QUALITY REVIEW BOARD

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

2019-20

Report on Audit Quality Review

http://www.qrbca.in

December, 2020

Quality Review Board
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From the Chairperson's Desk

The year 2020 has provided unprecedented challenges, both personal and professional, in every part of the world. The human spirit rose to meet these challenges and finally at the end of the year there is hope to conquer the COVID-19 pandemic with vaccines, science, changes in personal and professional behavior. This unprecedented pandemic had halted lives and economies around the world for most of the year 2020. It set new economic and investment priorities for Governments across the world. It brought families closer, rekindled human values and our faith in our culture and tradition, healed the planet with clean environment (for some time), reinvigorated many nearly extinct species of birds and animals and provided "alone" time to rediscover ourselves and refocus our priorities. It leaves its imprint on almost every aspect of our life and audits are no exception as new normals are created in the virtual world.

With closed businesses and organisations and restrictions on access to people and information, auditors across the world faced unprecedented practical challenges in performing audits during the COVID-19 pandemic. Auditors had to adjust obtaining sufficient appropriate audit evidence, revise identification and assessment of certain risks of material misstatements and change planned audit procedures by performing alternative audit procedures. At this time, one must recognize the important role that auditors have played during the crisis in maintaining high quality financial reporting. Regulators also continue to provide necessary guidance to auditors helping them cope with these challenging times. Actually, the current circumstances also brought many new opportunities for auditors to do things differently by using new or reorienting the use of existing technology resources.

Here at the QRB, in view of the clarification from the Ministry of Corporate Affairs (in view of Section 132(2) of Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018), QRB can review audits of companies/bodies corporate specified under Rule 3 of NFRA Rules, 2018 only in case a reference is so received from NFRA. In compliance thereof, QRB has issued Revised Procedure for conducting quality reviews aligning it with our new mandate and in view of the experience gained during reviews. However, QRB has been completing its on-going reviews of top listed and other public interest entities which were already in process.

During financial year 2019-20, QRB completed 87 reviews of audit quality of 69 entities in India. Out of these 87 completed reviews, QRB issued advisories to concerned Audit firms for further improvement in 71 cases and 3 cases were recommended to the Council of the ICAI for referring them to the Disciplinary Directorate of the ICAI for further necessary action. The present report highlights the key findings observed in the audit quality reviews conducted during financial year 2019-20 indicating our approach for review, key trends, our expectations and other focus areas. I hope the concerned stakeholders will find this Report useful. Now, it is incumbent on for the concerned Audit firms to take remedial actions for the deficiencies highlighted by the QRB, identify the root causes thereof and improve their audit quality.

I am pleased to inform that considering the review findings observed by the QRB during the past few years where a large number of observations have been noticed with regard to Audit firm's quality control procedures, we have decided to conduct Thematic Review of Audit Firms' Quality Control Procedures which would supplement the normal programme of reviews of Audit firms by the Quality Review Board. In this thematic review, QRB would look at firms' quality control policies and procedures in respect of audits of entities other than those specified in Rule 3(1) of NFRA Rules, 2018 to make comparisons between firms with a view to identifying both good practices and areas of common weaknesses. We will subsequently target such vulnerable areas for further insightful education. We have decided to initially conduct these reviews for Audit firms having 10 or more partners. Such reviews, which would be conducted through on-line Questionnaire mode, would be deeply focused on the selected aspect of audit firm's quality control procedures in much greater depth than is generally possible in a normal quality review. I would like to take this opportunity to seek necessary co-operation from the concerned Audit firms in this exercise. It is hoped these thematic reviews would also be of help to Audit firms in developing or enhancing and evolving their quality control procedures, contributing to their own processes of continuous improvement to enhance audit quality. It should also be of interest to Audit committees and other stakeholders.

I would like to take this opportunity to thank, in particular, Mr. Rajesh Verma, Secretary, Ministry of Corporate Affairs, Mr. Manoj Pandey, Joint Secretary, Ministry of Corporate Affairs, CA. Atul Kumar Gupta, President, ICAI and CA. Nihar Niranjan Jambusaria, Vice-President, ICAI for their continuous overall support and guidance in spearheading the activities of Board. I also thank all the other Members and special invitees of Quality Review Board, namely, Ms. Ritika Bhatia, Principal Director (Commercial-II), Office of the C&AG, Ms. Barnali Mukherjee, CGM, SEBI, Mr. Kumar Sambhrant Krishna, Advocate on Record (Supreme Court of India), CS (Dr.) Shyam Agrawal, Ex-President, ICSI, CA. Durgesh Kumar Kabra, CCM, ICAI, CA. Dayaniwas Sharma, CCM, ICAI, CA. Sushil Kumar Goyal, CCM, ICAI, CA. Pramod Kumar Boob, CCM, ICAI, CA. Pramod Jain, CCM, ICAI, Mr. Chandra Wadhwa, CCM, ICAI and Mr. Rakesh Sehgal, Acting Secretary, ICAI for their invaluable contribution. I also highly appreciate role of CA. Mohit Baijal, Secretary, QRB and all other staff of QRB Secretariat who provided excellent support to the Board and have contributed immensely in finalization of this Report.

Yours sincerely,

Parvinder Sohi Behuria

Place: NOIDA | Dr. (Mrs.) Parvinder Sohi Behuria

Date: 11.12.2020 | Chairperson, Quality Review Board

Contents

Composition of the Board

The current composition of the Quality Review Board, established under the Chartered Accountants Act, 1949 is of the following:-

Nominees of the Central Government

1. Dr. (Mrs.) Parvinder Sohi Behuria, IRS (Retd.) - Chairperson (wef 30.11.2018)
2. Mr. Kumar Sambhrant Krishna, Advocate on Record, Supreme Court of India - Member (wef 07.07.2020)
3. Mr. Manoj Pandey, Joint Secretary, Ministry of Corporate Affairs, Government of India – Member (wef 30.09.2019)
4. Ms. Barnali Mukherjee, Chief General Manager, Securities and Exchange Board of India – Member (wef 30.09.2019)
5. Ms. Ritika Bhatia, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India – Member (wef 30.11.2018)
6. CS (Dr.) Shyam Agrawal, Ex-President, ICSI – Member (wef 07.07.2020)

Nominees of the Council of the ICAI

7. CA. Durgesh Kumar Kabra, Fellow Chartered Accountant – Member (wef 26.05.2020)
8. CA. Dayaniwas Sharma, Fellow Chartered Accountant – Member (wef 26.05.2020)
9. CA. Sushil Kumar Goyal, Fellow Chartered Accountant – Member (wef 26.05.2020)
10. CA. Pramod Kumar Boob, Fellow Chartered Accountant – Member (wef 26.05.2020)
11. CA. Pramod Jain, Fellow Chartered Accountant – Member (wef 26.05.2020)

Special Invitees

- Mr. Chandra Wadhwa, Council Member, ICAI – Special invitee (nominated by the Central Government wef 10.06.2016)
- Mr. Rakesh Sehgal, Acting Secretary, ICAI – Special invitee

Secretary to the Board

- CA. Mohit Baijal, Deputy Director, ICAI

Our Approach

Quality Review Board (QRB) reviews all aspects of how an audit was performed in entities selected on a risk based approach. QRB ensures that all persons involved in the review exercise maintain confidentiality of information and avoid conflict of interest.

Cases of material non-compliances and those requiring significant improvement are recommended to the Council of the ICAI for taking necessary action. In other cases, which require improvement, QRB issues advisories to Audit firms which are subsequently followed-up for compliance.

With a view to providing greater independence to the QRB, the ICAI Council has *suo-motu* decided to recommend to the Central Government that appropriate amendments be made in Section 28B of the Chartered Accountants Act, 1949. This will ensure that the recommendations of the QRB for taking disciplinary action against the member/s can directly be referred to the Disciplinary Directorate instead of being placed first before the Council. The Council also decided that till the appropriate amendments in the Act are made, such recommendations of the QRB will be directly forwarded to the Disciplinary Directorate in line with the procedure being followed by Financial Reporting Review Board (FRRB) constituted by it. It will simultaneously be also placed before the Council for noting.

In order to provide guidance to the Audit firms for ensuring improvement in the quality of their services, QRB publishes periodic reports, on an annual basis, providing key audit quality review findings in an aggregated manner and also issues necessary guidance to the Audit firms for improvement and identification of root causes of deficiencies. These reports are widely disseminated and publicly made available at QRB website.

QRB follows a strong system of independent review of statutory audit services of the Audit firms based upon best international practices.

Our Expectations

Audit firms should continue their efforts to improve audit quality on a consistent basis. Audit firms should address the non compliances identified during the review by performing root-cause analysis. This will help them prevent these issues from reoccurring. We encourage all the Audit firms to take note of the key findings and trends published annually in QRB's 'Report on Audit Quality Review' which are available at QRB website at http://www.qrbca.in/left-menu/qrb-reports-publications/.

How we select Audit firms for Review

Quality Review Board has adopted risk based approach for selection of audit engagements for initiating audit quality reviews. A clarification was received from the Ministry of Corporate Affairs that, in view of Section 132(2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

Accordingly, QRB would now be able to initiate fresh reviews of the quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018; and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. Therefore, QRB now selects private limited companies not falling under Rule 3(1) of NFRA Rules, 2018 for initiating their quality review. The top private limited companies, not falling under Rule 3(1) of NFRA Rules, 2018, based on turnover beyond a specified ceiling and other criteria are selected following risk based approach from various industries susceptible to risk including regulatory concerns pointing towards stakeholder risks, on account of being part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports, reported fraud or likelihood of fraud, serious accounting irregularities in the financial statements highlighted by the media and other reports and major non-compliances under relevant statutes highlighted in past reviews. However, in the meanwhile, QRB has also been completing the on-going reviews of top listed and other public interest entities which had already started and were in process.

The statutory auditors in respect of the companies so selected as per above, are identified for their audit quality review. Generally, maximum of three audit engagements in respect of a particular Audit firm are selected for review during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. Further, in the absence of any adverse finding in a past review, not more than one audit engagement of the same engagement partner/ proprietor of an AFUR may be selected for quality review by the Board during a particular quality review cycle. However, in case of any adverse findings in past review/s or in any other situation, QRB may conduct quality review of any particular audit firm or of a particular engagement partner at more frequent interval and/or select more than 3 audit engagements. In case of a joint central statutory audit of a selected entity, normally, each one of the joint central statutory auditors are selected for review.

The Board assigns the audit quality review work, so selected, to the respective Technical Reviewers empanelled with the Board.

How we conduct Audit Quality Review

Quality Review Board (QRB) has constituted Quality Review Group-I (QRG-I) to conduct preliminary reviews with a view to assessing the quality of audit and reporting by the auditors. QRG-I is assisted by Technical Reviewer/s (TRs), who are empanelled by the QRB on engagement basis from across the country. These TRs are practicing professionals and possess requisite experience and expertise essential to carry out the reviews. The job of the TRs is to conduct on-site and off-site review and prepare a report 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. The TR, based upon the conclusions drawn from the review, shall first issue a preliminary report to the Audit firm for their reply on his observations and subsequently, based upon the replies of the Audit firm, he issues the final report to the QRB and Audit firm. Audit firm is once again provided an opportunity to submit its response on the observations in the final report to the QRB. The report, so prepared by the TR, alongwith the submissions of the Audit firm thereon, are considered at the meetings of the QRG-I. The QRG-I may also consult the QRB on any issue, on which it feels that the guidance of the QRB is necessary. The QRG-I completes the review of cases referred to it and submits its recommendations to the QRB.

Based on the QRG-I's recommendation, the QRB decides to (a) accept the report and close the case if no material observations are reported on the quality of audit and reporting; or (b) recommend the case to the Council of the ICAI for referring to Disciplinary Directorate for necessary action in cases of material non-compliances/ violations and requiring significant improvement; or (c) issue advisory to the concerned Audit firm for compliance in other cases requiring improvement which are subsequently followed-up for compliance and improvement. With a view to providing greater independence to the QRB, the ICAI Council has *suo-motu* decided to recommend to the Central Government for making appropriate amendments in Section 28B of the Chartered Accountants Act, 1949 so that the recommendations of the QRB for taking disciplinary action against the member/s can directly be referred to the Disciplinary Directorate instead of placing the same first before the Council. The Council also decided that till the appropriate amendments in the Act are made, such recommendations of the QRB be directly forwarded to the Disciplinary Directorate in line with the procedure being followed by Financial Reporting Review Board (FRRB) constituted by it and simultaneously be also placed before it for its noting.

The QRB has specified the format for the Final Report, and 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; Auditor's report; and financial statements review.

Independence of the TR and also the members of the review team vis a vis the Audit firm as well as the auditee is imperative. Accordingly, TRs are required to fulfil, *inter alia*, the following conditions:

a) TR does not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him during last three financial years and/or thereafter.

b) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have been the statutory auditor of the company/entity under review or have rendered any other services to the said company/entity during the last three financial years and/or thereafter.

c) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have had any association with the audit firm under review, during the last three financial years and /or thereafter.

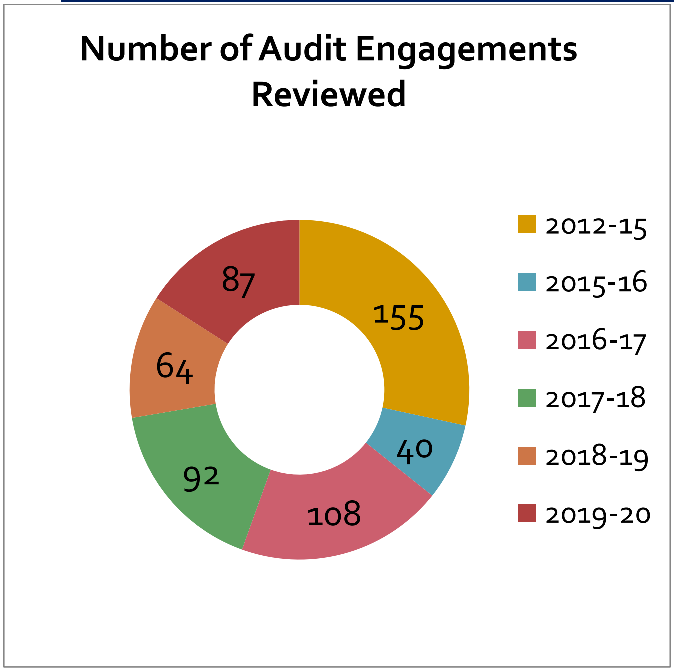
d) TR complies with all the eligibility conditions laid down for appointment as an auditor of the company/entity under review under section 141(3) of the Companies Act, 2013 so far as applicable.

