



Activity Report 2012-13



QUALITY REVIEW BOARD

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

This report has been prepared by the Quality Review Board established under the Chartered Accountants Act, 1949.

<http://www.qrbca.in>

October, 2013



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(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

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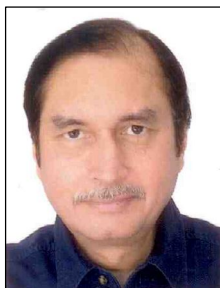
Website: <http://www.qrbca.in>

CONTENTS

| | |
|--|----|
| From the Chairperson's Desk | 5 |
| Executive Summary | 8 |
| List of Abbreviations | 13 |
| Glimpses | 14 |
| | |
| 1. Introduction | 16 |
| 1.1 About the Quality Review Board | 16 |
| 1.2 Composition of the Board | 17 |
| 1.3 Functions of the Board | 18 |
| 1.4 Rules of the Board | 18 |
| 1.5 Procedure for Quality Review of Audit Services of Audit Firms | 19 |
| 1.6 Terms and conditions of services of Chairperson and members of Board and its expenditure | 19 |
| 1.7 Functioning of the Quality Review Board and various Group/Sub-Committees constituted by the Board | 20 |
| | |
| 2. Activities | 24 |
| 2.1 Inspection & Review | 24 |
| 2.1.1 Introduction | 24 |
| 2.1.2 Empanelment of Technical Reviewers | 25 |
| 2.1.3 Industry Specific Experts/Academicians for associating with the Board | 28 |
| 2.1.4 Selection of Audit firms for Quality Review | 29 |
| 2.1.5 Quality Review Process | 34 |
| 2.1.6 Manner of conducting Quality Reviews | 38 |
| 2.1.7 Summary of Observations during the Quality Reviews conducted | 45 |
| | |
| 2.2 Other Recommendations of the Board | 60 |
| 2.2.1 Recommendation to the ICAI for collecting and compiling details of specified audit assignments, on year to year basis, from all the CA firms registered with the ICAI | 60 |
| 2.2.2 Recommendation to the ICAI for an examination of the role of auditors in respect of certain media reports | 64 |
| 2.2.3 Recommendations for appropriate amendments into the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 | 66 |
| | |
| 2.3 Analysis of the Inspection System and Practices of the Members of International Forum of Independent Audit Regulators (IFIAR) | 67 |

| | |
|--|-----|
| 2.4 Events & Workshops | 71 |
| 2.5 International Linkages and Co-operation | 74 |
| 2.5.1 Introduction | 74 |
| 2.5.2 Membership of International Forum of Independent Audit Regulators (IFIAR) | 74 |
| 2.5.3 Developments on establishing international linkages and co-operation with National independent audit oversight authorities from various countries being members of IFIAR | 77 |
| 2.5.4 Developments on Mutual Co-operation with US Public Company Accounting Oversight Board (PCAOB) | 78 |
| 2.5.5 Developments on Mutual Co-operation with European Union (EU) | 79 |
| 2.6 Discussions on Integrated Reporting | 81 |
| 2.7 Infrastructure issues for the Board | 82 |
| 3. Auditors' Report & Financial Statements | 84 |
| 4. Details of Meetings | 89 |
| Quality Review Board Meetings | 89 |
| Meetings of Quality Review Group/ Sub-Committees constituted by the Board | 89 |
| Appendices | |
| A. Procedure for Quality Review of Audit Services of Audit Firms | 91 |
| B. List of Members of International Forum of Independent Audit Regulators (IFIAR) Examined | 103 |
| C. Specified Formats of Annexures to Technical Reviewer's Final Report and Quality Review Program General Questionnaire | 105 |

From the Chairperson's Desk



The importance of financial reporting in providing essential financial information about the company to its shareholders and other stakeholders is universally recognised as an integral and important part of good corporate governance. The auditor's role is to give an independent opinion on the company's financial statements, assessing whether they present a true and fair view of the state of the company's affairs and whether there is any failure to conform to relevant standards. Promoting confidence in corporate reporting is vital to the healthy functioning of business entities and contributes to the overall economic growth. While a strong connection exists between corporate governance, corporate financial reporting and auditing, this synergy needs to be further developed so that it can build faith in the actions of the business entities and also protect investors.

In today's world, financial imbalances, if not checked in time, can balloon out of control and become rampant across the globe, causing widespread economic distress due to the increasing interconnectedness of the world economy. The way in which auditors are regulated is an important component of national and international confidence regarding the financial information which flows to markets. Getting audit regulations benchmarked to international standards in global financial markets requires close co-operation with the main trading partners. The current lack of confidence is partly based on a public perception that a self-regulating profession runs a serious risk of conflict of interest in dealing with its shortcomings. Therefore, credible public oversight over the audit profession is crucial. In the context of jurisdictions like India, the horizon for independent oversight of auditing profession is gaining momentum and setting-up of an independent Quality Review Board is a step in the right direction.

During the period being reported upon i.e., financial year 2012-13 and thereafter till date, a number of important initiatives have been taken by the Board with a view to effectively carry out the functions as entrusted to the Board by the Parliament of India u/s 28B of the Chartered Accountants Act, 1949, details of which have been provided in this report. Apart from conducting inspection and review of audit firms for the first time, the Board also engaged in a number of other activities like workshops and seminars that contribute, directly or indirectly, to the overall quality of auditing in India.

During this period, the Board also faced a lot of challenges in establishing an independent system for inspection and review of audit services of audit firms in India. One of the major challenges was selection of firms for review during the period as there are more than 55000 CA firms registered with the ICAI and, particularly, in view of non-availability of database with the ICAI of various audit assignments performed by these firms. As the responsibilities of audit oversight bodies should, at a minimum, require independent oversight of the audits of public interest entities, it was felt appropriate to initially start the process by selecting audit firms doing statutory audits of listed entities at major indices of the prominent Stock Exchanges in India. Other challenges were in the area of creating awareness amongst stakeholders about the quality review mechanism; availability of Reviewers and other technical experts; and building-up the profile of the Board internationally.

During the financial years 2012-13 and 2013-14 till date, the Quality Review Board has selected a total of 93 Quality Review assignments for initiating reviews of 79 Statutory auditors/Audit firms, registered with the ICAI. Out of the above, 68 companies/entities are public interest entities listed at prominent stock exchanges in India. Twenty are from the public sector and 48 are from the private sector, representing 33 different industries. A total of 45 review reports have been received from the Technical Reviewers. Observations made by them have been summarized in greater detail in this report. Some cases have also been referred to the ICAI and other concerned regulatory authorities for appropriate action. On the basis of these reports, we have started a dialogue with other international oversight audit bodies and also independent oversight audit authorities of our major trading partners. We have made a number of important recommendations to various bodies in India through which we intend to bring about sustained improvement in the overall quality of auditing in India over a period of time.

I would like to emphasize that the Quality Review Board is an independent statutory body established by the Government of India under the Chartered Accountants Act, 1949, passed by the Indian Parliament. The Board has devised its own Procedure for review of audit firms which also empowers the Board to publish the findings observed during the review in any manner considered appropriate as well as to forward its findings to various bodies/authorities/institutions, as found necessary. With a view to ensuring independence in its functioning, the expenditure of the Board is met out of the funds separately allocated by the ICAI, out of its common pool of funds, based upon the budgetary estimates for the expenditure of the Board, as drawn-up by the Board itself. The manner of incurrence of the expenditure is also determined by the Board. Since, there is a statutory requirement on the part of the ICAI to bear the expenditure of the Board which is borne out of its common pool of funds, it ensures that the Board has a stable source of funding, which is secure and free from any undue

influence. The Board has been functioning in a fully independent manner, and is operationally independent from any external interference, of any nature whatsoever.

The overall effectiveness of the Board and the contribution of each member has enabled the Board to achieve its stated objectives and, in particular, I would like to thank all the members of the Quality Review Group and the various Sub-Committees constituted by the Board for their invaluable contribution. I would like to thank the Ministry of Corporate Affairs and the Institute of Chartered Accountants of India for their support in enabling the Board to function smoothly in order to perform the tasks as entrusted to it under the Chartered Accountants Act, 1949. I would also like to thank all the Technical Reviewers empanelled with the Board for their contribution by assisting the Board in carrying out its review work. Last but not the least, I like to commend the role of Mr. Mohit Baijal, Secretary, QRB and other staff members of the Secretariat who have provided excellent support to the Board.

The new Companies Act, 2013, notified by the Government of India recently, proposes to constitute a National Financial Reporting Authority. The setting up of the NFRA fulfills the need to develop a regulatory regime in which high standards of corporate reporting and governance are intelligently and diligently applied. This will go a long way in the healthy functioning of markets for the benefit of business, investors and other stakeholders and enhance our economic strength in competitive markets. The role of a credible public oversight over the audit profession will be crucial in achieving these objectives.

Yours sincerely,

Sd/-

M. C. Joshi

Chairperson, Quality Review Board

Place: NOIDA

Date: 24th October, 2013

Executive Summary

Introduction

Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted the Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

Being an independent statutory body established by the Government of India, the Board has devised its own Procedure for review of audit firms which also empowers the Board to publish the findings observed during the review in any manner considered appropriate as well as to forward its findings to various bodies/authorities/institutions, as found necessary. With a view to ensuring independence in its functioning, the expenditure of the Board is met out of the funds separately allocated by the ICAI, out of its common pool of funds, based upon the budgetary estimates for the expenditure of the Board, as drawn-up by the Board itself and the manner of incurrence of the expenditure is also determined by the Board. Since, there is a statutory requirement on the part of the ICAI to bear the expenditure of the Board and which is borne out of its common pool of funds, it ensures that the Board has a stable source of funding, which is secure and free from any undue influence. The Board has been functioning in a fully independent manner, being operationally independent from any external interference, of any nature whatsoever.

Inspection & Review

The Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve inspection and assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the auditors/audit firms in conducting audit. In accordance with this Procedure, the Board has initiated a system of review of statutory audit services of some of the audit firms auditing accounts of public interest entities in India pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers.

During the financial years 2012-13 and 2013-14 till now, the Quality Review Board had selected a total of 93 Quality Review assignments for initiating reviews of 79 Statutory auditors/Audit firms, registered with the ICAI, of 68 companies/entities, being public interest entities listed at prominent stock exchanges in India, divided into 20 from public sector and 48 from the private sector, representing 33 different industries. Audits of 10 companies/entities were in relation to the financial statements for the years ended on 31 December, 2010 / 31 March, 2011; those of 2 companies were in relation to the financial statements for the year ended on 31 December, 2011; while those of other 56 companies/entities pertained to the financial statements for the year ended on 31 March, 2012. A total of 45 review reports have been received from the Technical Reviewers in respect of the Quality Reviews initiated during the financial years 2012-13 and 2013-14 where various observations were noticed by the Technical Reviewers which have been provided in greater detail in the report.

On the evaluation of various audits of listed companies, a number of issues were common to more than one of these audits mainly in the areas of (a) compliance with accounting standards; (b) compliance with standards on auditing mainly relating to, terms of audit engagement, audit documentation, materiality, audit evidences, audit sampling, management representation letter, using work of another auditor, forming an opinion and reporting on financial statements, misstatement of fact; (c) compliance with the Revised Schedule VI of the Companies Act, 1956 in relation to proper presentation of the financial statements and disclosure of amounts under respective heads in the balance sheet; (d) laws and regulations; (e) quality control, where audit plans need to be strengthened by referencing and tagging all relevant and applicable circulars, notifications, guidelines, sections etc. for quick and handy reference by the respective teams during execution; (f) non compliance with ethical code of conduct; and (g) independence of auditor. In most of such cases, the audit firms have represented that they will take actions to address such deficiencies in future. Arising out of these reports, some cases have been referred to the ICAI and other concerned regulatory authorities for appropriate action, and in some other cases, appropriate advisories have been issued to the concerned audit firms for future compliance under intimation to the concerned regulatory bodies/authorities.

Other Recommendations of the Board

The Board has made a number of important recommendations to various bodies in India through which it is intended to bring about sustained improvement in overall quality of auditing in India over a period of time. The recommendations included:-

- Recommendation to the ICAI for collecting and compiling details of specified audit assignments, on year to year basis, from all the CA firms registered with the ICAI.

- Recommendation to the ICAI for an examination of the role of auditors in respect of certain media reports.
- Recommendations for appropriate amendments into the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006.

Analysis of the Inspection System and Practices of the Members of International Forum of Independent Audit Regulators (IFIAR)

The Board analyzed the inspection systems and practices adopted by the national audit oversight bodies from 41 countries being members of IFIAR.

International Linkages and Co-operation

A major lesson learnt from the crisis in international financial markets is that international co-operation needs to be more straight-forward. The action plan issued at the G20 summit had also called for enhanced co-operation amongst public oversight bodies for auditors. The Quality Review Board appreciates the need to establish international linkages and co-operation with the counterpart international bodies and organisations with a view to sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity.

The International Forum of Independent Audit Regulators (IFIAR), bringing together independent audit regulators from a total of 46 jurisdictions, offers a platform for dialogue with other international organizations that have an interest in audit quality. Significant benefits may be derived from practical co-operation and exchange of specific information between audit regulators and from the common and consistent views or positions on matters of importance. It would also be useful to engage in dialogue with the members of IFIAR with a view to sharing knowledge and experience on a range of issues such as their frameworks for audit regulation and regulatory practices. Hence, the Board initiated dialogue with the IFIAR for obtaining its membership as well as with various independent audit oversight authorities of some of the prominent countries for mutual co-operation.

In addition to inspecting registered public accounting firms located in the United States, the U.S. Public Company Accounting Oversight Board (PCAOB) also inspects registered public accounting firms located in foreign jurisdictions in order to assess those firms' compliance with the Sarbanes-Oxley Act, the rules of the Board, the rules of the Securities and Exchange Commission, and professional standards in connection with their performance of audits, issuance of audit reports, and related matters involving U.S. public companies, other issuers,

brokers and dealers. Under the Act and the Board's rules, non-U.S. registered firms are subject to PCAOB inspections in the same manner as U.S. registered firms. The PCAOB has inspected non-U.S. registered firms since 2005 including audit firms located in India. The PCAOB often enters into formal co-operative arrangements with foreign audit regulators in order to minimize administrative burdens and potential legal or other conflicts. However, in the case of non-U.S. registered firms located in India, till now PCAOB has conducted PCAOB-only inspections. During the period, the Board had also taken note of the PCAOB inspection reports (public reports) of some of their registered public accounting firms located in India. The Board has initiated the dialogue for mutual co-operation with the U.S. PCAOB.

The EU Directive on Statutory Audits provides that firms auditing companies incorporated in a third country but listed on a regulated market in the European Union should come under the independent public oversight of the EU Member State concerned. This concerns companies and auditors from more than 60 jurisdictions outside the European Union. As part of its international agenda, the European Commission has been evaluating the situation of auditor oversight systems in third countries with the aim of allowing international cooperation on the supervision of audit firms in cases where auditor oversight systems in third countries are considered equivalent to that in the EU. Based on their evaluation and discussion with the Indian authorities, India has been included in a transitional period following the adoption of Decision by the EU on the continuation of audit activities of certain third country auditors and audit entities by the European Commission. In January 2011, the European Commission decided in respect of a few countries (including India) that since they have established or are in the process of establishing public oversight, quality assurance, investigation and penalty systems for auditors and audit entities, in order to carry out a further assessment for the purpose of taking a final equivalence decision in respect of such systems, there was a need to obtain additional information from those third countries and territories. Therefore, it decided to extend the transitional period granted by Decision 2008/627/EC in respect of the auditors and audit entities that provide audit reports concerning the annual or consolidated accounts of companies incorporated in those third countries and territories for financial years starting during the period from 2 July 2010 to 31 July 2012. The Board has sent its expression of interest offering to discuss issues of mutual co-operation and interest with the European Union.

Events and Workshops

The Board felt that in terms of the mandate provided u/s 28B of the Chartered Accountants Act, 1949 and with a view to effectively carrying out quality reviews of audit firms in India, it was essential to keep holding consultations/dialogue with the following concerned stakeholders with a view to gaining their views, expectations from the Board, knowledge &

experience of the audit market environment, practical experience of independent audit regulatory activity and other pertinent issues:-

- a) Auditors /Audit firms in India;
- b) Audit Committees;
- c) Government and various other regulatory bodies including sectoral regulators such as MCA, ICAI, C&AG, RBI, SEBI, IRDA, PFRDA, TRAI etc;
- d) Technical Reviewers/other experts empanelled with the Board; and
- e) International bodies and organizations having an interest in audit quality and the counterpart national audit oversight bodies of various countries.

Accordingly, various events were organized in pursuance to the aforesaid, details whereof appear elsewhere in this report. It was felt that these efforts aimed at serving the public interest by adopting best practices would help in enhancing investor protection by improving audit quality.

List of Abbreviations

| | | | |
|--------|--|------------|--|
| ACCA | Association of Chartered Certified Accountants | IRBA | Independent Regulatory Board for Auditors of South Africa |
| AIU | U.K. Audit Inspection Unit | IRDA | Insurance Regulatory and Development Authority |
| AS | Accounting Standards | IT | Information Technology |
| ASIC | Australian Securities and Investments Commission | ITR | Income Tax Returns |
| C&AG | Comptroller & Auditor General | MCA | Ministry of Corporate Affairs |
| CA | Chartered Accountant | NIC | National Informatics Centre |
| CARO | Companies Auditor's Report Order | NIRC | Northern India Regional Council |
| CNX | CRISIL NSE Indices | NRV | Net realizable Value |
| CPAIOB | Certified Public Accountants and Auditing Oversight Board of Japan | NSE | National Stock Exchange |
| CPE | Continuing Professional Education | PFRDA | Pension Fund Regulatory Development Authority |
| DCA | Department of Company Affairs | PIEs | Public Interest Entities |
| EGAIOB | European Group of Auditors Oversight Bodies | PIOB | Public Interest Oversight Board |
| EU | European Union | PSU | Public Sector Undertaking |
| F.Y. | Financial Year | QRB | Quality Review Board |
| FAQs | Frequently Asked Questions | RBI | Reserve Bank of India |
| FCA | Fellow Chartered Accountant | SA | Standard on Auditing |
| FRC | Financial Reporting Council of U.K. | SEBI | Securities and Exchange Board of India |
| FRN | Firm Registration Number | SEC | Securities and Exchange Commission of USA |
| GAAP | Generally Accepted Accounting Principles | SLAASMB | Sri Lanka Accounting and Auditing Standards Monitoring Board |
| H3C | High Council of Statutory Auditors, France | SMCs | Small and Medium Companies |
| ICAEW | Institute of Chartered Accountants in England and Wales | SMEs | Small and Medium Entities |
| ICAI | Institute of Chartered Accountants of India | SQC | Standard on Quality Control |
| ICAS | Institute of Chartered Accountants of Scotland | TRAI | Telecom Regulatory Authority of India |
| IFAC | International Federation of Accountants | U.K. | United Kingdom |
| IFIAR | International Forum of Independent Audit Regulators | U.P. | Uttar Pradesh |
| IICA | Indian Institute of Corporate Affairs | U.S. PCAOB | United States Public Company Accounting Oversight Board |
| IIRC | International Integrated Reporting Committee | VAT | Value Added Tax |
| IOSCO | International Organisation of Securities Commission | W.e.f | With effect from |
| IPO | Initial Public Offer | WDV | Written Down Value |

Glimpses

Glimpses of Meetings of Quality Review Board



Photographs taken during Interactive video-conferencing organized by the Quality Review Board with the Technical Reviewers on 20th April, 2013 at ICAI Bhawan, New Delhi and at ICAI's Regional Offices at Mumbai, Chennai and Kolkata.



Photographs taken during Workshop organised by Ludhiana Branch of NIRC of the ICAI held on 6th May, 2013 at Ludhiana.



Photographs taken during interactive meeting of the Members of the Quality Review Board with the Audit Firms held on 20th May, 2013 at New Delhi.



Photographs taken during Workshop on Quality Review hosted by Hisar Branch of NIRC of the ICAI held on 31st August, 2013 at Hisar.



1. Introduction

1.1 About the Quality Review Board (the 'Board')

1.1.1 Under Sec. 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government is empowered to constitute a Quality Review Board consisting of a Chairperson and ten other members. The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by Sec. 28A of the Chartered Accountants Act, 1949, by Notification GSR. 448 (E) dated 28th June, 2007. The Central Government then re-constituted the 2nd Quality Review Board vide Notification No. GSR 38(E) dated 19th January, 2011 in the Gazette of India: Extraordinary as amended vide Notification Nos. GSR 684 (E) dated 14th September, 2011, GSR 441(E) dated 12th June, 2012, GSR 486 (E) dated 21st June, 2012 and GSR 810 (E) dated 5th November, 2012.

1.1.2 The Chairperson and members of the Board are appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. Five members of the Board are nominated by the Council of the Institute of Chartered Accountants of India (ICAI) and the Chairperson and other five members are nominated by the Central Government.

1.1.3 The composition of the Board duly incorporates representation from the Ministry of Corporate Affairs, Government of India, Comptroller & Auditor General of India, Reserve Bank of India (Banking sector regulator of India), Securities & Exchange Board of India (Financial markets regulator of India), apart from the nominees of the Council of the ICAI amongst others.

