2012-15

A Report on Audit Quality Review Findings (2012-15)

QUALITY REVIEW BOARD

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

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This report has been prepared by the Quality Review Board established under Section 28A of the Chartered Accountants Act, 1949.

http://www.qrbca.in

June, 2015

QUALITY REVIEW BOARD
(Established under an Act of Parliament)
In Pursuit of Professional Excellence of Chartered Accountants in India

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From the Chairperson's Desk

International Monetary Fund (IMF) in its 2013 India: Financial Sector Assessment Program Reports had noted *"The functioning of the Quality Review Board should start at the earliest…. The Quality Review Board also needs to play a more proactive role as an independent oversight body for the auditing profession in India…"*

I am happy to inform that the Quality Review Board had initiated a robust system of independent review of statutory audit services of the audit firms auditing accounts of public interest entities in India in August 2012. The Board had selected a total of 216 review assignments for review of statutory audits of 168 top listed entities in India. These entities selected for review represent about 62% market cap of the stocks listed on the National Stock Exchange (NSE) and 63% market cap of the stocks listed on Bombay Stock Exchange (BSE). Since then, the Board has finalised a total of 175 review reports while reviewing audits of top listed entities in India. Based upon these 175 review reports, 25 cases have been recommended to the ICAI Council for consideration and in 74 cases appropriate advisories were issued to the concerned audit firms for improvement in future. So, a total of 99 reviews out of 175 i.e., about 57% reviews indicated need for improvement in diverse areas. The whole review mechanism has been administered as per best international practices based upon a detailed analysis of the inspection systems of the audit regulators around the world. However, in this report, we have included analysis and summary of observations made by the Reviewers in 155 review reports completed during the financial years 2012-13, 2013-14 and 2014-15. I hope the various stakeholders will find them useful.

Public trust in an auditor's ability to examine an assertion critically and analytically, based on both independence and subject matter expertise, gives the profession an edge on all competitors. The Quality Review Board is acutely focused on helping the profession build public confidence in audit. Our work is based on facts and founded on what we learn in our review and in our outreach. Through our programs, we have been guiding the audit firms to improve their audit quality. We have also been guiding our Reviewers in terms of their role and responsibilities and how they should structure their review emphasizing upon compliance of technical standards, relevant laws and regulations and other aspects. Our reviews involve assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the audit firms in conducting audit. The vast majority of audit firms have reacted responsibly by taking actions to improve compliance and overall audit quality. I also believe that reviews by the QRB and others have pioneered needed improvements in audit practices. A number of other important initiatives have also been taken by the

Board with a view to effectively carry out the functions as entrusted to the Board by the Parliament of India u/s 28B of the Chartered Accountants Act, 1949.

At the international level, dialogue for mutual co-operation was initiated with the International Forum of Independent Audit Regulators (IFIAR). Established in September, 2006, IFIAR's membership has grown to represent independent audit regulators from a total of 50 jurisdictions from across the world. IFIAR offers a platform for dialogue with other international organizations that have an interest in audit quality. India is currently not represented in this body, however, consequent to our persistent efforts, IFIAR expanded its work programme to help emerging bodies like QRB. These efforts culminated with the IFIAR inviting QRB to take part in its Plenary Meeting in the capacity of an 'Observer' in April, 2015 in Taipei. Other Observers of IFIAR include bodies like World Bank, European Commission, Financial Stability Board, Basel Committee of Banking Supervisors (BCBS), International Association of Insurance Supervisors (IAIS), International Organization of Securities Commission (IOSCO) and Public Interest Oversight Board (PIOB). QRB is committed to further broaden its ties with the IFIAR in future. Meetings were also held with the Chairman, U.S. PCAOB and Chairman, CPAAOB, Japan and their officials as part of the initiative to engage in mutual co-operation with counterpart independent audit regulators of major countries. Significant benefits have been derived from knowledge and experience sharing; understanding their audit regulation mechanism; and other matters of mutual interest. The wealth of information gathered during these interactions provided us the right platform for making our review systems and practices in line with the best international practices.

Audit regulators around the world have identified certain themes, such as the need to exercise more professional skepticism in difficult audit areas, including auditing management estimates and others. These circumstances indicate a need for a deeper examination of how the firms can improve audit quality, such that the audits can serve as reliable and useful in order to promote capital formation for economic growth and business development, while maintaining cost-effective protection for investors. In my view, our actions have had a positive impact on audit quality. We all know there is much more to do to achieve to maintain high audit quality on a consistent basis. We have seen positive change, and we know it is possible. In the Indian context, the audit oversight mechanism is still evolving. The Companies Act, 2013 also mandates constitution of a separate National Financial Reporting Authority which would, inter alia, also review the quality of services provided by the members of the Institute. However, the body is yet to be constituted. Let us wait and see as to what shape it finally takes.

The overall effectiveness of the Board and the tremendous contribution and devotion of each member and the special invitees have enabled the Board to achieve its stated objectives. I would like to thank, in particular, Mr. Manoj Kumar, Joint Secretary, Ministry of Corporate Affairs for his support and guidance to the Board. I also want to thank CA. Manoj Fadnis, President, ICAI for his overall guidance, vision and invaluable support spearheading the activities of the Board. My special thanks are due to Mr. P. Sesh Kumar, Director General, Office of the Comptroller & Auditor General of India for his dedication and leadership in chairing the Quality Review Group (QRG) and all the other members of the QRG, which really acted as the engine for the Board. I also thank all the other Sub-Committees constituted by the Board for their invaluable contribution. I would also like to thank all the other current and previous members and special invitees to the Board during this period for their continued support, patronage and invaluable inputs to the Board. I would like to take this opportunity to convey my sincere gratitude to the Ministry of Corporate Affairs and the Institute of Chartered Accountants of India in enabling the Board to function smoothly in order to perform the tasks as entrusted to it under the Chartered Accountants Act, 1949. I would also like to thank all the Technical Reviewers empanelled with the Board for their contribution by assisting the Board in carrying out its review work. Last but not the least, I like to commend the role of Mr. Mohit Baijal, Secretary, QRB and other staff members of the Secretariat who have provided excellent support to the Board throughout this period. I have no doubt that without their contribution and dedication to duty, the QRB would not have been the success that it is today.

Yours sincerely,

Sd/-
M. C. Joshi, IRS (Retd.)
Chairperson, Quality Review Board

Place: NOIDA
Date: 5th June, 2015

Executive Summary

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

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

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

In accordance with this Procedure, the Board initiated a system of review of statutory audit services of the audit firms auditing accounts of public interest entities in India since August 2012 pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. Since August 2012, the Quality Review Board had selected a total of 216 Quality Review assignments for initiating reviews of statutory audits of 168 companies/entities, being public interest entities listed at prominent stock exchanges in India. The Board had selected 139 Audit firms, registered with the ICAI, who had performed these audits. These 168 entities represent various industries/sectors. Audits of 10 companies/entities were in relation to the financial statements for the year ended on 31 March, 2011 or the year 2010 as the case may be; those of 58 companies/entities pertained to the financial statements for the year ended on 31 March, 2012 or the year 2011 as the case may be; those of 100 companies/entities pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be.

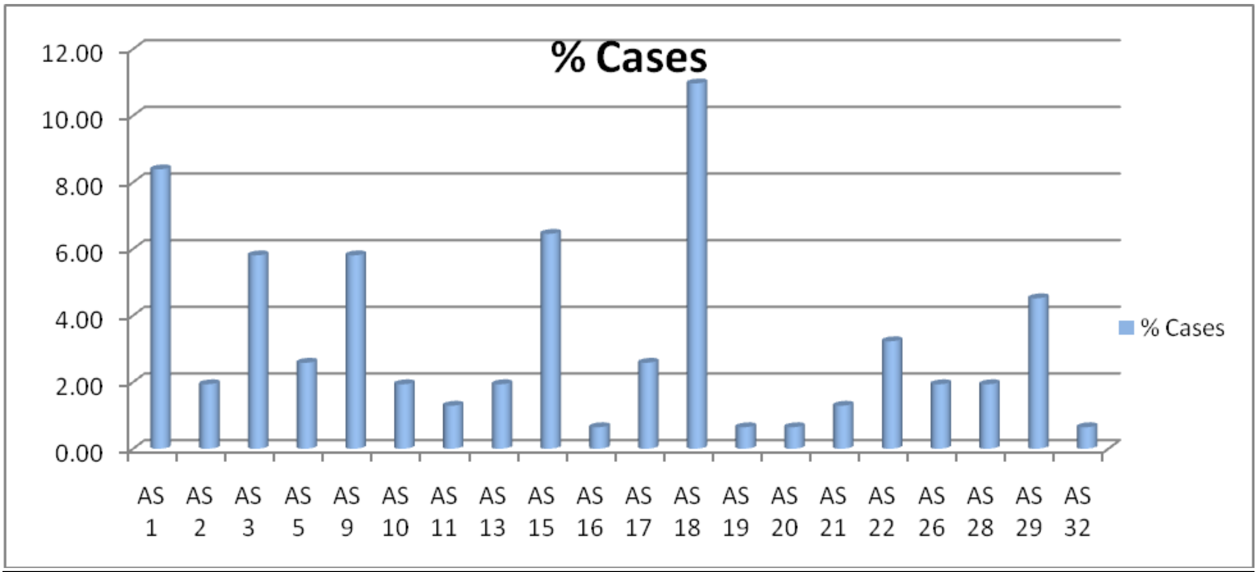
Companies/entities selected for review represent about 62% of the market cap of the stocks listed on National Stock Exchange (NSE) and about 63% of the market cap of stocks listed on Bombay Stock Exchange (BSE). The Technical Reviewers empanelled with the Board for conducting these reviews who alongwith their qualified assistants ensured that resources of about 200 qualified professionals were available with the Board for conducting these review assignments.