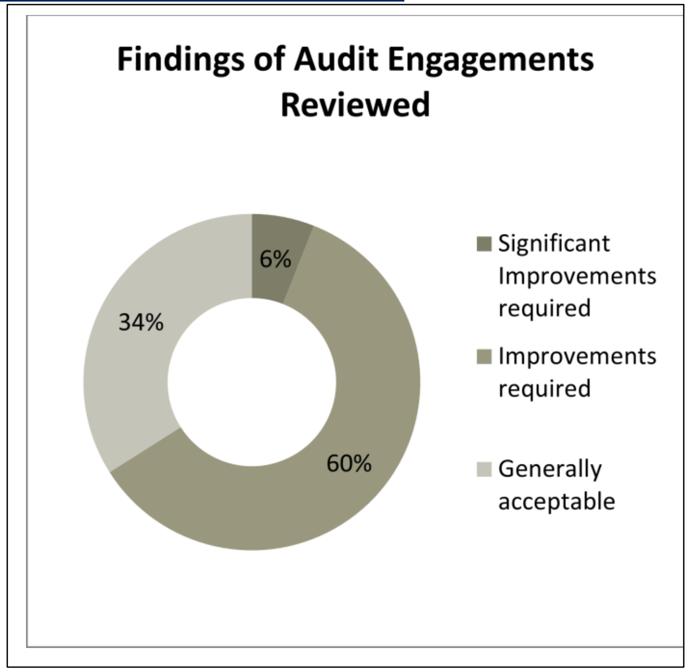
Further, while assigning the quality review work to the respective Technical Reviewers, in order to ensure their independence and avoid conflict of interest, in most of these cases, as far as possible, the Technical Reviewers hailing from different city/region are selected than the city/region of Head Office of the selected Audit firm.

TRs are also required to submit declaration for independence and eligibility of each one of his assistants, if any.

The QRB considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Accordingly, TR as well as all the members of the review team are required to submit a confidentiality declaration.

Overall Trend of Audit Engagements Reviewed FY 2012-13 to FY 2019-20





Action Taken during FY 2012-13 to FY 2019-20

Since FY 2012-13 to FY 2019-20, the QRB has completed 546 reviews.

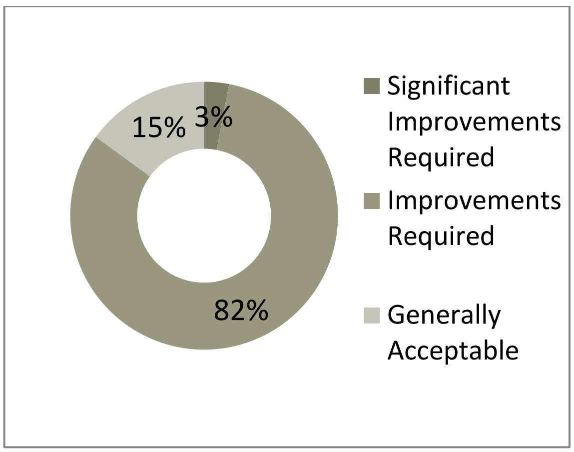
Of these:

- 33 cases - Recommended to the ICAI Council for consideration and necessary action in terms of the requirements of Sec. 28B(a) of the Chartered Accountants Act, 1949.
  Of the cases recommended to the ICAI Council:
  - 11 cases - Referred by the ICAI to Disciplinary Directorate (**in 5 cases, in prima facie opinion of Disciplinary Directorate, they have been found to be guilty and these cases are at the hearing stage now before appropriate authorities**);
  - 19 cases - ICAI decided to issue advisory for improvement to concerned Audit firms;
  - 3 cases - Closed.
- 326 cases - Advisories were issued by the Quality Review Board to the concerned Audit firms for improvement in quality in terms of the requirements of Sec.28B(c) of the Chartered Accountants Act, 1949.
- 187 cases - Closed.

Key Highlights – FY 2019-20

The key findings are in respect of the audit quality reviews completed by the Quality Review Board during the FY 2019-20 pertaining to the financial statements for the years ended on 31 March 2014, 31 March, 2015 and 31 March, 2016. These key findings have been categorised under various sections such as Standards on Auditing, Accounting Standards and Other Relevant Laws and Regulations.

Audit Quality Reviews covered in the Report



Audit Firms Reviewed

72

Entities Covered

69

Audit Files Reviewed

87

Advisory issued by QRB to Audit Firms

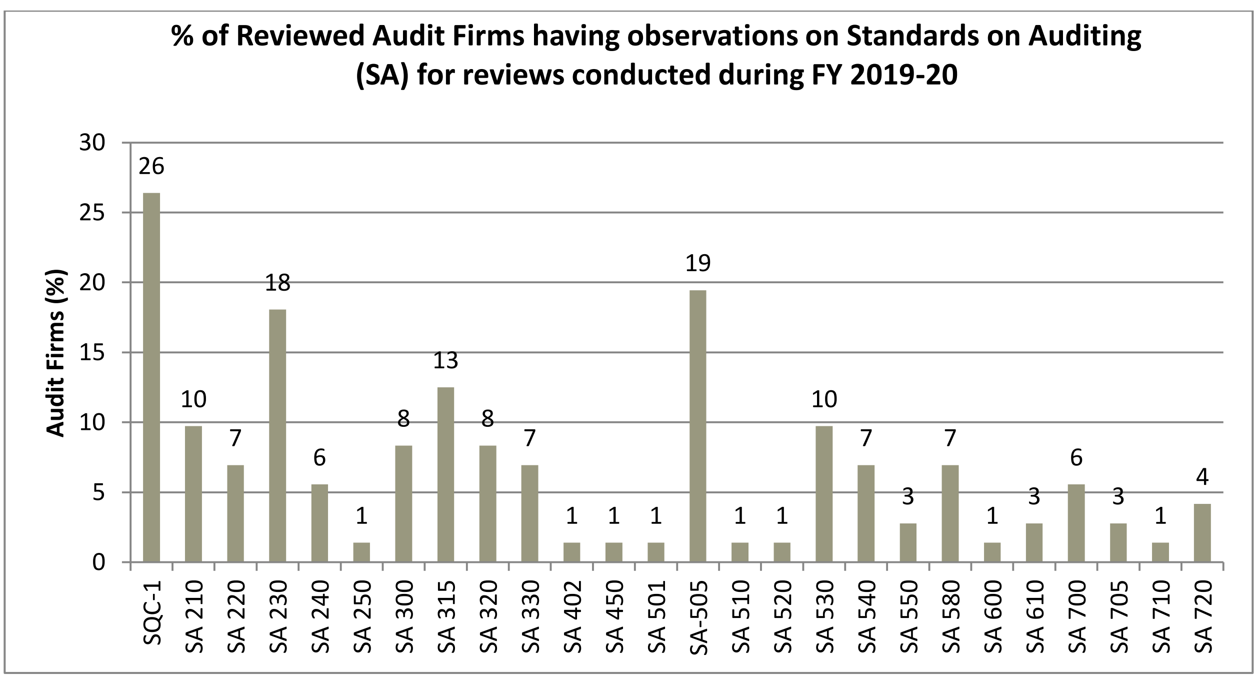
71

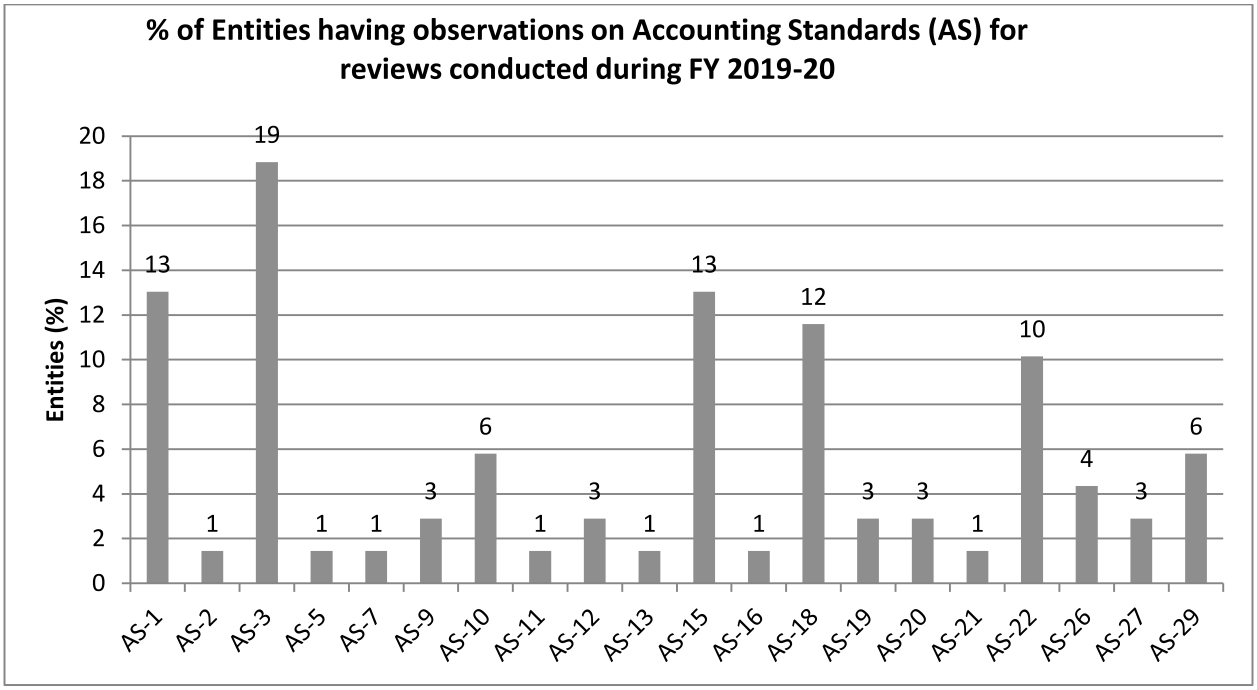
Referred by QRB to ICAI Council

3

Closed

13




% of Entities having observations on Accounting Standards (AS) for reviews conducted during FY 2019-20
Entities (%)
20
18
16
14
12
10
8
6
4
2
0
13
1
19
1
1
3
6
1
3
1
13
1
12
3
3
1
10
4
3
6
AS-1
AS-2
AS-3
AS-5
AS-7
AS-9
AS-10
AS-11
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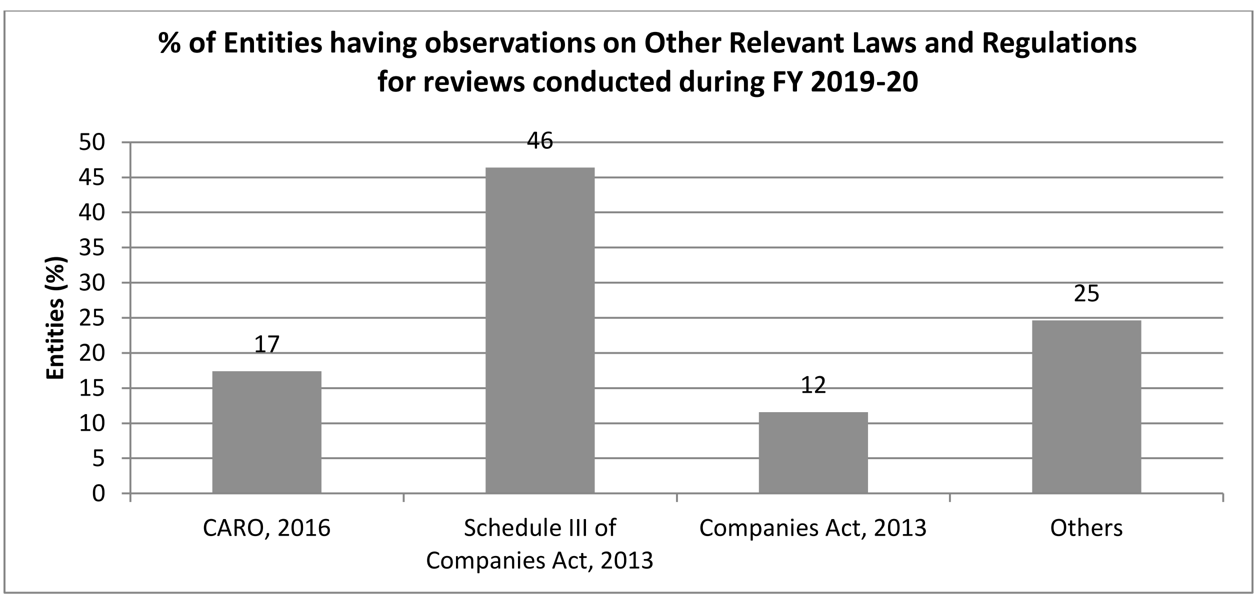
AS-27
AS-29


% of Entities having observations on Other Relevant Laws and Regulations for reviews conducted during FY 2019-20
Entities (%)
50
45
40
35
30
25
20
15
10
5
0
17
46
12
25
CARO, 2016
Schedule III of Companies Act, 2013
Companies Act, 2013
Others

Summary of Observations

a) Standards on Auditing

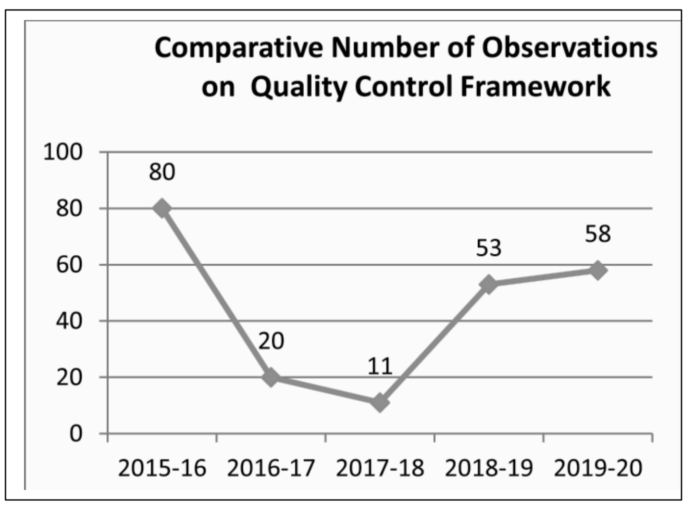
Standard on Quality Control (SQC)-1

Focus Areas

- Whether audit firm establishes and implements policies and procedures on all the elements of system of quality control.
- Whether the engagement quality control reviewer reviews at an appropriate time for the planning of an audit, significant audit judgments, and expressions of audit opinion.
- Whether the audit firm assigns as the person responsible for the monitoring of the system of quality control a person with appropriate experience for the role, and vests the assigned person with sufficient and appropriate authority.
- Whether the audit firm obtains, at least annually, a confirmation letter concerning compliance with policies and procedures for the maintenance of independence from all persons required to maintain independence.
- Whether the audit firm performs the independence confirmation procedures set forth in its internal rules before acceptance and continuance of audit engagements, and when issuing the auditor's report, appropriately confirms that there was no change in the status of independence.
- Whether the audit firm develops and provides education/training programs that fully take into account the knowledge, experience, competence and capabilities of the professional staff.

Findings in this area included:-

- Not establishing sufficiently comprehensive and suitably designed system of quality control in relation to the firm's size, nature and complexity of firm's practice designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements *(Para 3)*.



- Not including policies and procedures addressing each of the six elements of a system of quality control in the Firm's System of Quality Control *(Para 7)*.
- Not documenting and communicating the firm's quality control policies and procedures to the firm's personnel *(Para 8)*.

Leadership responsibilities for quality within the Firm

- Not establishing and documenting policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements *(Para 9)*.

Ethical requirements

- Not establishing policies and procedures designed to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements *(Para 14)*.