1.2 Composition of the Board

1.2.1 The current composition of the Board consists of the following:-

Nominees of the Central Government

1. Mr. M. C. Joshi, IRS (Retd.), Former Chairman, Central Board of Direct Taxes, Ministry of Finance, Government of India, NOIDA – Chairperson (wef 21.6.2012)
2. Mr. A. N. Chatterji, Ex-Dy. Comptroller & Auditor General of India, Kolkata- Member
3. Mr. Manoj Kumar, IAS, Joint Secretary, Ministry of Corporate Affairs, Government of India, New Delhi – Member (wef 14.9.2011)
4. Mr. V. S. Sundaresan, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member (wef 5.11.2012)
5. Mr. Gautam Guha, Director General (Commercial-I), Office of the Comptroller & Auditor General of India, New Delhi – Member (wef 12.6.2012)
6. Dr. Sathyan David, Chief General Manager, Department of Banking Supervision, Reserve Bank of India, Mumbai – Member¹

Nominees of the Council of the ICAI

7. Mr. Amarjit Chopra, FCA, New Delhi – Member
8. Mr. G. Ramaswamy, FCA, Coimbatore – Member
9. Mr. Sanjeev Maheshwari, FCA, Mumbai- Member
10. Mr. Sumantra Guha, FCA, Kolkata- Member
11. Mr. Vijay Kumar Garg, FCA, Jaipur- Member

Special Invitees

12. Mr. Prithvi Haldia, Past Council Member, ICAI – Special invitee
13. Mr. T. Karthikeyan, Secretary, ICAI– Special invitee
14. Mrs. Renuka Kumar, IAS, Joint Secretary, Ministry of Corporate Affairs, New Delhi – Special invitee

Secretary to the Board

Mr. Mohit Baijal

Auditors for the financial year 2012-13

M/s Budhraja Adlakha & Co., Chartered Accountants (FRN 005154N)

¹ Vide letter dated 20.8.2013, the RBI has nominated Mr. R. K. Panda, General Manager, RBI to be member on QRB in place of Dr. Sathyan David for which a Gazette Notification is yet to be issued.

1.3 Functions of the Board

1.3.1 As per Sec. 28B of the Chartered Accountants Act, 1949, the Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

1.4 Rules of the Board

1.4.1 Government of India has, in exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949 (38 of 1949), made 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'.

1.4.2 Rule 6 of Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 specifies that the Board may, in discharge of its functions: –

- (a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- (b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;
- (c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;

Provided that where the Board does not receive the information called for by it from any Member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board.

Provided further that where the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (1 of 1956), the Board may

request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

(d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;

(e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

1.5 Procedure for Quality Review of Audit Services of Audit Firms

1.5.1 In exercise of the aforesaid Rule 6, the Quality Review Board has issued the detailed Procedure for Quality Review of Audit Services of Audit Firms (the 'Procedure') specifying the scope of review, manner of review, criteria for selection of audit firms, review team composition, reporting, confidentiality and other aspects. The Procedure can be easily accessed at the website of the QRB at <http://www.grbca.in>. In terms of this Procedure issued by the Board, the Board has initiated the system of independent review/inspection of quality of audit services of audit firms in India. A copy of the Procedure is enclosed at **Appendix A**.

1.6 Terms and conditions of service of Chairperson and Members of Board and its Expenditure

1.6.1 As per Sec. 28D of the Chartered Accountants Act, 1949:

- The terms and conditions of service of the Chairperson and the members of the Board and their allowances are governed by 'The Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 published in the Gazette of India, Extraordinary, Part II, section 3, sub-section (i) dated 5th December, 2006 vide Notification No. G.S.R. 735(E) dated 27th November, 2006 and as amended by Gazette Notifications issued by the Ministry of Corporate Affairs, Government of India vide No. G.S.R. 152(E) dated 5th March, 2009 and vide No. G.S.R. 8(E) dated 11th January, 2012.
- The expenditure of the Board shall be borne by the Council of the Institute of Chartered Accountants of India. The Quality Review Board at its meeting held on 27th August, 2012, had a detailed discussion on the current position and in order to

have greater independence in its functioning, decided that the ICAI may transfer the funds allocated for the expenditure of the Board at the beginning of the financial year to the QRB and QRB may incur expenditure out of the funds so allocated and transferred with the approval of the Chairperson, Quality Review Board. Accordingly, the expenditure of the QRB is being met out of the funds so allocated by the ICAI. It was further decided that the QRB may keep such books of accounts as may be considered appropriate and also get them audited. For this purpose, O/o C&AG had suggested the names of three firms of Chartered Accountants out of the panel of CA firms maintained by that office for appointment as auditors to Government Companies/ Corporations, out of which the Board selected M/s Budhraj Adlakha & Co., Chartered Accountants (FRN 005154N) to act as Auditor of the Board for the financial year 2012-13.

1.7 Functioning of the Quality Review Board and various Group/Sub-Committees constituted by the Board

1.7.1 During the financial year 2012-13 and thereafter, a total of eight meetings of the Quality Review Board have been held under the Chairmanship of Mr. M. C. Joshi, IRS (Retd.) & Former Chairman, Central Board of Direct Taxes who was appointed as Chairman of the Board by the Central Government vide Notification No. GSR 486 (E) dated 21st June, 2012. Details of various activities carried out by the Board and its meetings held during the period under report appear elsewhere in this report.

1.7.2 During the period, a **Quality Review Group** was constituted by the Board, in terms of Para 9 of the Procedure for Quality Review of Audit Services of Audit Firms issued by it, consisting of the following members with a view to reviewing the quality of audit services of audit firms, in consultation with the Technical Reviewers, if required, as well as suggesting various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submitting its recommendations to the Board:-

- a) Mr. Gautam Guha, Director General (Commercial)-I, O/o the C&AG – Convenor
 - b) Mr. Amarjit Chopra, FCA, Past President, ICAI
 - c) Mr. V. S. Sundaresan, Chief General Manager, SEBI
- Mr. Mohit Bajjal, Secretary, QRB provided necessary secretarial and technical assistance to the Group.

1.7.3 During the financial year 2012-13 and thereafter, a total of six meetings of the Quality Review Group were held, details whereof appear separately in this report, whereat various reports of the Technical Reviewers on the quality reviews of various audit firms performed by them were considered by the Group in terms of the Procedure for Quality Review of Audit Services of Audit Firms and its recommendations were submitted to the Quality Review Board.

The Group had also made recommendations to the Board with regard to the reporting formats and other requirements, from time to time, with regard to the quality review assignments.

1.7.4 During the period, a **Sub-Committee – I** was constituted by the Board consisting of the following:-

- a) Mr. Amarjit Chopra, FCA, Past President, ICAI – Convenor
- b) Mr. Gautam Guha, Director General (Commercial)-I, O/o the C&AG
- c) Mr. Vijay Kumar Garg, FCA, Central Council Member, ICAI

Mr. Mohit Baijal, Secretary, QRB provided necessary secretarial assistance to the Sub-Committee.

1.7.5 The Sub-Committee - I was constituted to perform, inter alia, the following functions and submit its recommendations for further consideration by the Board:-

- (i) To recommend selection of audit firms for quality review of their audit services and allotment of Quality Review work to the Technical Reviewers.
- (ii) To recommend Technical Reviewer/s that may be empanelled with the Quality Review Board and suggest measures as may be considered appropriate to further broaden the panel and issues connected therewith.
- (iii) To recommend Industry specific experts/ academicians for associating with the Quality Review Board.
- (iv) To perform such other functions as may be prescribed from time to time.

1.7.6 During the financial year 2012-13 and thereafter, a total of five meetings of the Sub-Committee-I were held, details whereof appear elsewhere in this report. During the period, the Sub-Committee, from time to time, made its recommendations to the Board for selection of audit firms for their quality review in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the Board. The Sub-Committee also made recommendations to the Board, from time to time, for assignment of quality review to the respective Technical Reviewers empanelled with the Board. The Sub-Committee also considered the applications received from the Chartered Accountants for empanelment as a Technical Reviewer with the Board in terms of the eligibility criteria laid down by the Board for their empanelment and

made its recommendations to the Board for empanelment of Technical Reviewers and industry specific experts. A total of 32 Technical Reviewers were empanelled with the Board for the financial year 2012-13 while a total of 49 Technical Reviewers are empanelled with the Board for the financial year 2013-14. The Sub-Committee also made recommendations to the Board for further broad-basing the panel of Technical Reviewers maintained with the Board with a view to having sufficient number of Technical Reviewers from all parts of the country.

1.7.7 During the period, a **Sub-Committee – II** was constituted by the Board consisting of the following to look into all the issues arising from time to time relating to eligibility of Technical Reviewers to perform quality review assignments and the Sub-Committee could take appropriate decisions which may later on be informed to the Board for noting:-

- a) Mr. Amarjit Chopra, FCA, Past President, ICAI – Convenor
- b) Mr. Gautam Guha, Director General (Commercial)-I, O/o the C&AG

Mr. Mohit Baijal, Secretary, QRB provided necessary secretarial assistance to the Sub-Committee.

1.7.8 During the financial year 2012-13 and thereafter, the Sub-Committee, from time to time, considered all such issues which arose relating to the eligibility of Technical Reviewers to perform particular quality review assignments which were later informed to the Board, from time to time. A meeting of the Sub-Committee was also held, detail whereof appear elsewhere in this report.

1.7.9 During the period, a **Sub-Committee – III** was constituted by the Board consisting of the following to suggest a format for recommending to the ICAI for collecting and compiling details of statutory audit assignments and other such details, on year to year basis, from the CA firms registered with the ICAI:-

- a) Mr. Gautam Guha, Director General (Commercial)-I, O/o the C&AG – Convenor
- b) Mr. G. Ramaswamy, FCA, Past President, ICAI
- c) Mr. Sanjeev Maheshwari, FCA, Central Council Member, ICAI
- d) Mr. Prithvi Haldea, Past Council Member, ICAI

Mr. Mohit Baijal, Secretary, QRB provided necessary secretarial assistance to the Sub-Committee.

1.7.10 During the financial year 2012-13 and thereafter, one meeting of the Sub-Committee was held, detail whereof appear elsewhere in this report, whereat the Sub-Committee submitted its recommendations to the Board suggesting a format for recommending to the ICAI for collecting and compiling details of statutory audit assignments and other such details, on year to year basis, from the CA firms registered with the ICAI.

1.7.11 During the period, a **Sub-Committee – IV** was constituted by the Board consisting of the following for working out a detailed Training Module for the Technical Reviewers in line with the best international practices in this regard for further consideration by the Board and to recommend to the Board a draft Manual containing various Quality Review processes, Questionnaire, Reporting Formats and a set of FAQs for the Technical Reviewers:-

- a) Mr. Gautam Guha, Director General (Commercial)-I, O/o the C&AG – Convenor
- b) Mr. Sanjeev Maheshwari, FCA, Central Council Member, ICAI
- c) Mr. Sumantra Guha, FCA, Central Council Member, ICAI
- d) Mr. Vijay Kumar Garg, FCA, Central Council Member, ICAI

Mr. Mohit Baijal, Secretary, QRB provided necessary secretarial assistance to the Sub-Committee.

1.7.12 During the period, the Sub-Committee has been examining the necessary Manual and other such material issued by the Institute of Chartered Accountants of India in terms of the Peer Review mechanism established by it for its practicing members. The Sub-Committee has also requested the following international audit oversight bodies requesting them to provide their literature/material on the subject with a view to enabling it to draw its own Manual and other literature in line with the best international practices:-

- The Australian Securities and Investments Commission
- Securities Commission, Brazil
- Canadian Public Accountability Board
- High Council for Statutory Audit, France
- Certified Public Accountants and Auditing Oversight Board, Japan
- The Financial Supervisory Authority of Norway
- Independent Regulatory Board for Auditors, South Africa
- Supervisory Board of Public Accountants, Sweden
- Financial Reporting Council of United Kingdom
- U.S. Public Company Accounting Oversight Board

2. Activities

2.1 Inspection & Review

2.1.1 Introduction

2.1.1.1 Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted a Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2.1.1.2 In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review.

2.1.1.3 In terms of the aforesaid Rule 6, the Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve inspection and assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the auditors/ audit firms in conducting audit.

2.1.1.4 In accordance with this Procedure, the Board has initiated a system of review of statutory audit services of some of the audit firms auditing accounts of public interest entities in India pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers.

2.1.2 Empanelment of Technical Reviewers

2.1.2.1 The Quality Review Board decided to seek the services of members of the ICAI, meeting the following basic criteria, to function as Technical Reviewers for the Board in terms of the aforesaid Procedure for Quality Review of Audit Services of Audit Firms issued by it:-

- should possess minimum fifteen years of post qualification experience as a chartered accountant and should be currently active in the practice of accounting and auditing;
- should have handled at least ten statutory audit assignments as a signing partner/proprietor of entities having annual turnover of rupees fifty crores and above during the last five financial years;
- should not have any disciplinary proceeding pending or initiated under the Chartered Accountants Act, 1949 or penal action pending or initiated under any other law during last 5 financial years and/or thereafter; and
- should not currently be a Member of the ICAI's Central Council/Regional Council/Branch level Management Committee.

2.1.2.2 An announcement inviting applications, in the prescribed form, from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board was issued and hosted at the website of the QRB. The ICAI was also requested to give wider publicity to it by hosting it prominently at its website/Journal/Notice Boards/Newsletters & websites of all the Regional Councils/Branches of the ICAI and by sending it to its members by way of a mass email and other such appropriate means. In response to this announcement, applications were received from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board. ICAI had provided verification of all the Chartered Accountants, identified for empanelment as Technical Reviewers with the Board, with regard to any disciplinary action/proceeding taken or pending against them or their firms during the last 5 financial years and/or thereafter as well as details of their network firms. It was further felt that as the Board intended to complete inspection and assessment of quality of audit and reporting by Statutory auditors/audit firms auditing accounts of public interest entities in India such as NSE Nifty-50/NSE CNX 100 companies, it would be appropriate if CAs having varied experience including at least central statutory audit of Banks and/or statutory audit of public companies/Govt. companies were selected for empanelment as Technical Reviewers.

2.1.2.3 On the basis of the recommendations of Sub-Committee, the Board approved a list of 32 Chartered Accountants for empanelment as Technical Reviewers for the financial year 2012-13 on the basis of the following guidelines:-

- as meeting the criteria laid down by the Board in this regard and as recommended by the Sub-Committee in the light of further eligibility conditions as aforesaid;
- in respect of whom, as on date, no disciplinary action/proceeding/s were taken/pending against them or their firms or any other partner of their firms during last 5 financial years and/or thereafter as per information provided by the ICAI; and
- from whom complete details, as required, had also been received.

2.1.2.4 However, it was felt that in order to have an appropriate quality review system to be able to conduct reviews on a periodic basis; ensure that reviewers have appropriate professional education and relevant experience in statutory audit and financial reporting etc.; and assure that the selection of reviewers was done in a manner which ensured that there was no conflict of interest between the reviewers and the statutory auditors/ audit firms under review, there was need to have a large number of appropriate Technical Reviewers spread throughout the country sufficient to carry out the reviews over a period of time. Accordingly, with a view to further augment the panel to atleast about 100-150 Chartered Accountants, an announcement and Application Form for Empanelment as a Technical Reviewer with the Quality Review Board was hosted on the website (<http://www.qrbca.in>) of the Quality Review Board. Further, ICAI was also requested to give wider publicity to it. Accordingly, the announcement was also hosted on the website (<http://www.icai.org>) of ICAI and also included in the October, 2012 issue of the ICAI Journal 'The Chartered Accountant'. Further, another announcement was issued inviting experts or persons with industry specific experience and academicians possessing knowledge of the industry or accountancy for associating with the Quality Review Board.

2.1.2.5 The Board further re-constituted **Sub-Committee-I** of its members during November, 2012 with a view to considering the applications being received in response to these advertisements with a view to advise the Board for their empanelment. The Sub-committee was further advised to suggest appropriate measures to further broad base the panel of Technical Reviewers with the Board to have sufficient number of Technical Reviewers from all parts of the country and to suggest whether, in future, there should be some special criteria in order to attract senior people from the profession to act as Technical Reviewers for the Board. The Sub-Committee considered the applications received and made its recommendations to the Board.

2.1.2.6 Based upon the recommendations made by the Sub-Committee, the Board felt that, with a view to further broad base the Panel of Technical Reviewers maintained with the Board, having sufficient number of Technical Reviewers from all parts of the country; in view of the responses received from Chartered Accountants to the applications invited for their

empanelment; and in the light of the currently prevailing audit environment in the country, after detailed deliberations, apart from the other eligibility conditions, **the experience criteria laid down by the Board for empanelment of Technical Reviewers may be replaced by the following experience criteria in future:-**

- Have minimum fifteen years of post qualification experience as a chartered accountant;
- is currently active in the practice of accounting and auditing; and
- handled as a signing partner/proprietor at least five statutory audit assignments as a Central Statutory Auditor of Banks/Statutory Auditor of Public Limited/Government Companies having annual turnover of rupees fifty crores and above during any five consecutive financial years.

2.1.2.7 Upon consideration of the various applications received, the Sub-Committee-I further decided to recommend empanelment of Chartered Accountants to act as Technical Reviewers for the Board for the financial year 2013-14, who:

- have satisfied the criteria laid down by the Board for empanelment as Technical Reviewer;
- have provided all the details, as required; and
- in respect of whom the ICAI has also informed that no disciplinary action/proceeding has been taken or pending against them or their firms or any other partner of their firms during last 5 financial years and/or thereafter as well as details of their network firms.

2.1.2.8 The Sub-Committee-I further recommended to grant extension of one year during financial year 2013-14 to some of the Technical Reviewers empanelled with the Board after reviewing their performance with regard to conduct of Quality Review assignments performed during the financial year 2012-13, if any, and other pertinent issues, subject to a) their consent; b) furnishing an affidavit for meeting the criteria laid down by the Board for their empanelment; and c) ICAI verification of the details of such Chartered Accountants with regard to any disciplinary action/proceeding taken or pending against them or their firms or any other partner of their firms during last 5 financial years and/or thereafter.

2.1.2.9 **Based upon the recommendations made by the Sub-Committee, the Board approved a list of Chartered Accountants for empanelment as Technical Reviewers with the Board for the financial year 2013-14. Currently, a total of 49 Chartered Accountants are empanelled as Technical Reviewer with the Board for the financial year 2013-14.**

2.1.3 Industry Specific Experts/Academicians for associating with the Board

2.1.3.1 Applications were also invited from industry specific experts/ academicians for associating with the Quality Review Board and an announcement was also hosted at the website of Quality Review Board (<http://www.qrbca.in>).

2.1.3.2 The Board also discussed on the possible role of the industry specific experts/ academicians in the entire review exercise. After detailed deliberations in the matter, the Board decided that initially some briefing sessions/meetings of some of the industry specific experts with the Technical Reviewers empanelled with the Board may be organized which would set the stage for evolving the precise role and function of such industry specific experts in the review exercise.

2.1.4 Selection of Audit firms for Quality Review

2.1.4.1 Para 8 of the 'Procedure for Quality Review of Audit Services of Audit Firms' issued by the Board (hereinafter 'Procedure') provides the following criteria for selection of audit firms:

"8. Quality Review may be introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be on the basis of following criteria:

(a) Criteria based on companies whose accounts have been audited:

- i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected on the basis of one or more of the following:-
 - random selection;
 - on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
 - regulatory concerns pointing towards stakeholder risks;
 - reported fraud or likelihood of fraud;
 - major non-compliances with provisions relating to disclosures under relevant statutes.
- ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either suo moto or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.
- iii. The Board may select any enterprise for suo moto review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for suo moto reviews may, however, be done using methods such as random sampling, selection of particular class or classes of enterprises/audit firms.

- iv. The Secretariat should place the details of the enterprises, selected for review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'.

(b) Criteria based on Audit Firms auditing the accounts:

Selection of audit firms should also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose."

Selection of Audit firms for Quality Reviews initiated during the F.Y. 2012-13

2.1.4.2 Upon consideration of the Group's recommendations with regard to the selection of Audit firms for quality review, the Board had decided that a random selection of 10 Nifty-50 companies from different industries, also including one PSU and one Public Sector Bank, may be made, based upon which selection of appropriate auditors/audit firms, performing statutory audits for the year 2010-11 or 2010, as the case may be, of such companies selected, may be made for a review of their audit services in terms of the Procedure for Quality Review of Audit Services of Audit Firms. Services of the Head of National Informatics Centre (NIC) Cell in the Shastri Bhawan or other suitable IT experts were sought to be taken in performing necessary random selection. However, it was felt appropriate to hold a draw of lots, a time tested traditional method for random selection of companies.

2.1.4.3 Initially, with a view to enabling the Board to complete inspection and assessment of quality of audit and reporting by about ten to fifteen auditors/audit firms auditing accounts of public interest entities in India, the Board had selected a total of 11 companies, by random selection, for taking up review of the audit quality of their statutory auditors/audit firms for the financial year 2010-11 or the year 2010, as the case may be, in terms of the 'Procedure for Quality Review of Audit Services of Audit Firms' issued by the Board.

2.1.4.4 However, subsequently, on a perusal of the Companies Bill, 2011, the Board decided to get further information on the developments relating to the Companies Bill, 2011

regarding Clause 132 for proposed constitution of the National Financial Reporting Authority as, *prima facie*, there appeared to be overlapping in its functions so far as they relate to overseeing the quality of service of the professions associated with ensuring compliance with accounting and auditing standards and the functions as entrusted to the Quality Review Board established under the Chartered Accountants Act, 1949. Initially, the Board felt that pending clarity on the issues involved in view of the aforesaid developments, it would not be possible to complete inspection and assessment of quality of audit and reporting by about ten to fifteen auditors/audit firms auditing accounts of public interest entities in India by March, 2012. It was also decided that as a responsible organization set up by the Ministry of Corporate Affairs, it would be prudent for the QRB to get a clear idea regarding the future role of QRB vis-a-vis the new Companies Bill. It was further decided that, in the meanwhile, all the requisite infrastructure may be developed.