Out of a total of 216 reviews started since August 2012, a total of 175 review reports reviewing audits of top listed entities in India have been finalized by the Board till now. Based upon these 175 review reports, 25 cases have been recommended to the ICAI Council for consideration and in 74 cases appropriate advisories were issued to the concerned audit firms for improvement in future. So, a total of 99 reviews out of 175 i.e., about 57% reviews indicated need for improvement in diverse areas. The whole review mechanism has been administered as per best international practices based upon detailed analysis of the inspection systems of the audit regulators around the world. However, in this report, a summary of some of the observations noticed by the Technical Reviewers in respect of 155 reviews completed by Quality Review Board till 31 March, 2015 is given at **Appendix A**.

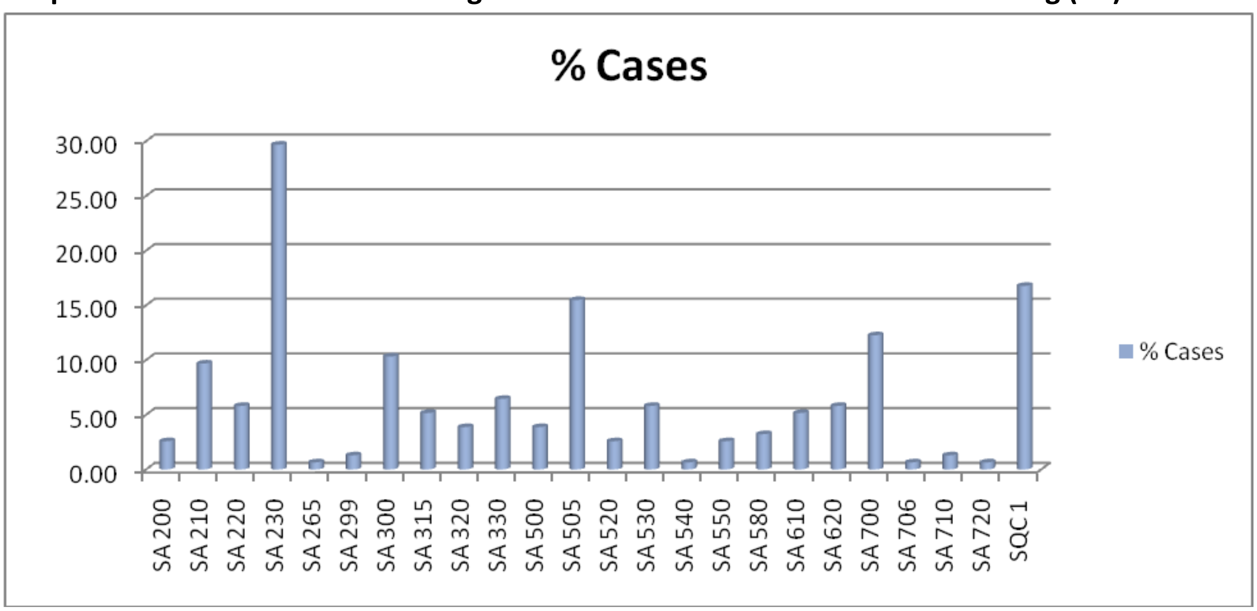
On the evaluation of various audits of listed companies, a number of issues were common to more than one of these audits mainly in the areas of (a) compliance with accounting standards; (b) compliance with standards on auditing mainly relating to, agreeing the terms of audit engagement, audit documentation, materiality in planning and performing an audit, audit evidences, communication with those charged with governance, responsibility of joint auditors, planning an audit of financial statements, identifying and assessing the risk of material misstatement through understanding the entity and its environment, auditor's response to assessed risks, audit sampling, written representation letter, external confirmations, using work of another auditor, forming an opinion and reporting on financial statements; (c) compliance with the Revised Schedule VI of the Companies Act, 1956 in relation to proper presentation of the financial statements and disclosure of amounts under respective heads in the balance sheet; (d) compliance with relevant laws and regulations; and (e) quality control. In most of such cases, the audit firms have represented that they will take actions to address such deficiencies in future.

A further analysis of each category wise observations as well as for major industries in terms of numbers and percentages has also been presented elsewhere in the report for the benefit of the concerned stakeholders. A graphical presentation of the analysis in respect of 155 reviews completed by the Quality Review Board till 31 March, 2015 is also given below:-

Graphical Presentation of Percentage of Observations on Accounting Standards (AS)*:

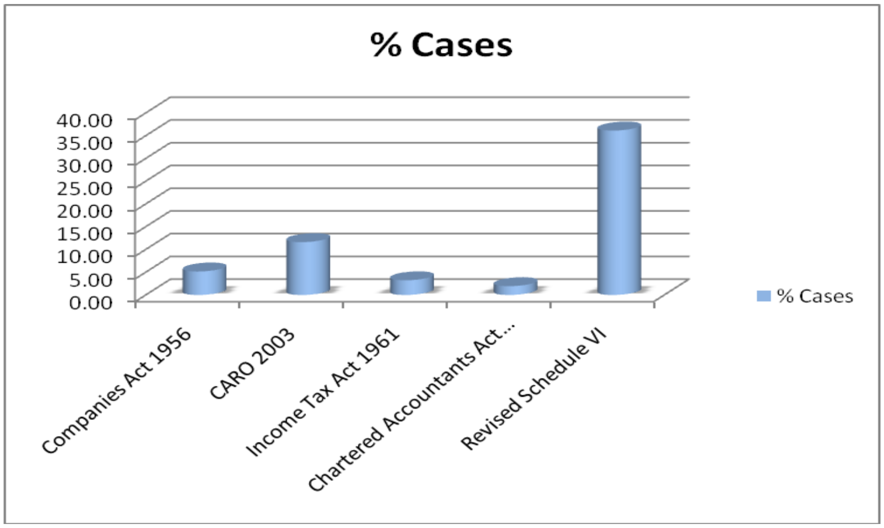


Graphical Presentation of Percentage of Observations on Standards on Auditing (SA)*:

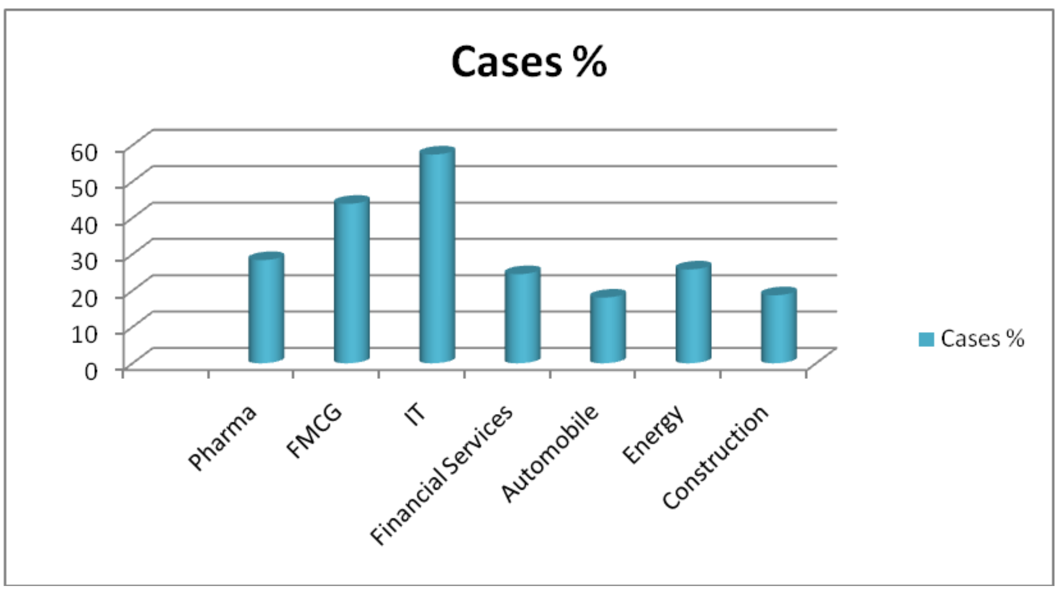


*Note: For details of titles of Accounting Standards (AS) and Standards on Auditing (SA), please refer Tables 2 & 3 at Pages 42 & 43 respectively.