Independence

- Not establishing written policies and procedures designed to provide reasonable assurance that firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by the Code of Ethics *(Para 18)*.
- Not establishing policies and procedures enabling the firm to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement *(Para 18b)*.
- Not establishing policies and procedures requiring the accumulation and communication of relevant information to appropriate personnel so that the firm and its personnel can readily determine whether they satisfy independence requirements and the firm can take appropriate action regarding identified threats to independence *(Para 19c)*.
- Not establishing any written policies and procedures designed to provide reasonable assurance that it is notified of breaches of independence requirements *(Para 20)*.
- Not obtaining at least annually a written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code *(Para 23)*.
- Not establishing policies and procedures setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time and especially for rotating the engagement partner after a pre-defined period normally not more than 7 years for financial statement audits of listed entities *(Para 25, 27)*.

Acceptance and continuance of client relationships and specific engagements

- Not establishing policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide reasonable assurance that it will undertake or continue relationships and engagements only where it has considered the integrity of the client; is competent to perform the engagement; and can comply with the ethical requirements *(Para 28)*.

Human resources

- Not keeping records for developing capabilities and competence of the firm's personnel *(Para 38)*.
- Not documenting the details of internal training provided to firm personnel to develop and maintain their required capabilities and competence *(Para 39)*.

Consultation

- Not establishing and documenting policies and procedures designed to provide reasonable assurance that appropriate consultation takes place on difficult or contentious matters *(Para 51)*.

Differences of opinion

- Not establishing and documenting policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and engagement quality control reviewer *(Para 57)*.

Engagement Quality Control Review (EQCR)

- Not establishing policies and procedures requiring an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report *(Para 60)*.
- Not establishing policies and procedures setting out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; criteria for the eligibility of engagement quality control reviewers; and documentation requirements for an engagement quality control review *(Para 60, 63)*.
- Not documenting the firm's policies and procedures requiring, for appropriate engagements, an engagement quality control review *(Para 60)*.
- Not establishing the criteria for eligibility of engagement quality control reviewer in the firm's quality control policies and procedures *(Para 68)*.

- Not maintaining documentation and not establishing policies and procedures for documentation for engagement quality control review in line with the requirements of Para 73 of SQC-I.
- Not documenting that procedures required by the firm's policies on engagement quality control review have been performed *(Para 73a)*.

Engagement Documentation

- Not establishing policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized *(Para 74)*.
- Establishing policies and procedures for engagement team to complete the assembly of final engagement files within 90 days after the engagement reports have been finalized instead of within 60 days *(Para 75)*.
- Not establishing policies and procedures in respect of completion of assembly of final engagement files, confidentiality, safe custody, integrity, accessibility and retrievability, retention and ownership of engagement documentation. Not having formal written policy of assembling, archiving, retrieval and modification of audit engagement files *(Para 77)*.

Monitoring

- Not documenting the policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice *(Para 86)*.
- Not documenting the policies and procedures for communicating to relevant engagement partner and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action *(Para 94)*.

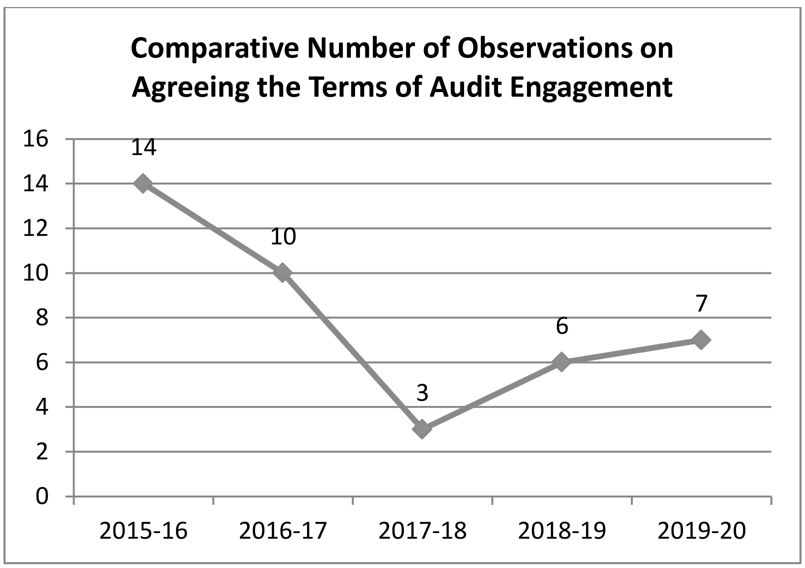
Complaints and Allegations

- Not documenting the firm's policies and procedures designed to provide reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements *(Para 101)*.

Agreeing the Terms of Audit Engagement (SA 210)

- Not issuing engagement letter before the commencement of the audit.
- Not addressing the audit engagement letter to the Board of Directors of the entity and not marking its copy to the Chairman, Audit Committee as required in the illustrative format for the audit engagement letter as specified under SA 210.
- Audit engagement letter did not include auditor's responsibility for consolidated financial statements.

- Not obtaining the agreement of management that it acknowledges and understands its responsibility *(Para 6b)*.
- Not specifying in the engagement letter that management acknowledges and understands its responsibility for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error *(Para 6(b)(ii))*.
- Not issuing the engagement letter for the audit agreeing the terms of audit engagement with management or those charged with governance as required by SA 210 *(Para 9)*.
- Not including in the engagement letter the terms for reporting on internal financial controls over financial reporting.



Quality Control for an Audit of Financial Statements (SA 220)

- Not keeping documentation to the satisfaction of engagement partner that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed *(Para 12)*.
- Not establishing appropriate procedures for the engagement partner regarding the acceptance and continuance of client relationships and audit engagements *(Para 12, 13)*.
- Not appointing an engagement quality control reviewer and not performing an objective evaluation of the significant judgments made by the engagement team and conclusions reached in formulating the auditor's report *(Para 19, 20)*.
- Not having sufficient appropriate evidence for the engagement quality control reviewer performing an objective evaluation of significant judgements made by the engagement team and conclusions reached in formulating the auditor's report *(Para 20)*.

- Not having sufficient appropriate evidence that the results of the firm's monitoring process, designed to provide the firm with reasonable assurance that its policies and procedures relating to system of quality control are relevant, adequate and operating effectively, are communicated to the engagement partner *(Para 23)*.
- Not recording communication of the firm's monitoring process to the engagement partner and others *(Para 23)*.
- Not documenting that the procedures required by the firm's policies on engagement quality control review have been performed for the audit engagement reviewed *(Para 25a)*.

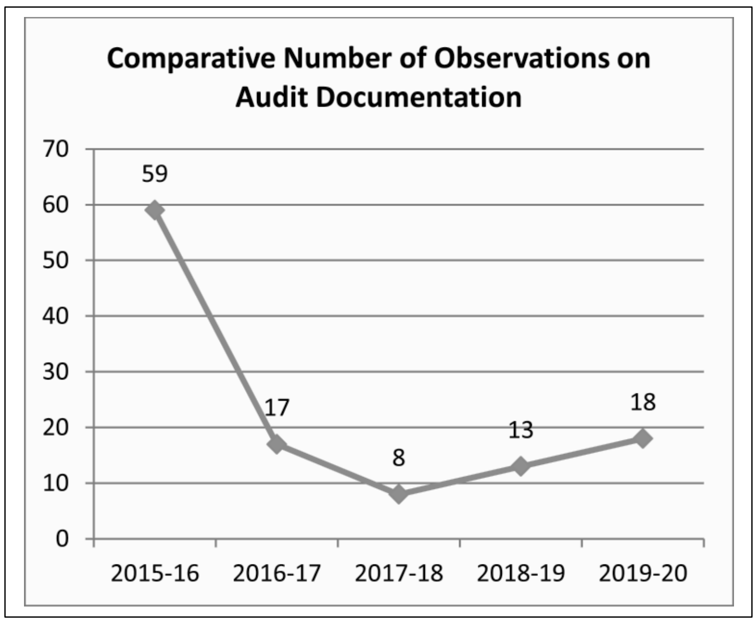
Audit Documentation (SA- 230)

Focus Areas

- Whether professional staff prepare audit documentation in such a way to sufficiently describe the status of compliance with the standards on auditing, the timing and scope of implementation of audit procedures, the grounds for judgments, the conclusions reached, and other information.
- Whether more experienced members of the audit team appropriately review the audit documentation prepared by less experienced members.
- Whether the engagement partner reviews the audit documentation and has discussions with the engagement team to confirm that sufficient appropriate audit evidence has been obtained to support the conclusions reached and audit opinion.

Findings in this area included:-

- Not preparing proper documentation providing a sufficient and appropriate record of the basis for the auditor's report *(Para 5)*.
- Not including check lists in the audit documentation for compliance of SAs *(Para 8 and A3)*.
- Not maintaining any checklist for preparing audit documentation in compliance of SAs and applicable legal and regulatory requirements *(Para 8a)*.
- Not giving reference of working papers in checklists of AS and CARO and not filling checklist properly.



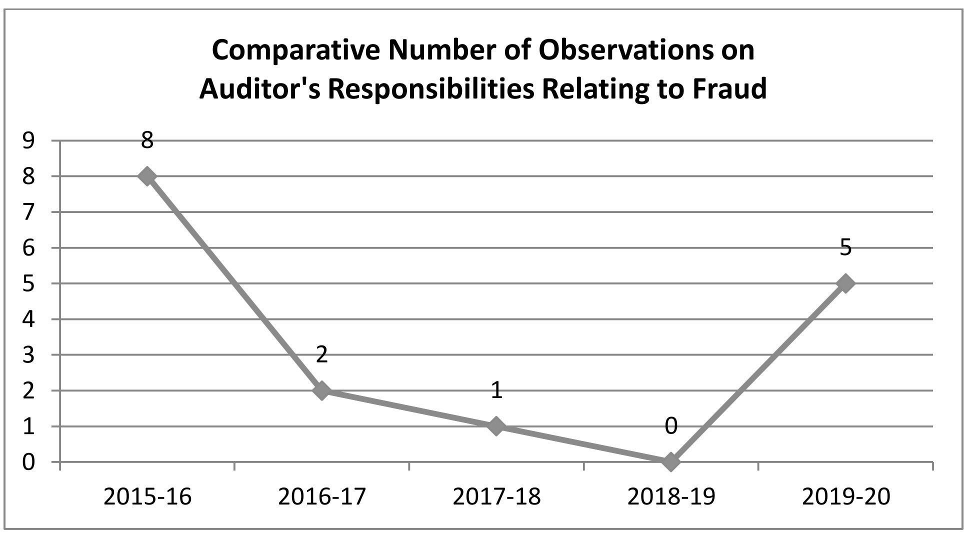
- Not recording in the audit documentation who performed the audit work and the date such work was completed; and who reviewed the audit work performed and the date and extent of such review *(Para 9)*.
- Not indexing / numbering / cross referencing the final audit file *(Para 14)*.
- Not keeping audit evidence/audit documentation for reporting on internal financial control over financial reporting and reporting under CARO under clause 3(viib) & (viii).
- Not keeping relevant work papers /preparing audit documentation for various audit procedures as required by SA 315, 320, 330, 500, 501, 520, 530 and 620.
- Improvement required in documenting audit procedure for SA 315, 320, 330, 505, 520 and 530.
- Not documenting compliances done under AS 11 regarding restatement of foreign currency assets and liabilities, AS 26 regarding capitalization of development of new product and AS 28 regarding identification and evaluation.
- Not maintaining audit documentation properly in soft and hard copy.
- Not documenting details of litigations in audit file.
- Not documenting reasons for not providing interest on loan to subsidiary.
- Not properly documenting diminution in value of investments in subsidiary.
- Not maintaining documentation for audit procedures carried out for reporting on internal financial control over financial reporting.
- Not keeping copies of Branch Auditor’s Reports and documentation as to how each comment of the Branch Auditor was considered in consolidation.
- Not performed further audit procedures and not obtained other audit evidence apart from verifying the MSM Report to corroborate the management opinion with respect to not having any financial impact and cumulative financial obligations under Letters of Comfort (LoCs) issued by the Bank on behalf of its constituents against the credit limits sanctioned to them.

If any audit document has not been prepared properly for an important audit matter, this is not simply a deficiency of documentation, but in many cases, it could imply that the necessary audit procedures have not been implemented.

Furthermore, it also should be noted that the lack of a proper audit document usually implies that the Audit firm also has deficiencies in engagement quality control review, periodic inspection, education, training (review of guidance and supervision of audit assistants, and audit documents, in particular) and/or other areas, not just insufficiency in the knowledge and capabilities of the engagement team.

The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (SA 240)

- Not having an audit plan or programme for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error *(Para 5)*.
- Not making and documenting inquiries of management and others within the entity to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity *(Para 18)*.
- Not obtaining written representation from management and, where applicable, those charged with governance that they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; and they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud *(Para 39)*.
- Not documenting the audit procedures adopted for assessing the risk of material misstatement from fraud or error in accordance with the requirements of SA 240 *(Para 44)*.



Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250)

- Not obtaining sufficient appropriate audit evidence regarding compliance with the provisions of applicable laws and regulations *(Para 13)*.

Risk Assessment and Response to Assessed Risk (SA- 300, 315, 320, 330 and 450)

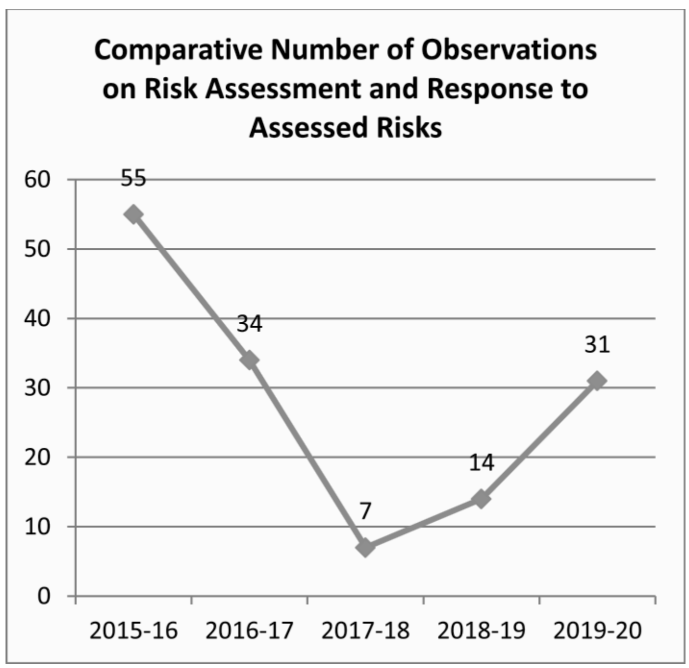
Focus Areas

- Whether the engagement team performs appropriate identification and assessment of the risks of material misstatement in the financial statements as a whole and at the assertion level when it develops an audit plan, considering the audited company and its environment, business risks and internal control of the audited company, instead of merely completing templates provided by the Audit firm.
- Whether the engagement team makes appropriate judgment, when it identifies significant risks and whether the team understands internal control relevant to significant risks.
- Whether the engagement team develops an overall response required by the SA-330 in accordance with the assessed risks of material misstatement in the financial statements as a whole, and plans the nature, timing, and extent of procedures in response to the audit risks, taking into account the materiality, in accordance with the assessed risks of material misstatement at the assertion level.
- Whether the engagement team makes appropriate responses, when a misstatement is identified as the audit progresses, such as judging whether it is necessary to revise the overall audit strategy and detailed audit plans, and evaluating the impact of the uncorrected misstatement.

