The Examination of Prospective Financial Information

## Examination Procedures

- knowledge from previous engagements
- management's competence
- likelihood of material misstatement
- source of information
- stability of entity's business
- engagement Team experience

## Sufficient and Appropriate Audit Evidence

- Management's best estimate assumptions are not unreasonable  
(Eg - External or internal such as government / industry publications, economic forecast, etc.)
- Hypothetical assumptions are consistent with the purpose of information  
(Eg - Sale will increase more than existing capacity, then additional cost of expansion or sub contracting production should be considered)
- PFI is prepared based on assumptions
- PFI is properly presented and assumptions are disclosed



# SAE 3400 - The Examination of Prospective Financial Information

## Documentation

**Working papers will include:**

- ☐ source of information
- ☐ basis of forecast and assumptions made in arriving that forecast
- ☐ evidence supporting the assumptions
- ☐ management representation letter (MRL)
- ☐ audit plan
- ☐ nature, Timing and Extent of procedures
- ☐ reasons in case of modified opinion or withdrawal of engagement





# SAE 3400 - The Examination of Prospective Financial Information

## Written Representation

Management is responsible for identification and disclosure of uncontrollable factors, outstanding litigations, commitments, etc.

## Reasons for modified report

- Presentation and Disclosure of PFI is not adequate (Eg - consequences of any assumption)
- reasonable basis not found for one or more assumption
- preclusion of any procedures considered for examination leads to scope limitation

## Reports

The level of assurance provided by the auditor in case of review engagement under SAE 3400 is **MODERATE** level

Report is provided with negative assurance on assertion “**Nothing has come to our attention**”



# SAE 3400 – What say?

1. The principles laid down in other Standards on Auditing should be used by the auditor, to the extent practicable, in applying SAE 3400.
  - a) **True**
  - b) False
2. Prospective Financial Information is highly \_\_\_\_\_ in nature.
  - a) **Subjective**
  - b) Speculative
3. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future oriented and, therefore, \_\_\_\_\_ in nature, as distinct from the evidence ordinarily available in the examination of historical financial information.
  - a) Subjective
  - b) **Speculative**
4. The auditor would need to be satisfied that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no \_\_\_\_\_ they are clearly unrealistic.
  - a) Indication
  - b) **Reason to believe**





# Standards on Related Services (SRS)

Engagements of related services such as agreed upon procedures, compilation engagements and other related services

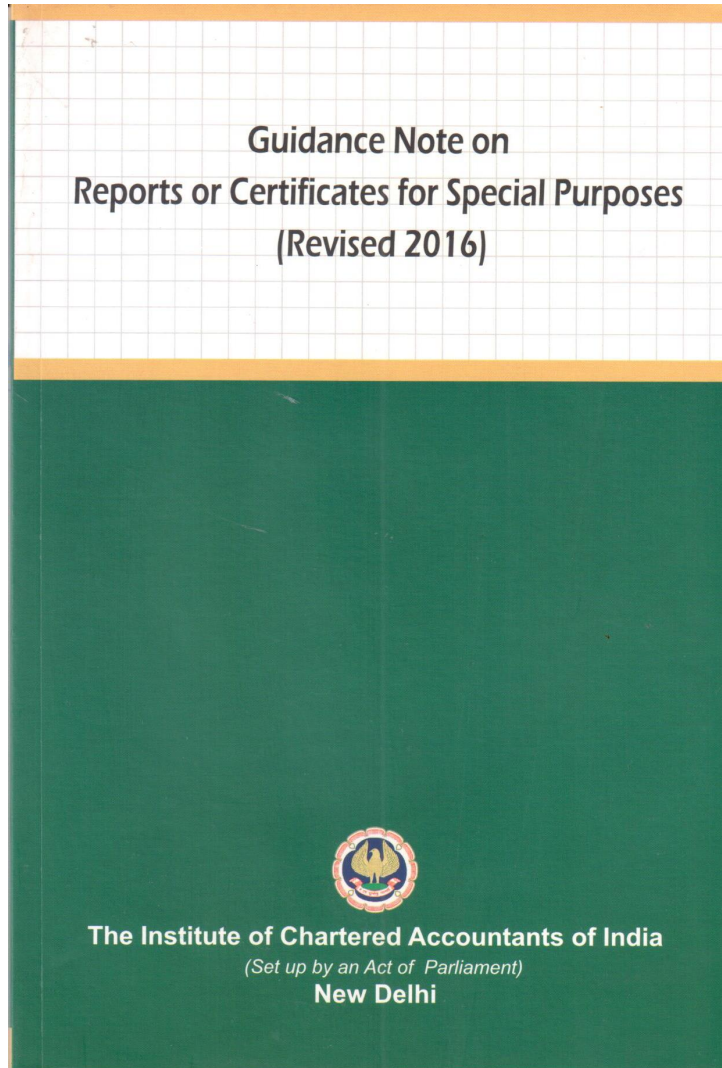


You can refer Engagement and Quality Control Standards - Complete Text –

<https://www.icaai.org/post/auditing-review-and-other-standards-formerly-known-as-aas-complete-text>



# Guidance Note on Reports or Certificates



- Depending upon the nature, timing and extent of procedures that can be performed based upon the facts and circumstances of the case, a report or certificate issued by a practitioner can provide either **reasonable or limited level of assurance**. Therefore, whenever a practitioner is required to give a “certificate” or a “report” for special purpose, the practitioner needs to undertake a careful evaluation of the scope of the engagement.
- Guidance Note covers assurance engagements **other than** audits or reviews of historical financial information, as described in the Framework for Assurance Engagements (Assurance Framework) issued by the ICAI.



# Extract from FAQs on UDIN

23. Is UDIN required by in case of Audit/Limited Review Reports from a Component Auditor to Principal Auditor?

24. Is UDIN required in case of Consolidation of Financial Statements?

25. Whether UDIN is required on Prospective Financial Statements / Information?

As per clause (3) of part-I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice will be deemed to be guilty of professional misconduct if he engages in estimation of earnings contingent upon future transaction in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

As per opinion of the Council, a Chartered Accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts. **The member has to comply with SAE 3400 while drafting the report for such engagements and has to obtain UDIN for the same.**

26. Whether UDIN is required on Provisional Financial Statements / Compilation of Information?

Standard on Related Services (SRS) 4410 "Compilation Engagements" deals with the concept. Provisional Financial Statements / Compilation of Information may be prepared as per this standard. The purpose of this Standard is to establish standards on professional responsibilities of an accountant when an engagement to compile financial statements or other financial information is undertaken and the form and content of the report to be issued in connection with such a compilation so that the association of the name of the accountant with such financial statements or financial information is not misconstrued by a user of those statements or information as having been audited by him.

**The member has to comply with SRS 4410 while preparing Provisional Financial Statements / Compilation of Information and has to obtain UDIN for the same.**



**UNIQUE DOCUMENT IDENTIFICATION NUMBER  
(UDIN)**





The Institute Of Chartered Accountants Of India  
(Set up by an Act of Parliament)  
Western India Regional Council



# Thank You!

Speaker:

**CA. Aniket Talati**

*Past President, ICAI*

*talati & talati llp*  
Chartered Accountants