Graphical Presentation of Percentage of Observations on Other Relevant Laws & Regulations:



Graphical Presentation of Percentage of industry wise Observations



1. Introduction

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

1.1.1 Under Sec. 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government is empowered to constitute a Quality Review Board consisting of a Chairperson and ten other members. The Chairperson and members of the Board are appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. Five members of the Board are nominated by the Council of the Institute of Chartered Accountants of India (ICAI) and the Chairperson and other five members are nominated by the Central Government. The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by Sec. 28A of the Chartered Accountants Act, 1949, by Notification GSR. 448 (E) dated 28th June, 2007. The Central Government then re-constituted the 2nd Quality Review Board vide Notification No. GSR 38(E) dated 19th January, 2011 in the Gazette of India: Extraordinary as amended vide Notification Nos. GSR 684 (E) dated 14th September, 2011, GSR 441(E) dated 12th June, 2012, GSR 486 (E) dated 21st June, 2012 and GSR 810 (E) dated 5th November, 2012. The Central Government again amended the constitution of the Board vide Notification No. GSR 131 (E) dated 28th February, 2014 published in the Gazette of India Extraordinary Part II, Section 3, Sub-section (i) dated March 1, 2014, Notification No. GSR 569 (E) dated 7th August, 2014 and Notification No. GSR 837(E) dated 24th November, 2014.

1.1.2 Apart from the five representatives of the Council of the Institute of Chartered Accountants of India, the composition of the Board also incorporates representatives from the Ministry of Corporate Affairs, Government of India, Comptroller & Auditor General of India, Securities & Exchange Board of India, Ministry of Law. The other two Government nominees on the Board are the Chairperson, Quality Review Board, a retired Indian Revenue Service Officer of the Government of India and formerly Chairman, Central Board of Direct Taxes, Ministry of Finance, Government of India, and the other one a practicing chartered accountant from Hyderabad.

1.2 Composition of the Board

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

Nominees of the Central Government

1. Mr. M. C. Joshi, IRS (Retd.), Former Chairman, Central Board of Direct Taxes, Ministry of Finance, Government of India, NOIDA – Chairperson (wef 21.6.2012)
2. Mr. P. Murali Mohana Rao, Hyderabad- Member (wef 1.3.2014)
3. Mr. Manoj Kumar, IAS, Joint Secretary, Ministry of Corporate Affairs, Government of India, New Delhi – Member (wef 14.9.2011)
4. Mr. V. S. Sundaresan, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member (wef 5.11.2012)
5. Mr. P. Sesh Kumar, Director General (C), Office of the Comptroller & Auditor General of India, New Delhi – Member (wef 7.8.2014)
6. Mr. S. K. Mohapatra, Additional Secretary & Legal Advisor, Ministry of Law & Justice, Government of India – Member (wef 24.11.2014)

Nominees of the Council of the ICAI

1. CA. K. Raghu, Immediate Past President, ICAI, Bengaluru – Member (wef 1.3.2014)
2. CA. Manoj Fadnis, President, ICAI, Indore – Member (wef 1.3.2014)
3. CA. Subodh K. Agrawal, Past President, ICAI, Kolkata - Member (wef 1.3.2014)
4. CA. Rajkumar S. Adukia, Mumbai - Member (wef 1.3.2014)
5. CA. Charanjot Singh Nanda, New Delhi - Member (wef 1.3.2014)

Special Invitees

1. CA. M. Devaraja Reddy, Vice-President, ICAI, Hyderabad – Special invitee
2. CA. Abhijit Bandyopadhyay, Chairman, AASB of the ICAI, Kolkata – Special invitee
3. Mr. V. Sagar, Acting Secretary, ICAI, New Delhi – Special invitee
4. Mr. Prithvi Haldea, Past Council Member, ICAI, New Delhi – Special invitee
5. Mr. Prabhakar Jha, General Manager, Reserve Bank of India, Mumbai – Special invitee

Secretary to the Board

- CA. Mohit Baijal

1.3 Functions of the Board

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

(a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;

(b) to review the quality of services provided by the members of the Institute including audit services; and

(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

1.4 Rules of the Board

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

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

(a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;

(b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;

(c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;

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

Provided further that where the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (1 of 1956), the Board may request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

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

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

1.5 Procedure for Quality Review of Audit Services of Audit Firms

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

1.6 Details of Meetings Held

1.6.1 The details of various meetings held during the financial years 2012-13, 2013-14 and 2014-15 of the Quality Review Board and the various Sub-Committees/Quality Review Group constituted by the Board are enclosed at **Appendix B**.

2. Review

2.1 Introduction

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

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

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

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

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

2.2 Empanelment of Technical Reviewers

2012-13:

2.2.1 The Quality Review Board decided to seek the services of members of the ICAI, meeting the following basic criteria, to function as Technical Reviewers for the Board during the financial year 2012-13 in terms of the aforesaid Procedure for Quality Review of Audit Services of Audit Firms issued by it:-

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

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

2.2.3 On the basis of the recommendations of Sub-Committee, the Board empanelled 32 Chartered Accountants as Technical Reviewers with the Quality Review Board for the financial year 2012-13.

2.2.4 However, it was felt that in order to have an appropriate quality review system to be able to conduct reviews on a periodic basis; ensure that reviewers have appropriate professional education and relevant experience in statutory audit and financial reporting etc.; and assure that the selection of reviewers was done in a manner which ensured that there was no conflict of interest between the reviewers and the statutory auditors/ audit firms under review, there was need to have a large number of appropriate Technical Reviewers spread throughout the country sufficient to carry out the reviews over a period of time. Accordingly, with a view to further augment the panel to atleast about 100-150 Chartered Accountants, based upon the recommendations made by the Sub-Committee and in the light of the currently prevailing audit environment in the country, after detailed deliberations, apart from the other eligibility conditions, the Board felt the experience criteria laid down by the Board for empanelment of Technical Reviewers may be modified in future.

2013-14:

2.2.5 The Quality Review Board again decided to seek the services of members of the ICAI, meeting the following basic criteria, to function as Technical Reviewers for the Board during the financial year 2013-14 in terms of the aforesaid Procedure for Quality Review of Audit Services of Audit Firms issued by it:-

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

2.2.6 An announcement inviting applications, in the prescribed form, from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board was issued and hosted at the website of the QRB. The ICAI was also requested to give wider publicity to it by hosting it prominently at its website/Journal/Notice Boards/Newsletters & websites of all the Regional Councils/Branches of the ICAI and other such appropriate means. In response to this announcement, applications were received from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board. ICAI had provided verification of all the Chartered Accountants, identified for empanelment as Technical Reviewers with the Board, with regard to whether any disciplinary action/proceeding/s were taken/pending against them or their firms or any other partner of their firms during last 5 financial years and/or thereafter.

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

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

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

2.2.9 Based upon the recommendations made by the Sub-Committee, the Board empanelled 61 Chartered Accountants as Technical Reviewers with the Quality Review Board for the financial year 2013-14.

<u>2014-15:</u>

2.2.10 With a view to further augment the number of Technical Reviewers empanelled with the Board, the Board decided the following criteria for empanelment of Technical Reviewers with the Board during the financial year 2014-15:-

- You should have minimum fifteen years of post qualification experience as a chartered accountant and be currently active in the practice of accounting and auditing;
- You should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years; Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies;
- You should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.
- You should not currently be a Member of the QRB or ICAI's Central Council/Regional Council/Branch level Management Committee.

2.2.11 The Board also decided that a total of 53 Technical Reviewers as recommended by the Sub-Committee-I may be granted an extension for a period of three years to act as Technical Reviewers with the Quality Review Board for the financial years 2014-15 to 2016-17 subject to ICAI verification on an yearly basis of the details of such Chartered Accountants with regard to any disciplinary action/ proceeding taken or pending against them or their firms or any other partner of their firms during last 3 financial years and/or thereafter.

2.2.12 An announcement inviting applications, in the prescribed on-line form, from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board was issued and hosted at the website of the QRB. The ICAI was also requested to give wider publicity to it by hosting it prominently at its website/Journal. In response to this, applications were received from Chartered Accountants for empanelment as Technical Reviewers with the Quality Review Board. ICAI had provided verification of all the Chartered Accountants, identified for empanelment as Technical Reviewers with the Board, with regard to whether any disciplinary action/proceeding/s were taken/pending against them or their firms or any other partner of their firms during last 3 financial years and/or thereafter.

2.2.13 Based upon the recommendations made by the Sub-Committee-I, the Board empanelled 78 Chartered Accountants as Technical Reviewers with the Quality Review Board for the financial years 2014-15 to 2016-17.Their profile in terms of experience and age is as below:-

AGE OF TRs (YEARS)	NUMBER OF TRs
38-50	18
51-60	32
61-70	23
71-80	5
TOTAL	**78**

EXPERIENCE OF TRs (YEARS)	NUMBER OF TRs
15-25	17
More than 25-35	36
More than 35-45	21
More than 45	4
TOTAL	**78**

2.3 Industry Specific Experts/Academicians for associating with the Board

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

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

2.4 Selection of Audit firms for Quality Review

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

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

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

i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected on the basis of one or more of the following:-
    - random selection;
    - on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
    - regulatory concerns pointing towards stakeholder risks;
    - reported fraud or likelihood of fraud;
    - major non-compliances with provisions relating to disclosures under relevant statutes.

ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either suo moto or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.

iii. The Board may select any enterprise for suo moto review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for suo moto reviews may, however, be done using methods such as random sampling, selection of particular class or classes of enterprises/audit firms.

iv. The Secretariat should place the details of the enterprises, selected for review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality

Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'.

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

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

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

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

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

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

- The selection can be made out of the NSE CNX 100 index as on 12.12.2012. CNX 100 tracks the behaviour of combined portfolio of two indices viz., S&P CNX Nifty and CNX Nifty Junior. It is a diversified 100 stock index accounting for 38 sectors of the economy. The CNX 100 represented about 78.60% of the free float market capitalization of the stocks listed on NSE as on September 28, 2012. The traded value for the six months ending September 2012 of all CNX 100 constituents is approx. 70.11% of the traded value of all stocks listed on NSE.

- The companies/entities may be selected out of the list of NSE CNX 100, in the order as available as on the date as aforesaid at the website of the National Stock Exchange (http://www.nse-india.com) by selecting every 5th company/entity in the list e.g. 5th, 10th, 15th, 20th, …95th, 100th. If a company/entity so selected is out of the lot of companies/entities already selected by the Board and in respect of whom it has been already decided to initiate the Quality Review, then the company/entity falling immediately next in the list may be selected without affecting the order of subsequent selections.

- The statutory auditors for the year ending on 31.3.2012 or the year 2011, as the case may be, in respect of the companies/entities so selected, as per above, may be selected for their Quality Review. It was clarified that in case of a joint statutory audit, each of the joint statutory auditors may be reviewed. However, in the case of Banks having a number of joint central statutory auditors for the year, the ones who have been the Central Statutory Auditors of the Bank for the biggest and the smallest circle (in terms of business) may be selected as per the RBI data. Further, in case a statutory auditor/audit firm appears on multiple occasions as the Statutory Auditors of the Companies/entities so selected, its not more than 2 (two) statutory audit assignments may be selected for initiating Quality Reviews during the financial year 2012-13.

2.4.5 Pursuant thereto, during financial year 2012-13, a total of 37 Quality Review (QR) assignments were offered to the Technical Reviewers as per the decision of the Board for performing Quality Review of the Statutory Audits conducted by the audit firms auditing accounts of public interest entities in India of 26 Companies/ entities selected by the Board, in terms of the Procedure issued by Board. Out of these, 10 audits pertained to the financial year 2010-11, or the year 2010, as the case may be, and 16 audits pertained to the financial year 2011-12 or the year 2011, as the case may be, of the various Companies/ entities selected by the Board, in terms of the Procedure issued by Board. The Board assigned the Quality Review work, so selected, to the respective Technical Reviewers empanelled with the Board as per recommendation of the Sub-Committee-I.

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

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

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

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

Selection of Audit firms for Quality Reviews initiated during the F.Y. 2014-15

2.4.8 Upon consideration of the tentative plan for initiating Quality Reviews during the financial year 2014-15, the Board decided to approve the following methodology for selection of further companies/ entities, being public interest entities, and their statutory auditors for initiating their Quality Review during the financial year 2014-15 in terms of the Procedure issued by the Board:-

- The selection can be made out of the NSE CNX 500 index as in December, 2013 and S&P BSE 500 index as in January, 2014 except the companies already selected by the Board for initiating the Quality Review during the financial years 2012-13 and 2013-14. The NSE CNX 500 is India's first broad based benchmark of the Indian Capital Market. It represents about 96.76% of the free float market capitalization of the stocks listed on NSE as on December 31, 2013.The total trade value for the last six months ending December 2013, of all Index constituents is approximately 97.01% of the traded value of all stocks on NSE. The NSE CNX 500 companies are disaggregated into 72 industry indices viz. CNX industry Indices. BSE Limited constructed a new index, christened S&P BSE-500, consisting of 500 scrips w.e.f. August 9, 1999. The changing pattern of the economy and that of the market were kept in mind while constructing this index. S&P BSE 500 index represents nearly 93% of the total market capitalization on BSE. It covers all 20 major industries of the economy.

- All the companies/entities so identified, as above, may be disaggregated into various sectors/sub-sectors/industries. Sample size may be determined for each sector/sub-sector/industry based upon the combined percentage of market cap and the number of companies/entities falling in that category. The companies/entities may be selected randomly by generating random numbers for each sector/sub-sector based upon the selected sample size.

- The statutory auditors for the year ending on 31.3.2013 or the year 2012, as the case may be, in respect of the companies/entities so selected as per above, may be selected for their Quality Review. It was clarified that in case of a joint statutory audit, each of the joint statutory auditors may be reviewed.
- The Board may select statutory auditors for Quality Review on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc.
- The Board may also select, on case to case basis, statutory auditors in respect of those companies in relation to which serious accounting irregularities or likelihood of fraud in the financial statements may have been highlighted by the media and other reports.

2.4.9 Pursuant thereto, during the financial year 2014-15, a total of 123 Quality Review (QR) assignments were offered to the Technical Reviewers as per the decision of the Board for performing Quality Review of the Statutory Audits conducted by the audit firms auditing accounts of public interest entities in India for the financial year 2012-13 or the year 2012, as the case may be, of the 100 Companies/ entities selected by the Board, in terms of the Procedure issued by Board. The Board assigned the Quality Review work, so selected, to the respective Technical Reviewers empanelled with the Board as per recommendation of the Sub-Committee-I.

2.5 Quality Review Process

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

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

(a) Industry Specific; and

(b) Generic.

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

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

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

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

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

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

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

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

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

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

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

i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.

ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.

iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.

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

i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.

ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.

iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.

iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.

v. A reference to the preliminary report.

vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

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

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

12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

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

2.6 Manner of conducting Quality Reviews

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

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

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

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

a) themselves make on-site visit to the Statutory Auditor/Audit firm for conducting the review and reviewing the audit working papers as defined under the relevant standards laid down by the ICAI. The Technical Reviewers could have access to or take abstracts of the records and documents maintained by the audit firm in relation to the review. However, in order to maintain confidentiality, the Technical Reviewers were asked not to make any copies/extracts of the audit firm's Clients' file or records examined by them while conducting Review, as a part of their working papers;
b) furnish an undertaking that they shall not outsource/sub-contract this assignment to any other person;

c) follow the guidelines issued by the Quality Review Board from time to time including (i) providing their detailed comments giving proper justification and explanation in respect of the various matters required to be commented upon by them in the Annexures to be enclosed alongwith their final report and (ii) refer industry specific Technical Guide, if any, brought out by the ICAI while completing their assignment; and
d) follow the approach set out in the Peer Review Manual issued by the ICAI for guidance in respect of the matters not specifically dealt with.

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

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

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

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

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

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

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

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

2.6.8 In terms of Para 16 of the Procedure issued by the Board, Technical Reviewers are required to issue a preliminary report to the audit firm also sending its copy to the Board alongwith the response of the audit firm thereon. They are advised to complete the aforesaid quality review assignment and send their final report to the Board, which may be based upon the guidelines as provided and, in terms of the requirements of, the Procedure issued by the Board within a specified period or such extended period as may be specified. They are also advised to send a duly filled-in Annexure alongwith their final report in a specified format including the aforesaid Questionnaire containing the audit firm's responses and the Technical Reviewer's comments thereon. In addition, they are required to send a copy of their final report to the Statutory Audit firm requesting them to send their submissions thereon directly to the Board within a specified period.

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

Quality Review Stages

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

2.6.10 As aforestated, in accordance with the Procedure issued, the Board has initiated a system of review of statutory audit services of the audit firms auditing accounts of public interest entities in India pursuant to the aforesaid process comprising selection of the audit firms for review and engagement of Technical Reviewers. Since August 2012, the Quality Review Board has selected a total of 216 Quality Review assignments initiating reviews of statutory audits performed by 139 Audit firms, registered with the ICAI, of 168 companies/entities, being public interest entities listed at prominent stock exchanges in India. An update of the details of various Quality Reviews initiated during the financial years 2012 – 13, 2013-14 and 2014-15 by the Board are as follows:-

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

S. No.	Particulars	
1.	Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year 2012 – 13	37
2.	Total number of Companies/entities involved in Quality Review assignments selected as at Sl. No. 1 above	26
3.	Total number of final reports of Technical Reviewers received till date in respect of the assignments as at Sl. No. 1 above	37
4.	Out of the total number of final reports received as at Sl. No. 3 above:	
a)	Total number of final reports accepted by the Quality Review Board	37
5.	Out of the total number of final reports accepted by the Quality Review Board as at Sl. No. 4 a) above:	
a)	Total number of final reports taken on record and the matter was considered as complete by informing the concerned Statutory audit firm/s	27
b)	Total number of cases recommended to the ICAI and other concerned regulatory bodies/authorities for consideration and appropriate action wherever required	4
c)	Total number of cases where appropriate advisories have been issued to concerned Audit firm/s for future compliance	5
d)	Others	1