Findings in this area included:-

Planning an Audit of Financial Statements (SA 300)

- Not documenting establishing an overall audit strategy that sets the scope, timing and direction of the audit and that guides the development of the audit plan *(Para 6)*
- Not including in the audit plan a description of the nature, timing and extent of risk assessment procedures as determined under SA 315, 330 and other planned audit procedures that are required to be carried out so that the engagement complies with SAs *(Para 8)*.



- Not documenting the nature, timing and extent of planned risk assessment procedures as determined under SA 315 *(Para 8)*.
- Not having a detailed audit plan incorporating the nature, timing and extent of audit procedures to be performed by engagement team members and of their direction and supervision *(Para 8, 10)*.
- Not documenting the overall audit strategy and the audit plan *(Para 11)*.

Identifying and Assessing the Risks of Material Misstatement (SA 315)

- Not documenting identification and assessment of the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement *(Para 3)*.
- Not performing and documenting risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels *(Para 5)*.
- Not documenting how the auditor has performed risk assessment procedures to provide a basis for identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control information system relating to the procedures within both information technology (IT) and manual systems, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement *(Para 11, 12, 18b, 25, 32c)*.

Materiality in Planning and Performing an Audit (SA 320)

- Not determining the materiality levels to be applied to one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements *(Para 10)*.
- Not determining the materiality in line with SA 320 for the financial statements as a whole and, if required, for particular classes of transactions, account balances or disclosures and also performance materiality for the purposes of assessing the risks of material misstatements and determining the nature, timing and extent of further audit procedures *(Para 10, 11)*.
- Not documenting the overall audit materiality for the financial statements as a whole and computation of such audit materiality *(Para 14)*.

The Auditor's Response to Assessed Risk (SA 330)

- Not documenting design and implementation of overall responses to address the assessed risks of material misstatement at the financial statement level *(Para 5)*.
- Not performing audit procedures whose nature, timing and extent are based on and are responsive to the assessment risks of material misstatement at the assertion level *(Para 6)*.
- Not documenting design and performance of tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls *(Para 8).*
- Not performing the substantive procedures for each material class of transactions, account balances and disclosures *(Para 18)*.
- Not documenting the test of controls *(Para 29)*.

Evaluation of Misstatements Identified during the Audit (SA 450)

- Not documenting all misstatements accumulated during the audit and whether they have been corrected; and the auditor's conclusion as to whether uncorrected misstatements were material, individually or in aggregate, and the basis of that conclusion; and for communicating with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report *(Para 12, 15)*.

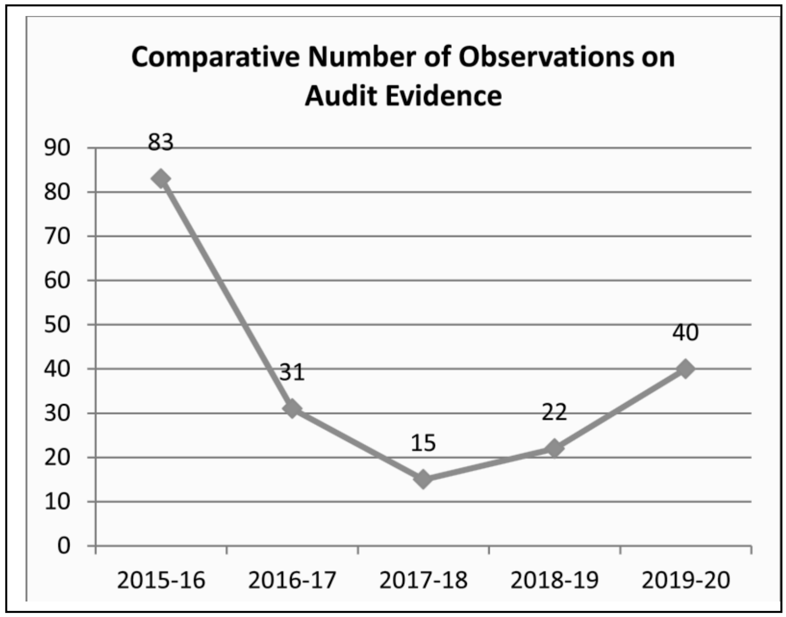
Audit Considerations Relating to an Entity Using a Service Organisation (SA 402)

- Not obtaining sufficient appropriate audit evidence to determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement in accordance with the requirements of SA 402 *(Para 11)*.

Audit Evidence (SA- 500, 501, 505, 510, 520, 530, 540, 550 and 580)

Focus Areas

- Whether the engagement team has designed and performed audit procedures to obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion.
- Whether the engagement team obtains appropriate audit evidence responsive to the assessed risks of material misstatement at the assertion level, rather than only focusing on the quantitative sufficiency of audit evidence.
- Whether engagement team maintains control over external confirmation request when using external confirmation procedures, and if not, whether engagement team performs alternative audit procedures.
- Whether engagement team obtains written representation from management and tests key underlying assumptions, or seeks out evidence to corroborate estimates or treatments. If written representations are inconsistent with other audit evidence, whether the auditor performed audit procedures to attempt to resolve the matter. If the matter remains unresolved, whether the auditor reconsidered the assessment.
- Whether the engagement team performs appropriate audit procedures in individual situations as tests of controls and substantive procedures.



Findings in this area included:-

Specific Considerations for Selected Items (SA 501)

- Not attending physical inventory counting unless impracticable *(Para 4)*.

External Confirmations (SA 505)

- Not carrying out external confirmation procedures in accordance with SA 505.
- Not keeping documentation for external confirmation procedures performed in accordance with SA 505.
- Not maintaining proper control over external confirmation requests.
- Not obtaining audit evidence in the form of external confirmations received directly by the auditor from confirming parties.
- Not keeping a log of confirmation requests sent, received, not received etc.
- Not obtaining direct written external confirmation for Bank balances and Trade receivables *(Para 7)*.
- Not seeking confirmation or acceptance from the suppliers for the acceptance of the claims which was not in compliance of the requirements of SA 505 “External Confirmations”.
- Not sending follow-up requests, when applicable, to the confirming party while using external confirmation procedures *(Para 7d)*.
- Not performing alternative audit procedures to obtain relevant and reliable audit evidence in case of each non-response for external confirmation requests for trade payables *(Para 12)*.
- Not designing and performing necessary procedures for obtaining relevant and reliable audit evidence and in case of each non response, for not performing alternative audit procedures to obtain relevant and reliable audit evidence for writing off bad debts and advances even before limitation period expired and made provisions against trade receivables during the year for debts outstanding beyond a period of six months and a further provision against debts outstanding for less than six months. Also, direct confirmations requests for trade receivables were sent to only 18% of total debtors (in value) and confirmations were not obtained from debtors whose balances have been written off or those debtors against whom provisions have been made. No proper legal recourse was taken for the amounts written off as all the legal notices for service to debtors could not be served as the representatives of the debtors refused to accept service at the respective delivery addresses.

Initial Audit Engagements – Opening Balances (SA 510)

- Not documenting the audit procedures performed for obtaining sufficient appropriate audit evidence whether the opening balances contain misstatements that materially affect the current year's financial statements *(Para 6)*.

Analytical Procedures (SA 520)

- Not keeping documentation for performing analytical procedures near the end of the audit *(Para 6)*.

Audit Sampling (SA 530)

- Not determining sample size sufficient to reduce sampling risk to an acceptable level.
- Not keeping audit documentation to substantiate the sampling procedure performed in accordance with SA 530.
- Not selecting items for the sample in such a way that each sampling unit in the population has a chance of selection *(Para 8)*.
- Not documenting that items for the sample were selected in such a way that each sampling unit in the population had a chance of selection *(Para 8)*.

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures (SA 540)

- Not identifying accounting estimate risk related to trade receivables.
- Not obtaining an understanding about changes in circumstances that may give rise to new, or the need to revise existing accounting estimates in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates especially in view of the fact that technical assessment report indicated an economic useful life of an asset was 15 years while the economic life considered in financial statements was 38 years *(Para 8).*
- Not documenting for reviewing the judgements and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias *(Para 21)*.
- Not obtaining written representation from the management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable *(Para 22)*.
- Not documenting the basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosures and indication of possible management bias, if any *(Para 23)*.

Related Parties (SA 550)

- Not documenting the performance of audit procedures and related activities to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions *(Para 11)*.

Written Representations (SA 580)

- Not including all the matters as specified under Para 9 to 11 of SA 580 in the written representation obtained from the management.
- Not obtaining written representations from the management that significant assumptions used in making accounting estimates were reasonable.
- Not obtaining written representation for internal control over financial reporting.
- Not obtaining written representation from the management for issuance of certificate of corporate governance *(Para 10 of Guidance Note on Certification of Corporate Governance)*.
- Not obtaining representation on impairment of assets, consolidation, going concern, litigation, provision for old advances and reasonableness of significant assumptions used by management in making accounting estimates.
- Not obtaining representation on consolidated financial statements, identified deficiencies in internal financial control.

Using the Work of Others (SA 600, 610 and 620)

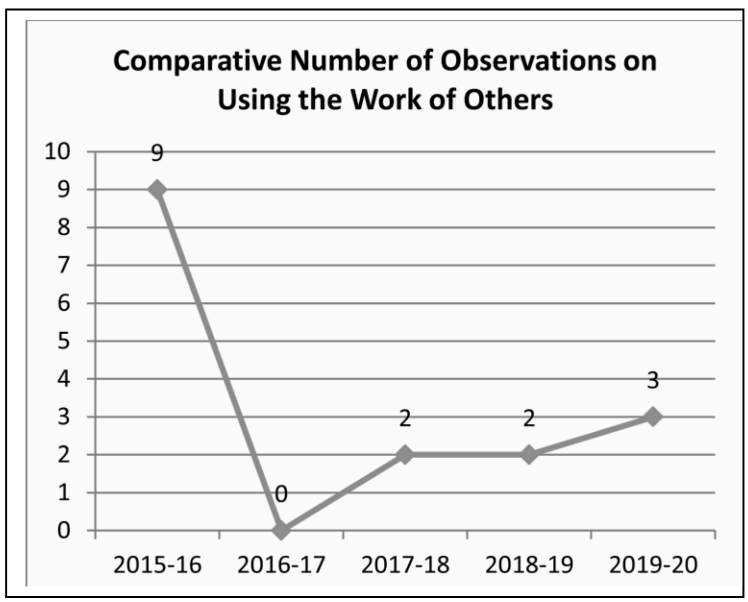
Findings in this area included:-

Using the Work of Another Auditor (SA 600)

- Not indicating the number of branches audited by other auditors in the "Other matter paragraph" in the Independent Auditor's report.

Using the Work of Internal Auditors (SA 610)

- Not preparing audit documentation for evaluation of adequacy of the work of internal auditor.

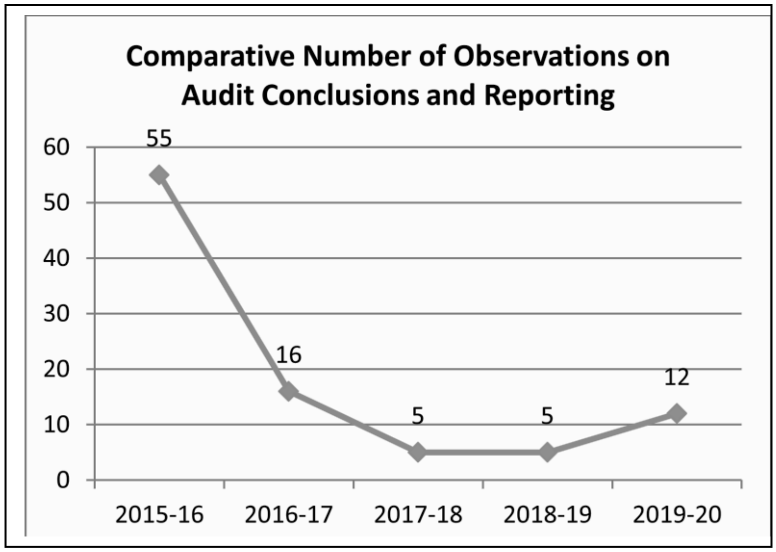


- Not evaluating the objectivity of the internal audit function while determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, in particular, whether the internal auditors are free of any conflicting responsibilities as the internal auditors of the company were also the statutory auditors of two of its subsidiary companies *(Para 9 (a), A4)*.

Audit Conclusions and Reporting (SA 700, 705, 706, 710 and 720)

Focus Areas

- Whether engagement team forms opinion after obtaining reasonable assurance whether financial statements as a whole are free from material misstatement, whether due to fraud or error;
- Whether audit report is issued in applicable format and includes all the relevant paragraphs as required by standard on auditing.



Findings in this area included:-

Forming an Opinion and Reporting on Financial Statements (SA 700)

- Not giving a separate heading for Emphasis of matter paragraph in the Independent Auditor's Report on the consolidated financial statements.
- Not reporting whether Auditor's opinion is modified or not in respect of emphasis of matter in the Independent Auditor's Report on the consolidated financial statements.
- Not reporting whether opinion on the consolidated financial statements and report on other legal and regulatory requirements is modified or not in the Independent Auditor's Report on the consolidated financial statements.
- Not reporting as per format specified in SA 700 for the management's responsibility for the consolidated financial statements in the Independent Auditor's Report on consolidated financial statements.
- Not including in the Management's responsibility paragraph, the compliance with the applicable Accounting standards and the circulars and guidelines issued by the RBI.

Modifications to the Opinion in the Independent Auditor's Report (SA 705)

- Not quantifying the impact of qualification in the 'Basis of Qualified Opinion' paragraph in Independent Auditors' Report.
- Auditor's responsibility Para in Independent Auditor's report on the standalone financial statements, which provided a qualified audit opinion, stated that the audit evidence obtained is

sufficient and appropriate to provide a basis for "audit opinion" instead of using the words "qualified audit opinion" *(Para 26)*.

Comparative Information – Corresponding Figures and Comparative Financial Statements (SA 710)

- Not obtaining sufficient appropriate audit evidence for not providing corresponding figures of the previous year in certain notes of financial statements *(Para 5)*.