2.1.4.5 Thereafter, upon re-consideration of the aforesaid decision taken in view of the developments relating to the Companies Bill, 2011, the Board, however, felt that since no clear indication was becoming evident regarding the early enactment of the Companies Bill, 2011, it would be proper for the QRB to initiate necessary action in terms of the mandate provided to the Quality Review Board u/s 28B of the Chartered Accountants Act, 1949 and move forward and continue to perform the functions of the Board during the financial year 2012-13 by initiating review of the quality of audit services provided by the members of the Institute.

2.1.4.6 Accordingly, the Board decided that with a view to enabling the Board to initiate inspection and assessment of quality of audit and reporting by auditors/audit firms auditing accounts of public interest entities in India, the companies already selected by the Board by random selection, may be taken up in the first instance, for review of the audit quality of their statutory auditors/audit firms for the year 2010-11 or the year 2010, as the case may be, in terms of the Procedure issued by Board.

2.1.4.7 However, it was felt that continuing with this initiative and given the large number of CA firms registered with the ICAI, the number of Quality Reviews to be conducted during the financial year 2012-13 should be increased. Accordingly, the Sub-Committee constituted by the Board was requested to consider the detailed proposal prepared by the Secretariat for further selection of companies, audit firms and the Technical Reviewers for conducting more Quality Reviews during the financial year 2012-13 following a transparent methodology.

2.1.4.8 Based upon the recommendation of the Sub-Committee-I, the Board decided to approve the following methodology of selection of further companies and their statutory auditors for initiating their Quality Review during the financial year 2012-13:-

- The selection can be made out of the NSE CNX 100 index as on 12.12.2012. CNX 100 tracks the behaviour of combined portfolio of two indices viz., S&P CNX Nifty and CNX Nifty Junior. It is a diversified 100 stock index accounting for 38 sectors of the economy. The CNX 100 represented about 78.60% of the free float market capitalization of the stocks listed on NSE as on September 28, 2012. The traded value for the six months ending September 2012 of all CNX 100 constituents is approx. 70.11% of the traded value of all stocks listed on NSE.
- The companies may be selected out of the list of NSE CNX 100, in the order as available as on the date as aforesaid at the website of the National Stock Exchange (<http://www.nse-india.com>) by selecting every 5th company in the list e.g. 5th, 10th, 15th, 20th, ...95th, 100th. If a company so selected is out of the lot of companies already selected by the Board and in respect of whom it has been already decided to initiate the Quality Review, then the company falling immediately next in the list may be selected without affecting the order of subsequent selections.
- The statutory auditors for the year ending on 31.3.2012 or the year 2011, as the case may be, in respect of the companies so selected, as per above, may be selected for their Quality Review. It was clarified that in case of a joint statutory audit, each of the joint statutory auditors may be reviewed. However, in the case of Banks having a number of joint central statutory auditors for the year, the ones who have been the Central Statutory Auditors of the Bank for the biggest and the smallest circle (in terms of business) may be selected as per the RBI data. Further, in case a statutory auditor/audit firm appears on multiple occasions as the Statutory Auditors of the Companies so selected, its not more than 2 (two) statutory audit assignments may be selected for initiating Quality Reviews during the financial year 2012-13.

2.1.4.9 Pursuant thereto, during financial year 2012-13, a total of 37 Quality Review (QR) assignments were offered to the Technical Reviewers as per the decision of the Board for performing Quality Review of the Statutory Audits conducted by the audit firms auditing accounts of public interest entities in India. Out of these, 14 Quality Review assignments pertained to audits conducted for the financial year 2010-11, or the year 2010, as the case may be, and 23 Quality Review assignments pertained to audits for the financial year 2011-12 or the year 2011, as the case may be, of the various Companies/ entities selected by the Board, in terms of the Procedure issued by Board. The Board assigned the Quality Review work, so selected, to the respective Technical Reviewers empanelled with the Board based upon the methodology as recommended by the Sub-Committee-I.

Selection of Audit firms for Quality Reviews initiated during the F.Y. 2013-14

2.1.4.10 Upon consideration of the tentative plan for initiating Quality Reviews during the financial year 2013-14, the Board decided to approve the following methodology for selection of further companies/ entities, being public interest entities, and their statutory auditors for initiating their Quality Review during the financial year 2013-14 in terms of the Procedure issued by the Board:-

- The selection can be made out of the NSE CNX 100 index as on 1st April, 2013. CNX 100 tracks the behaviour of combined portfolio of two indices viz., S&P CNX Nifty and CNX Nifty Junior. It is a diversified 100 stock index accounting for various sectors of the economy.
- All the companies of NSE CNX 100 index as on 1st April, 2013 may be selected except the companies already selected by the Board for initiating the Quality Review during the financial year 2012-13.
- The statutory auditors for the year ending on 31.3.2012 or the year 2011, as the case may be, in respect of the companies so selected as per above, may be selected for their Quality Review. It was clarified that in case of a joint statutory audit, each of the joint statutory auditors may be reviewed. However, in the case of Banks/PSUs having more than two joint central statutory auditors for the year, the ones who have been the Central Statutory Auditors of the Bank/PSU for the biggest and the smallest circle (in terms of business) may be selected as per the RBI/C&AG data and/or as recommended by the Sub-Committee. Further, in the case of statutory auditors/audit firms appearing on multiple occasions as the Statutory Auditors of the companies so selected, their one statutory audit assignment may be selected for their Quality Review during the financial year 2013-14.
- The Board may select statutory auditors for Quality Review on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc.
- The Board may also select, on case to case basis, statutory auditors in respect of those companies in relation to which serious accounting irregularities or likelihood of fraud in the financial statements may have been highlighted by the media and other reports.

2.1.4.11 Pursuant thereto, during the financial year 2013-14 till now, additional 56 Quality Review (QR) assignments were offered to the Technical Reviewers as per the decision of the Board for performing Quality Review of the Statutory Audits conducted by the audit firms auditing accounts of public interest entities in India for the financial year 2011-12 or the year 2011, as the case may be, of the 42 Companies/ entities selected by the Board, in terms of the Procedure issued by Board. The Board assigned the Quality Review work, so selected, to the respective Technical Reviewers empanelled with the Board based upon the methodology as recommended by the Sub-Committee-I.

2.1.5 Quality Review Process

2.1.5.1 In terms of the Procedure issued by the Board, the quality review is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. The review would involve inspection and assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting the audit.

2.1.5.2 As per Para 9 to 14 of the Procedure issued by the Board which describe the constitution and functioning of the Review Groups, the Board may constitute one or more Quality Review Groups (hereinafter referred to as Review Groups) to conduct preliminary reviews of the general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, in consultation with the Board. There could be two categories of the Review Groups:

- (a) Industry Specific; and
- (b) Generic.

Industry Specific Review Groups may be constituted for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.

Each of the Review Group would be assisted by Technical Reviewer(s), who may be an outsourced service provider. The job of the Technical Reviewer(s) would be to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the auditors/ audit firms in conducting audit.

The report, so prepared by the Technical Reviewer, may be considered at the meetings of the Review Group. The Review Group may also consult the Board on any issue, on which the Group feels that the guidance of the Board is necessary.

The Review Group may complete the review of cases referred to it and submit its report on the same to the Board within the specified period of time. The Board may, however, extend this time limit for submission of reports by the Review Group.

The report of the Review Group shall expressly state the following:

- Particulars of the enterprise;

- A detailed description of the non-compliance with the matters stated in the Terms of Reference, if any;
- A detailed description of the evidences that support the non-compliance; and
- Review Group's recommendations about the actions that are required to be taken in a particular case.

2.1.5.3 As per Para 16 of the Procedure, the Technical Reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report.

2.1.5.4 As per Para 18 of the Procedure, the Technical Reviewer, based upon the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A Reviewer may qualify the report due to one or more of the following:-

- non-compliance with technical standards;
- non-compliance with relevant laws and regulations;
- quality control system design deficiency;
- non-compliance with quality control policies and procedures; or
- non-existence of adequate training programmes for staff.

2.1.5.5 As per Para 19 of the Procedure, following are the basic elements of the Reviewer's Report. The report should contain:-

- (a) Elements relating to audit quality of companies:-
 - i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
 - ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.
 - iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.
- (b) Elements relating to quality control framework adopted by the audit firm in conducting audit:-
 - i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.

- ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.
- iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

2.1.5.6 As per Procedure issued by the Board, in addition to compliance with the statutory provisions and technical standards, the following broad checklist has been specified for Quality Reviews:-

1. Whether the company has prepared and presented the financial statements in the format relevant to it?
2. Examine the accounting policies of the enterprise.
 - Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI.
 - Whether all significant accounting policies that should have been disclosed are disclosed.
 - Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
3. Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards have been made.
4. Where the audit report is qualified:
 - Whether the qualifications have been made in a clear and unambiguous manner;
 - Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same;

- Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements.
5. Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.
 6. Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.
 7. Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
 8. Does auditor monitor compliance with policies and procedures relating to independence?
 9. Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?
 10. Does auditor/audit firm has established procedures for record retention, including security aspects?
 11. Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
 12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

2.1.5.7 The recommendations of the Review Group are then considered by the Quality Review Board in accordance with the Procedure issued by the Board.

2.1.6 Manner of conducting Quality Reviews

2.1.6.1 In respect of the various quality review assignments initiated by the Board during the financial years 2012-13 and 2013-14 in terms of the Procedure issued by the Board, the Technical Reviewers, empanelled with the Board, were assigned the work of conducting the quality review of the selected Statutory auditor/audit firm. The scope & objective of the quality reviews conducted by the Technical Reviewer is as under:-

- a) The Technical Reviewer had to examine whether the Statutory Auditor has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards.
- b) The Technical Reviewer had to examine whether the Statutory Auditor has ensured compliance with the relevant laws and regulations.
- c) The Technical Reviewer had to examine whether the Statutory Auditor/Audit firm has implemented a system of quality control with reference to the applicable quality control standards.
- d) The Technical Reviewer had to examine whether the Statutory Auditor has considered SA 240, "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by The Institute of Chartered Accountants of India (ICAI).
- e) The Technical Reviewer had to examine whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the company mentioned in the captioned subject.
- f) The Technical Reviewer might, within the scope of his review, go beyond the issues covered in the Questionnaire recommended by the Board.

However, it was further clarified that statutory audit of standalone financial statements as well as consolidated financial statements reported upon by the statutory auditor, if any, in respect of the company/entity selected shall be included in the scope of review.

2.1.6.2 The approach to the above stated quality review was as per the approach set-out in the aforesaid Procedure issued by the Board. In addition, they were required to:

- a) follow the approach set out in the Peer Review Manual issued by the ICAI for guidance in respect of the matters not specifically dealt with as above; and
- b) review the audit working papers as defined under the relevant standards laid down by the ICAI. It was further specified that the Technical Reviewer will have access to or take abstracts of the records and documents maintained by the audit firm in relation to the review. However, in order to maintain confidentiality, the Technical Reviewer shall not

make any copies/extracts of the audit firm's Clients' file or records examined by him while conducting Review, as a part of his working papers.

2.1.6.3 While assigning the quality review work to the respective Technical Reviewers, in order to avoid conflict of interest, the following eligibility conditions were specified for carrying out the specified quality review assignment to the Technical Reviewers who were required to submit a declaration of eligibility before starting the assignment with respect to the following conditions:-

- a) You should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last five financial years and/or thereafter.
- b) You or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have been the statutory auditor of the company, as specified, or have rendered any other services to the said company during last five financial years and /or thereafter.
- c) You or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have had any association with the specified statutory audit firm, during the last five financial years and /or thereafter.
- d) You should not be holding any shares or other securities (including options or futures) in the company, as specified.

2.1.6.4 It was also specified to the Technical Reviewers that for carrying out the above stated quality review assignment, they could undertake a maximum of one on-site visit to the Statutory Auditor/Audit firm which shall not extend beyond seven days or, in exceptional circumstances, such other extended period, for specific reasons to be recorded in writing, with the prior approval of the Chairperson, Quality Review Board, which shall not, in any case, extend beyond fourteen days. For this purpose, they could also take the assistance of not more than three assistants who:

- a) shall be chartered accountant;
- b) do not attract any of the disqualifications prescribed under the Chartered Accountants Act, 1949;
- c) shall also have to sign the statement of confidentiality in a prescribed format;
- d) shall have no direct interface either with the audit firm under review or the Board;
- e) should have been working with them for atleast one year as a member;

- f) should not have been associated with the Statutory auditor/audit firm under review and the company/ entity selected during last five financial years and/or thereafter.

2.1.6.5 The Board considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Technical Reviewers were requested to ensure that all information, papers, materials, documents etc. relating to the company/audit firm, as selected and assigned to them, that they will gain during the course of assignment are kept in strict confidence. They were, accordingly, required to send a duly signed statement of confidentiality including by each one of his assistants in a prescribed format. The Board also viewed that there should be no conflict of interest of all those connected with the entire review process. The Board decided that all the persons involved with the entire review process including the members of the Board/Group, Technical Reviewers, his/her assistants, QRB secretariat and others should appropriately disclose to the Board, from time to time, their interests or that of the partners of their firm or their relatives, if any, in relation to the statutory audit firm being reviewed by the Board or the company concerned.

2.1.6.6 During the period, the Board had also specified the Quality Review Program General Questionnaire containing questions concerning various aspects of an audit firm such as Quality control, ethical requirements & audit independence; leadership and responsibilities; assurance practices; client relationships & engagements; human resources, consultation; differences of opinion; engagement quality control review; engagement documentation; audit planning & risk assessment; materiality; audit sampling & other selective testing procedures; audit documentation; audit evidence; written representations; and Auditor's report. A copy of the specified format for the aforesaid Quality Review Program General Questionnaire alongwith the specified formats for the other Annexures to the Technical Reviewer's Final Report is enclosed at **Appendix C**.

2.1.6.7 The Technical Reviewers have been specified the aforesaid Questionnaire, who in turn are required to send it to the concerned audit firm for filling-up the Questionnaire which is required to be commented upon by the concerned Technical Reviewer based upon his examination of the matters.

2.1.6.8 In terms of Para 16 of the Procedure issued by the Board, Technical Reviewers are required to issue a preliminary report to the audit firm also sending its copy to the Board alongwith the response of the audit firm thereon. They are advised to complete the aforesaid quality review assignment and send their final report to the Board, which may be based upon the guidelines as provided and, in terms of the requirements of, the Procedure issued by the

Board within a specified period or such extended period as may be specified. They are also advised to send a duly filled-in Annexure alongwith their final report in a specified format including the aforesaid Questionnaire containing the audit firm's responses and the Technical Reviewer's comments thereon. In addition, they are required to send a copy of their final report to the Statutory Auditor/Audit firm requesting them to send their submissions thereon directly to the Board within a specified period.

2.1.6.9 The following table describes the various stages involved in the conduct of the quality review assignments:-

Quality Review Stages

| | |
|-----|---|
| 1. | Selection of Audit Firm and Technical Reviewer to conduct Quality Review and sending Offer Letter of Engagement to the Technical Reviewer. |
| 2. | Technical Reviewer to convey his acceptance of Letter of Engagement by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by the Technical Reviewer and his assistant/s, if any. |
| 3. | Intimation to the Audit Firm about the proposed Quality Review and acceptance of the assignment by the Technical Reviewer. |
| 4. | Technical Reviewer to send the specified Quality Review Program General Questionnaire to the Audit firm for filling-up and call for additional information from the Audit Firm, if required. |
| 5. | Technical Reviewer to carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent. |
| 6. | Technical Reviewer to send the preliminary report to Audit firm. |
| 7. | Audit firm to submit representation on the preliminary report to the Technical Reviewer. |
| 8. | Technical Reviewer to submit Final report, as the case may be, to the Quality Review Board enclosing therewith the specified Annexures also sending a copy of his final report to the Audit firm requesting them to send their submissions thereon directly to the Board within a specified period. |
| 9. | Review Group to consider the reports of the Technical Reviewer and responses of the Audit firm, if any. |
| 10. | Quality Review Board to consider the report of the Review Group and make recommendations. |

2.1.6.10 As aforesaid, in accordance with the Procedure issued, the Board has initiated a system of review of statutory audit services of some of the audit firms auditing accounts of public interest entities in India pursuant to the aforesaid process comprising selection of the audit firms for review and engagement of Technical Reviewers. **During the financial years 2012-13 and 2013-14 till now, the Quality Review Board had selected a total of 93 Quality Review assignments for initiating reviews of 79 Statutory auditors/Audit firms, registered with the ICAI, of 68 companies/entities, being public interest entities listed at prominent stock exchanges in India, divided into 20 from public sector and 48 from the private sector, representing 33 different industries. An update of the details of various Quality Reviews initiated during the financial years 2012 – 13 and 2013-14 by the Board are as follows:-**

Details of Quality Review assignments initiated during the financial year 2012 – 13

| Sl. No. | Particulars | |
|---------|---|----|
| 1. | Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year 2012 – 13. | 37 |
| 2. | Total number of Companies/entities involved in Quality Review assignments selected as at Sl. No. 1 above. | 26 |
| 3. | Total number of final reports of Technical Reviewers received till date in respect of the assignments as at Sl. No. 1 above. | 31 |
| 4. | Total number of Companies/entities involved in respect of the final reports received as at Sl. No. 3 above. | 25 |
| 5. | Out of the total number of final reports received as at Sl. No. 3 above: | |
| a) | Total number of final reports accepted by the Quality Review Board | 28 |
| b) | Out of the balance final reports: | |
| | - Under consideration of the Quality Review Board | 1 |
| | - Under consideration of the Quality Review Group | 2 |
| | | 3 |
| 6. | Out of the total number of final reports accepted by the Quality Review Board as at Sl. No. 5 a) above: | |
| a) | Total number of final reports taken on record and the matter was considered as complete by informing the concerned Statutory audit firm | 21 |
| b) | Total number of cases referred to the ICAI and other concerned regulatory authorities for appropriate action | 2 |
| c) | Total number of cases where appropriate advisories have been issued to concerned Audit firms for future compliance under intimation to relevant regulatory bodies/ authorities. | 5 |

Details of Quality Review assignments initiated during the financial year 2013 – 14

| Sl. No. | Particulars | |
|---------|--|----|
| 1. | Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year 2013 – 14. | 56 |
| 2. | Total number of Companies/entities involved in Quality Review assignments selected as at Sl. No. 1 above. | 42 |
| 3. | Total number of Statutory Audit assignments accepted for conducting Quality Review by the Technical Reviewers and where Statutory audit firms have also been intimated for initiating their reviews. | 54 |
| 4. | Total number of final reports of Technical Reviewers received till date in respect of the assignments as at Sl. No. 1 above. | 14 |
| 5. | Out of the total number of final reports received as at Sl. No. 4 above: | |
| a) | Total number of final reports accepted by the Quality Review Board | 12 |
| b) | Out of the balance final reports: | |
| | - Sent for the comments of the O/o the C&AG | 1 |
| | - Yet to be considered by Quality Review Group | 1 |
| | | 2 |
| 6. | Out of the total number of final reports accepted by the Quality Review Board as at Sl. No. 5 a) above: | |
| a) | Total number of final reports taken on record and the matter was considered as complete by informing the concerned Statutory audit firm | 7 |
| b) | Total number of cases where appropriate advisories have been issued to concerned Audit firms for future compliance under intimation to relevant regulatory bodies/ authorities. | 3 |
| c) | Others | 2 |

2.1.6.11 An industry-wise list of number of companies/entities, in the public sector and private sector, covered in each industry in respect of the various quality review assignments selected by the Board during the financial years 2012-13 and 2013-14 is as follows:-

| S. No | Name of Industry | Number of Companies/entities in | |
|-------|------------------------------|---------------------------------|----------------|
| | | Public Sector | Private Sector |
| 1 | Automobiles-4 Wheelers | | 3 |
| 2 | Automobiles- 2 & 3 Wheelers | | 2 |
| 3 | Auto Ancillaries | | 1 |
| 4 | Aluminum | | 1 |
| 5 | Banks | 7 | 4 |
| 6 | Brew/ Distilleries | | 1 |
| 7 | Cement and Cement Products | | 4 |
| 8 | Construction | | 3 |
| 9 | Computer Software | | 1 |
| 10 | Cigarettes | | 1 |
| 11 | Diversified | | 1 |
| 12 | Electrical Equipment | 1 | 1 |
| 13 | Finance | | 3 |
| 14 | Finance- Institution | 2 | |
| 15 | Finance- Housing | | 2 |
| 16 | Hotels | | 1 |
| 17 | Gas | 1 | |
| 18 | Gems, Jewellery and Watches | | 1 |
| 19 | Mining | 2 | |
| 20 | Miscellaneous | | 1 |
| 21 | Media & Entertainment | | 1 |
| 22 | Personal Care | | 3 |
| 23 | Paints | | 1 |
| 24 | Power | 2 | 1 |
| 25 | Pesticides and Agrochemicals | | 1 |
| 26 | Pharmaceuticals | | 4 |
| 27 | Refineries | 2 | 1 |
| 28 | Steel and Steel Products | 1 | 1 |
| 29 | Tea and Coffee | | 1 |
| 30 | Telecommunication Services | | 1 |
| 31 | Trading | | 1 |
| 32 | Travel and Transport | 1 | |
| 33 | Oil Exploration/ Production | 1 | 1 |
| | Total | 20 | 48 |

2.1.7 Summary of Observations during the Quality Reviews conducted^{2 3}

Introduction

2.1.7.1 Quality reviews initiated by the QRB are designed to identify and address weaknesses and deficiencies related to how the audits were performed by the Audit firms. To achieve that goal, quality reviews included reviews of certain aspects of selected statutory audits performed by the firm and reviews of other matters related to the firm's quality control system. As stated in the Procedure issued by the Board, the review involved inspection and assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board was able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting the audit.