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

S. No.	Particulars	
1.	Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year 2013 – 14	56
2.	Total number of Companies/entities involved in Quality Review assignments selected as at Sl. No. 1 above	42
3.	Total number of final reports of Technical Reviewers received till date in respect of the assignments as at Sl. No. 1 above	56
4.	Out of the total number of final reports received as at Sl. No. 3 above:	
a)	Total number of final reports accepted by the Quality Review Board	56

5.	Out of the total number of final reports accepted by the Quality Review Board as at Sl. No. 4 a) above:[1]	
a)	Total number of final reports taken on record and the matter was considered as complete by informing the concerned Statutory audit firm/s	22
b)	Total number of cases recommended to the ICAI and other concerned regulatory bodies/authorities for consideration and appropriate action wherever required	10
c)	Total number of cases where appropriate advisories have been issued to concerned Audit firm/s for future compliance	26
d)	Others	3

<u>Details of Quality Review assignments initiated during the financial year 2014 – 15 by the QRB</u>

S. No.	Particulars	
1.	Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year 2014 – 15	123
2.	Total number of Companies/entities involved in Quality Review assignments selected as at Sl. No. 1 above	100
3.	Total number of final reports of Technical Reviewers received till date in respect of the assignments as at Sl. No. 1 above	113
4.	Out of the total number of final reports received as at Sl. No. 3 above:	
a)	Total number of final reports accepted by the Quality Review Board	82
b)	Out of the balance final reports: - Under consideration of/yet to be considered by the QRG	31
5.	Out of the total number of final reports accepted by the Quality Review Board as at Sl. No. 4 a) above:	
a)	Total number of final reports taken on record and the matter was considered as complete by informing the concerned Statutory audit firm/s	28
b)	Total number of cases recommended to the ICAI for consideration and appropriate action wherever required	11
c)	Total number of cases where appropriate advisories have been issued to concerned Audit firm/s for future compliance	43
d)	Others	-

[1] Total of the break-up of 5 may not match with the total number at 4(a) as certain cases appear in more than one of the sub-categories of 5.

2.6.11 An industry-wise list of number of companies/entities in respect of the various review assignments selected by the Board during the financial years 2012-13, 2013-14 and 2014-15 is:-

During the financial years 2012-13 and 2013-14:-

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

During the financial year 2014-15:-

S.No.	Name of Sector	Name of Industry	No. of Companies /Entities	No. of Public Sector Companies / Entities	No. of Private Sector Companies / Entities
1.	Automobile		6	1	5
2.	Cement & Cement Products		1		1
3.	Chemicals		3		3
4.	Construction		8		8
5.	Consumer Goods	Food & food processing	3		3
		Personal Products/ Personal Care	1		1
		Consumer Durables	2		2
		Miscellaneous	2		2
		Brew/ Distilleries	1		1
		Apparel & Accessories	1		1
6.	Energy	Power	4	2	2
		Gas	1	1	
		Refineries	1	1	
		Miscellaneous	1		1
7.	Fertilizers & Pesticides		1		1

8.	Financial Services	Banks	7	2	5
		Financial Housing/Financial Institutions	1		1
		Finance	5	1	4
9.	Health Services		1		1
10.	Industrial Manufacturing	Electrical Equipments/ Utilities	3		3
		Miscellaneous	2		2
		Engines/ Pumps &Compressors	1		1
		Plastic & Plastic Products	1		1
11.	IT		15		15
12.	Media & Entertainment		2		2
13.	Metals & Mining	Steel & Steel Products	3		3
		Mining	1		1
		Metals	1		1
14.	Paper		1		1
15.	Pharma		8		8
16.	Services	Trading & Distribution	1		1
		Shipping	1		1
		Travel & Transport	1		1
		Hotels	1		1

		Miscellaneous	1		1
17.	Telecom		4		4
18.	Textiles		2		2
19.	Airlines		1		1
TOTAL	**19**	**25**	**100**	**8**	**92**

2.7 Findings Observed during the Quality Reviews conducted[2] [3]

Introduction

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

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

2.7.3 In addition, inclusion of a deficiency in a review report does not mean that the deficiency remained unaddressed after the Technical Reviewers brought it to the firm's attention. When deficiencies are discovered after the date of the audit report, a firm is expected to take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. A Board quality review does not typically include review of a firm's actions to address deficiencies identified in that review, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take action.

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

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

2.7.4 The review procedures included a review of aspects of the firm's auditing of financial statements of selected audit/s. The scope of the reviews was determined according to the Board's criteria, and the firms were not allowed an opportunity to limit or influence the scope. The major focus of the reviews was on compliance with Technical standards, relevant laws & regulations, quality of reporting, firm's quality control framework. In addition to evaluating the quality of the audit work performed on a specific audit, the review included review of certain of the firm's practices, policies, and procedures related to audit quality. The review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

2.7.5 The Technical Reviewers expressed an opinion on whether the system of quality control for the attestation services of the firm under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with the applicable Technical standards and maintenance of the quality of attestation service work they perform. The Technical Reviewer's review would not necessarily disclose all weaknesses in the quality of attestation work or all instances of lack of compliance with applicable Technical Standards. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. In the process, the Technical Reviewers also identified what they considered to be deficiencies and any defects in, or criticisms of the firm's quality control system.

Observations

2.7.6 The Board initiated a system of review of statutory audit services of the audit firms auditing accounts of public interest entities in India since August 2012 pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. As of January, 2015, 60,693 firms are registered with the ICAI which include 18,412 partnership firms and 42,281 proprietary firms. During the financial years 2012-13, 2013-14 and 2014-15, the Quality Review Board initiated reviews of 37, 56 and 123 Quality Review assignments respectively. Since August 2012, the Quality Review Board had selected a total of 216 Quality Review assignments for initiating reviews of statutory audits performed by 139 Audit firms, registered with the ICAI, of 168 companies/entities, being public interest entities listed at prominent stock exchanges in India. These 168 entities represent various industries/sectors and **62% of the market cap of the stocks listed on National Stock Exchange (NSE) and about 63% of the market cap of the stocks listed on Bombay Stock Exchange (BSE)**.

Audits of 10 companies/entities were in relation to the financial statements for the year ended on 31 March, 2011 or the year 2010 as the case may be; those of 58 companies/entities pertained to the financial statements for the year ended on 31 March, 2012 or the year 2011 as the case may be; those of 100 companies/entities pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be. The Technical Reviewers empanelled with the Board for conducting these reviews who alongwith their qualified assistants ensured that resources of about 200 qualified professionals were available with the Board for conducting these review assignments.

2.7.7 QRB reviews focus on areas where it is believed improvements might be necessary, and do not focus on those areas where it is believed quality is good or has been adequately addressed. As a result, this report is not a balanced score which may create an unduly negative impression of overall audit quality. However, this is not the case and that the type of issues identified, and in particular those discussed in this report, have also been phenomena worldwide. QRB recognises the role its reviews play in improving the overall quality of audit work and, consequently, create confidence in financial reporting. Generally, improvements in audit quality are achieved because firms are encouraged and advised to address the weaknesses identified in individual audit engagements and the ICAI is also informed to address issues as identified by the reviews. QRB has referred, and will continue to refer, more serious matters to the ICAI Council for further consideration. Out of a total of 216 reviews started since August 2012, the Board has finalised a total of 175 review reports till date as depicted in the table below:

Table 1: Number and Percentage of reviews completed and their outcome

S. No.		Reviews Initiated in the year			Total
		2012-13	2013-14	2014-15	
1	Number of reviews initiated	37	56	123	216
2	Number of reviews completed till date	37	56	82	175
3	Number of reviews where advisories were issued to concerned Audit firm/s	05	26	43	74
4	Number of reviews recommended to the ICAI Council for consideration and action	04	10	11	25
5	**Total number of review cases indicating need for improvement [3 + 4]**	**09**	**36**	**54**	**99**
6	**Percentage of review cases indicating need for improvement [5/2 x 100]**	**24.32%**	**64.29%**	**65.85%**	**56.57%**

2.7.8 However, total of 155 reports were accepted by the Quality Review Board till 31 March, 2015 and a summary of some of the observations noticed by the Technical Reviewers in respect of these 155 reports is enclosed at **Appendix A.** The following tables also summarize/analyze the review results in respect of these 155 reviews completed by the QRB till 31 March, 2015:-

Table 2: Number and Percentage of Observations on Accounting Standards (AS)