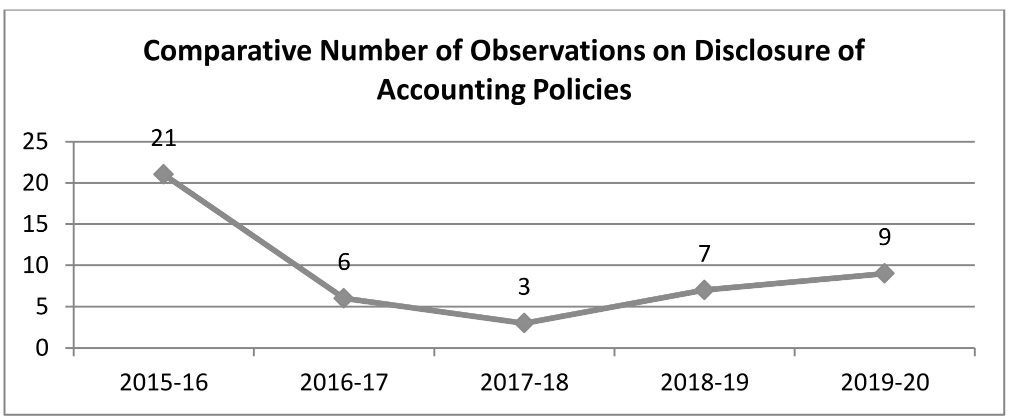
The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (SA 720)

- Not keeping documentation in compliance of the requirements of SA 720 that auditor has read the other information to identify material inconsistencies, if any, with the audited financial statements *(Para 6)*.
- Not identifying the inconsistency of various amounts stated in the Board's Report with those stated in the Statement on Profit & Loss and not determining whether the other information needs to be revised *(Para 8)*.
- Not identifying discrepancy in the figures given in the Board's Report and in the Statement on Profit & Loss in respect of the amount of dividend distributed.

b) Accounting Standards

Disclosure of Accounting Policies (AS 1)

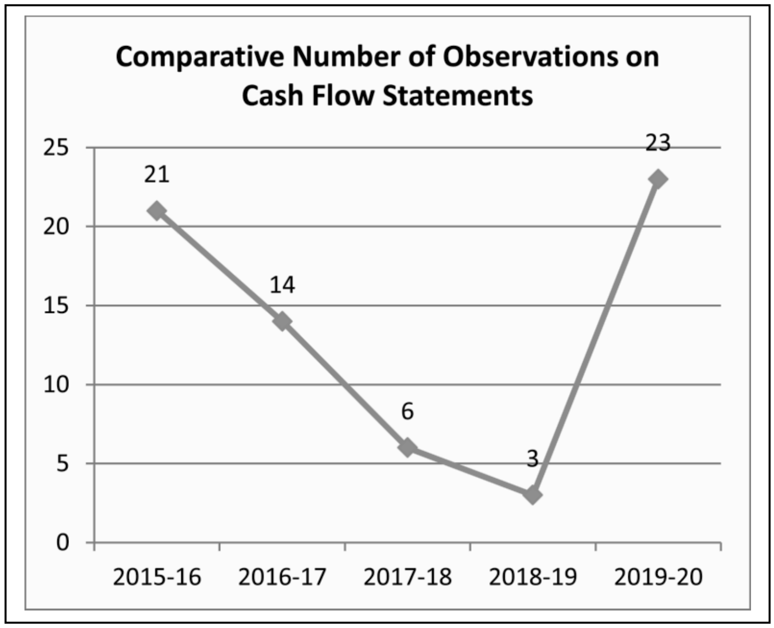
- Not disclosing accounting policy on Accounting for Taxation and Impairment of Assets.
- Not disclosing accounting policy on MAT Credit, Leases, Cash and cash equivalents, Impairment, Employee stock options, Estimates and Joint Operations.
- There was no evidence held on record by the Audit firm to establish that the claims raised were in accordance with the terms of the agreements/ contracts with the vendors which was not in compliance of the requirements of prudence that in view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash *(Para 17 (a))*.
- Not disclosing the policy for cash and cash equivalents *(Para 24)*.
- Not properly disclosing significant accounting policies in the preparation and presentation of financial statements rather compliance to/ disclosures under different accounting standards was stated in the notes to the financial statements *(Para 24)*.
- Giving incomplete/ not properly worded policy for ‘Basis of preparation of financial statements’ in the notes to the financial statements.
- Not mentioning reference of revised directions of RBI applicable to the company for the year in respect of Non-Systemically Important Non-Banking Financial (Non deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 in the summary for significant accounting policy for revenue recognition.



Valuation of Inventories (AS 2)

- Notes to the consolidated financial statements stated that inventory of scrap was valued at lower of cost or net realizable value though valued at net realizable value.

Cash Flow Statements (AS 3)



- Including fixed deposits under cash and cash equivalent *(Para 5 & 6)*.
- Fixed deposits held as margin money against bank guarantees/LCs, Fixed deposits having maturity of more than 3 months and other balances in bank account which are not short term, highly liquid investments that are readily convertible into known amounts of cash, were included as cash & cash equivalent in the cash flow statement.
- Not adjusting capital advances outstanding and creditors for capital goods in outflow for purchase of fixed assets in cash flow from investing activities.
- Reporting investment in long term securities as short term investments in the cash flows from investing activities *(Para 21)*.
- Showing 'gain' on redemption of mutual funds under cash flows from investing activities instead of showing gross cash receipts on redemption of mutual funds *(Para 21).*
- Not reporting the effect of changes in the exchange rates on cash and cash equivalents held in foreign currency as a separate part of reconciliation of the changes in cash and cash equivalents during the period *(Para 25)*.
- Classifying the interest paid as cash flows from operating activities instead of as cash flows from financing activities *(Para 30)*.
- Showing Interest/Dividend received together as one-line item under cash flows instead of each one being disclosed separately *(Para 30)*.
- Not disclosing the policy for cash and cash equivalents as well as in the notes for presenting the cash flow statement *(Para 42)*.
- Not disclosing the policy adopted in determining the composition of cash and cash equivalents *(Para 43)*.
- Not disclosing the components of cash and cash equivalents *(Para 45)*.
- Not giving the commentary by management for significant cash and cash equivalent balances held by the enterprise that are not available for use by it *(Para 45)*.
- Not disclosing the method of preparation of cash flow statement.

- Erroneously disclosing movement in taxes payable under Trade Payables instead of other current liabilities in the cash flow statement.
- Not adjusting the Provision for doubtful debts, being the non-cash item, while calculating the cash flows from operating activities in the cash flow statement.
- Amount of provision for taxation was shown as cash flows from operating activities in the cash flow statement instead of taxes paid during the year.
- Not presenting separately the cash flows from acquisition of subsidiary under investing activities in the cash flow statement.
- Showing impact of capital advances and interest accrued on deposits under Trade and other receivable instead of showing under cash flow from investing activities.

Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies (AS 5)

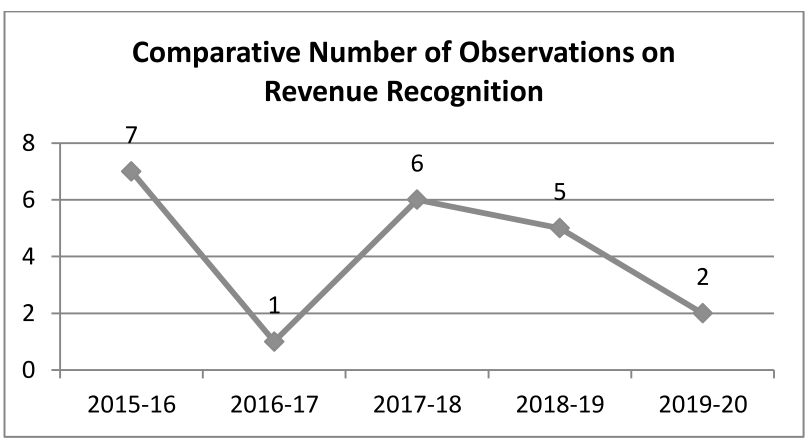
- Not disclosing the nature of prior period items in the Statement of Profit and Loss *(Para 15)*.

Construction Contracts (AS 7)

- Not recognizing the expected loss on construction work in progress immediately as an expense when it is probable that total contract costs will exceed total contract revenue *(Para 35)*.

Revenue Recognition (AS 9)

- Not recognizing interest accrued on Employees' security deposits.
- The disclosed accounting policy for recognition of commission income, management fees and technical know-how fees was not on accrual basis in accordance with the terms of the relevant agreement but the policy for recognition of these incomes was as per agreed terms only *(Para 13)*.



Accounting for Fixed Assets (now Property, Plant and Equipment) (AS 10)

- Not disclosing separately addition and deduction on account of revaluation of assets.

- Decreasing the value of land during the year and writing back the revaluation reserve created in the past on revaluation of such land without disclosing the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made and whether an external valuer was involved *(Para 17.2 (iii))*.
- Not making complete disclosures for the revalued amount substituted for the historical cost of fixed assets *(Para 37iii).*
- Not disclosing the depreciation method used for depreciating its fixed assets under significant accounting policies in the financial statements.
- Not considering the revisions made to AS 10 on how to treat change of depreciation method, how to account for insurance claims, etc.

The Effects of Changes in Foreign Exchange Rates (AS 11)

- Not disclosing the net exchange differences accumulated in foreign currency translation reserve as a separate component with a reconciliation of the exchange differences at the beginning and end of the period *(Para 40 (b))*.

Accounting for Government Grants (AS 12)

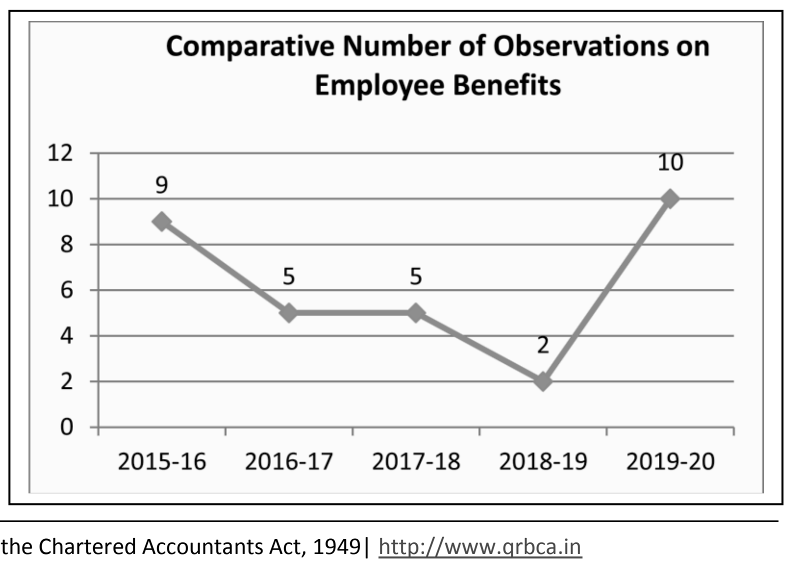
- Not making disclosure in the financial statements for the accounting policy adopted for government grants, including the method of presentation in the financial statements and the nature and extent of government grants recognized in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost *(Para 12.1)*.
- Disclosing Investment Promotion Subsidy in the form of refund of VAT offered by State Government under 'Other Operating Income'.

Accounting for Investments (AS 13)

- Not distinctly disclosing current investments into quoted and unquoted.

Employee Benefits (AS 15)

- Not disclosing employer's best estimate of contributions expected to be paid to the plan.
- Not disclosing the amount recognized as an expense for defined contribution plans for pension and provident fund in the financial statements.

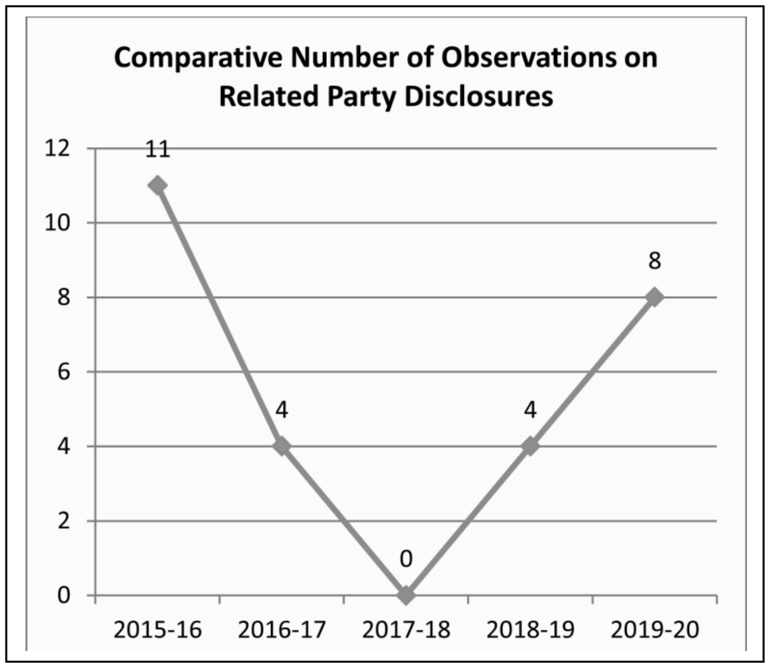


- Not using the projected unit credit method to determine present value of its defined benefit obligations *(Para 65)*.
- Not disclosing in the financial statements information as required by Para 120 (n).
- Not disclosing amounts for the previous four annual periods as required by Para 120(n).
- Not making disclosures as required by Para 120 for defined benefit plans in respect of compensated absences, contribution to pension fund, leave encashment and gratuity.
- Leave encashment and compensated absences were not shown as 'Other long-term employee benefits' *(Para 127a)*.

Borrowing Costs (AS 16)

- Not disclosing in the financial statements, the accounting policy adopted for borrowing costs *(Para 23 (a))*.

Related Party Disclosures (AS 18)



- Not disclosing the names of all the related parties and nature of the related party relationships where control exists irrespective of whether there have been transactions between related parties *(Para 21)*.
- Not disclosing the amount of short-term loans and advances to related parties in the note of disclosure for related party transactions *(Para 23)*.
- Not disclosing related party information as required by Para 23.
- Not making required disclosures under related party transactions in the notes to financial statements for purchasing equity shares of a subsidiary company from the Key Management Personnel, namely, Managing Director and CEO of the company *(Para 23)*.
- Not disclosing loan to whole time director and outstanding as on the balance sheet date under disclosures for Related Party Transactions as a transaction with Key Management Personnel *(Para 23)*.
- Not disclosing separately, the investment into the company and investment by the company in related party transactions disclosure.

- Not reporting certain related party relationship in financial statements.
- Not making the required related party disclosures in the notes to financial statements for transactions of long-term loans and advances and short-term loans and advances to Joint Venture Company and contribution to related party for CSR activities.

Leases (AS 19)

- Not disclosing accounting policy of leases.
- Not making disclosures in the financial statements for non-cancellable operating leases as required by Para 25 of AS 19.

Earnings per Share (AS 20)

- Not disclosing diluted earnings per share on the face of the Statement of Profit and Loss.
- Not disclosing the basic and diluted EPS.

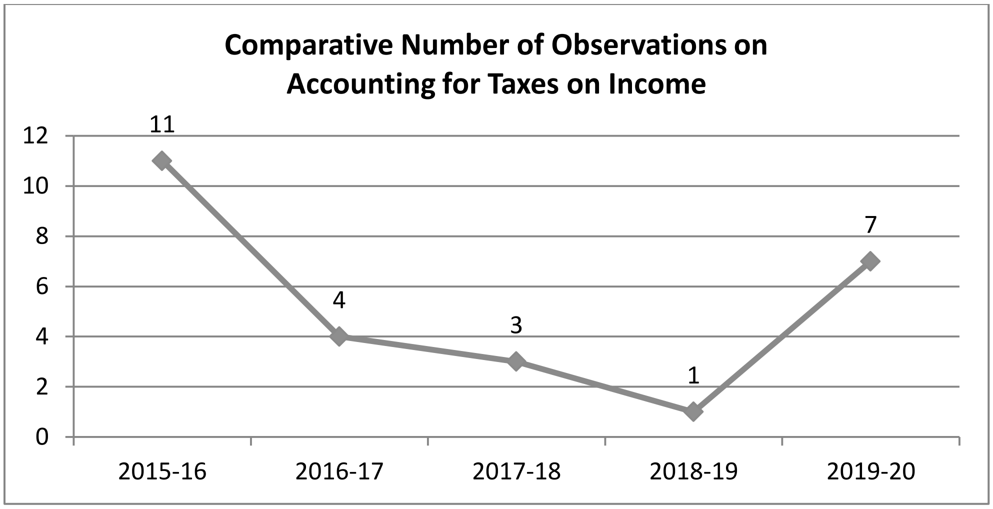
Consolidated Financial Statements (AS 21)

- While preparing consolidated financial statements, the financial statements of the parent and its subsidiaries were not combined on a line by line basis by adding together like items of assets, liabilities, income and expenses under the same head in respect of:-
    - Certain assets covered under the heading of other non-current assets in case of one of the subsidiary companies were classified under the head of Inventories at the time of consolidation.
    - Additional depreciation on opening WDV of fixed assets consequent to application of Schedule II of Companies Act, 2013 pertaining to one of the subsidiaries was not included at the time of reporting consolidated figures for the previous year.
    - Loss on sale of fixed assets for the previous year was wrongly nomenclature as profit on sale of fixed assets.