2.1.7.2 In the course of reviewing aspects of selected audits, a review may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an entity's financial statements do not present fairly the financial position or the results of operations in conformity with the applicable Generally Accepted Accounting Principles (GAAP) and other technical standards. It is not the purpose of a review, however, to review all of a firm's audits or to identify every aspect in which a reviewed audit is deficient. Accordingly, a review should not be understood to provide any assurance that the firm's audits, or its clients' financial statements or reporting thereon, are free of any deficiencies.

2.1.7.3 In addition, inclusion of a deficiency in a review report does not mean that the deficiency remained unaddressed after the Technical Reviewers brought it to the firm's attention. When audit deficiencies are discovered after the date of the audit report, a firm is expected to take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. A Board quality review does not typically include review of a firm's actions to address deficiencies identified in that review,

² Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be constructed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and technical & professional standards.

³ Any references in this report to violations or potential violations of law, rules, technical or professional standards should be understood in the supervisory context in which this report is prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's co-operation in addressing issues constructively should not be construed and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take action.

2.1.7.4 The review procedures included a review of aspects of the firm's auditing of financial statements of selected audit/s. The scope of the reviews was determined according to the Board's criteria, and the firms were not allowed an opportunity to limit or influence the scope. The major focus of the reviews was on compliance with Technical standards, laws & regulations, quality of reporting, firm's quality control framework, office systems and procedures and the Training programme for staff concerned with attestation function including appropriate infrastructure engaged in attestation services. The Technical Reviewer's review would not necessarily disclose all weaknesses in the quality of attestation work or all instances of lack of compliance with applicable Technical Standards. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. The Technical Reviewers expressed an opinion on the implementation of quality control policies and procedures designed to ensure the compliance of Technical standards and maintenance of quality of attestation services and its implementation.

2.1.7.5 In addition to evaluating the quality of the audit work performed on a specific audit, the review included review of certain of the firm's practices, policies, and procedures related to audit quality. The review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. The Technical Reviewers expressed an opinion on whether the system of quality control for the attestation services of the firm under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with the applicable Technical standards and maintenance of the quality of attestation service work they perform.

2.1.7.6 In the process, the Technical Reviewers also identified what they considered to be audit deficiencies and any defects in, or criticisms of the firm's quality control system which are described below.

Observations

2.1.7.7 As already stated, for the first time, the Board initiated a system of review of statutory audit services of some of the audit firms auditing accounts of public interest entities in India during the financial year 2012-13 pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. There are 55,944 CA firms registered with the ICAI as on August 15, 2013 which include 16,566 partnership firms and 39,378 proprietary firms.⁴ However, during the financial year 2012-13, the Quality Review Board had initiated review of a total of 37 Quality Review assignments and during the financial year 2013-14, the Board had selected for initiating reviews of a total of 56 Quality Review assignments. **During the financial years 2012-13 and 2013-14, the Quality Review Board had selected a total of 93 Quality Review assignments for initiating reviews of 79 Statutory auditors/Audit firms, registered with the ICAI, of 68 companies/entities, being public interest entities listed at prominent stock exchanges in India, divided into 20 from public sector and 48 from the private sector, representing 33 different industries.** Audits of 10 companies/entities were in relation to the financial statements for the years ended on 31 December, 2010 / 31 March, 2011; those of 2 companies were in relation to the financial statements for the year ended on 31 December, 2011; while those of other 56 companies/entities pertained to the financial statements for the year ended on 31 March, 2012. A total of 45 review reports have been received from the Technical Reviewers in respect of the Quality Reviews initiated during the financial years 2012-13 and 2013-14 where the following observations by the Technical Reviewers were noticed:-

- **Overview**

On the evaluation of various audits of listed companies, a number of issues were common to more than one of these audits mainly in the areas of (a) compliance with accounting standards; (b) compliance with standards on auditing mainly relating to, terms of audit engagement, audit documentation, materiality, audit evidences, audit sampling, management representation letter, using work of another auditor, forming an opinion and reporting on financial statements, misstatement of fact; (c) compliance with the Revised Schedule VI of the Companies Act, 1956 in relation to proper presentation of the financial statements and disclosure of amounts under respective heads in the balance sheet; (d) laws and regulations; (e) quality control, where audit plans need to be strengthened by referencing and tagging all relevant and applicable circulars, notifications, guidelines, sections etc. for quick and handy reference by the respective teams during execution; (f) non compliance with ethical code of conduct; and (g) independence of

⁴ 'The Chartered Accountant' Journal of the Institute of Chartered Accountants of India, Volume 62, No.3, September, 2013, Page 369.

auditor. In most of such cases, the audit firms have represented that they will take actions to address such deficiencies in future.

• Accounting Standards

Accounting standards are the standards notified by the Ministry of Corporate Affairs, Government of India applicable for companies in India. They are necessary to promote understandability, comparability, relevance and reliability of financial statements, thus lead to a high quality financial reporting.

Certain deficiencies were encountered in case of different companies/entities, while reviewing compliance with the accounting standards, they are as follows:

- the accounting policy disclosure as per AS-1 was incomplete. It did not indicate the event and point of recognition of revenue in respect of goods dealt with by the enterprise, nor did the policy of revenue recognition (AS-9) reflected the recognition of revenue in respect of the subsidy paid by the government as part of sales revenue;
- the accounting of sales, net of VAT/ Sales Tax collected, was not in consonance with the accounting policy of the company;
- valuation of inventory was not done as per the adopted accounting policy of the company;
- mode of valuation of stock in trade (traded goods) was not disclosed in Notes of "Significant Accounting Policies" in both standalone and consolidated financial statements;
- fixed deposits with maturity period of more than 3 months were shown as cash and cash equivalents instead of investing activities in cash flow statement (AS-3);
- excessive disclosure under contingent liabilities, however, it was already shown in the balance sheet under long term loan liability;
- non compliance with the provisions of AS-3, cash flow statement, as non cash transaction on account of provision for doubtful debts and advances was not adjusted from profits to arrive at operating profits, while preparing cash flow statement under indirect method;
- investing activities on account of net profit on sale of short term investments was reported on net basis, instead of separately showing the gross amount of sale and purchase of the investments. However, AS 3 permits disclosure on net basis only when amounts are large and maturities are short, which conditions were not applicable;
- the exchange variation loss, provision for doubtful debts, and provision for subsidy receivable for a particular year were considered to be of exceptional nature and were met by corresponding withdrawal from general reserve. As these were not met from the profit and loss account for the year, the profits for the year were inflated by the corresponding amount not in line with the provisions of AS-5, net profit or loss for the period, prior period items and changes in accounting policies;

- requirement of AS 5 was not met by a company, as it did not make adequate provision for loss on amount advanced to subsidiaries, even though no interest was serviced on loans for several years;
- no separate disclosure was made in notes or accounting policies, that indirect method was used for presenting cash flow statement;
- excess/ short depreciation as a result of non segregation of furniture and fixture, and office equipments was not quantified, as depreciation is charged at different rates on furniture and office equipment under Companies Act, 1956;
- depreciation on the whole value of flat was charged including the value of land, which is not a depreciable asset;
- though the assets were not capitalized in the financial accounts, however, in the calculation of income tax provision, the depreciation on Intangible Assets under development was provided and thus excess claimed, and to that extent, Income Tax provision was also lowered;
- difference between WDV and NRV on fixed assets held for sale to gain/ loss on sale of assets, though the assets were not yet sold;
- an entity did not disclose the basis of translation of Non Monetary Foreign Assets & Liabilities at the year-end (AS-11) in case of integral foreign operations in its schedule "Significant accounting policies";
- a company exercised option under Para 46A of AS-11 during the year, however, the impact of change in the method on the Profit and Loss was not highlighted;
- a company did not comply with the provisions of AS-13 accounting for investments, as it recognized the long term investments in its subsidiary at cost, which was showing a negative net worth for more than 12 years, ignoring the permanent decline in the value thus not making the provision for diminution;
- the Provident Fund administered through the trust set up by the company was treated as Defined Contribution Plan, however, AS-15, Employee Benefits; classifies it as a Defined Benefit Plan;
- operating profits were shown under total consolidated profit, and no segment wise break up was given for this profit, thus, not specifying the amount received as dividends from subsidiaries and other activities;
- the name and relationship of related parties were not disclosed as per AS-18, even though no transactions have been occurred between them;
- the company did not disclose the name of key management personnel along with the remuneration paid in the notes to accounts;
- the company has not complied with the provisions of AS- 21 Consolidated Financial Statements, as it did not provide the list of all the subsidiaries that were consolidated and their details;

- a company did not make the disclosures as required by AS- 26, Intangible Assets;
- movement for capital work in progress and movement for provision of doubtful debts were not shown as required; and
- consolidated accounts of the company were presented first, instead of the standalone accounts, giving an impression that consolidated accounts are standalone. Thus, not complying with Para 25 of the framework for preparation and presentation of Financial Statement issued by ICAI.

● **Terms of Audit Engagement**

As per SA-210, terms of audit engagements issued by the ICAI; the auditor shall agree with the terms of audit engagement with management or those charged with governance, as appropriate, and the agreed terms shall be recorded in an audit engagement letter, which generally includes (a) objective and scope of the audit of financial statements; (b) responsibilities of the auditor; (c) responsibilities of management; (d) identification of applicable financial reporting framework for the preparation of financial statements; and other matters as per the circumstances.

However, in some cases, following deficiencies were observed by the Technical Reviewers:-

- terms of engagement letter were not in accordance with the applicable standard, and though signed by the managing director but had not been approved by the Board of directors;
- firms did not clearly document the terms and conditions of engagement letter which was ambiguous regarding the management's responsibility as to the accuracy of accounts and other reports;
- the engagement letter which informs client of their responsibilities and penalties regarding tax shortfall was not incorporated;
- in another case, the limitation of scope of work relating to unaudited branches was not spelt out in engagement letter though suitably covered in audit report; and
- engagement letter though signed had no stamp/ seal of company official, moreover, the terms and conditions in the letter were neither signed by the client nor the auditor.

● **Audit Documentation**

SA-230, Audit Documentation, issued by the ICAI, requires an auditor to adequately document all the evidences, including the basis and extent of planning, work performed and findings of

the audit, such that the documented evidences support all conclusions, recommendations and opinions.

However, it was observed by the Technical Reviewers that in some cases:

- even though the working papers adequately documented the evidence, findings and conclusions, but its contents were not clear enough to follow the audit trail from audit plan, evidences collected, and conclusions contained in the report;
- documents maintained were insufficient in the areas of the substantive procedures, test of controls designed and performed by the firm, audit sampling, independence of branch auditor or directors, staff confirmation for adherence to policies and procedure free of any self interest;
- the documents/ statements/ details obtained from the client or the third parties were not in proper form in some cases;
- documentation with regard to delegation of audit work to unqualified staff was not maintained; and
- documents were not obtained related to approved gratuity and superannuation funds, nor hard copies of ITRs filed.

The areas of documentation could be improved by reporting all the findings, and documenting cross references, necessary linkings, and control charts etc. incorporating necessary analysis of confirmation called for.

• **Materiality**

SA-320, Audit Materiality; issued by the ICAI, states that the concept of materiality recognizes that some matters, either individually or in the aggregate, are relatively important for true and fair presentation of the financial information in conformity with recognized accounting policies and practices. Determining materiality level for the financial statements taken as a whole, helps guide the auditor's judgments in identifying and assessing the risks of material misstatements and in planning the nature, timing, and extent of further audit procedures.

During the review, it was observed that the reviewed audit firms were found to have generally complied with the concept of materiality and have evaluated that whether the financial report as a whole was free from material misstatements.

- **Audit Evidences**

With a view to examine the competence, relevance and reasonableness of audit evidences, in accordance with SA-500, Audit Evidences; issued by the ICAI, the planning and procedures followed by the audit firm, working paper files maintained by the firm, opinion/consultation relied upon by the firm were considered as to whether the evidences were persuasive and reliable, and whether the audit report included information, findings and conclusions that were supported by competent and relevant evidence.

In a few cases, the firms have not obtained external confirmations as part of substantive audit procedure, and the audit teams did not independently validate certain representations and data provided by the audited entity, which were central to the audit findings.

- **Audit Sampling**

Particularly, in case of audits of private sector banks, on a perusal of the data provided with regard to the total number and value of advances covered in the sample selected by the audit firms viz-a-viz the total population and value of the advances, the selected sample for advances seemed inadequate. The SA 530; Audit Sampling, issued by ICAI, does not in itself provide guidance on what sample sizes are to be used rather leaves it to be determined as a matter of professional judgment by the auditor. It states that the auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. It further states that the sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment.

However, it was also observed that in some cases, the audit firms have not selected the samples on statistical or random basis as given in SA 530, and the size of samples taken by a few firms was insufficient to conclude the results of the whole population.

- **Management representation letter**

SA-580, written representations; issued by the ICAI, states that the written representations are written statements used to corroborate the validity of the premises, relating to management's responsibilities, on which the audit is conducted; and audit evidence obtained with regard to specific assertions in financial statements.

However, it was observed in one case that the Management Representation letter received from the client, did not confirm or certify the mode of valuation of Stock in Trade (traded goods) and words "Stock in Trade".

- **Using work of another auditor**

SA-600, using the work of another auditor; issued by the ICAI, states that when the principal auditor uses the work of another auditor, the principal auditor should determine how the work of other auditor will affect the audit and should expressly state the fact of reliance on the work performed by other auditors.

However, in one case, the statutory auditor though while framing his opinion relied on the work of branch auditors, but did not make any disclosure of this fact.

- **Forming an opinion and reporting on Financial Statements**

SA-700, Forming an opinion and reporting on Financial Statements; issued by the ICAI, states that the auditor should prepare a written report, setting out the audit observations and conclusions in an appropriate form. The report so prepared should be easy to understand; free from ambiguity; supported by sufficient, competent and relevant audit evidence. It should be independent, objective, fair, complete, accurate, constructive and concise, and should contain a clear written expression of opinion on the financial statements. It should also mention the date and place accurately along with the signature of the auditor.

However, in some cases, departures from the provisions of SA- 700 were observed, they are as follows:-

- long format audit report did not bear the date, place and signature of the auditor; further it was signed in the name of the partner whereas it should have been signed in the name of the firm, mentioning the membership number of the partner who has signed the report;
- the firm did not address the auditor's report to the members of the entity as required by the circumstances of the engagement;
- the firm did not report the compliance of all the applicable Accounting Standards in its report;
- in annexure to the auditor's report, all discrepancies noticed and dealt with whether they were material or immaterial were not specified;
- a duly authenticated Trial Balance was not obtained to report that Financial Statements are in agreement with the books of accounts; and

- no disclaimer in audit report was made by the statutory auditor that the balances are subject to confirmation and reconciliation.

- **Misstatement of fact**

SA- 720, the auditor's responsibility in relation to other information in documents containing audited financial statements; issued by ICAI, states that if the auditor becomes aware of an apparent material misstatement of fact, the auditor should discuss the matter with management or those charged with governance, and take appropriate actions.

However, in one case, it was observed that the auditor failed to detect the misstatement of fact in the Corporate Governance Report issued by the company. The company stated in the report that there had been no non- compliance of matters related to capital markets and thus no penalties in this regard; however a notice of penalty or settlement charges was found to be received by the Company, and paid as settlement charges.

- **Professional Skepticism**

Some firms were found to have undertaken a number of good initiatives to reinforce the importance of exercising professional skepticism in the conduct of their audit work. These include additional training and specific communications to staff from key management personnel.

Professional skepticism is an approach to be adopted and demonstrated throughout the conduct of audit, and the audit teams of the audit firms reviewed were found to have taken due care of this approach while undergoing the audit procedures of various companies.

- **Compliance with Revised Schedule VI of the Companies Act, 1956**

Section 211(1) of the Companies Act, 1956 requires all companies to draw up the balance sheet and statement of profit and loss as per the format set out in Schedule VI. As per the notification of Ministry of Corporate Affairs (MCA) dated 30th March 2011, financial statements for all companies have to be prepared using the format given by Revised Schedule VI for financial years commencing on or after 1st April 2011.

Certain cases of deficiencies in regard to the compliance with revised schedule VI have been encountered, such as:-

- the amount payable to employees were shown under trade payables;
- reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period was not disclosed;
- Non Current Assets were shown as Current Assets in the Consolidated Financial statements;
- the line items with nil amounts were not shown on the face of balance sheet, as per the format of Revised Schedule VI;
- bonds/ debentures were disclosed in ascending order instead of the descending order of maturity, or conversion starting from the farthest date;
- phrase "Loan repayable on demand" while disclosing Short Term Borrowings in the financial statement was not incorporated;
- investment apart from the disclosed investments, were not disclosed separately in the investment schedule;
- cheque on hand was shown as part of cash in hand, thus contravening Revised Schedule VI which specifically indicates that the cheque in hand does not form part of cash in hand;
- notes to the consolidated accounts; significant accounting policies, did not disclose the percentage of ownership of preceding year; and
- the market value of quoted investments were not disclosed, though as per Revised Schedule VI the aggregate value of quoted current investments and their market value has to be disclosed.

Though these deficiencies did not result in any material misstatement and did not have financial impact on the results of the company but still adherence should be made to the Revised Schedule VI for preparing the financial statements and wherever required, necessary advisories have been issued to the concerned Audit firms for future compliance under intimation to the relevant regulatory bodies/ authorities.

● **Compliance with Laws and Regulations**

Certain issues were encountered while reviewing the compliance with laws and regulations, they are:

- A firm was found to have not issued certificate for disqualification of directors u/s 274 (1) (g) of Companies Act, 1956 to show whether any director of the company is disqualified for appointment as a director or not;
- the audit procedures in case of a firm did not reveal the procedures carried out to obtain the list of parties covered in the register maintained u/s 301 of the Companies Act, 1956 from the management;

- in one case, the disclosure of audit fees in Statement of Profit & Loss account was not found to be correct. The statutory audit fees paid to Statutory Auditors who audited the Foreign Branches had not been included in the Audit Fees in Statement of Profit & Loss Account;
- one of the companies had provided interest free loan to Employee Welfare Trust, which had been utilized by the Trust for investment in equity shares of the company. But, Section 77(2) of the Companies Act, 1956 prohibits public companies, from providing financial assistance in any form to any person for or in connection with the purchase of its own shares or shares of its holding company. However, there is an exemption under Proviso (b) to section 77(2), if the financial assistance for the purchase of fully paid up shares in itself or its holding company is to be held by trustees for the benefit of employees of the company. But, since the company was in the process of formulating the welfare scheme, and the scheme was not in existence at the time financial assistance was provided, it is not eligible for exemption as per proviso (b) to section 77(2);
- some partners of a firm were partners in a network firm but no details had been provided in respect of audit assignments taken by network firms so it was unable to arrive at specified number of audit assignments of companies which the audit firm took as per section 224 of the Companies Act, 1956;
- a company had created an asset on account of inventory valuation timing difference as per Sec. 145A of Income Tax Act, 1961. The Deferred Tax Liability was created on difference in excise and sales tax amount in the opening and closing stock valuation, and the amount calculated for difference has been offered as Income. However, when valuation of both opening and closing stock has been done in accordance with Sec 145A & AS 2, then no income should have been offered on account of difference in valuation and there should be no timing difference; and
- The consolidated financial statements of the company did not give disclosure in respect of place, and in respect of the foreign subsidiary company.

● Quality Control

The objective of SQC-1 is to provide the firm with reasonable assurance that its personnel comply with applicable professional standards as well as regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate. A firm should have a dedicated quality management system/ team that ensures the firm achieves the quality control objectives. It should establish policies and procedures to provide a reasonable assurance that the policies relating to quality control are relevant and adequate, and there should be periodic inspection of selection of completed engagements.

In some cases, deficiencies were observed with regard to the quality control framework of the firms, such as:

- there had been no inspection of completed engagements by an independent engagement quality control reviewer;
- sufficient documents were not available in respect of the policies and procedures for dealing and resolving differences of opinion within the engagement team, no documents regarding annual firm independence confirmation, independence policies, engagement acceptance and continuance, firm quality control inspection/ review, engagement summary memorandum, calculating performance materiality etc.;
- the engagement partner was found to have signed the accounts for more than seven years, resulting in the non-compliance of SQC-1 which states that, the engagement partner of listed entities should be rotated after a predefined period, normally not more than seven years;
- a firm's policy on quality control has not addressed one of the elements prescribed by SQC 1, i.e. Human Resource (recruitment, performance evaluation, capabilities etc.);
- the audit programme of the firms was generalized rather than client specific;
- the audit plan required improvement in planned risk assessment procedures;
- audit procedure did not reveal the procedures carried out to determine whether the funds raised on short term basis have been used for long term investments;
- the process of maintaining standard checklists, manuals, working papers and other methods to ensure consistency in the quality of each engagement was not standardized;
- details of any tie-up with outside expert or consultant required in respect of audit assignment were not there;
- in one case, the reviewer did not come across the evidences confirming the various assertions like; whether the firm has identified and assessed the risk of material misstatement; how it has documented discussions of significant matters with the management and those charged with governance as per SA-230; how the inconsistency identified during the audit which was inconsistent with the final conclusion was addressed; external confirmations procedures performed as per SA-500,501,505, etc.;
- no trail of the original documents, only the changed documents were there in the file;
- audit strategy, audit plan and audit programme were intermingled by a firm;
- in one case, no documents were available of the communication of policies and procedures by the audit firm to its personnel, as well as the identity and role of the engagement partner to the key members of the client's management and those charged with governance; and
- a firm followed the Questionnaire for auditing Assurance Standards, instead of Standard on Auditing.