Observations on Accounting Standards	Total Number of observations	Observations as % of completed reviews till 31.3.2015
AS – 1 Disclosure of Accounting Policies	13	8.39
AS -2 Valuation of Inventories	3	1.94
AS -3 Cash Flow Statements	9	5.81
AS – 5 Net Profit/Loss for the Period, Prior Period Items and Change in Accounting Policies	4	2.58
AS – 9 Revenue Recognition	9	5.81
AS – 10 Accounting for Fixed Assets	3	1.94
AS – 11 Effects of Changes in Foreign Exchange Rates	2	1.29
AS – 13 Accounting for Investments	3	1.94
AS – 15 Employee Benefits	10	6.45
AS – 16 Borrowing Costs	1	0.65
AS – 17 Segment Reporting	4	2.58
AS – 18 Related Party Disclosures	17	10.97
AS – 19 Accounting For Leases	1	0.65
AS – 20 Earnings Per Share	1	0.65
AS – 21 Consolidated Financial Statements	2	1.29
AS – 22 Accounting for Taxes on Income	5	3.23
AS – 26 Intangible Assets	3	1.94
AS – 28 Impairment of Assets	3	1.94
AS – 29 Provisions, Contingent Liabilities and Contingent Assets	7	4.52
AS – 32 Financial Instruments: Disclosures	1	0.65

Graphical Presentation of Percentage of Observations on Accounting Standards (AS):

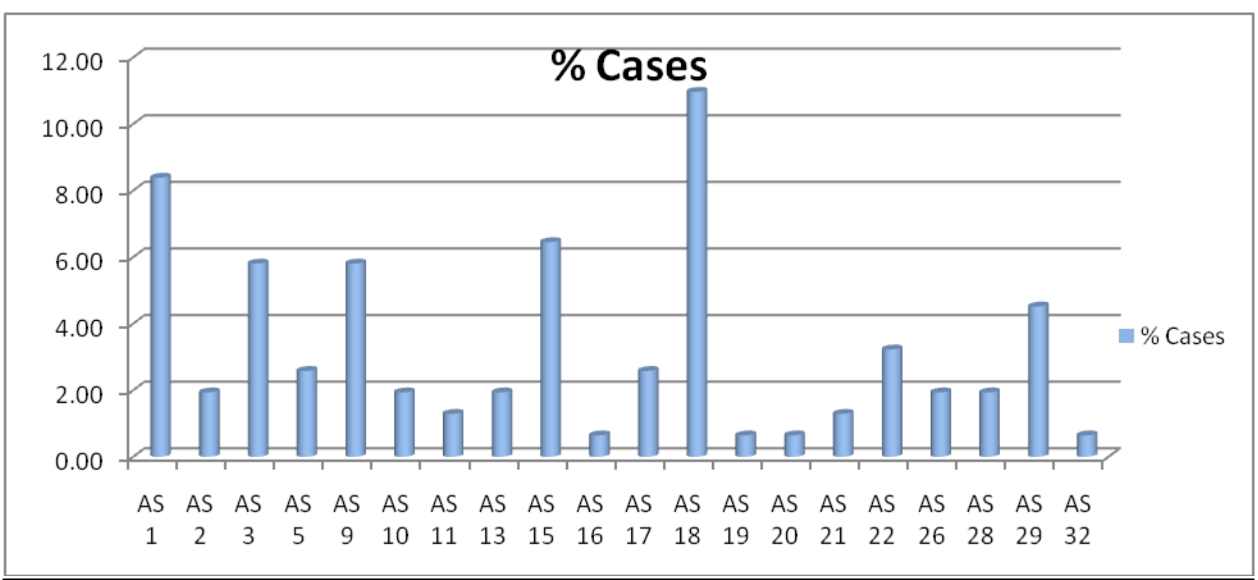


Table 3: Number and Percentage of Observations on Standards on Auditing (SA)

Observations on Standards on Auditing	Total number of observations	Observations as % of completed reviews till 31.3.2015
SA 200 Overall Objectives of Independent Auditor and Conduct of Audit as per Standards on Auditing	4	2.58
SA 210 Terms of Audit Engagements	15	9.68
SA 220 Quality Control for Audit	9	5.80
SA 230 Audit Documentation	46	29.68
SA 265 Communicating deficiencies in internal control to Those charged with governance	1	0.65
SA 299 Responsibility of Joint Auditors	2	1.29
SA 300 Planning an Audit	16	10.32
SA 315 Identifying and assessing the risk of material misstatements	8	5.16
SA 320 Audit Materiality	7	4.52
SA 330 Auditor's responses to assessed risks	10	6.45
SA 500 Audit Evidence	6	3.87
SA 505 External Confirmations	24	15.48
SA 520 Analytical Procedures	4	2.58
SA 530 Audit Sampling	9	5.81
SA 540 Auditing Accounting Estimates	1	0.65
SA 550 Related Parties	4	2.58
SA 580 Written Representations	5	3.23
SA 610 Using the work of Internal Auditor	7	4.52
SA 620 Using the work of Auditor's Expert	9	5.80
SA 700 Forming an Opinion and reporting on Financial Statements	19	12.26
SA 706 Emphasis of matter paragraphs in the auditor's report	1	0.65
SA 710 Comparative information and Comparative Financial Statements	2	1.29
SA 720 Auditor's responsibility for other information in documents containing Financial Statements	1	0.65
SQC-1 Standard on Quality Control	27	17.42

Graphical Presentation of Percentage of Observations on Standards on Auditing (SA):

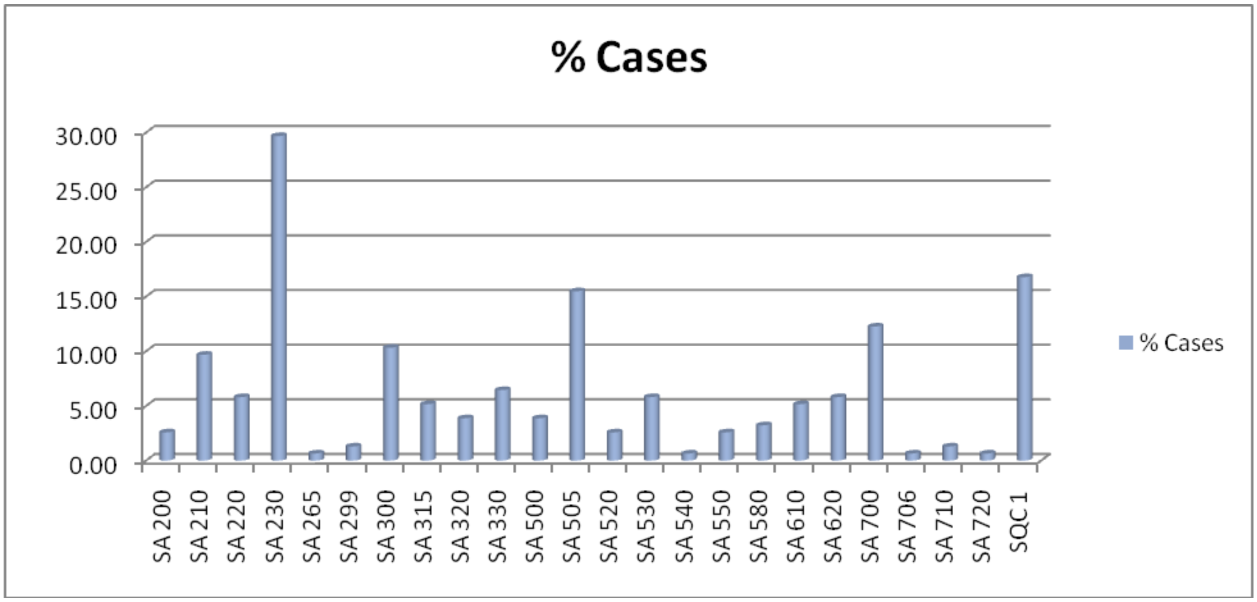


Table 4: Number and Percentage of Observations on Other Relevant Laws & Regulations

Observations on Other Relevant Laws & Regulations	Total Number of observations	Observations as % of completed reviews till 31.3.2015
Companies Act, 1956	8	5.16
CARO, 2003	18	11.61
Income Tax Act, 1961	5	3.23
Chartered Accountants Act, 1949	3	1.94
Revised Schedule VI	56	36.13

Graphical Presentation of Percentage of Observations on Other Relevant Laws & Regulations:

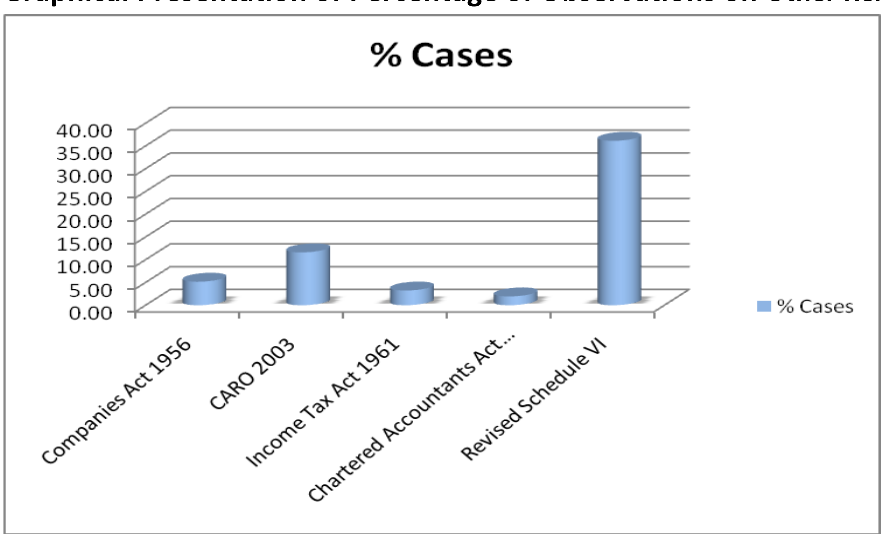
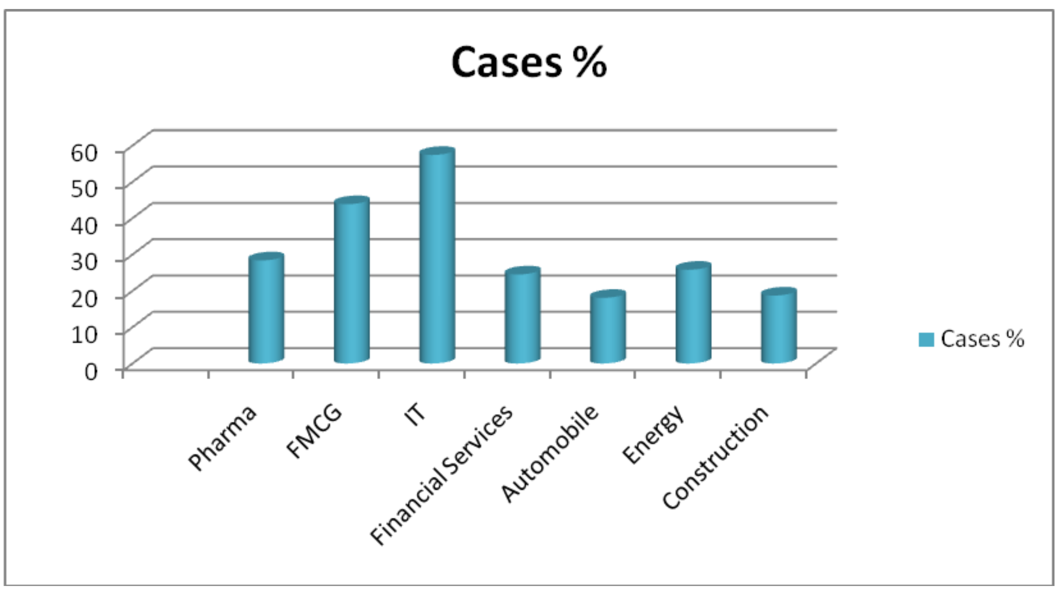


Table 5: Number and Percentage of industry wise Observations for major industries

Major Industry	No. of Observations based upon			Total Number of observations	Observations as % of completed reviews till 31.3.2015
	Accounting Standards	Standards on Auditing	Other Relevant Laws & Regulations		
Pharma	11	32	1	44	28.39
FMCG	18	41	9	68	43.87
IT	17	66	6	89	57.42
Financial Services	4	34	0	38	24.52
Automobile	7	16	5	28	18.06
Energy	16	17	7	40	25.81
Construction	8	16	5	29	18.71

Graphical Presentation of Percentage of industry wise Observations



Appendix 'A'

Summary of some of the observations of the Technical Reviewers

STANDARDS ON AUDITING

SA 200- OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

- The concerned firm/s had no mechanism for dealing with the possible breaches of independence requirements and confidentiality agreements other than with partners.
- Independence declaration from audit team members is dated as on the sign –off date of audit report.
- Audit program had initials of some team members from whom independence confirmation had not been obtained.
- An individual who was associated with the global audit firm for last several years was appointed as independent director on Board of the company audited by the Indian affiliate of the global audit firm in the year immediately following the year of his disassociation with the global audit firm.
- No detail was received from the auditors for fees, if any, received for other services.

SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS

- The engagement letter issued by the audit firm was still in the old format and not as per the format recommended by SA 210.
- The engagement letter mentioned the assignment as review of interim financial information rather than the statutory audit. The firm was appointed as statutory auditors apart from the limited review and certification under corporate governance. However, the engagement letter had no information regarding limited review and certification.
- Engagement letter did not clearly specify the management's responsibility as to the completeness and accuracy of accounts and other reports.
- Engagement letter issued by the firm was not signed by those charged with governance or as authorized by the Board of Directors. Moreover, the engagement letter was not obtained for the other services provided by the firm.
- Engagement letter issued was not covering all the aspects as mentioned in SA210-Agreeing the terms of audit engagements. Further the engagement letter was

addressed to Senior General Manager- F & A Department instead of Board of Directors and was also not acknowledged by the client.

- No separate engagement letter for e-filing of Tax Audits was held on record.
- Audit engagement letter did not contain terms of assignment and fee.
- The firm had not sent engagement letter to auditee Company in respect of Quarterly Review of Financial Statements, Corporate Governance Certificate assignment, Tax Audit and Taxation assignments.
- The firm had not documented policy with regard to obtaining necessary information before accepting the engagement, deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client.

SA 220- QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

- There was no process of maintaining standard checklists, manuals, working papers and other methods to ensure consistency in the quality of each engagement.
- Written confirmation of compliance with its policies and procedures on independence from employees was not taken as required by SA-220.
- Since there were only two partners and both of them being part of engagement team, there has been no review of completed engagements by an independent person. No other partner other than the engagement partner was involved in the audit process.
- Para 20 of SA 220 states that the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. However, there was no evidence on record in the work papers for having conducted the review process on the matters specified in Para 20.
- The documentation to provide evidence of the operation of each element of its system of quality control not maintained as required by the SA 220 Quality control for audit of financial Statement. In other case, no document was found regarding quality control review.
- The Audit Firm did not document the policy for second partner review as required by the Para 25 of SA 220.
- The firm was not having any written policies and procedures on record as required under SA-220.

SA 230- AUDIT DOCUMENTATION

- The significant audit observations were noted by the firm, for which there were no reference of the source document. Further, the available documentation was not linked up in all cases to enable an assessment that the work was performed as planned.
- Documentation of audit plan, the nature, timing and extent of auditing procedures was unsatisfactory.
- No documentation was maintained for the work done by the team, obtaining declarations about independence, client acceptance and continuance, engagement planning memoranda, working papers, deliverables etc.

- As per SA-230 the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed. However, the firm had not obtained any audit evidences for evaluation of estimates made by the management.
- The firm needed to improve its existing engagement documentation policy. Detailed procedures need to be stipulated regarding maintenance of confidentiality, safe custody, integrity, accessibility and retrieving of engagement documentation, along with electronic documentation.
- System of documentation did not provide proper segregation and indexation making it difficult to access and retrieve audit evidences.
- There were no working papers for verification of restructured accounts.
- The working papers for verification of Significant Accounting Policies, Notes on Accounts and Disclosures were not available on record.
- The audit firm had not documented any procedures to ensure that the firm or its staff adhered to other ethical standards outlined by the ICAI.
- There were no working papers available with the firm with regard to the nature of the income and in respect of calculation of Deferred Tax Liability.
- There was no documentary evidence in the audit files on qualification in Auditor's Report with regard to the prior approval of the Central Govt. u/s 297(1) of Companies Act, 1956 for transactions, covered by register maintained u/s 301 of Companies Act, 1956.
- The firm did not effectively design and define the procedures sufficient enough in relation to the financial statement considering the company's size, nature and complexity and document the same.

- The documentations were prepared only for certain areas and not for all the areas of risks.
- Audit documentations were not linked up to the audit planning and procedures as required by SA 230-Audit documentation.
- No audit conclusion was drawn on the litigation sheet wherein there were cases for and against the company. There were various litigations against the company as per list available in the Audit Firm's file, however, none of this litigation appeared in the Contingent Liability of the company. (Ref to para 8-A2 of SA230).
- There was no document available in the Audit firm's file, to show the conclusion arrived by them for loans to subsidiaries were not prejudicial to the Company as required by CARO under clause 4(iii)(b), especially when there was no qualification in their final report.
- Work papers on complex accounting areas had not been dated and signed by the team / audit partner.
- No evidences were held on record to show that senior team member of audit team conducted a planning, meeting, discussion and agreed on audit approach etc.
- Certain documents/working papers were prepared and reviewed after the date of audit report, and in some cases prepared before audit report date but reviewed after audit report date.
- Adequate work-papers for documenting whether or not the factoring was with-recourse or without-recourse had not been held in audit files.
- The policies stated in the audit manual for client acceptance and continuation was not in the name of the firm. Secondly, there were no documentary evidences to prove that the firm had performed the task of the said procedures.
- Working papers had been prepared and reviewed in the month of July which was well later than the date of report in May. There was no evidence available on record that the review was carried out in a timely manner at appropriate stages.
- Auditor had not documented the procedure adopted to arrive at the conclusion that there was reasonable certainty to recognize deferred tax asset as per AS-22.
- Audit File did not contain the loan agreement or a term loan profile containing the amount of loan, rate of interest, terms of repayment, securities created and duly signed by the client, which is normally recommended.
- There was mismatch in other long term liabilities between the amounts as per CARO and Balance Sheet. However, no calculations of the amounts were held on record and accordingly, the difference had not been documented appropriately.
- In respect of walkthrough conducted for cash payments, it was mentioned in the work papers that a particular voucher was tested for the walkthrough process, however, no

evidence of the record were available in the physical file. Similarly, in case of walkthrough conducted for sales, the physical copy of the document verified was not available on record (Ref para A1 of SA 230).