Accounting for Taxes on Income (AS 22)

- Not ensuring, where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, that deferred tax assets should be recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax asset can be realized *(Para 17)*.
- Not writing-down the carrying amount of a deferred tax asset, while reviewing at the balance sheet date, to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realized *(Para 26)*.
- Not setting off provision of tax and advance income tax where the company had legally enforceable right to set off the recognized amounts *(Para 27)*.

- Not disclosing breakup of deferred tax assets and liability into major components *(Para 31).*
- Not disclosing breakup of deferred tax assets categorized as "Others" into major components *(Para 31)*.



Intangible Assets (AS 26)

- Not disclosing useful lives or amortization rates and amortization method used for intangible assets.
- Not presenting the expenses on increase in share capital as intangible assets rather these were shown as miscellaneous expenditure not written off under other current assets in the Balance Sheet.

Financial Reporting of Interests in Joint Ventures (AS 27)

- Disclosures made in respect of contingent liabilities and commitments were not in accordance with the requirements of Para 50 & 51 of AS 27.
- No disclosures were made in terms of requirements of Para 52 of AS 27 in the consolidated financial statements.
- Incorrect figures for venturer's interest in joint venture for other long-term liabilities, other current liabilities, fixed assets and CWIP.

Provisions, Contingent Liabilities and Contingent Assets (AS 29)

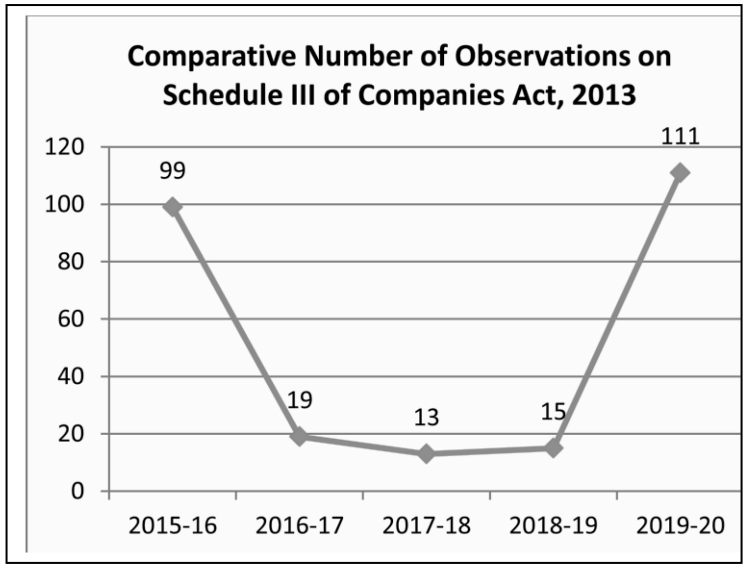
- Giving incomplete accounting policy for contingent liabilities as it did not provide for a contingent liability for a present obligation that arises from past events but is not recognized because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of obligation cannot be made *(Para 10.4b)*.
- Not disclosing the movement in provisions as required by Para 66 of AS 29.
- Not making disclosures as required under Para 68 of AS 29 in respect of contingent liabilities in the financial statements.
- Not disclosing Claims against the company not acknowledged as debt as contingent liability in financial statements.

c) Other Relevant Laws and Regulations

Companies Act, 2013
Findings in this area included:-

- Notes to the financial statements for 'Basis of Preparation' continued to make reference to the accounting standards issued by the ICAI instead of the accounting standards specified u/s 133 of the Companies Act, 2013 read with Rule 7 of Companies (Accounts) Rules, 2014 *(Sec. 129(1) of Companies Act, 2013)*.
- Non-compliance of *Section 134 (1) of Companies Act, 2013* in respect of notes forming part of the financial statements were not signed by the managing director, company secretary and CFO.
- Non-compliance of *Section 186 (4) of Companies Act, 2013* in respect of not making separate disclosure under notes to financial statements in respect of matters as required under Sec. 186(4) of Companies Act, 2013.
- Non-compliance of *Section 186 (5) of Companies Act, 2013* in respect of granting loans during the year to its wholly owned subsidiary, as depicted in the notes to financial statements for transactions with related parties, without obtaining prior approval of public financial institutions where term loan was pending and there was default in repayment of loan and/or interest to such public financial institutions.
- Non-compliance of *Schedule II of the Companies Act, 2013* where the entity adopted a useful life of certain tangible fixed assets different from the useful life specified in Part C of Schedule II of the Companies Act, 2013 for not disclosing in the financial statements its justification duly supported with technical advice *(Para 3)*.
- Not disclosing in the financial statements, the useful life of fixed assets where it was different from the life specified in *Part C of Schedule II of the Companies Act, 2013*.
- Non-compliance of *Schedule II to the Companies Act, 2013* notified w.e.f 01.04.2014 requiring that the depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value *(Part A, Para 1)*. However, the company continued to charge incremental depreciation on account of revaluation of fixed assets by drawing similar amount from Revaluation Reserve continuing the existing practice permitted by the ICAI Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets which was withdrawn by the ICAI during the year 2015 in view of the requirements of the Companies Act, 2013.
- Non-compliance of *Schedule II of the Companies Act, 2013* for reversing the revaluation reserve on account of depreciation on revalued fixed assets (Part A, Para 1).
- Non-compliance of *Section 135 read with Schedule VII of Companies Act, 2013* in respect of spending the amount allocated for CSR activity on religious projects which is not a CSR activity as per Schedule VII.

Schedule III of the Companies Act, 2013/Guidance Note on Schedule III to the Companies Act, 2013
Findings in this area included:-



- Not including the words “See accompanying notes to the financial statements” at the bottom of the Balance Sheet and Statement of Profit & Loss *(Part I & Part II)*.
- Not using the same unit of measurement uniformly as multiple units of measurement (Rs. in crore, Rs. in lac, Rs. in thousand and Rs. in million) were used in the standalone and consolidated financial statements including notes to financial statements *(Para 4(ii)).*
- Not using the same unit of measurement uniformly at certain places under notes to the consolidated financial statements *(Para 4(ii)).*
- Not disclosing previous year figures in various notes of financial statements *(Para 5)*.
- Number of Equity shares held by public and others for the previous year were wrongly stated *(Para 5)*.
- Various inconsistencies in mapping other information and previous year’s data in the Annual Report in respect of: -
  - Board’s Report and Financial statements;
  - CFS Audit Report and CFS notes to the financial statements; and
  - Standalone and consolidated financial statements for the current year and previous year *(Para 5)*.
- Not disclosing the current portion of the liability towards gratuity *(Note No. 3 of Part I).*
- Not bifurcating leave salary and gratuity into current and non-current *(Note No. 3 of Part I)*.
- Classifying provision for taxation under long term provision instead of classifying as current liability *(Note No. 3 of Part I).*
- Amount of provision towards gratuity liability for employees was wrongly classified as ‘Other current liability’ instead of bifurcating the amount into current and non-current and showing under ‘Short term provisions/ long term provisions’ based on actuarial valuation *(Note No. 3 and 6H of Part I).*
- Using the term ‘Sundry creditors’ in the notes to financial statements instead of ‘Trade Payables’ *(Note No. 5 of Part I).*

- Classifying Accounts Payable on Purchase of Fixed Assets under Trade Payables *(Note No. 5 of Part I)*.
- Showing retention money, being amount due under contractual obligations, as Trade Receivable *(Note No. 4 of Part I and Para 8.7.4 of Guidance Note on Schedule III).*
- Disclosure in the financial statements was not exactly in the manner required by Note No.6A (e) of Part I.
- Not disclosing in the notes to financial statements the restrictions on distribution of dividend for equity shares and on repayment of capital in respect of preference shares *(Note No. 6A (e) of Part I)*.
- Not disclosing the rights attaching to the shareholders in the event of liquidation and dividend etc. *(Note No. 6A (e) of Part I).*
- Under Non-current Liabilities, the sub-head Other Long-term Liabilities was included after Long-term Provisions *(Part I)*.
- Not specifying the nature of security separately in each case for long term borrowings *(Note No. 6C (ii) of Part I).*
- Nature of security specified for long term/ short term borrowings did not cover all the aspects of security mentioned in the sanction letter for such borrowings *(Note No. 6C(ii)/ 6F(ii) of Part I).*
- Not stating certain bonds/debentures forming part of Long-term borrowings in descending order of maturity or conversion, as the case may be *(Note No. 6C(iv) of Part I).*
- Not disclosing the debentures (along with the rate of interest and particulars of redemption) in descending order of maturity starting from farthest redemption date *(Note No. 6C (iv) of Part I).*
- Total number of debentures were wrongly mentioned under disclosure of private placement institutional redeemable non-convertible debentures.
- Not disclosing in the notes to financial statements the terms of repayment and interest rate for Borrowings (*Note No. 6C (vi) of Part I).*
- Not disclosing in the notes to financial statements the applicable rate of interest on certain long-term borrowings *(Para 8.3.1.18 of Guidance Note on Schedule III to Companies Act, 2013)*.
- Not disclosing in the notes to financial statements the amounts of instalments due as part of terms of repayment of Long-term borrowings *(Para 8.3.1.18 of Guidance Note on Schedule III).*
- Maturity period for current maturity of a long-term borrowing was wrongly mentioned as due within 1-2 years in the notes to the financial statements *(Note No. 3 of Part I)*.
- Not disclosing in the notes to the financial statements the period and amount of continuing default in repayment of loans and interest separately in each case in respect of both long-term borrowings and short term borrowings *(Note No. 6C(vii)/ 6F(iv) of Part I).*

- In the notes to the financial statements, the heading was wrongly given as Long-term Liabilities instead of Other Long-term Liabilities as shown on the face of the Balance Sheet.
- Mismatch in amounts in Notes to financial statements and CARO report while reporting amount of default to the financial institutions.
- Disclosure in the notes to financial statements for the period and amount of default as on the balance sheet date in the repayment of short term loans from banks was made without using the word "default" and no disclosure was made for material default for devolved letter of credit included under the working capital loan from banks *(Note No. 6F (iv) of Part I)*.
- Not separately classifying trade deposits under other non-current/ current liabilities, as the case may be. Rather, trade deposits received from customers were netted off from trade receivables *(Para 8.6.3 of Guidance Note on Schedule III to the Companies Act, 2013).*
- Not specifying the nature of other payables under other current liabilities in the financial statements *(Note No. 6G (j) of Part I)*.
- Not separately specifying the nature of other liabilities in other current liabilities in the notes to the financial statements *(Note No. 6G (j) of Part I).*
- Not disclosing 'Interest accrued but not due' as separate line item in 'other current liabilities' *(Note No. 6G(c) of Part I)*.
- Deposits received from dealers shown under other long-term liabilities *(Note No. 6F (i) of Part I)*.
- Nomenclature used for one of the tangible fixed assets was wrongly used as Plant & Machinery instead of Plant and Equipment *(Note No. 6I (i) (c) of Part I)*.
- Leasehold land was presented under Intangible Assets instead of separately specifying under each class of asset.
- Not disclosing other adjustments, on account of borrowing costs capitalized in accordance with AS 16 Borrowing Costs, separately for each class of assets in the scheduled of Fixed Assets *(Para 8.7.1.1 of Guidance Note on Schedule III).*
- Inconsistency between figures given in standalone financial statements in the Schedule – Reserves and Surplus for additions and deductions during the year under Revaluation Reserve vis-à-vis figures given in Schedule – Fixed Assets for additions and deductions in Premises on account of revaluation during the year.
- Not disclosing that shares held under the head Non-current Investments were quoted *(Note No.6K of Part I).*
- Non-current investments were not classified as trade investments and other investments with further sub-classification and aggregate amount of unquoted investments were not disclosed as specified *(Note No.6K of Part I).*

- Not further classifying trade and other non-current investments into different categories as specified (*Note No. 6K (i) of Part I).*
- Not giving details, under each classification of Non-current investments, of names of the bodies corporate indicating separately whether such bodies corporate are subsidiaries, associates, joint ventures or controlled special purpose entities in whom investments have been made *(Note No. 6K (i) of Part I).*
- Not disclosing aggregate amount of quoted investments and aggregate market value of unquoted investments *(Note No. 6K (iii) of Part I).*
- Long-term loans and advances were not classified in the manner as specified *(Note No.6L of Part I).*
- Not disclosing adequately in the financial statements the amount standing as capital advance paid by the company for purchase of land where the sale deed has already been executed in the name of Directors of the company and directors have executed an MOU for holding the land in trust for the company *(Note No.6L of Part I).*
- Long term security deposit was wrongly classified under other non-current assets instead of under Long term loans & advances (Note No. 6L (i) (b) of Part I).
- Not disclosing the extent of investments in the subsidiary *(Note No. 6N (i) of Part I).*
- Classifying Stores and spares under the sub-head of Raw materials under Inventories instead of disclosing separately *(Note No.6O of Part I).*
- Disclosure of aggregate amount of Trade Receivables outstanding for a period exceeding six months did not include the words “from the date they are due for payment” *(Note No.6P (i) of Part I).*
- Not specifying whether trade receivables were secured or unsecured or doubtful (Note No. 6P (ii) of Part I).
- Not disclosing allowance for bad and doubtful long-term loans and advances, trade receivables and short-term loans and advances under relevant heads separately *(Note No. 6L(iii), 6P(iii) & 6R(iii) of Part I)*.
- Incorrect amount was mentioned for employee’s security deposits placed as fixed deposit with banks.
- Cash and Cash Equivalents and Other Bank Balances were not classified in the manner specified and the non-current portion of each of the other bank balances were not classified under Other Non-current assets with separate disclosure thereof *(Note No.6Q (i) of Part I).*
- Not classifying separately cash on hand under cash and cash equivalents in the notes to the financial statements rather these were clubbed together with cheques and stamps on hand *(Note No. 6Q(i) of Part I).*

- Not disclosing repatriation restrictions in respect of cash and bank balances *(Note No. 6Q (iv) of Part I).*
- Cash and cash equivalents presented in the financial statements included balances with banks held as margin money and fixed deposits with banks maturing after 12 months *(Para 6.4 of Guidance Note on Schedule III to the Companies Act, 2013).*
- Short term loans and advances to related parties were not classified separately (giving details thereof) in the manner required *(Note No.6R of Part I).*
- Not disclosing the provision for bad and doubtful short-term loans and advances under the relevant heads separately *(Note No. 6R (iii) of Part I).*
- Not disclosing doubtful advance under Short term Loans and Advances *(Note No. 6R (iii) of Part I)*.
- Commitments were not disclosed separately but included under Contingent liabilities *(Note No.6T of Part I).*
- Disclosing the following under contingent liabilities instead of under commitments:-
  a) estimated amount of contracts remaining to be executed on capital account and not provided for; and
  b) export obligations

  (Note No. 6T of Part I).
- Not classifying contingent liability as specified (Note No. 6T of Part I).
- Amount of proposed dividend per share was not disclosed separately *(Note No.6U of Part I).*
- Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, not disclosing by way of note how such unutilized amounts have been used or invested *(Note No.6V of Part I).*
- Not reducing employees' cost, who are on the roll of subsidiary company, from payroll cost capitalized to projects in the financial statements.
- Typographical errors, referencing and casting errors in note referencing and using the word 'leave benefit' instead of 'compensated absences'.
- Mismatch in amounts between Balance Sheet, Statement of Profit and Loss and information in segment reporting.
- Presentation of various items included in the Statement of Profit & Loss was not as per Para IV, V, VI, VII, VIII & IX in Part II of Schedule III.
- Not classifying the revenue arising from sale of certain products as 'Revenue from operations' under sub-head 'Sale of products' rather these were shown as 'Other operating revenue' *(Para 9.1.7 of Guidance Note on Schedule III to the Companies Act, 2013).*
- Sale of scrap was included in other income instead of other operating revenue under Revenue from operations *(Note No. 2 of Part II)*.