- **Audit in relation to Fraud Risks**

Audit in relation to fraud involves that whether the firm has identified frauds or has obtained information that indicates that a fraud may exist, and whether it has communicated these matters on a timely basis to the appropriate level of management or, where applicable, to those charged with governance in order to inform those with primary responsibility for the prevention and detection of fraud matters relevant to their responsibilities.

During the review, there were no such instances observed by the Technical Reviewers in which the firms had not complied with the requirements in relation to fraud risks. Audit firms should continue to pay due consideration to this area of auditing while performing the audit of financial statements.

- **Compliance with Professional Ethical Code of Conduct**

The Code of Ethics issued by ICAI, requires that no person can be the statutory auditor and internal auditor of the same company, at the same time, for the same financial year, as it will not be possible for him to give an independent and objective Audit report. Members are expected to interpret the requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardize their independence. The DCA circular No. 1/1/1976-CL-V also clarifies that no person can be the statutory auditor and internal auditor of the same company, at the same time, for the same financial year.

However, it was observed that in one case, the audit firm was appointed as the statutory auditor of the company for the financial year in which it held majority shares of the entity acting as internal auditor of the same company for a part of the year, thus, being associated with each other and violating the Ethical standards issued by the ICAI.

In one case, no documents were produced to the Reviewer regarding whether professional ethics were complied with or not in the areas of marketing, publicity and advertising by the audit firm.

- **Independence of Auditor**

The Guidance Note issued by the ICAI on "Independence of Auditors" contemplates that it is not possible to define "Independence" precisely. According to it, "independence implies that the judgment of a person is not subordinate to the wishes or directions of another person who might have engaged him or to his own self-interest.

During the review, it was observed that, the firms have generally adhered to the guidance note and have assured independence of auditors, however, in a few cases, the firms had no documents relating to the independence of the branch auditor and written confirmation of compliance with policies and procedures on independence from employees. In one case, amendment was required in the Independence Policy of the firm, to incorporate written confirmation of compliance with the policies and procedures on independence from personnel, at least annually; however the firm obtains such confirmation 'on request'. The firm has noted to modify the policy suitably.

2.2 Other Recommendations of the Board

2.2.1 Recommendation to the ICAI for collecting and compiling details of specified audit assignments, on year to year basis, from all the CA firms registered with the ICAI

2.2.1.1 Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted a Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2.2.1.2 In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review.

2.2.1.3 In terms of the aforesaid Rule 6, the Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve inspection and assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the auditors/ audit firms in conducting audit.

2.2.1.4 The Board felt that database of various audit assignments performed by the CA firms registered with the ICAI should be available with the ICAI. The Board was of the view that such data would facilitate sound regulatory practices by the ICAI. In the absence of availability

of such database with the ICAI, as informed by the ICAI, the Board felt it appropriate to recommend collection of such database by the ICAI. For the purpose, the Board decided to constitute a Sub-Committee-III consisting of the following to suggest a format for recommending to the ICAI:-

- a. Shri Gautam Guha, Director General (Commercial)-I, O/o the C&AG – Convenor
- b. Shri G. Ramaswamy, Past President, ICAI
- c. Shri Sanjeev Maheshwari, Central Council Member, ICAI
- d. Shri Prithvi Haldea, Past Council Member, ICAI

2.2.1.5 While considering the recommendations of the aforesaid Sub-Committee, the Board noted that the Ministry of Corporate Affairs had informed unavailability of the turnover wise details of the number of companies and their statutory auditors with them. However, it was noted that as per the Annual Report of the MCA for the year 2012-13, as on 31.12.2012, out of a total of 8,72,957 companies at work, there were 8,06,666 private limited companies and 66,291 public limited companies.

2.2.1.6 The Board also noted that for the purpose of applicability of Accounting Standards, the enterprises are classified into three categories by the ICAI, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. While Level I enterprises are required to comply fully with all the accounting standards, relaxations are provided to Level II and Level III enterprises with regard to disclosure requirements. Level I enterprises include, *inter alia*, “all commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore”.

2.2.1.7 The Board further noted that certain relaxations/exemptions from the notified Accounting Standards have also been provided to Small and Medium Companies (SMCs) under the Companies (Accounting Standards) Rules, 2006. According to its Rule 2 (f), an SMC is a company which satisfies all the five conditions as at the end of the accounting period:

- i) The equity or debt securities of the company are not listed or in the process of listing on any stock exchange, whether in India or outside India;
- ii) The company is not a bank or financial institution or insurance company;
- iii) **The company’s turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;**

- iv) The company does not have borrowings (including public deposits) exceeding Rs.10 crore at any time during the immediately preceding accounting year; and
- v) The company is not a holding company or subsidiary of a non-SMC company.

2.2.1.8 Upon consideration of the draft format as recommended by the Sub-Committee and in the light of the response from the Ministry of Corporate Affairs, as aforesaid, and after extensive deliberations of all the aspects involved in the matter, the Board decided that the draft format may be further modified to include submission of details of statutory audits of Private Limited Companies having turnover of over Rs. 50 Crores (Rupees Fifty crores).

2.2.1.9 The Board took the view that being a regulatory body as per the Chartered Accountants Act, 1949 "for the regulation of the profession of chartered accountants", it was necessary for the ICAI to have details of various audit assignments performed by the CA firms registered with it. It was also noted that the Council of the ICAI has issued, from time to time, a number of important guidelines for its members including on matters such as:

- A member of the Institute in practice shall not accept, in a financial year, more than the specified number of tax audit assignments u/s 44AB of the Income Tax Act, 1961.
- A member of the Institute in practice shall not hold at any time appointment of more than the specified number of audit assignments of Companies u/s 224 and/or Sec. 228 of the Companies Act, 1956.
- A member of the Institute in practice shall not accept the appointment as statutory auditor of a PSU/Govt. company/Listed Co. and other public company having turnover of Rs. 50 crores or more in a year where he accepts any other work or assignment or service in regard to the same Undertaking/Company on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company.
- Minimum Audit Fee in respect of Audit.

2.2.1.10 It was felt that collection of such database by the ICAI would not only facilitate adoption of sound regulatory practices by the ICAI, but also contribute towards enabling a framework for a continuous and sustained improvement in overall audit quality.

2.2.1.11 Further, it was viewed that such collated database would also help the Quality Review Board in formulating its own inspection practices based upon best international practices in this regard with a view to improving the quality of audit services in India as mandated under the Chartered Accountants Act, 1949. The Board further noted that as per the inspection practices and systems of the audit oversight authorities from major countries being

member bodies of the International Forum for Independent Audit Regulators (IFIAR), in most of such bodies, it was observed that a definition of Public Interest Entities (PIEs) was laid down, which was different from country to country. Audit firms auditing such PIEs are generally inspected, say atleast once in three years, while other firms are inspected, say, atleast once in six years and Big 4 firms are inspected more frequently. As the Board also desired to work upon establishing a similar system sustainable on a long term basis, it was felt existence of the proposed database would be essential for laying down such a system.

2.2.1.12 In the light of the aforesaid and with a view to improving the quality of audit services provided by the members of the Institute, the Board decided to recommend to the Council of the ICAI, in terms of clause (a) of Section 28B of the Chartered Accountants Act, 1949, that ICAI may collect and compile, on an annual basis, in electronic form, details of various audit assignments performed by all the CA firms registered with the ICAI. The Board had further recommended to the Council of the ICAI a format for the purpose for submission to the ICAI by all the CA firms registered with the ICAI, on an annual basis, in electronic form.

2.2.2 Recommendation to the ICAI for an examination of the role of auditors in respect of certain media reports

2.2.2.1 Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted a Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2.2.2.2 In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review.

2.2.2.3 In terms of the aforesaid Rule 6, the Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve inspection and assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the auditors/ audit firms in conducting audit.

2.2.2.4 In terms of the aforesaid Procedure, upon consideration of some of the specific instances in relation to which serious accounting irregularities or likelihood of fraud in the financial statements have been highlighted by the media reports during past about 1-2 years, the Board decided to refer some such cases to the Institute of Chartered Accountants of India for an appropriate examination of the role of Auditors/Chartered Accountants in such cases, if any.

2.2.2.5 It was felt that these initiatives of the Board would go a long way in promoting confidence of investors and other stakeholders in corporate reporting and governance which, in turn, would help in retaining and further enhancing the credibility of the profession in the society.

2.2.3 Recommendations for appropriate amendments into the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006

2.2.3.1 The Board deliberated at length on various issues for recommending appropriate amendments into the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 and had proposed only bare minimum changes in respect of the Travelling Allowances of the Members of the Board absolutely essential to enable the Board to effectively meet the regulatory requirement of inspection and assessment of quality of services offered by the auditors in an independent manner in view of enormous significance of these functions aimed at enhancing investor protection by improving audit quality.

2.3 Analysis of the Inspection System and Practices of the Members of International Forum of Independent Audit Regulators (IFIAR)

2.3.1 The Board discussed the analysis prepared by the QRB Secretariat summarizing the inspection systems and practices adopted by the national audit oversight bodies from 41 countries being members of IFIAR. A list of such bodies is enclosed at **Appendix B**. The main findings of the analysis are:

1. In most of the bodies, majority of the governing body members are non-practitioners. However, in some cases, the practicing auditors are either not allowed to be members of the oversight body or former auditors/practitioners are included with a specified cooling-off period.
2. Funding Arrangements:-
 - a) In 13 bodies, the funding is being done solely by their respective Governments.
 - b) In other 13 bodies, the funding is being done partly by their respective Governments and partly by one or more of the methods as at (c) below (Abu Dhabi, Denmark, Ireland, Italy, Korea, Malaysia, Malta, Portugal, Slovak Republic, South Africa, Chinese Taipei, Thailand, UK).
 - c) Other funding methods observed by various bodies included one or a combination of the following:-
 - i. Funds collected for services provided to non subject entities (Abu Dhabi)
 - ii. Funded by the reporting issuers/ listed companies/industry/market intermediaries (Canada, Egypt, Italy, Korea, Thailand, UK, USA)
 - iii. Fees imposed on auditors/audit firms/members of professional bodies (Denmark, Finland, Germany, Greece, Italy, Luxembourg, Malaysia, Malta, Netherlands, Norway, South Africa, Spain, Sweden, Switzerland, Chinese Taipei,)
 - iv. Annual licensing fees/ Statutory fees payable under the law/Registration fees (Egypt, Singapore, Slovak Republic, South Africa, Sweden, Switzerland, USA)
 - v. Fixed levies on the profession as set out by the law/ Accountancy bodies (France, Ireland, Portugal, UK)
 - vi. Funded by the various regulatory authorities comprising the body (Portugal)
 - vii. Secondary sources of funding such as publication revenues (Spain).
3. Activities of such public oversight bodies mainly include one or more of the following:-
 - a) Registration of specified accounting firms/statutory auditors;
 - b) Supervision of procedures for the granting of authorizations to carry out statutory audits, the records and registers of the Chamber;

- c) Recurring inspection of accounting/audit firms;
 - d) Review of quality control review program of the professional institute;
 - e) Establishment of standards for financial reporting, auditing, quality control, ethics, independence for accounting/audit firms;
 - f) Investigation and enforcement of sanctions after the results of recurring inspection or investigations;
 - g) Supervision of the functioning of the continuing professional training program;
 - h) Overall oversight of the professional organizations;
 - i) Granting recognition to bodies of accountants for audit purposes, approval of their rules, regulations, standards and its supervision;
 - j) Overseeing/implementation of examinations;
 - k) Suggesting improvements to existing regulations based on international best practices;
 - l) Co-ordination and exchange of information with international counterparts or with a transnational oversight entity.
4. The scope of inspection procedures carried out mainly include:-
- a) Review of firm-wide procedures, including an assessment of how the firms' internal controls impact the audit quality;
 - b) Audit firms' independence;
 - c) Internal quality controls and safeguards placed within the audit firm;
 - d) Compliance with Technical standards including applicable accounting and auditing standards;
 - e) Review of auditors' working papers of selected audit files to assess the quality of their work and to ensure that sufficient work has been performed to ensure that financial statements are free of material mis-statement;
 - f) Site-inspections and interviews with professional staff;
 - g) Discussing findings with senior management of the auditor and agreeing on outcomes;
 - h) Any other procedures deemed necessary.
5. Inspection System:-
- a) 19 bodies directly perform the responsibility for recurring inspections of audit firms undertaking audits of public interest entities;
 - b) 8 bodies perform this responsibility through oversight of inspection undertaken by relevant professional bodies; and
 - c) 14 bodies conduct direct inspection of audit firms doing audits of specified public interest entities and examine reports of quality control review by the professional

body in respect of the other audit firms undertaking audits of non-public interest entities.

6. The term Public Interest Entity(ies) (PIEs) has been defined differently by different bodies but mainly found to include one or more of the following entities:-

- a) Listed companies on the stock exchange or companies wishing to list by way of an IPO and/or significant subsidiaries of such companies based on criteria such as contributing more than 20% of the assets or turnover of the group accounts;
- b) Companies in regulated industries such as banks and insurance companies;
- c) State owned public limited companies, municipalities, local authorities;
- d) Certain large non-public companies satisfying one or more of the criteria based on exceeding certain specified strength of employees/ turnover /net worth;
- e) Certain large non-public financial institutions;
- f) Other entities which raise funds from the public.

7. Audit and Financial Market: The audit market is highly concentrated in most jurisdictions. The vast majority of audits of listed companies are performed by the Big 4 firms having regard to market capitalization.

8. Frequency of Inspections – requirements & practices:-

- a) In general, the frequency of inspections include:
 - i. Audit firms auditing PIEs are inspected once in every 3 years
 - ii. Audit firms auditing Non-PIEs are inspected once in every 6 years
 - iii. Big 4 firms are inspected more frequently – annually or once in 2 years (Australia, South Korea, Singapore, Spain, Switzerland, Thailand)
- b) Certain other bodies adopted other different methods such as:
 - i. Canada: 100 or more reporting issuer audit clients – annual inspection; 50-99 reporting issuers – once in 2 years; less than 50 reporting issuers – every 3 years.
 - ii. Dubai: Inspections of auditors of PIEs are conducted in a manner that yearly desk reviews are done covering matters such as CPE, professional indemnity insurance, internal peer review reports; planned on-site inspections are done every 2 years and event driven reviews are done from time to time (based on issues identified internally and external referrals). ICAEW and/or ACCA are used on high risk and Big 4 inspections under arrangement.
 - iii. Egypt, Finland, Malaysia, Sweden: Inspections are planned using risk based approach.
 - iv. Germany: Any audit firm with 26 or more relevant audit engagements are subject to annual inspection while others are inspected every 3 years.

- v. Sri Lanka: SLAASMB receives a copy of all audited financial statements of public interest entities. The SLAASMB reviews compliance with Accounting standards of a sample of the financial statements received. A further sample is selected for reviewing compliance with Auditing Standards. Audit firms are advised on improvements required on their auditing process which are followed up for compliance in the following year.
- vi. UK: The UK Audit Inspection unit (AIU) of the FRC conducts reviews of firms with more than 10 public interest audits – there are 9 such audit firms. There are further 40 firms with less than 10 public interest audits, where the AIU reviews the audit work of their public interest audits and delegates the independent inspection of the firm to the Monitoring Bodies of ICAEW/ICAS to undertake primary review of the firm.
- vii. USA: Inspections are conducted annually for registered firms that provide audit reports for more than 100 US public companies and triennially for registered firms that regularly provide audit reports for 100 or fewer US public companies.

9. Inspection Methods:-

- a) In most of the cases where the recurring inspections of audit firms undertaking audits of public interest entities are performed directly by the concerned audit oversight body, it was done either through the own inspectors or through persons hired on full time basis.
- b) However, in certain other cases, where inspection was done through oversight of inspection undertaken by relevant professional bodies and where reports of quality control review by the professional body were examined in respect of the audit firms undertaking audits of non-public interest entities, the inspections were done by the inspectors of the relevant professional body.

2.4 Events and Workshops

2.4.1 The Board had observed that in order for the Board to initiate a system of quality reviews of audit firms which may be limited, initially, to audited accounts of companies having wider public interest such as top listed companies, it was essential to enter into consultations/dialogue with the regulators, audit firms, and other concerned stakeholders with a view to gaining knowledge and experience of the audit market environment, practical experience of independent audit regulatory activity and other issues. For the purpose, it was decided to organize a series of workshops, initially at 5-6 major cities of the country to be followed by a similarly structured program by all the Branches of the ICAI spread across the country. Shri G. Ramaswamy, the then President, ICAI was authorized to co-ordinate for organizing the series of stakeholder consultation workshops. It was felt that these stakeholder consultation workshops would help the Board in collating views and information for initiating a system of quality review of audit services of audit firms.

2.4.2 Accordingly, the ICAI took the initiative and successfully organized the following workshops during the year 2011 with a view to creating awareness amongst its members on the role and functions of the QRB and other pertinent issues:-

- Workshop on the Quality Review Board was organized by the ICAI on May 7, 2011 at India Habitat Centre, Lodhi Road, New Delhi.
- Workshop on the Quality Review Board was organized by the ICAI on June 11, 2011 at ICAI, Chennai.
- Workshop on the Quality Review Board was organized by the ICAI on August 4, 2011 at Park Hotel, Kolkata.
- Workshop on the Quality Review Board was organized by the ICAI on 26 November, 2011 at Hotel Orchid, Mumbai.

2.4.3 The workshops organized were a resounding success in terms of participation by the members, quality of deliberations and other logistical arrangements. The then Chairperson, QRB, the then President, ICAI and other members of the Board also had the opportunity to address the gathering. Eminent speakers were invited to enlighten the members and others on the issues involved with regard to the role and responsibility of audit firms in quality review and the international perspective on audit quality review followed by interactive panel discussion.

2.4.4 During the year 2012-13 also, the Board had decided to continue such a practice to enable consultations/dialogue with the regulators, audit firms, and other concerned stakeholders with a view to gaining knowledge and experience of the audit market

environment, practical experience of independent audit regulatory activity and other issues. Accordingly, it was decided that ICAI may organize similarly placed workshops during the current year as well in the various cities.

2.4.5 The Board further felt that in terms of the mandate provided u/s 28B of the Chartered Accountants Act, 1949 and with a view to effectively carrying out quality reviews of audit firms in India, it was essential to keep holding consultations/dialogue with the following concerned stakeholders with a view to gaining views of different stakeholders, their expectations from the Board and gaining knowledge and experience of the audit market environment, practical experience of independent audit regulatory activity and other pertinent issues. It was felt that these efforts aimed at serving the public interest by adopting best practices would help in enhancing investor protection by improving audit quality:-

- a) Auditors /Audit firms in India;
- b) Audit Committees;
- c) Government and various other regulatory bodies including sectoral regulators such as MCA, ICAI, C&AG, RBI, SEBI, IRDA, PFRDA, TRAI etc;
- d) Technical Reviewers/other experts empanelled with the Board; and
- e) International bodies and organizations having an interest in audit quality and the counterpart national audit oversight bodies of various countries.

2.4.6 During the period, the following further events have been organized by the QRB:-

- A meeting of Mr. M. C. Joshi, Chairperson, Quality Review Board was held with Mr. Sachin Pilot, Hon'ble Minister of State for Corporate Affairs (I/C) in January, 2013 where important issues about the various initiatives taken by the Board and other pertinent matters were discussed.
- An interactive video-conferencing of the QRB Members with the Technical Reviewers, empanelled with the Board, was held on 20th April, 2013 at ICAI Bhawan, Indraprastha Marg, New Delhi and at the ICAI's Regional Offices at Mumbai, Chennai and Kolkata.
- A workshop on the Quality Review was organized on 6th May, 2013 at Ludhiana in coordination with the Ludhiana Branch of NIRC of the ICAI.
- An interaction of the Members of the Board with the audit firms was organized on 20th May, 2013 at India Habitat Centre, New Delhi.

- A meeting of Mr. M. C. Joshi, Chairperson, Quality Review Board was held with Mr. Shashi Kant Sharma, Comptroller & Auditor General of India on 20th June, 2013 at New Delhi where important issues about the various initiatives taken by the Board and other pertinent matters were discussed.
- A meeting of Mr. M. C. Joshi, Chairperson, Quality Review Board was held with Mr. Rajiv Takru, Secretary, Department of Financial Services, Government of India on 10th July, 2013 at New Delhi where important issues about the various initiatives taken by the Board and other pertinent matters were discussed.
- A workshop on the Quality Review was organized on 31st August, 2013 at Hisar in co-ordination with the Hisar Branch of NIRC of the ICAI.

2.5 International Linkages and Co-operation

Introduction

2.5.1 At the international level, co-operation amongst the public oversight bodies is an important recent addition to the international agenda. A major lesson learnt from the recent crisis in international financial markets is that international co-operation needs to be more straight-forward. The action plan issued at the G20 summit had also called for enhanced co-operation amongst public oversight bodies for auditors. The Quality Review Board appreciates the need to establish international linkages and co-operation with the counterpart international bodies and organisations with a view to sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity. Being an independent body charged with the responsibility under Sec. 28B of the Chartered Accountants Act, 1949 to review the quality of services provided by the members of the Institute of Chartered Accountants of India including audit services, the Board is of the view that knowledge and experience may be shared on a range of issues such as frameworks for audit regulation, the environment for such regulation and regulatory practices. All this would aim to serve the public interest and enhance investor protection by improving audit quality, including through independent inspections of auditors and/or audit firms. Such framework might include:-

- The drivers of audit quality
- Accessing and sharing information between audit oversight bodies
- Sharing knowledge about inspection techniques and experiences
- Financial stability issues arising from concentration in the audit market

2.5.2 Membership of International Forum of Independent Audit Regulators (IFIAR)

2.5.2.1 The International Forum of Independent Audit Regulators (IFIAR) was established on 15 September 2006 by independent audit regulators from 18 jurisdictions. Since its creation, IFIAR's membership has grown in light of the establishment of new independent audit regulators in different jurisdictions around the globe, bringing together independent audit regulators from a total of 46 jurisdictions.