- Disclosure of changes in inventories of finished goods, work-in-progress and stock-in-trade was not given in the manner specified *(Para 9.5.3 of Guidance Note on Schedule III).*
- Showing part of Employee benefits expenses as Sales, administration and other expenses *(Note No.5 (i) (a) of Part II).*
- Not separately disclosing sales promotion expenses in the notes to financial statements even though the amount of expenditure exceeded one percent of revenue from operations or Rs.1,00,000/- whichever is higher *(Note No. 5(i) (c) of Part II).*
- Net gain on foreign exchange transaction and translation was disclosed as a negative figure under other expenses *(Note No.5 (i) (i) of Part II)*.
- Not making required disclosures for payments to the auditor in the notes to the financial statements *(Note No. 5(i) (j) of Part II).*
- Not disclosing under Payment to Auditors, the fees charged by the component auditors in the consolidated financial statements.
- Including payment for internal audit and cost audit under line item Payment to Auditor.
- Not disclosing by way of note in the financial statements the amount of expenditure incurred on corporate social responsibility activities *(Note No. 5(i) (k) of Part II).*
- Non-disclosure of break-up of various heads of expenses included in the line item CSR Expenditure and other disclosures such as gross amount required to be spent and the amount spent during the year on CSR activities, details of related party transactions *(Para 10.13 of Guidance Note on Schedule III to the Companies Act, 2013 and Guidance Note on Accounting for Expenditure on CSR activities)*.
- Not disclosing separately amount spent on CSR activities into 'Construction/acquisition of any asset' and 'On other purposes' *(Para 10.13 of Guidance Note on Schedule III to the Companies Act, 2013 and* Para 17(a)&(b) of *Guidance Note on Accounting for Expenditure on CSR activities)*.
- Expenditure on Rent was clubbed with Rates & Taxes instead of showing them separately (Note No.5 (vi) of Part II).
- Expenditure on Repairs to machinery was not disclosed separately rather grouped under others (Note No.5 (vi) of Part II).
- Expenditure incurred on repairs to building and repairs to machinery were not disclosed separately but were clubbed together in the Statement of Profit & Loss *(Para 5(vi) of Part II).*
- Not disclosing by way of note to consolidated financial statements the value of imports calculated on CIF basis, expenditure in foreign currency, earnings in foreign exchange etc. during the financial year *(Note No. 5(viii) of Part II).*
- Not disclosing the total value of all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare

parts and components similarly consumed and the percentage of each to the total consumption *(Note No.5(viii)(c) of Part II).*

- Not including the amount of interest accrued on advance in the disclosure for earnings in foreign exchange in the notes to the financial statements as the foreign exchange earnings should also be disclosed on accrual basis on the same lines as the Statement of Profit & Loss *(Para 11.5.2 of Guidance Note on Schedule III to the Companies Act, 2013).*
- Showing the amount as drawing from revenue reserve in the standalone Statement of Profit & Loss as per Annual Report hosted at website whereas the amount was shown as drawing from investment reserve in the Statement of Profit & Loss as per printed Annual Report. In the Schedule for Reserves and Surplus, the amount was shown as deduction from investment reserve.
- Inter unit transfer was shown as deduction from expenses on the face of the Statement of Profit & Loss.
- Showing incorrect amounts in Indian currency under details of foreign currency exposure in the notes to consolidated financial statements.
- Typographical errors in notes and cash flow statement.
- Inconsistency between figures given on the face of the standalone Balance Sheet and those given in the notes to financial statements under the Schedule on Asset Liability Management in respect of Borrowings, Advances, Investments, Foreign Currency Assets and Foreign Currency Liabilities and those stated under Schedule on Sector wise advances.
- In the standalone cash flow statement for the current year, the heading was shown as for the previous year.
- In the standalone cash flow statement for the year, the figure for Profit/loss on sale of fixed assets was wrongly stated.
- In the consolidated cash flow statement for the current year, the figures for the previous year were repeated in respect of Profit/Loss on Sale of Fixed Assets, Sale of Fixed Assets and Purchase of Fixed assets.

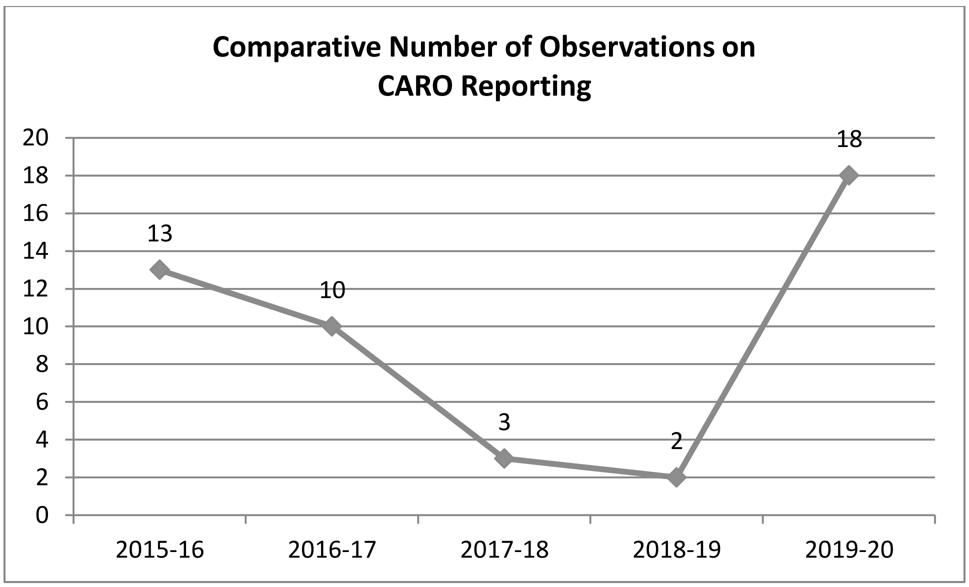
Companies Auditor's Report Order (CARO), 2016/ Guidance Note on CARO, 2016
Findings in this area included:-

- Using the words 'as informed' while reporting under clause 3(i)(b) though auditor is required to give his opinion based on his examination of such records and other documents *(Para 35 of Guidance Note on CARO, 2016).*
- Using the word "generally" for reporting compliance of the requirement *(Clause 3(i)(c) of CARO, 2016)*.
- Not performing the audit procedure of arriving at book inventories on the basis of an annual reconciliation of opening inventory, purchases and consumption and consumption in units can

be co-related to the production, or can be established with reasonable accuracy while examining whether material discrepancies have been noticed on verification of inventories when compared with book records while reporting in CARO in terms of clause 3(ii) of CARO, 2016 *(Para 37 (f)* of *Guidance Note on the CARO, 2016)*.

- Reporting under CARO that loans given by the company to its wholly owned subsidiaries covered u/s 189 of Companies Act, 2013 did not carry any interest while actually the company had charged interest on its wholly owned subsidiaries for the loans given to them during the year and such income was also booked as Other income in the Statement of Profit & Loss for the year *(Clause 3 (iii) of CARO, 2016)*.
- Not reporting non-compliance of the provisions of Sec.186 of Companies Act, 2013 where loans were granted during the year to wholly owned subsidiaries in violation of the provisions of Sec.186(5) of Companies Act, 2013 *(Clause 3(iv) of CARO, 2016)*.
- Not reporting for guarantees, and security whether provisions of Sec. 185 and 186 of the Companies Act, 2013 have been complied with and, if not, the details thereof *(Clause 3 (iv) of CARO, 2016)*.
- Omitting the word "loans" while reporting compliance of the provisions of Sec.185 and 186 of the Companies Act, 2013 *(Clause 3(iv) of CARO, 2016)*.
- Though proviso to Section 73 (1) of Companies Act, 2013 provides an exemption to NBFC companies from the applicability of Sec. 73 to 76 of Companies Act, 2013, however, still in the CARO Report for reporting under Clause 3(v), it was stated that company had complied with the said provisions instead of stating 'Not applicable'.
- Not reporting the period of default where the entity has defaulted in repayment of loans or borrowings to financial institution, banks and Government *(Clause 3 (viii) of CARO, 2016*).
- Not reporting the amount of default and period of default in repayment of loans or borrowings to one of the banks on account of materiality *(Clause 3(viii) of CARO, 2016)*.
- Not reporting the period and amount of default in repayment of loans or borrowings to a bank in respect of export performance bank guarantee crystallized during the year and devolved letter of credit included in the working capital loans from banks *(Clause 3(viii) of CARO, 2016)*.
- Not performing necessary audit procedure while reporting whether title deeds of immovable properties were held in the name of the company by reporting based on confirmation received from the company rather than on the basis of conducting review of the fixed assets register and verification of title deeds of immovable properties *(Para 36c of Guidance Note on CARO, 2016)*.
- Not performing the audit procedure of seeking confirmation from the banks where the title deeds of the immovable property have been mortgaged with them while reporting under CARO whether the title deeds of immovable properties are held in the name of the company or not in terms of clause 3(i) (c) of CARO, 2016 *(Para 36 (g)* of *Guidance Note on the CARO, 2016)*.

- Not disclosing information required to be disclosed as specified under *Para 36(k) of the Guidance Note on CARO, 2016* where title deeds of immovable property were not held in the name of the company.
- Not disclosing that title deeds of certain immovable properties were not held in the name of the company.
- Inadvertently issued Auditor's report based on CARO, 2015 instead of CARO, 2016 as per XBRL documents filed in ROC though auditor had re-issued the report based on CARO, 2016 after the necessary ROC filing.
- In the CARO Report, the amount for service tax not deposited on account of dispute was mentioned in Rupees, however heading for the amount stated as if figures were in Rs. lakhs instead of in Rs.



Others
Findings in this area included:-

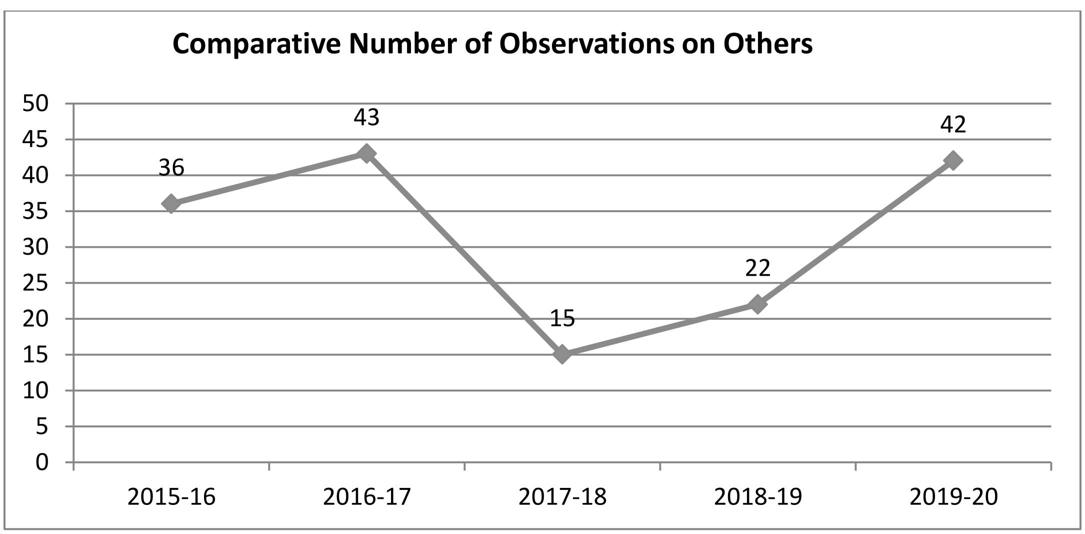
- Non-compliance of *Third Schedule of the Banking Regulation Act, 1949* in respect of not preparing balance sheet and the profit and loss account along with the schedules strictly in formats as set out in Form A and B in the Third Schedule.
- Non-compliance of *Form-A (third Schedule) of Banking Regulation Act, 1949* in respect of not disclosing on the face of the Balance Sheet a) face value and market value of investments; and b) borrowings separately classifying into short term, medium and long term indicating security given against each one of them.
- Non-compliance of *Third Schedule to Banking Regulation Act, 1949* in respect of not disclosing 'Other Income' under Schedule 14 in the format as specified in Form B to Third Schedule to Banking Regulation Act, 1949.

- Nomenclature used of various items on the face of the Balance sheet and Schedules thereto were not in line with the format prescribed in the *Third Schedule of the Banking Regulation Act, 1949*.
- Break-up of investments was not specified under specific heads in the schedule of Investments *(Form A of Balance Sheet under Property & Assets)*.
- Non-compliance of *clause (ix) of RBI Circular RBI/2013-14/531UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated 25.03.2014* in respect of not disclosing movement in net NPAs.
- Non-compliance of *clause (xiv) of RBI Circular RBI/2013-14/531, UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14, dated March 25, 2014* in respect of not disclosing arrears of premium paid to DICGC.
- Non-Compliance of *Para 3.7.5 of RBI Master Circular DBR.BP.BC No.23/21.04.018/2015-16 dated 01.07.2015 - Disclosure in Financial Statements - 'Notes to Accounts'* in respect of not disclosing estimated value of intangible collateral taken for unsecured advances.
- Non-compliance of *RBI Master Circular Para No.5 Additional Disclosures relating to Schedule 18 – Insurance Business* for not disclosing in the notes to financial statements the details of fees/ brokerage earned in respect of insurance broking, agency and bank's assurance business.
- Non-compliance of *RBI Master Circular on Prudential Norms on Investment – 2015* for: -
  - Valuation of investments classified under Held to Maturity at average cost as disclosed under accounting policy instead of at acquisition cost *(Para 3.1)*.
  - Valuation of unquoted shares at book value instead of at break-up value for equity shares and YTM basis for preference shares *(Para 3.7.4, 3.7.5)*.
- Non-compliance of *RBI/2014-15/552 DNBR (PD) CC.No. 029/ 03.10.001/ 2014-15 dated 10.04.2015* in respect of not disclosing migration of ratings by credit rating agencies during the year.
- Not disclosing movement of NPAs in the financial statements in the format as specified by the RBI vide *RBI circular No. DBR.BP.BC No.23/21.04.0182015-16 dated 01.07.2015*.
- Differences in signed financial statements and published Annual Report in respect of amount reported under Schedule for Deposits – Term Deposits from others, Schedule for Amount of Subordinated Debt raised as Tier II capital and Sector wise advances.
- Non-compliance of RBI Circular prescribing norms for status of "Infrastructure Finance Company" in respect of not deploying minimum 75% of the total assets in infrastructure loan by an Infrastructure Finance Company NBFC on the basis of the definition of infrastructure loan as per RBI's prudential norms which prevailed at the time of signing of the Auditor's Report.
- Non-compliance of *ICAI Guidance Note on Audit of Banks* in respect of not grouping Reserve for Revaluation of Land & Building under Capital Reserves *(Para 5.19)*.
- Non-compliance of *Rule 27(3) of Multi State Co-operatives Societies Rules, 2002* in respect of not reporting in the Independent Auditor's Report on the schedule as required by said Rule as

per printed Annual Report though said schedule was purportedly included in the signed Auditor's Report.

- Not reporting in the schedule forming part of the Auditor's Report on the matters stated in *Rule 27(3)(a), (b), (e) & (f) of Multi State Co-operative Societies Rules, 2002*.
- Non-compliance of *Part C of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002* in respect of not mentioning in the Independent Auditor's Report that financial statements were prepared in accordance with the requirements of the Companies Act to the extent applicable and in the manner so required.
- Non-compliance of *Part II of Schedule B of IRDA Regulations, 2002* for not disclosing in the financial statements the historical cost of those investments valued on fair value basis.
- Non-compliance of *IRDA Regulations, Master Circular issued by IRDA* in respect of:-
    - Not calculating the "Ratio of expenses of management" as per requirements of Para 6.1.3 of Master Circular issued by IRDA by considering all the operating expenses of the company as a whole instead of on the basis of operating expenses related to insurance business.
    - Stating under significant accounting policies that unlisted securities are stated at lower of historical cost or book value of shares which was not in line with the requirements of Schedule A of IRDA (Preparation of Financial Statement & Auditors Report of Insurance Companies) Regulation, 2002 which required it to be stated at historical cost.
    - Not disclosing the foreign exchange gains or losses separately in "Others" in Form A-RA and A-PL of the company as required by footnote to Form A-RA and A-PL of Part V of Schedule A of IRDA Regulations, 2002.
- Non-compliance of *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015* as the wording of the Auditors' Certificate on Corporate Governance indicated that auditors had only examined compliance of Regulations 17 to 27 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 instead of the whole Chapter IV of the Regulations, as required.
- Non-compliance of *Guidance Note on Accounting for Employee Share-based Payments* in respect of making disclosures in terms of the requirements of Para 50 and 51 of the Guidance Note in the Report of Board of Directors instead of in the financial statements.
- Non-compliance of *Para 13 of Guidance Note on Accounting for credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961* in respect of not separately disclosing the MAT Credit Entitlement rather it was included under advance tax balance.
- Non-compliance of *Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under The Income-tax Act, 1961* in respect of not disclosing MAT credit entitlement on the face of the Statement of Profit and Loss.

- Non-compliance of *Para 9.2 of Guidance Note on Accounting for Real Estate Transactions* in respect of not disclosing the aggregate amount of costs incurred and profits recognized to date in the financial statements.
- Not making disclosures in the financial statements as required under *Sec.22 of MSMED Act, 2006* for dues outstanding as at the balance sheet date of micro, small and medium enterprises.
- Not showing the amounts due to the MSMEs on the face of the Balance Sheet under the head Trade Payables.
- Non-compliance of *Section 290.149 of the ICAI Code of Ethics* for familiarity threat by using the same senior personnel on the assurance engagement over a long period of time as the engagement partner had signed the balance sheet for 10 years.
- In respect of accepting a position as auditor previously held by another chartered accountant without holding in file any communication with him in writing. However, such acceptance from previous auditor was made 4 years back and, during the year under review, it was a continuing client *(Clause 8 of Part I of First Schedule to Chartered Accountants Act, 1949)*.
- Accepting a position as auditor previously held by another chartered accountant without keeping in file the NOC obtained from them. *(Clause 8 of Part I of First Schedule to Chartered Accountants Act, 1949)*.
- Since the total fees generated by the firm from the client group represented a large proportion of the firm's total fees, the significance of the self-interest threat was not duly evaluated and no safeguards were considered and applied if the threat was other than clearly insignificant *(Sec. 290.193 of ICAI Code of Ethics)*.



Key Takeaways for Audit Firms

Standard on Quality Control –I (SQC-I)

- Improve implementation and documentation for various elements of the system of quality control as per SQC-1.
- Maintain policy & procedure to notify breaches of independence requirements.
- Provide eligibility and maintain objectivity of Engagement Quality Control Reviewer (EQCR).
- Maintain policies and procedures with regard to engagement performance, engagement documentation and archival process.
- Improve monitoring mechanism and take corrective action for any of the deficiency identified during inspection process and communicate to its partner.

Audit Documentation

- Prepare audit documentation on a timely basis duly recording who performed and reviewed audit work and the date/s of completion and review.
- Prepare audit documentation to understand:
    - nature, timing and extent of audit procedures performed to comply with SAs and applicable legal and regulatory requirements;
    - results of audit procedures performed and audit evidence obtained; and
    - significant matters arising during the audit, conclusions reached and significant professional judgments made.
- Comply with policies and procedures for assembly and archival of work papers within stipulated time.

Risk Assessment and Response to Assessed Risk

- Document overall audit strategy and audit plan.
- Document the design and effectiveness of controls and performing appropriate test of controls to obtain sufficient appropriate audit evidence.
- Test IT related controls, IT generated reports and have appropriate planned procedures including changes to IT systems and have appropriate IT personnel on engagement.

- Determine materiality for the financial statements as a whole while establishing overall audit strategy.

Audit Evidence

- Appropriately identify and assess risks of material misstatement in accounting estimates, and perform appropriate audit procedures to address such risks.
- Do not be over-reliant on, or readily accept, the explanations and representations of the management without challenging matters such as key underlying assumptions, or seek out evidence to corroborate estimates or treatments. If written representations are inconsistent with other audit evidence, perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, reconsider the assessment of the competence, integrity, ethical values or diligence of management, and determine the effect that this may have on the reliability of representations and audit evidence, in general.
- Design and perform audit procedures that are appropriate in the circumstances for obtaining sufficient appropriate audit evidence.
- Maintain control over external confirmation requests while using external confirmation procedures.
- Select items for the sample in such a way that each sampling unit in the population has a chance of selection.
- Perform analytical procedures during planning stage, audit performance and when forming overall conclusion as to whether financial statements are consistent with auditor's understanding of entity.
- Evaluate adequacy of the work of the internal auditor.
- Evaluate relevance and reasonableness of the assumptions made by the expert; and completeness and accuracy of the source data.

Audit Conclusions and Reporting

- Prepare auditor's report as per prescribe format.
- Disclose financial impact of the misstatement in 'Basis of Qualified Opinion' para in auditors' report.
- Read the other information to identify inconsistencies with the audited financial statements.

Annex A

Number and % of Audit Firms having observations on Standards on Auditing (SA) in reviews conducted during FY 2019-20:

Standards on Auditing	Number of Observations	Number of Audit Firms having observations	% of Firms to Total Firms (Total Firms =72)
SQC-1 Standards on Quality Control	58	19	26
SA 210 Agreeing the Terms of Audit Engagements	7	7	10
SA 220 Quality Control for an Audit of Financial Statements	7	5	7
SA 230 Audit Documentation	18	13	18
SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	5	4	6
SA 250 Consideration of Other Laws and Regulations in an Audit of Financial Statements	1	1	1
SA 300 Planning an Audit of Financial Statements	9	6	8
SA 315 Identifying and assessing the risks of material misstatement through understanding the Entity and its environment	9	9	13
SA 320 Materiality in Planning and Performing an Audit	6	6	8
SA 330 Auditor's responses to assessed risks	6	5	7
SA 402 Audit Considerations Relating to an Entity Using a Service Organisation	1	1	1
SA 450 Evaluation of Misstatements Identified during the Audit	1	1	1
SA 501 Audit Evidence- Specific considerations for Selected Items	1	1	1
SA 505 External Confirmations	14	14	19
SA 510 Initial Audit Engagements – Opening Balances	1	1	1
SA 520 Analytical Procedures	1	1	1
SA 530 Audit Sampling	8	7	10
SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	6	5	7
SA 550 Related Parties	2	2	3
SA 580 Written Representations	7	5	7

SA 600 Using the Work of Another Auditor	1	1	1
SA 610 Using the Work of Internal Auditors	2	2	3
SA 700 Forming an Opinion and reporting on Financial Statements	6	4	6
SA 705 Modification to the opinion in the Independent Auditor's Report	2	2	3
SA 710 Comparative Information—Corresponding Figures and Comparative Financial Statements	1	1	1
SA 720 The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	3	3	4

Annex B

Number and % of Audits having observations on Accounting Standards (AS) in reviews conducted during FY 2019-20:

Accounting Standards	Number of Observations	Number of Entities having observations	% of Entities to Total Entities (Total Entities =69)
AS - 1 Disclosure of Accounting Policies	9	9	13
AS -2 Valuation of Inventories	1	1	1
AS -3 Cash Flow Statements	23	13	19
AS-5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	1	1	1
AS-7 Construction Contracts	1	1	1
AS - 9 Revenue Recognition	2	2	3
AS - 10 Accounting for Fixed Assets *(now Property, Plant and Equipment)*	4	4	6
AS -11 The Effects of Changes in Foreign Exchange Rates	1	1	1
AS-12 Accounting for Government Grants	2	2	3
AS -13 Accounting for Investments	1	1	1
AS - 15 Employee Benefits	10	9	13
AS-16 Borrowing Costs	1	1	1
AS-18 Related Party Disclosures	8	8	12
AS-19 Leases	2	2	3
AS - 20 Earnings Per Share	2	2	3
AS-21 Consolidated Financial Statements	1	1	1
AS - 22 Accounting for Taxes on Income	7	7	10
AS - 26 Intangible Assets	3	3	4
AS -27 Financial Reporting of Interests in Joint Ventures	4	2	3
AS - 29 Provisions, Contingent Liabilities and Contingent Assets	4	4	6

Annex C

Number and % of Audits having observations on Other Relevant Laws and Regulations in reviews conducted during FY 2019-20:

Other Relevant Laws and Regulations	Number of Observations	Number of Entities having observations	% of Entities to Total Entities (Total Entities =69)
Companies Act, 2013	9	8	12
Schedule III of the Companies Act, 2013	111	32	46
CARO, 2016	18	12	17
Others	33	17	25

Annex D

Meetings Organised during FY 2019-20

The details of meetings held during the financial year 2019-20 of the Quality Review Board, constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949, and various Groups/Sub-Committees constituted by the Board are as follows:-

Quality Review Board

1. 59th meeting of the Quality Review Board held on 28th May, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
2. 60th meeting of the Quality Review Board held on 22nd July, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
3. 61st meeting of the Quality Review Board held on 18th November, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
4. 62nd meeting of the Quality Review Board held on 19th February, 2020 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Quality Review Group-I

5. 40th meeting of the Quality Review Group-I, constituted by the QRB, held on 24th May, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
6. 41st meeting of the Quality Review Group-I, constituted by the QRB, held on 20th June, 2019 at ICAI Bhawan, Sector 62, Noida.
7. 42nd meeting of the Quality Review Group-I, constituted by the QRB, held on 29th August, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
8. 43rd meeting of the Quality Review Group-I, constituted by the QRB, held on 17th September, 2019 and continued on 22nd October, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
9. 44th meeting of the Quality Review Group-I, constituted by the QRB, held on 7th November, 2019 at ICAI Bhawan, Indraprastha Marg, New Delhi.
10. 45th meeting of the Quality Review Group-I, constituted by the QRB, held on 17th December, 2019 and continued on 17th January, 2020 at ICAI Bhawan, Indraprastha Marg, New Delhi.
11. 46th meeting of the Quality Review Group-I, constituted by the QRB, held on 5th February, 2020 at ICAI Bhawan, Indraprastha Marg, New Delhi.
12. 47th meeting of the Quality Review Group-I, constituted by the QRB, held on 5th March, 2020 at ICAI Bhawan, Indraprastha Marg, New Delhi and continued on 9th March, 2020 via teleconferencing.

13. 48th meeting of the Quality Review Group-I, constituted by the QRB, held on 13th March, 2020 at ICAI Bhawan, Sector 62, Noida.

Thematic Review Group

14. 1st Meeting of Thematic Review Group, constituted by the QRB, held on 20th December, 2019 at ICAI Bhawan, Chennai.

Expert Group to examine QRB Procedure for Quality Review of Audit Services of Audit Firms and other matters

15. By circulation of item on 15th May, 2019.

Sub-Committee-I

16. By circulation of items on 12th May, 2019.

Audit Committee of QRB

17. 7th Meeting of Audit Committee of QRB held on 20th June, 2019 at ICAI Bhawan, Sector 62, Noida.

Glossary

AFUR	Audit Firm Under Review
AS	Accounting Standard
CA	Chartered Accountant
CARO	Companies Auditor’s Report Order
CEO	Chief Executive Officer
CFS	Consolidated Financial Statements
CIF	Cost Insurance Freight
CSR	Corporate Social Responsibility
CWIP	Capital Work in Progress
EPS	Earning Per Share
EQCR	Engagement Quality Control Review
FRRB	Financial Reporting Review Board
FY	Financial Year
HR	Human Resources
ICAI	The Institute of Chartered Accountants of India
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
LoC	Letter of Comfort
LC	Letter of Credit
MAT	Minimum Alternate Tax
MOU	Memorandum of Understanding
MSMEs	Micro, Small and Medium Enterprises
MSMED Act	Micro, Small and Medium Enterprises Development Act
NBFC	Non Banking Finance Company
NFRA	National Financial Reporting Authority
NOC	No Objection Certificate
QRB	Quality Review Board
QRG	Quality Review Group
RBI	Reserve Bank of India
ROC	Registrar of Companies
SA	Standard on Auditing
SEBI	Securities and Exchange Board of India
SQC	Standard on Quality Control
TR	Technical Reviewer
VAT	Value Added Tax
WDV	Written Down Value
XBRL	eXtensible Business Reporting Language

About QRB

In exercise of the powers conferred u/s 28A of the Chartered Accountants Act, 1949, the Central Government of India, by Notification No. GSR 448 (E) dated 28th June, 2007, constituted a Quality Review Board (QRB) consisting of a Chairperson and ten other members as an independent body to review the quality of services rendered by chartered accountants in the country. It is a robust set-up where the Central Government nominates the Chairperson and five members. Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. ICAI nominates the other five members. Majority of members of QRB are independent of the profession. Since FY 2012-13, QRB has formalised a distinct and strong system of independent review of statutory audit services of the audit firms in India. For more details, please visit www.qrbca.in