2.5.2.2 IFIAR focuses on the following activities:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms,
- Promoting collaboration and consistency in regulatory activity, and

- Providing a platform for dialogue with other international organizations that have an interest in audit quality.

2.5.2.3 Since its creation, IFIAR has convened on a semi-annual basis for high-level plenary meetings and on an annual basis at an Inspection Workshop to exchange information and experiences relating to inspections of audit firms. IFIAR moved to annual plenary meetings in 2013. IFIAR has established a number of Working Groups that address various work streams important to audit regulators and form the core of IFIAR's activities alongside its plenary meetings and workshop. IFIAR became a Member of the Monitoring Group during 2011; the Group oversees audit and accounting related standard setting activities of the International Federation of Accountants (IFAC), monitors the activities of the Public Interest Oversight Board (PIOB), and convenes to discuss issues and share views relating to international audit quality and regulatory and market developments having an impact on auditing.

2.5.2.4 The Board discussed upon the Charter of the International Forum of Independent Audit Regulators (IFIAR) and noted that independent audit oversight authorities from 46 countries are members of the IFIAR alongwith a few international bodies such as World Bank, European Commission, International Organisation of Securities Commission (IOSCO), Financial Stability Board etc. acting as Observers.

2.5.2.5 The Board felt that International Forum of Independent Audit Regulators (IFIAR) offers a platform for dialogue with other international organizations that have an interest in audit quality. Significant benefits may be derived from practical co-operation and exchange of specific information between audit regulators and from the common and consistent views or positions on matters of importance. It would also be useful to engage in dialogue with the members of IFIAR with a view to sharing knowledge and experience on a range of issues such as their frameworks for audit regulation and regulatory practices.

2.5.2.6 The Board had discussed about the membership criteria as laid down in the Charter of IFIAR and observed that the Quality Review Board, established by the Government of India under the Chartered Accountants Act, 1949, meets the criteria for membership of IFIAR. The Board had also decided to apply for the membership of IFIAR. The Board also noted that the Secretary, Ministry of Corporate Affairs had also sent a communication to the Chair, IFIAR requesting for membership of QRB in IFIAR so that QRB could contribute in the work programme of IFIAR in the larger public interest of the stakeholders globally.

2.5.2.7 During the financial year 2012-13 also, in accordance with the Board's decision to establish international linkages and co-operation with counterpart international bodies and

organizations, a letter was sent to the Chair, IFIAR requesting them to initially accord 'observer' status to the QRB of India with a view to discussing the Indian audit oversight system and finally according membership status to the QRB of India. In response to this, Chair, IFIAR had informed that as per IFIAR's Charter, the Observers of the Forum are only international regulatory groups and that to participate oversight bodies must become members. Initially, IFIAR had requested for some further clarification in respect of the issues such as role & regulatory functions of the QRB as an independent oversight body; permanence of the majority of non practitioners in the Board; and funding for the Board. A suitable clarification in respect of each one of the aforesaid issues was provided to the IFIAR explaining the overall mechanism of the Indian audit oversight system and requesting them to accord membership status to the QRB of India. IFIAR had initially informed that they were reviewing the information provided by the QRB. Later, they informed, during its plenary meeting which took place in the beginning of October, 2012 in London, IFIAR had agreed to develop a questionnaire addressing all the important questions that would require to be addressed during the application process. However, later it was informed that IFIAR decided that membership was appropriate for bodies with ultimate responsibility for essentially all the systems of audit oversight, in particular, for the audits of public interest entities. It was in this area that the IFIAR Council was not satisfied that the current system in India allowed the QRB to have ultimate responsibility for this system; they informed that many key aspects appear to remain within the responsibilities of the professional body. They further wanted to know how the new Companies Bill would affect the oversight of audit in India.

2.5.2.8 They also informed that the verve and dedication of the QRB during the application process had not gone unnoticed, and the QRB's application had prompted the IFIAR Officers to propose a new project by which IFIAR would begin to engage in a more intensive dialogue with regulators who wish to join IFIAR but who may not yet had reached a stage where all the membership requirements were fulfilled. It was intended to strengthen emerging and ambitious regulators such as the QRB and support them in their efforts to further develop the oversight system in their respective jurisdictions.

2.5.3 Developments on establishing international linkages and co-operation with National independent audit oversight authorities from various countries being members of IFIAR

2.5.3.1 Auditing has long moved beyond national borders and the global financial crisis of 2008 has shown how much the markets interact with each other. However, the crisis had also highlighted the lack of cooperation and coordination amongst authorities. In today's world, financial imbalances, if not checked in time, can balloon out of control and become rampant across the globe, causing widespread economic distress due to the increasing interconnectedness of the world economy. Getting audit regulations benchmarked to international standards in global financial markets requires close co-operation with the main trading partners. Effective public oversight over the audit profession is a vital element in the maintenance and enhancement of confidence in audit functions.

2.5.3.2 Currently, national independent audit oversight authorities from 46 countries are members of IFIAR. It was felt that it would be highly useful to have mutual co-operation with the individual member bodies of the IFIAR. This would enable the Board to gain knowledge and experience on issues such as their framework for audit regulation, regulatory practices, inspection techniques and experiences etc. It was viewed that significant benefits may be derived from practical co-operation and exchange of specific information/practices between audit regulators and from the common and consistent views or positions on matters of importance.

2.5.3.3 Accordingly, expression of interest offering to discuss issues of mutual co-operation and interest and seeking copies of their literature demonstrating their regulatory practices, inspection techniques and experiences was made to the counterpart bodies from various countries.

2.5.3.4 **In response to this, Public Company Accounting Oversight Board (PCAOB) of the United States of America, Certified Public Accountants and Auditing Oversight Board (CPAAOB) of Japan, High Council of Statutory Auditors (H3C), France, Independent Regulatory Board for Auditors (IRBA) of South Africa and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), while welcoming the opportunity for co-operation and for knowledge sharing in respect of audit regulations with the Quality Review Board of India, have extended an invitation for a delegation from the Quality Review Board of India. Further, Australian Securities and Investments Commission (ASIC) have also invited a delegation from the Quality Review Board of India to discuss audit and financial reporting related issues.** Some other bodies such as of Ireland and Norway have referred their websites for relevant information expressing their lack of capacity in undertaking bilateral agreements. Further initiatives are being taken to forge mutual co-operation and alliances in respect of the proposals received from the counterpart bodies.

2.5.4 Developments on Mutual Co-operation with US Public Company Accounting Oversight Board (PCAOB)

2.5.4.1 PCAOB inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board, the rules of the Securities and Exchange Commission, and professional standards, in connection with the firm's performance of audits, issuance of audit reports, and related matters involving U.S. companies, other issuers, brokers, and dealers. The Act requires the PCAOB to conduct those inspections annually for firms that regularly provide audit reports for more than 100 issuers, and at least triennially for firms that regularly provide audit reports for 100 or fewer issuers. As required by the Act, the PCAOB prepares a written report on each inspection and provides it, in appropriate detail, to the SEC and to certain state regulatory authorities. The Board also makes portions of the reports available to the public; however, certain information is restricted from public disclosure, or its disclosure is delayed, as required by the Act.

2.5.4.2 In addition to inspecting registered public accounting firms located in the United States, the PCAOB also inspects registered public accounting firms located in foreign jurisdictions in order to assess those firms' compliance with the Sarbanes-Oxley Act, the rules of the Board, the rules of the Securities and Exchange Commission, and professional standards in connection with their performance of audits, issuance of audit reports, and related matters involving U.S. public companies, other issuers, brokers and dealers. Under the Act and the Board's rules, non-U.S. registered firms are subject to PCAOB inspections in the same manner as U.S. registered firms.

2.5.4.3 The PCAOB has inspected non-U.S. registered firms since 2005 including audit firms located in India. These inspections have generally been carried out in two ways: (i) PCAOB-only inspections, where the PCAOB conducts the inspection on its own in coordination with the home country regulator; and (ii) inspections conducted jointly with the home country regulator. Under a cooperative framework for non-U.S. inspections that was adopted by the Board, the PCAOB may rely, to a degree deemed appropriate by the Board, on inspection work performed by the home country regulator.

2.5.4.4 The PCAOB often enters into formal co-operative arrangements with foreign audit regulators in order to minimize administrative burdens and potential legal or other conflicts that non-U.S. firms may face in the foreign jurisdiction in question. Unfortunately, because of the position taken by certain non-U.S. authorities, the PCAOB continues to be denied access to conducting inspections in certain non-U.S. jurisdictions, although it continues to seek access to those jurisdictions.

2.5.4.5 However, in the case of non-U.S. registered firms located in India, till now PCAOB has conducted PCAOB-only inspections. During the period, the Board had also taken note of the PCAOB inspection reports (public reports) of some of their registered public accounting firms located in India. The ICAI had also requested the Quality Review Board to take-up the matter appropriately with the PCAOB for which the Board had sought the views of the Ministry of Corporate Affairs, Government of India who had informed that action may be taken in terms of the role and functions of the QRB as set out in the Chartered Accountants Act, 1949 and the regulations framed thereunder.

2.5.4.6 Thereafter, the Board decided that in terms of the scope and functions of the Board as stated u/s 28B of the Chartered Accountants Act, 1949 and the Rules framed thereunder and in view of the fact that auditing has long moved beyond borders and that significant benefits may be derived from practical co-operation and exchange of specific information between Audit Regulators and other international organizations that have an interest in audit quality and from the common and consistent views and positions on matters of importance with a view to improving the quality of audit services in India, the Board decided that it would be appropriate to initiate a dialogue for mutual co-operation with the US Public Company Accounting Oversight Board on audit oversight issues.

2.5.4.7 Accordingly, the Board has initiated the dialogue for mutual co-operation with the U.S. PCAOB.

2.5.5 Developments on Mutual Co-operation with European Union (EU)

2.5.5.1 The EU Directive on Statutory Audits provides that firms auditing companies incorporated in a third country but listed on a regulated market in the European Union should come under the independent public oversight of the EU Member State concerned. This concerns companies and auditors from more than 60 jurisdictions outside the European Union. As part of its international agenda, the European Commission has been evaluating the situation of auditor oversight systems in third countries with the aim of allowing international cooperation on the supervision of audit firms in cases where auditor oversight systems in third countries are considered equivalent to that in the EU. The goal of this international cooperation is to avoid duplication of supervisory work, unnecessary burdens on audit firms, and to promote a high degree of investor protection by ensuring high quality audits and development of international capital markets.

2.5.5.2 Based on their evaluation and discussion with the Indian authorities, India has been included in a transitional period following the adoption of Decision by the EU on the continuation of audit activities of certain third country auditors and audit entities by the

European Commission. In January 2011, the European Commission decided in respect of a few countries (including India) that since they have established or are in the process of establishing public oversight, quality assurance, investigation and penalty systems for auditors and audit entities, in order to carry out a further assessment for the purpose of taking a final equivalence decision in respect of such systems, there was a need to obtain additional information from those third countries and territories. Therefore, it decided to extend the transitional period granted by Decision 2008/627/EC in respect of the auditors and audit entities that provide audit reports concerning the annual or consolidated accounts of companies incorporated in those third countries and territories for financial years starting during the period from 2 July 2010 to 31 July 2012. During this transitional period, the Indian auditors will be allowed to perform their audit activities in the EU without being subject to EU auditor oversight or being required to register with EU competent authorities subject to the provision of certain information to EU oversight authorities. This transitional period will also allow European Commission, in cooperation with the European Group of Auditors Oversight Bodies (EGAOB), the opportunity to gather more information about the functioning and the legislation governing the auditor oversight system in India.

2.5.5.3 The ICAI had also requested the Quality Review Board to take-up the matter appropriately with the European Union for which the Board had sought the views of the Ministry of Corporate Affairs, Government of India who had informed that action may be taken in terms of the role and functions of the QRB as set out in the Chartered Accountants Act, 1949 and the regulations framed thereunder.

2.5.5.4 Thereafter, the Board decided that in terms of the scope and functions of the Board as stated u/s 28B of the Chartered Accountants Act, 1949 and the Rules framed thereunder and in view of the fact that auditing has long moved beyond borders and that significant benefits may be derived from practical co-operation and exchange of specific information between Audit Regulators and other international organizations that have an interest in audit quality and from the common and consistent views and positions on matters of importance with a view to improving the quality of audit services in India, the Board decided that it would be appropriate to initiate a dialogue for mutual co-operation with the European Union on audit oversight issues.

2.5.5.5 Accordingly, the Board has sent expression of interest offering to discuss issues of mutual co-operation and interest with the European Union.

2.6 Discussions on Integrated Reporting

2.6.1 The Board held discussions on the issue of sustainability reporting and integrated reporting observing that first there was sustainability reporting and now there was integrated reporting which was expected to become the norm for companies to report their annual financial and sustainability information aimed at clearly and concisely telling the organization's stakeholders about the company and its strategy and risks, linking its financial and sustainability performance in a way that would give stakeholders a holistic view of the organization and its future prospects. A more broader role for the Quality Review Board was suggested in the new milieu incorporating developments on sustainability reporting and integrated reporting with a view to promoting confidence in corporate reporting and governance. The Board had further noted that with a view to creating a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information, the International Integrated Reporting Committee (IIRC) was set-up in the year 2010 as a global collaborative body on integrated reporting and noted the further developments in the matter.

2.7 Infrastructure issues for the Board

2.7.1 Funding arrangements for the Board

2.7.1.1 Section 28D (2) of the Chartered Accountants Act, 1949 provides that the expenditure of the Board shall be borne by the Council of the Institute of Chartered Accountants of India. However, as an interim measure, to ensure efficient and independent functioning of the QRB, it was decided by the Ministry of Corporate Affairs, Government of India to initially set-up a revolving fund of Rs. 5 lacs in the Indian Institute of Corporate Affairs (IICA), and the QRB could meet its expenditure from this revolving fund to be reimbursed by the ICAI to IICA.

2.7.1.2 Later on, the Ministry of Corporate Affairs, in May, 2011 had decided that Quality Review Board shall function from the premises of the IICA and no reimbursement shall be taken from ICAI. Subsequently, the Ministry of Corporate Affairs, in October, 2011, in supersession of their earlier Order and in accordance with Sec. 28D of the Chartered Accountants Act, 1949, had directed that the expenditure of the Quality Review Board of the Institute of Chartered Accountants of India shall be borne by the Council of the Institute of Chartered Accountants of India.

2.7.1.3 Now, the Quality Review Board, after a detailed discussion on the current position, in order to have greater independence in its functioning, decided that ICAI may transfer the funds allocated for the expenditure of the Board at the beginning of the financial year concerned to the QRB and QRB may incur expenditure out of the funds so allocated and transferred with the approval of the Chairperson, Quality Review Board. Accordingly, the expenditure of the QRB is being met out of the funds so allocated by the ICAI. It was further decided that QRB may keep such books of accounts as may be considered appropriate and also get them audited. For the purpose, O/o C&AG had suggested names of three firms of Chartered Accountants out of the panel of CA firms maintained by that office for appointment as auditors of Government Companies/ Corporations, out of which the Board selected M/s Budhraj Adlakha & Co., Chartered Accountants, NOIDA to act as Statutory auditor of the Board for the financial year 2012-13.

2.7.2 Office space for the Board

2.7.2.1 To ensure efficient and independent functioning of the QRB, as an interim measure, it was decided by the Ministry of Corporate Affairs, Government of India in April, 2009 that Secretarial and other support to the QRB may be provided by Indian Institute of Corporate Affairs (IICA) as per requirement. However, in view of shifting of the office of the IICA to its new premises at Manesar (Haryana) from where it would have been infeasible for the

Board to operate and due to non-availability of adequate space at the functional office of the IICA at Paryavaran Bhawan, CGO Complex, New Delhi, the Ministry of Corporate Affairs had requested the ICAI to provide adequate space for locating the office of the Quality Review Board in its premises. It was also viewed that having an office in the premises of the ICAI would not necessarily affect independence of the Board.

2.7.2.2 As decided by the Board in February, 2012, with the necessary support from the Ministry of Corporate Affairs and the ICAI, the office of the Quality Review Board was shifted w.e.f. 9th February, 2012, to the premises of the ICAI at Gr. Floor, Admin Block, ICAI Bhawan, A-29, Sector 62, NOIDA – 201309 (U.P.) from where the Board has been currently functioning. The other necessary infrastructural support to the Board is also being provided by the ICAI on need basis, from time to time.

2.7.3 Suitable structure for the Board

2.7.3.1 Under Rule 7 of the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006, it has been provided that the Institute (ICAI) shall set-up a specialized technical unit to (a) provide secretarial assistance, as required, to the Board in the discharge of its functions; and (b) to assist the Board in carrying out review of quality of services provided by the members.

2.7.3.2 In accordance with the above, the necessary infra-structural support to the Board in terms of personnel is being adequately provided by the ICAI on need basis, from time to time, enabling the Board to meet the regulatory requirement of inspection and assessment of auditors/audit firms in India.

BUDHRAJA ADLAKHA & CO.
CHARTERED ACCOUNTANTS

B-25, SECTOR 57
NOIDA
PH: 0120-2583373
EMAIL: budh.adh@gmail.com

AUDITORS' REPORT

TO
THE MEMBERS OF
QUALITY REVIEW BOARD
NOIDA.

We have audited the attached Balance Sheet of QUALITY REVIEW BOARD as at 31st March 2013 and also the annexed Income & expenditure Account for the period ended on that date. These financial statements are the responsibility of the management of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in India. 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 the 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. We believe that our audit provides a reasonable basis for our opinion.

We further report that:-

- i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii) The Balance Sheet and Income & expenditure Account dealt with by this report are in agreement with the books of account.
- iii) In our opinion, proper books of accounts are maintained in conformity with the requirements of the Board.
- iv) In our opinion, the Balance Sheet and Income & expenditure Account comply with the relevant Accounting Standards.
- v) In our opinion and to the best of our information and according to the explanations given to us, the Statement together with the schedules attached and read with the Accounting policies and notes forming part of the Accounts, give a true and fair view in conformity with the accounting principles generally accepted in India.
 - a) In the case of the Balance Sheet, of the State of affairs of the Board as at **31st March 2013**.
 - b) In the case of the Income & Expenditure Account, of the **NIL** Income over Expenditure and **NIL** Expenditure over Income for the period ended on that date.

For BUDHRAJA ADLAKHA & CO.
CHARTERED ACCOUNTANTS
FIRM REGN NO. 005154N

Sd/-
CA. RAHOOL ADLAKHA
(PARTNER)
M.S. NO. 083788

PLACE: NOIDA
DATE: 7.10.2013

Quality Review Board
Ground Floor, Admin. Block, ICAI Bhawan
A-29, Sector-62, Noida – 201309 (U.P.)

Balance Sheet
as at 31st March, 2013

Amount ₹
As at 31/03/2013

SOURCES OF FUNDS:

CURRENT LIABILITIES & PROVISIONS

Current Liabilities

| | | |
|----------------------------------|------------------|-------------|
| Grant in Aid Payable | | |
| Received from ICAI | 2,50,00,000 | |
| Less: Utilised during the period | <u>16,95,537</u> | |
| Balance Payable to ICAI | | 2,33,04,463 |

Provisions

| | | |
|------------------------|--|--------|
| Provision for Expenses | | 94,992 |
|------------------------|--|--------|

TOTAL 2,33,99,455

APPLICATION OF FUNDS:

| | |
|---------------------------------------|-------------|
| Cash at Bank | 2,33,79,825 |
| in Savings Account with Bank of India | |

Loans & Advances

| | |
|---------------------|--------|
| Advance Recoverable | 19,630 |
|---------------------|--------|

TOTAL 2,33,99,455

Statement of significant accounting policies and notes are as per Schedule A attached.

As per our Report of even date attached
For Budhraj Adlakha & Co.
Chartered Accountants
(FRN 005154N)

Sd/-
CA. MOHIT BAIJAL
SECRETARY

Sd/-
M.C JOSHI
CHAIRPERSON

Sd/-
CA. Rahool Adlakha
Partner
Membership No.083788

Place: Noida
Date: 7th October, 2013

Quality Review Board
Ground Floor, Admin. Block, ICAI Bhawan
A-29, Sector-62, Noida – 201309 (U.P.)

Income & Expenditure Account
for the period from 26th October, 2012 to 31st March, 2013

Amount ₹
Period ended
31/03/2013

INCOME

| | |
|--|------------------|
| Grant from ICAI transferred from Balance Sheet | 16,95,537 |
| Bank Interest | 1,42,106 |
| TOTAL | <u>18,37,643</u> |

EXPENDITURE

| | |
|---|------------------|
| Technical Reviewer Fees & Charges | 13,33,540 |
| Travelling – Board Members | 1,99,057 |
| Sitting Fees –Board Members | 80,000 |
| Meeting Expenses | 17,429 |
| Travelling Expenses and other Conveyance | 60,423 |
| Audit Fees | 28,125 |
| Professional Fees – Tax Consultants | 10,113 |
| Software Expenses and Website Maintenance | 49,472 |
| Prior Period Expenses | 21,972 |
| Office Expenses | 15,396 |
| Books and Periodicals | 11,400 |
| Printing & Stationery | 6,750 |
| Postage and Telegram Expenses | 2,449 |
| Staff Welfare | 1,422 |
| Bank Charges | 95 |
| TOTAL | <u>18,37,643</u> |

Statement of significant accounting policies and notes are as per Schedule A attached.

As per our Report of even date attached
For Budhraj Adlakha & Co.
Chartered Accountants
(FRN 005154N)

Sd/-
CA. MOHIT BAJAL
SECRETARY

Sd/-
M.C JOSHI
CHAIRPERSON

Sd/-
CA. Rahool Adlakha
Partner
Membership No.083788

Place: Noida
Date: 7th October, 2013

Schedule A**SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS****SIGNIFICANT ACCOUNTING POLICIES****A. CONSTITUTION**

The Quality Review Board (the 'Board') has been constituted by Government of India, vide Notification No. GSR 448(E) dated 28th June 2007 which was further re-constituted by the Central Government vide Notification No. GSR 38(E) dated 19th January 2011.

Upto 25th October 2012, the accounting of Quality Review Board was being done by the Institute of Chartered Accountants of India in their books; separate accounts are being prepared by Quality Review Board from 26th October 2012 onwards.

B. ACCOUNTING POLICIES

The accounts are drawn up on historical cost basis and have been prepared in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India and are on accrual basis unless otherwise stated.

C. REVENUE RECOGNITION**1. GRANT IN AID**

The grant received from the Institute of Chartered Accountants of India u/s 28(D) of the Chartered Accountants Act, 1949 for meeting expenses of the Board during the financial year 2012-13 has been shown as income to the extent of expenditure incurred less interest earned on its grant during the year and the balance unutilized amount of grant has been shown as liability payable to the Institute of Chartered Accountants of India.

2. INTEREST INCOME

Income from interest on savings Bank account is being accounted as and when credit is received in the accounts.

D. PROVISIONS

A provision is recognized when an enterprise has a present obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimates required to settle the obligations at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

NOTES TO ACCOUNTS**E. FIXED ASSETS**

The Board does not have any fixed assets. All fixed assets used are provided by the Institute of Chartered Accountants of India, and the Board is not required to pay any rent for the same.

F. EMPLOYEE BENEFITS

The Board does not have any employees on its Payroll; as such AS 15 is not applicable. All employees are provided by ICAI in terms of Rule 7 of 'The Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006' framed by the Central Government in exercise of the powers conferred by the clauses (f) and (g) of sub – section (2) of Section 29A of read with Sec. 28C and sub – section (1) of Sec. 28(D) of, the Chartered Accountants Act, 1949 and which have been published in the Gazette of India, Extraordinary, Part II, Section 3, sub-section (i) dated 5th December, 2006 vide Notification No. G.S.R. 735(E) dated 27th November, 2006.

G. EXPENSES

The Quality Review Board does not have any expense on account of premises rent and electricity charges for the same, as these expenses are borne by the Institute of Chartered Accountants of India.

H. PROVISION FOR TAX

In the absence of taxable income, no provision for tax is being made in the books of accounts.

I. PREVIOUS YEAR FIGURES

No previous year figures are given as this being first year for separate accounting of the Board.

As per our Report of even date attached
For Budhraja Adlakha & Co.
Chartered Accountants
(FRN 005154N)

Sd/-
CA. MOHIT BAJAL
SECRETARY

Sd/-
M.C JOSHI
CHAIRPERSON

Sd/-
CA. Rahool Adlakha
Partner
Membership No.083788

Place: Noida
Date: 7th October, 2013

Details of Meetings

Quality Review Board Meetings

The details of meetings of the 2nd Quality Review Board re-constituted by the Government of India vide Gazette Notification No. GSR 38(E) dated 19th January, 2011 during the financial year 2012-13 and thereafter is as follows:-

1. 24th meeting of the Quality Review Board held on 27th August, 2012 at India Habitat Centre, Lodhi Road, New Delhi
2. 25th meeting of the Quality Review Board held on 2nd November, 2012 at India Habitat Centre, Lodhi Road, New Delhi.
3. 26th meeting of the Quality Review Board held on 4th January, 2013 at India International Centre, Max Mueller Marg, New Delhi.
4. 27th meeting of the Quality Review Board held on 18th February, 2013 at The Orchid, Nehru Road, Vile Parle (E), Mumbai.
5. 28th meeting of the Quality Review Board held on 5th April, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
6. 29th meeting of the Quality Review Board held on 20th May, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
7. 30th meeting of the Quality Review Board held on 27th June, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
8. 31st meeting of the Quality Review Board held on 7th October, 2013 at India Habitat Centre, Lodhi Road, New Delhi.

Meetings of Quality Review Group/ Sub-Committees constituted by the Board

The details of meetings of the Sub-Committee/ Quality Review Group constituted by the Board during the financial year 2012-13 and thereafter is as follows:-

Quality Review Group

1. 1st meeting of the Quality Review Group constituted by the QRB held on 21st December, 2012 at New Delhi.
2. 2nd meeting of the Quality Review Group constituted by the QRB held on 6th February, 2013 at New Delhi.
3. 3rd meeting of the Quality Review Group constituted by the QRB held on 28th March, 2013 at New Delhi.
4. 4th meeting of the Quality Review Group constituted by the QRB held on 10th May, 2013 at New Delhi.
5. 5th meeting of the Quality Review Group constituted by the QRB held on 6th August, 2013 at New Delhi.

6. 6th meeting of the Quality Review Group constituted by the QRB held on 24th September, 2013 at New Delhi.

Sub-Committee-I

7. 1st meeting of the Sub-Committee-I constituted by the QRB held on 12th December, 2012 at India Habitat Centre, Lodhi Road, New Delhi.
8. 2nd meeting of the Sub-Committee-I constituted by the QRB held on 12th March, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.
9. 3rd meeting of the Sub-Committee-I constituted by the QRB held on 6th June, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.
10. 4th meeting of the Sub-Committee-I constituted by the QRB held on 6th August, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.
11. 5th meeting of the Sub-Committee-I constituted by the QRB held on 9th September, 2013 by teleconferencing.

Sub-Committee-II

12. Meeting of the Sub-Committee-II constituted by the QRB held on 24th September, 2013 at New Delhi.

Sub-Committee-III

13. 1st meeting of the Sub-Committee-III constituted by the QRB held on 9th April, 2013 at New Delhi.

Appendix-A**Procedure for Quality Review of Audit Services of Audit Firms*****Introduction***

1. In exercise of the powers conferred by Section 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government, by notification, constituted a Quality Review Board consisting of a Chairperson and ten other members. Quality Review aims to assess the quality of audit of the financial statements of a company as well as the work done by the auditors in carrying out their statutory function.

Definitions

2. In these procedures, unless the context otherwise requires, :-

(a) "Board" means the Quality Review Board constituted under Section 28A of the Chartered Accountants Act, 1949.

(b) "Council" means the Council of the Institute of Chartered Accountants of India.

(c) "Institute" means the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949).

(d) "Member" means a member of the Institute of Chartered Accountants of India.

(e) "Notification" means a notification published in the Gazette of India.

(f) "Stakeholders" in respect of a company may include shareholders, investors, creditors, suppliers, customers, Government, employees, trade unions and society.

(g) "Technical Standards" include:-

- i. Accounting Standards issued by the Institute of Chartered Accountants of India;
- ii. Statement on Standard Auditing Practices and Engagement Standards issued by the Institute of Chartered Accountants of India;
- iii. Framework for the Preparation and Presentation of Financial Statements and Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services issued by the Institute of Chartered Accountants of India;
- iv. Statements issued by the Institute of Chartered Accountants of India;

- v. Compliance of the Guidance Notes issued by the Institute of Chartered Accountants of India;
 - vi. Notifications/Directions issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature; and
 - vii. Compliance of the provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed.
3. Words and expressions used and not defined in these procedures but defined in the Companies Act, 1956 (1 of 1956) or Chartered Accountants Act, 1949 (38 of 1949), shall have the same meanings respectively assigned to them in those Acts.

Scope and functions of the Board

4. Section 28B of the Chartered Accountants Act, 1949 provides that:

“The Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.”

5. In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C and Sub-section (1) of Section 28D of the Chartered Accountants Act, 1949, the Central Government has made ‘Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006’. Rule 6 specifies that the Board may, in discharge of its functions: –

- a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;

- c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;
- d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
- e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

6. The Quality Review Board has decided that the *modus operandi* for accomplishment of the quality inspection and assessment of the work of Auditors while carrying out audit function needed to be worked out so that the Board could not only assess the quality of audit but also the work done by Auditors in carrying out their statutory function. Further, the broad contours and requirements of review and the manner in which such review would be carried out, should not only be made known to users, stakeholders and service providers, in advance, but should also be transparent.

Manner of Review

7. Quality Review under the Chartered Accountants Act, 1949 is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. The Quality Review would involve inspection and assessment of the work of auditors while carrying out the audit function so that the Board is able to assess:

- a) the quality of audit and reporting by the auditors; and
- b) the quality control framework adopted by the auditors/ audit firms in conducting audit.

However, these procedures for review of quality of audit services of audit firms would not extend to internal audit services provided by the members of the Institute which shall be covered by the Board at a later stage. Further, these procedures would also not extend to services provided by the members of the Institute, in employment.

Selection of Audit Firms

8. Quality Review may be introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be on the basis of following criteria:

(a) *Criteria based on companies whose accounts have been audited:*

- i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected on the basis of one or more of the following:-
 - random selection;
 - on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
 - regulatory concerns pointing towards stakeholder risks;
 - reported fraud or likelihood of fraud;
 - major non-compliances with provisions relating to disclosures under relevant statutes.
- ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either *suo moto* or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.
- iii. The Board may select any enterprise for *suo moto* review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for *suo moto* reviews may, however, be done using methods such as random sampling, selection of particular class or classes of enterprises/audit firms.
- iv. The Secretariat should place the details of the enterprises, selected for review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'.

(b) Criteria based on Audit Firms auditing the accounts:

Selection of audit firms should also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose.

Constitution of Quality Review Groups

9. The Board may constitute one or more Quality Review Groups (hereinafter referred to as Review Groups) to conduct preliminary reviews of the general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, in consultation with the Board. There could be two categories of the Review Groups:

(a) Industry Specific; and

(b) Generic.

10. Industry Specific Review Groups may be constituted for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.

11. Each of the Review Group would be assisted by Technical Reviewer(s), who may be an outsourced service provider. The job of the Technical Reviewer(s) would be to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the auditors/ auditing firms in conducting audit.

Functioning of the Review Groups

12. The report, so prepared by the Technical Reviewer, may be considered at the meetings of the Review Group. The Review Group may also consult the Board on any issue, on which the Group feels that the guidance of the Board is necessary.

13. The Review Group may complete the review of cases referred to it and submit its report on the same to the Board within the specified period of time. The Board may, however, extend this time limit for submission of reports by the Review Group.

14. The report of the Review Group shall expressly state the following:

(a) Particulars of the enterprise;

(b) A detailed description of the non-compliance with the matters stated in the Terms of Reference of the Board, if any;

(c) A detailed description of the evidences that support the non-compliance; and

(d) Review Group's recommendations about the actions that are required to be taken in a particular case.

15. The members of the Review Groups and the Technical Reviewer/s may be entitled for reimbursement of travelling expenditure incurred in connection with the meetings of the Review Groups equivalent to that is reimbursable to a member of the Council of the Institute. Members of the Review Groups (other than the ICAI's Central Council Members, Regional Council Members and the Members of the Branch level Management Committee) and Technical Reviewer/s would be eligible for such an amount of honorarium that would be decided by the Board from time to time.

Reporting

16. The reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report. The reviewer, based upon his satisfaction from the representation by the audit firm, may decide to issue either an interim report or a final report to the Board. The purpose is to establish the guidelines on the form and contents of the reviewer's report issued pursuant to review of the quality of audit services of an audit firm.

17. The reviewer should adhere to the principle requirements mentioned while preparing his report. It may be noted that the requirements mentioned apply to the interim as well as the final reports of the reviewer.

18. Reviewers, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A clean report indicates that the reviewer is of the opinion that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a reviewer may qualify the report due to one or more of the following:-

- ◆ non-compliance with technical standards;
- ◆ non-compliance with relevant laws and regulations;
- ◆ quality control system design deficiency;
- ◆ non-compliance with quality control policies and procedures; or
- ◆ non-existence of adequate training programmes for staff.

Basic elements of the Reviewer's Report

19. The report should contain:

(a) Elements relating to audit quality of companies:-

- i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
- ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.
- iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.

(b) Elements relating to quality control framework adopted by the audit firm in conducting audit:-

- i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.
- ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.
- iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

20. The Quality Review Report should be issued on the reviewer's (individual) letterhead and signed by the reviewer. The report should be addressed to the Board and should be dated as of the date of the conclusion of the review.

Guidelines for qualifying Review Report

21. In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed in respect of following matters:

- (a) whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- (b) whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- (c) whether independence of audit firm/ auditors is maintained in conducting audit.
- (d) whether the firm has instituted adequate mechanism for training of staff.
- (e) whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- (f) whether the skill and competence of assistants are considered before assignment of attestation engagement.
- (g) whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.
- (h) whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (i) whether the audit firm maintains the permanent file and the current file as per the standards laid down by the ICAI.
- (j) whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- (k) whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

Consideration of the Reports of the Review Groups

22. The Review Group's Report on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of Comptroller and Auditor General of India (C&AG) and the C&AG's comments shall be considered by the Board along with the Report (on the particular PSU) of the Review Group.

23. The reports of the Review Groups on the quality of audits by the auditors of enterprises (other than those covered under Para 22) shall be placed before the Board for its consideration directly.

24. The Board may, after due consideration of the report and comments of Office of C&AG, wherever applicable, decide whether the recommendation made by the Review Group should be accepted or otherwise. The Board may, *suo moto*, take such further action, as it may deem appropriate. If the Board decides against the recommendations made by the Review Group in its report, the Board shall record the reasons for doing so.

Actions to be recommended by the Board

25. The actions that the Board may recommend include:

- (a) Referring the case to the Director (Discipline) of the Institute for necessary action under the Chartered Accountants Act, 1949;
- (b) Informing the details of the non-compliance to the regulatory bod(y)/ies relevant to the enterprise;
- (c) Intimating the Auditor as to the findings of the Report as well as action initiated under Para 25 (a) and/or (b);
- (d) Consider the matter complete and inform the audit firm/auditor accordingly.

Review Team composition and cost

26. The composition of the review team should depend on the size of the companies audited by the audit firm selected for the purpose of review. The composition of the team, being multi-disciplinary in nature and mandatorily headed by an individual Chartered Accountant, having not less than 15 years experience in practice, may also include one or more of the following: –

- (a) Experts or persons with industry specific experience;
- (b) Academician possessing knowledge of the industry or accountancy;
- (c) Other experts depending on the nature of analytical work emerging from the review.

However, no firm of Chartered Accountants may be included as a member of the review team.

27. The Board should be able to obtain the services of experts including from ICAI. Funding of such cost may be sought from Government of India through contribution from the Investors Education and Protection Fund (established by the Central Government) since the primary

objective is sustenance and enhancement of quality of audit and related services, and the function was exercised to ensure that the public duties of an auditor were properly discharged in the interest of investors. In addition, if a review is needed to be carried out on a request by a Regulator or Government Agency, that Regulator or Government Agency may fund the cost of such review.

Confidentiality

28. The Board shall be bound to keep all the matters referred to it as well as any other information, papers, documents, etc. received during the course of the review confidential. Similar confidentiality conditions shall also apply to the members of the Review Groups and the Technical Reviewers associated with the Board.

Declaration(s) to be obtained from audit firms

29. The following declarations have been identified as particularly relevant:-

- a) the term "conflict of interest" would be defined/spelt out clearly without any ambiguity;
- b) appropriate declaration be obtained from the audit firm including its partners and companies with reference to its / their "interest", if any, respectively on the company and audit firm.

Publication of the findings observed by the Board

30. With a view to apprising the stakeholders and others concerned about the findings observed during the review, the Board may publish the same in the manner considered appropriate by it.

Power to amend or modify operating Procedures

31. These operating procedures have been prepared by the Board to provide a broad framework for its functioning. It is recognised that the procedures to be followed by the Board might require modification/amendment for the efficient and effective functioning of the Board. Wherever the Board is of the view that these operating procedures require modification in the light of the experience gained, it may amend or modify the operating procedures as it may deem appropriate.

Broad Checklist for Quality Reviews

In addition to compliance with the statutory provisions and technical standards, the following broad checklist may be considered for Quality Reviews:-

1. Whether the company has prepared and presented the financial statements in the format relevant to it?
2. Examine the accounting policies of the enterprise.
 - Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI.
 - Whether all significant accounting policies that should have been disclosed are disclosed.
 - Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
3. Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards have been made.
4. Where the audit report is qualified:
 - Whether the qualifications have been made in a clear and unambiguous manner;
 - Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same;
 - Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements.
5. Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.
6. Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.
7. Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
8. Does auditor monitor compliance with policies and procedures relating to independence?
9. Does the auditor/audit firm has an established recruitment policy? Does the auditor

- conduct programmes for developing expertise in specialised areas and industries?
10. Does auditor/audit firm has established procedures for record retention, including security aspects?
 11. Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
 12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

Appendix B**List of Members of International Forum of Independent Audit Regulators (IFIAR) Examined**

| Sl.No. | Name of Country | Name of Organization |
|--------|---------------------|--|
| 1. | Abu Dhabi/ UAE | Abu Dhabi Accountability Authority |
| 2. | Albania | Public Oversight Board |
| 3. | Australia | The Australian Securities and Investments Commission |
| 4. | Austria | Austrian Auditors Supervisory Authority |
| 5. | Brazil | Securities Commission – Brazil |
| 6. | Bulgaria | Commission for Public Oversight of Statutory Auditors |
| 7. | Canada | Canadian Public Accountability Board |
| 8. | Croatia | Audit Public Oversight Committee |
| 9. | Denmark | Danish Business Authority |
| 10. | Dubai | Dubai Financial Services Authority |
| 11. | Egypt | Egyptian Financial Supervisory Authority |
| 12. | Finland | The Auditing Board of the Central Chamber of Commerce |
| 13. | France | High Council for Statutory Audit |
| 14. | Germany | Auditor Oversight Commission |
| 15. | Greece | Hellenic Accounting and Auditing Standards Oversight Board |
| 16. | Hungary | Auditors Public Oversight Committee |
| 17. | Ireland | Irish Auditing & Accounting Supervisory Authority |
| 18. | Italy | Commissione Nazionale per le Società e la Borsa (CONSOB) |
| 19. | Japan | Certified Public Accountants and Auditing Oversight Board |
| 20. | South Korea | The Financial Services Commission |
| 21. | Lithuania | The Authority of Audit and Accounting |
| 22. | Luxembourg | Commission de Surveillance du Secteur Financier (CSSF) |
| 23. | Malaysia | Audit Oversight Board |
| 24. | Malta | Accountancy Board |
| 25. | Mauritius | Financial Reporting Council |
| 26. | The Netherlands | Netherlands Authority for the Financial Markets |
| 27. | Norway | The Financial Supervisory Authority of Norway |
| 28. | Poland | Audit Oversight Commission |
| 29. | Portugal | National Audit Oversight Board |
| 30. | Singapore | Accounting and Corporate Regulatory Authority |
| 31. | The Slovak Republic | Auditing Oversight Authority |
| 32. | South Africa | Independent Regulatory Board for Auditors |
| 33. | Spain | Accounting and Auditing Institute |
| 34. | Sri Lanka | Sri Lanka Accounting and Auditing Standards Monitoring Board |

| | | |
|-----|----------------|--|
| 35. | Sweden | Supervisory Board of Public Accountants |
| 36. | Switzerland | Federal Audit Oversight Authority |
| 37. | Chinese Taipei | Financial Supervisory Commission |
| 38. | Thailand | The Securities and Exchange Commission, Thailand |
| 39. | Turkey | Capital Markets of Turkey |
| 40. | United Kingdom | Financial Reporting Council |
| 41. | USA | Public Company Accounting Oversight Board |

Appendix C**Specified format for Annexure to the Technical Reviewer's Final Report - Part 1****Name of Technical Reviewer (TR) & ICAI M. No.:****TR No.:****Reviewed Audit Firm:****Reviewed Audit Firm Registration No.:****Quality Review (QR) Assignment:**

| 1 | General | Technical Reviewer's Comments |
|----------|--|--------------------------------------|
| | (i) Whether Final report is issued on TR's (individual) letterhead. | |
| | (ii) Whether Final report has been signed and dated and addressed to the Chairperson, Quality Review Board. | |
| | (iii) Whether copy of Final Report was sent to the reviewed Audit Firm. If yes, please mention date of sending. | |
| | (iv) Whether an attachment which describes the quality review conducted including an overview and information on planning and performing the review has been enclosed with the Final Report. | |
| - | (v) Whether Final report makes a reference to the preliminary report. Whether comments on this included in the Final Report. | - |
| | (vi) Whether preliminary report issued by the TR contained any deficiencies? If yes, please specify the areas of deficiencies? | |
| | (vii) Whether audit firm has responded to the preliminary report? | |
| | (viii) Whether copy of preliminary report issued and the response of the audit firm thereon has been sent to the Quality Review Board. | |
| | (ix) a. Whether TR is satisfied with the response of the audit firm on the preliminary report. If the preliminary report contained any areas of deficiencies and the TR is satisfied with the response of the audit firm, please also enclose a statement justifying the reasons for such satisfaction in respect of each of the matters stated in the preliminary report. | |
| | b. If the TR is not satisfied with the response of the audit firm, whether interim report or qualified report has been issued? | |
| | (x) Where the TR concludes that a modification in the report is necessary, a description of the reasons for modification. | |
| | (xi) Is the Final Report qualified? If yes, please specify. | |
| | (xii) Whether Quality Review Program Questionnaire with the audit firm's response and the TR's comments thereon enclosed with the Final Report? | |

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| 2 | Elements relating to audit quality of companies | | |
| (a) | | | |
| | (i) | A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitations. | |
| | (ii) | A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards. | |
| | (iii) | A statement indicating the instances of lack of compliance with relevant laws and regulations. | |
| | (iv) | Whether review of internal control systems was carried out properly in performing attestation engagement? | |
| | (v) | Whether the quality of audit reports in respect of format and content found proper? If no, please specify. | |
| (b) | Elements relating to quality control framework adopted by the audit firm in conducting audit | | |
| | (i) | An indication of whether the firm has implemented a system of quality control with reference to the quality control standards. | |
| | (ii) | A statement indicating that the system of quality control is the responsibility of the reviewed firm. | |
| | (iii) | An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestations services and whether it was complied with during the period reviewed to provide the reviewer with resonable assurance of complying with technical standards in all material respects. | |
| | (iv) | Whether general controls are in existence and operating effectively during the period under review? If no, please specify areas: | |
| | | a. Independence | |
| | | b. Professional Skills and Standards | |
| | | c. Outside Consultation | |
| | | d. Staff Supervision and Development | |
| | | e. Office Administration | |
| | (v) | Whether proper systems and procedures exist within the audit firm to ensure compliance with technical standards? If no, please specify areas: | |
| | | a. Accounting standards including interpretations thereof | |
| | | b. Standards on Auditing including general clarifications thereof | |
| | | c. Statements/ Guidance Notes/ICAI's notifications/directions etc. | |
| | | d. Self regulatory measures. | |

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| 3 | Other matters: | | |
| | (i) | Whether independence of audit firm/ auditors is maintained in conducting audit. | |
| | (ii) | Whether the firm has instituted adequate mechanism for training of staff. | |
| | (iii) | Whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee. | |
| | (iv) | Whether the skill and competence of assistants are considered before assignment of attestation engagement. | |
| | (v) | Whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants. | |
| | (vi) | Whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained. | |
| | (vii) | Whether the audit firms maintains the audit working papers as per the standards laid down by the ICAI | |
| | (viii) | Whether audit records administration is satisfactory? | |
| | (ix) | Whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statements. | |
| | (x) | Whether the internal controls within the audit firm contribute towards maintenance of quality of reporting. | |
| | (xi) | Whether the audit conclusions drawn are duly supported by audit queries/observations? | |
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| 4 | Broad Checklist for Quality Reviews: | | |
| | (i) | Whether the company has prepared and presented the financial statements in the format relevant to it? | |
| | (ii) | Examine the accounting policies of the enterprise. | |
| | | (a) Are all the accounting policies in accordance with the requirements of the applicable A.S. and Guidance Notes. | |
| | | (b) Whether all significant accounting policies that should have been disclosed are disclosed. | |
| | | (c) Whether the auditor has appropriately dealt with in his report the deviations from accounting standards. | |
| | (iii) | Whether the disclosures required by the law/ regulations, requirements prescribed by the regulations and those required by the A.S. have been made. | |

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| | (iv) | Where the audit report is qualified: | |
| | | (a) whether the qualifications have been made in a clear and unambiguous manner. | |
| | | (b) Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same. | |
| | | (c) Whether the auditor has considered the overall effect of the qualifications on the true & fair view presented by the financial statements. | |
| | (v) | Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report. | |
| | (vi) | Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/ accounting entry? If yes, comment on how it has been dealt with in the financial statements. | |
| | (vii) | Does auditor monitor compliance with policies and procedures relating to independence? | |
| | (viii) | Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries? | |
| | (ix) | Does auditor/audit firm has established procedures for record retention, including security aspects? | |
| | (x) | Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee? | |
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| 5 | (i) | Whether the TR received adequate co-operation from the audit firm during QR. | |
| | (ii) | Is there any other issue/matter which the TR wants to bring to the notice of the quality Review Board? If yes, please specify. | |

Specified format for Annexure to the Technical Reviewer's Final Report - Part 2

Quality Review Program General Questionnaire

Quality Review Assignment:

Name of Technical Reviewer & ICAI M. No.:

Technical Reviewer's No.:

| <u>Questions</u> | <u>Audit Firm's/Member's Response</u> | <u>Technical Reviewer's Comments</u> |
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| <u>Quality Control, Ethical Requirement & Audit Independence</u> | | |
| 1. How has the firm established and maintained a system of quality control in accordance with the objective Standard on Quality Control -1 (SQC). SA 220 | | |
| Note: This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute (hereinafter referred to as "the Code"). | | |
| 2. Do the personnel responsible for establishing and maintaining the firm's system of quality control have an understanding of the entire text of Standard on Quality Control-1 (SQC) | | |
| 3. Has the firm complied with each requirement of Standard on Quality Control-1 (SQC) unless, in the circumstances of the firm, the requirement is not relevant to the services provided by the firm? | | |
| 4. Are there any particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by Standard on Quality Control-1 (SQC) | | |
| 5. Has the firm established and maintained a system of quality control that includes policies and procedures addressing each of the six elements of quality control, as identified by Standard on Quality Control-1 (SQC) | | |
| 6. Has the firm documented its policies and procedures? { Standard on Quality Control-1 (SQC) } | | |

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| <u>Leadership & Responsibilities</u> | | |
| 7. What policies and procedures have been established to promote that quality is essential in performing engagements? Standard on [Quality Control -1 (SQC). SA 220] | | |
| 8. What policies and procedures have been established to ensure that those who have been assigned responsibility for the quality control system have sufficient and appropriate experience ability? [Quality Control -1 (SQC). SA 220] | | |
| <u>Relevant ethical requirements</u> | | |
| 9. What policies and procedures do you implement to ensure that you and your staff are free of any self interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity? [Quality Control -1 (SQC). SA 220] | | |
| 10. What policies and procedures do you implement to ensure you and your staff adhere to the other ethical standards outlined by ICAI, being professional competence and due care, confidentiality, and professional behaviour? [Quality Control -1 (SQC). SA 220] | | |
| <u>Independence</u> | | |
| 11. Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements? Please provide your reviewer with copies of these policies and procedures.[Quality Control -1 (SQC). SA 220] [Guidance Note on Independence of Auditor] | | |
| <u>Assurance Practices only</u> | | |
| 12. How does the firm evaluate the impact of client engagements, circumstances or relationships on independence requirements and what action is taken to reduce threats to an acceptable level? [Quality Control -1 (SQC). SA 220] | | |
| 13. What policies and procedures exist to notify the firm of breaches of independence requirements, to enable it to take appropriate actions to resolve such situations? [Quality Control -1 (SQC). SA 220] | | |

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| 14. Does the firm, at least annually, obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements? [Quality Control -1 (SQC). SA 220] | | |
| 15. What safeguards are applied where the firm uses the same senior personnel on assurance engagements over a long period of time? [Quality Control -1 (SQC). SA 220] | | |
| <u>Client Relationships & Engagements</u> | | |
| 16. With regards to accepting and continuing client relationship and specific engagements, how does the firm ensure that it : | | |
| a. is competent and capable ? | | |
| b. complies with relevant ethical requirement ? | | |
| c. appropriately assesses the integrity of the client? | | |
| d. how does the firm obtain the necessary information before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client | | |
| 17. How does your firm ensure there is a clear understanding with the client regarding the terms of the engagement? | | |
| Note : Engagement document/s are necessary under Revised Standard on TERMS OF AUDIT ENGAGEMENT 210 (Engagement documents may include letters, agreements or any other appropriate means in writing). | | |
| 18. Does each engagement document adequately cover the following common elements? Note: If the firm does not include these in their engagement documents, this does not constitute a breach of the professional/legislative standard(s). However, it is recommended they be incorporated in future. Further guidance on preparing an engagement document is found in SA 210 | | |
| a. an introduction explaining that the purpose of the engagement document is to confirm the member's understanding of the terms of the engagement? | | |
| b. the purpose of the engagement? | | |

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| c. the scope of the engagement, including the period of appointment and time schedules, the applicability of any legislation and professional standards relevant to the engagement, information required of the client or any other pertinent matter? | | |
| d. for taxation engagements, a description of the self-assessment rules (e.g. substantiation audits, reasonable care) which informs clients of their responsibilities and the penalties relating to any tax shortfall? | | |
| e. for taxation engagements, a statement in writing that the responsibility for the accuracy and completeness of the particulars and information provided by the client rests with the client. That any advice given to the client is only an opinion based on your knowledge of the client's particular circumstances. Finally that a taxpayer has obligations under self assessment to keep full and proper records in order to facilitate the preparation of accurate returns | | |
| Note: It is not compulsory to be included in the engagement document. Where this is not please advise what other document you are providing to your clients with the statement in writing. | | |
| f. for compilation engagements, a reference to an appropriate disclaimer of liability and the limitations of the engagement? | | |
| g. the client's responsibility for the completeness and accuracy of the financial information/report? Note: It is not compulsory to be included in the engagement document. Where this is not please advise what other document you are using to obtain the client's acknowledgement. | | |
| h. the form of report you will issue (if applicable)? | | |
| i. for audit engagements, the objective of the audit, the scope of the audit and an explanation as to the extent to which an audit can be relied on to detect material misstatements? | | |
| j. the request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement document? | | |

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| 19. How does the firm deal with potential conflicts of interest that have been identified prior to, or during, an engagement? What documentation is kept on file in such situations? [STANDARD ON QUALITY CONTROL (SQC) 1] | | |
| 20. How does the firm deal with situations where new information at hand would have caused the firm to decline an engagement? [STANDARD ON QUALITY CONTROL (SQC) 1] | | |
| 21. Do you require management representation letters from clients? | | |
| 22. How does the client acknowledge responsibility for the accuracy of the accounts and the various reports? | | |
| 23. How is the client made aware that where no audit or review has been carried out, no assurance is expressed in the engagement? | | |
| 24. Is the former accountant of each new client contacted by letter, with the new client's written permission, requesting appropriate information to assist the firm in deciding whether to accept the appointment? Note: This is required as per the guidelines laid down by the council in code of ethics for the acceptance of audit engagements. It is recommended for all other engagements also. | | |
| 25. How does the firm deal with being asked to provide a second opinion on behalf of a company or an entity that is not an existing client? | | |
| <u>Human resources</u> | | |
| 26. How does the firm ensure that sufficient policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. | | |

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| <u>Consultation</u> | | |
| <p>27. Are the firm's policies and procedures designed to ensure appropriate consultation takes place, with either internal or external professionals possessing the relevant expertise, to resolve difficult or contentious matters including to:</p> <ul style="list-style-type: none"> • appropriate consultation takes place on difficult or contentious matters • sufficient resources are available to enable appropriate consultation to take • document and agree conclusions (Assurance Practices only); and • document reasons why alternative courses of action were undertaken; (Assurance practices only) • implement conclusions? [Quality Control -1 (SQC). SA 220] | | |
| 28. Are standard checklists, manuals, working papers and/or other appropriate methods used for client engagements to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff | | |
| <u>Differences of opinion</u> | | |
| 29. How does the firm deal with and resolve differences of opinion regarding the performance and outcomes of an engagement | | |
| <u>Engagement quality control review</u> | | |
| 30. How are engagement quality control reviews (i.e. second partner reviews) conducted for appropriate engagements in order to meet the requirements of [Quality Control -1 (SQC). SA 220]? | | |
| 31. How does the firm establish the eligibility, and maintain the objectivity, of engagement quality control reviewers? | | |

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| Engagement documentation | | |
| 32. What policies and procedures exist to: a. complete the assembly of final engagement files on a timely basis? [Quality Control -1 (SQC). SA 220] b. maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation? [Quality Control -1 (SQC). SA 220] c. retain engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation? [Quality Control -1 (SQC). SA 220] | | |
| 33. Are file-notes maintained to document issues which are not addressed in the standard working papers? | | |
| 34. Are carry-forward working papers maintained? (Note: This should include file-notes which document issues for future periods.) | | |
| 35. Do you have policies and procedures to ensure that you adequately monitor the tax lodgement process? | | |
| 36. Do you have procedures in place to avoid the submission of misleading or incorrect information to the authorities or to the client? Please describe. | | |
| Audit Planning and Risk Assessment | | |
| 37. Does the file contain an audit strategy? (SA 300) If so, does it consider/contain evidence that the audit firm has obtained a general understanding of the applicable financial reporting framework, and the legal and regulatory framework applicable to the entity? | | |
| 38. Is the audit firm's audit strategy designed to provide an understanding of whether the entity's selection and application of accounting policies are appropriate for its business (including their internal controls) and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry? [SA 300] | | |
| 39. Does the file contain an audit plan that includes, at a minimum, a description of the nature, timing and extent of planned risk assessment procedures as well as further audit procedures at the assertion level? (SA 300) | | |
| 40. Has the audit firm performed the following risk assessment procedures to provide a basis for the identification and | | |

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| assessment of risks of material misstatement at the financial report and assertion levels: (SA 315 and 300,320,330) (a) Inquiries of management and others within the entity; (b) Analytical procedures; and (c) Observation and inspection? | | |
| 41. Has the audit firm demonstrated an understanding of control activities necessary to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks? (SA 315,320,300,330) And where applicable, has there been discussions within the team regarding the susceptibility of the financial reports to material misstatement? [SA 330] | | |
| 42. Has the audit firm identified and assessed the risks of material misstatement at the financial report level, and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures? (SA 315) Has the audit firm documented these risks? (SA 315) | | |
| 43. As part of the risk assessment, has the audit firm determined whether any of the risks identified are, in the audit firm's judgement, significant risks (i.e. risks requiring special audit consideration)? (SA 315,330) | | |
| 44. Does the audit plan include evidence that the audit firm has identified and assessed risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment? [SA 300,315,320,330] | | |
| 45. Does the audit plan outline the nature, timing and extent of direction and supervision of engagement team members and the review of their work? [SA 300] | | |
| 46. Where the audit firm used information obtained from previous experience with the entity and from previous audits, did the audit firm determine whether changes had occurred since the previous audit that may have affected its relevance to the current audit? (SA 300) | | |
| 47. Has the audit firm performed audit procedures and related activities to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions? [SA 550] | | |

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| 48. Is there evidence that the audit firm remained alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the audit firm? [SA 550] | | |
| 49. If expertise in a field other than accounting or auditing was necessary to obtain sufficient audit evidence, did the audit firm consider using the work of an expert, including the work of an actuary? [SA 620] | | |
| 50. Where a component\branch auditor has performed work, has the audit firm obtained a sufficient understanding of, among other things, the capabilities, competence and independence of that component\branch auditor? [SA 600] | | |
| 51. As the external\Statutory auditor, has the audit firm considered whether the work of the internal auditors has an affect on the external\Statutory audit procedures? (SA 610) | | |
| 52. In performing risk assessment procedures to understand the entity and its environment, has the audit firm considered whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern? (SA 570) | | |
| 53. Is there evidence that the audit firm has planned and performed the audit with professional scepticism and using professional judgement? (SA 200, SA 240) | | |
| 54. In planning and performing the audit of a single financial statement or of a specific element of a financial statement, has the audit firm applied all Standards on Auditing relevant to the audit as necessary in the circumstances of the engagement? (SA 805) | | |
| Materiality | | |
| 55. (a) Has the audit firm determined: (i) materiality for the report as a whole, and if applicable classes of transactions, balances and disclosures (SA 320); and (ii) performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures? (SA 320) | | |
| (b) Where management refused to correct some or all of the misstatements communicated by the audit firm, did the audit | | |

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| firm: (i) determine whether such uncorrected misstatements were material, individually or in aggregate? (SA 450) (ii) evaluate whether the financial report as a whole was free from material misstatement? (SA 450) | | |
| Audit Sampling and Other Selective Testing Procedures | | |
| 56. (a) Has the audit firm designed and performed further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level? (SA 330) | | |
| (b) Has the audit firm designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls where: (SA 330) | | |
| (c) In the design of tests of control and tests of details, has the audit firm determined appropriate means of selecting items for testing that are effective in meeting the purpose of the audit procedure? (SA 500, SA 530) Examples include: | | |
| (i) selecting all items (100% examination); | | |
| (ii) selecting specific items; and | | |
| (iii) audit sampling. | | |
| (d) Has the audit firm designed and performed appropriate substantive procedures for each material class of transactions, account balance, and disclosure? (ASA 330 and SA 520, SA 320 & 315) | | |
| (e) Did the audit firm's substantive procedures include the following audit procedures related to the financial report closing process: (SA 330) | | |
| (i) agreeing or reconciling the financial report with the underlying accounting records; and | | |
| (ii) examining material journal entries and other adjustments made during the course of preparing the financial report? | | |
| (f) If the audit firm has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, has the audit firm obtained sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors? [SA 570] | | |
| g) When undertaking an audit sample, did the member: | | |
| (i) determine a sample size sufficient to reduce sampling risk to an acceptably low level? (SA 530) | | |
| (ii) select items for the sample in such a way that each sampling unit in the population had a chance of selection? (SA 530) | | |

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| Audit Documentation | | |
| 57. (a) Has the audit firm documented discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussion took place? (SA 230) | | |
| (b) When information has been identified that is inconsistent with the audit firm's final conclusion regarding a significant matter, has the audit firm documented how the inconsistency was addressed? (SA 230) | | |
| c) Has the audit firm prepared documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with Auditing Standards and applicable legal and regulatory requirements? (SA 230) | | |
| (d) Has the audit firm prepared audit documentation: | | |
| (i) on a timely basis; and (SA 230) | | |
| (ii) that is inadequate which would result in an experienced auditor being unable to understand: (SA 230) | | |
| (e) When existing audit documentation has been modified, or new audit documentation has been added after the assembly of the final audit file has been completed, has the audit firm, regardless of the nature of the modifications or additions, documented: (SA 230) | | |
| (i) the specific reasons for making them; and | | |
| (ii) when and by whom they were made and reviewed? | | |
| (f) Has the audit firm adopted appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation and the needs of the practice in accordance with legal requirements of record retention? (SA 230,200) | | |
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| Audit Evidence | | |
| 58. (a) Has the audit firm considered whether external confirmation procedures are to be performed as substantive audit procedures? [SA 500,501,505] | | |
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| (b) Has the audit firm designed and performed audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. [SA 501] | | |

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| (c) For initial audit engagements, has the audit firm obtained sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report? (SA 510) | | |
| (d) Has the audit firm obtained an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: (SA 540) | | |
| (i) the requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures; (ii) how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report, and (iii) how management makes the accounting estimates, and an understanding of the data on which they are based? | | |
| (e) Has the audit firm determined whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified? (SA 710) | | |
| (f) Has the audit firm obtained sufficient appropriate audit evidence about whether: (SA 540) | | |
| + management's decision to recognise, or to not recognise, the accounting estimates in the financial report; | | |
| + the selected measurement basis for the accounting estimates, and | | |
| + the disclosures in the financial report related to accounting estimates, are in accordance with the requirements of the applicable financial reporting framework? | | |
| (g) Has the audit firm obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the audit firm to draw reasonable conclusions on which to base their opinion? (SA 200) | | |
| (h) Has the audit firm evaluated, based on the audit evidence, whether the accounting estimates in the financial report are either reasonable in the context of the applicable financial reporting framework, or are misstated? (SA 540) | | |
| (i) If the audit firm has used an expert, has the audit firm evaluated: | | |
| + whether the expert has the necessary competence, | | |

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| capabilities and objectivity for the audit firm's purposes? (SA 620) | | |
| + the adequacy of the expert's work for the audit firm's purposes? (SA 620) | | |
| (j) Has the audit firm communicated in writing any significant deficiencies in internal control identified during the audit to those charged with governance and, where appropriate, to management, on a timely basis? (SA 265) | | |
| (k) Has the audit firm maintained control over external confirmation requests, ensuring that, among other things, return information for responses are sent directly to the audit firm? (SA 505] | | |
| (l) Has the audit firm obtained an understanding of the services provided by a service organisation to the client, and has the audit firm evaluated the design and implementation of the client's internal control relating to these services?(SA 402) | | |
| Written Representations | | |
| 59. Has the firm obtained appropriate written representations from management, and where appropriate, from those charged with governance: | | |
| (i) that management has fulfilled its responsibility for the preparation of the financial report in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement? (SA 580) | | |
| (ii) that (a) it has provided the firm with all relevant information and access as agreed in the terms of the audit engagement; and (b) all transactions have been recorded and are reflected in the financial report? (SA 580) | | |
| (iii) where the firm determines that such written representations are necessary to support other audit evidence relevant to the financial report or one or more specific assertions in the financial report? (SA 580) | | |
| (iv) regarding its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud? | | |
| (v) stating whether they have disclosed to the firm the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud? (SA 240) | | |
| (vi) stating whether they have disclosed to the member their knowledge of fraud, suspected fraud, or any allegations of fraud or suspected fraud, affecting the entity? (SA 240) | | |

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| (vii) whether they believe significant assumptions used in making accounting estimates are reasonable? (SA 540) | | |
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| Auditors' Report | | |
| 60. (a) Where the financial report is prepared in accordance with a fair presentation framework, does the firm's audit report refer to: (SA 700) | | |
| (b) Has the firm represented compliance with Auditing Standards in the audit report in cases where he/she has not complied fully with ALL of the Auditing Standards relevant to the audit? (SA 200) | | |
| c) When forming an opinion and reporting on financial Statements, has the firm applied the requirements in SA 700 Forming an Opinion and Reporting on a Financial Statement, including that the audit report states whether the firm believes that the audit evidence is sufficient and appropriate to provide a basis for the opinion? (SA 700 and SA 200) | | |
| (d) Has the firm read the other information (e.g. management report, financial summaries) to identify material inconsistencies, if any, with the audited financial report? (SA 720) | | |
| (e) Where the firm has identified a fraud or has obtained information that indicates that a fraud may exist, has the firm communicated these matters on a timely basis to the appropriate level of management or, where applicable, to those charged with governance in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities? (SA 240) | | |