- The work papers relating to testing of quantitative reconciliation of production and the closing stock were not tied up with the records. There was a difference between the actual report and calculation made by audit firm.
- Product wise workings for quantitative reconciliation were not evident from the work papers.
- Work papers relating to test of details for Interest Income on bank deposits were not tied up to the statement of profit and loss. There was difference in interest income as per financial statements and as per work papers.
- There was no documentation to ascertain whether the fair value of long term unquoted investments had been reviewed or not. Further, the said area was also not covered in the audit programme/checklist of the Audit firm.
- No document was there to support the verification of share capital received by the bank from qualified institutional buyers. Further, there were no notings in the working papers that how the share capital received during the year was verified.
- An office premise was purchased and that was the only addition under the head of 'Office Premises', however no documentations were available with the firm in support of the verification of the addition made.
- Company had sold land and the same was shown under exceptional item in the statement of Profit and Loss. However, the conclusion note from the audit firm was not available in the file, treating it as an exceptional item.
- Specific documentations were not maintained to determine the reportable segments for the year.

SA 299- RESPONSIBILITY OF JOINT AUDITORS

- Joint auditors did not have any formal meeting or coordination with each other, which may result in communication gap, and thus resulting in some areas being overlooked or not visited by any of them. Para 8 of SA 299 mandates that it is specific and separate responsibility of each auditor to review the audit report allocated to him. However, the letter of allocation drawn by the audit firms, did not mention which audit firm was responsible for such review.

SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS

- Audit Plan made by the audit firm was not elaborate as it did not cover the nature, timing and extent of direction and supervision of engagement team member regarding the vouching part of the Audit engagement.
- The audit strategy and program did not include specific details about related parties and the material transactions as made known by the management and the same was not effectively communicated to the audit team members.
- The audit programs have not been filed and signed by the persons auditing and reviewing the assignment.
- Audit firm had not prepared any document to provide sufficient and appropriate record of the basis of audit report and evidence that the audit was planned and performed in accordance with auditing standards and applicable legal regulatory requirement.
- Audit strategy, audit plan and audit programme had been intermingled by the firm. However, the overall audit strategy should be documented separately in accordance with SA- 300, and the audit plan should also consider the Directions and sub- directions given by CAG u/s 619(3) of the Companies Act, 1956 to be complied with.
- In respect of Audit Planning and Risk Assessment, there was no detailed Audit Planning Memorandum; and audit procedures carried out were not complete.
- There were no evidences of any audit planning or risk assessment by audit firm. Improvement in Audit Programme & Procedure in light of experience gained during the course of audit was not evident and documented. The Audit Programme required improvement to enlarge the extent and scope of physical verification of security charged to minimize the perceived risk in this regard.
- The Audit programme was initialed by the engagement partner and not by the concerned team members/assistants who have carried out the verification process.
- Firm did not include all the elements of how the audit plan assessed and addressed the fraud risk in the audit of financial statements.

SA 315- IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

- The risks of material misstatements to the financial statements were not identified at the planning stage and there were not sufficient documentation in case of any rebuttals.
- No formal risk assessment had been done by the firm to provide a basis for the identification and assessment of risks of material misstatement at financial report and assessment level.

- Audit risk analysis was not comprehensive to make it to commensurate with size and nature of the business.
- The firm had not documented the audit procedures performed during the course of audit for identifying and assessing the risk of material misstatement.
- Identification/assessment of risks was not found documented in the audit file.
- Audit procedures responsive to assessed risks, were not found to be documented in the audit files and further there was no discussion paper held of possible discussions within the team regarding the susceptibility of the financial reports to material misstatements.
- The audit firm had no evidences of any audit planning or risk assessment performed by the firm.

SA 320- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

- The basis of considering the benchmarks for determining the materiality was not documented along with the revised performance materiality and the nature, timing, and extent of the further audit procedures in case where the revised materiality was lower than that initially determined by the auditor.
- There were no documents on record determining the materiality for the report and for assessing the risk of material misstatement.
- Audit firm had not determined materiality for the report as a whole and performance materiality as per the standard on auditing SA 320-Materiality in Planning and performing an Audit; but determined the materiality based on past experience and risk and control assessments.
- No evaluation had been done to determine materiality level for particular class of transactions, account balances, or disclosures.

SA 330- AUDITOR'S RESPONSES TO ASSESSED RISKS

- The risks of material misstatements identified at financial statements level were not linked to the material class of transactions, account balance and disclosures. Similarly the audit procedures planned were not linked in the planning document.
- There were no working papers with regard to designing and performing the tests of controls to obtain sufficient and appropriate audit evidence as to the operating effectiveness of relevant controls.

- Documents relating to further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risk of material misstatement at the assertion level were not documented in file.
- The documentation in regard to the understanding of control activities necessary to assess the risks of material misstatement at assertion level, and linking of such controls to the audit procedures were not clearly and comprehensively documented.
- Documentation was not maintained as required by Para 8 & 18 of SA 330 Auditor's Responses to Assessed risk.

SA 500- AUDIT EVIDENCE

- No evidences were taken by the firm to verify the ageing of the leased assets.
- There was no evidence of any work being reviewed by any partner.
- There was no evidence of having verified the reasonableness of actuarial assumptions for estimating the liability for employees benefit.
- There were no documents in the audit files to justify/ evidencing the classification of security deposits taken by the company from dealers, expected to remain with the company till the dealership was terminated.
- Some of the key audit evidence such as orders from sales tax /Income tax/Excise and other authorities resulting in material transaction were not held on record.
- The firm had no formal means for assessment of audit risks, and no further evidences were obtained to reduce the audit risk to an acceptable level.
- The firm had represented that it had performed audit procedures to test the provisioning made for doubtful debts for each of sales regions based on the budgets provided by each region; however, no evidence of the budget data was available on record.
- There was no evidence of evaluating the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures of the relevant industry and the concerned guidance notes, if any.
- In certain accounts, the persistent irregularities in the accounts of substantial amounts were adjusted at the year-end. However, evidence of source of such credits to ascertain genuineness was not available on record. Further, recovery through RTGS did not evidence the source of remittance of funds.
- There was lack of sufficient appropriate audit evidence for reversal of amount payable to a group company.

- The Company sold plots of land during the year, however, it was informed that cost of these lands had been already written off in the earlier financial years. On verification of movement of stock of development rights and the cost of development rights debited to profit & loss account, a difference was noticed for which no evidence was produced.

SA 505- EXTERNAL CONFIRMATIONS

- Procedure and manner of obtaining external confirmations, its correctness, maintenance of adequate records, control over confirmations, and obtaining direct confirmation from the external parties was not there.
- Confirmations were not sent under the control of the firm as it is a mandatory audit procedure.
- Log were not maintained of what confirmations have been sent, received, not received, undelivered, or unreconciled as in few cases it was observed that no documentary evidences were available for the list of cases selected for external confirmation and evidence of sending letters to any of parties.
- External confirmations were not obtained for trade receivables and payables. Alternate procedures were duly applied but the sample selected for conducting alternate procedures was too small.
- External confirmations received from bank branches could not be verified in respect of bank balance as there were no documentations evidencing the same in audit file.
- The external confirmation response was not directly received by the audit firm as required by Para 7 of SA 505 External confirmation.
- No independent balance confirmations from debtors had been circulated/obtained by the firm.
- The firm had not obtained external confirmation of account payable balances.
- Analysis of confirmation of balance received/alternate audit procedure adopted etc. was not documented.
- Legal confirmations from Solicitors & Lawyers of the Company were not obtained by the firm.
- In respect of related party balances, no confirmations had been obtained.
- Whether, audit firm had invited the external confirmation as a substantive audit procedure or not could not be verified in the absence of any documentation thereof in the audit file. Further the balances held with various banks under current accounts/FDRs were relied upon by the Audit firm, based on the bank confirmation provided by the Company. However, documentation in its support was not found in file (Ref SA 500, 501 & SA 505).

SA 520- ANALYTICAL PROCEDURES

- No workings/ evidences in the audit working files for the analytical procedures carried out under SA-520.
- The firm did not clearly document application of analytical procedures.

SA 530- AUDIT SAMPLING

- The sample selected by the audit firm was not adequate to mitigate the risks of material misstatement.
- Documentation was not done related to audit sampling as required by SA 530-Audit sampling.
- Basis of audit sampling had not been documented and explained and thus SA 530 requirements had not been complied with.
- Documentation was not maintained in relation to selection of audit samples (Ref Para 8 of SA 530 Audit sampling).
- The sample selection was on the basis of professional judgement taking into account selecting specific items and audit sampling, thus, the system of selection needed to be documented comprehensively.
- While conducting the test of controls / test of details for the journal entries, most of the entries on the dates beginning at each of the months had been selected for verification, the sample did not cover the other dates as well.

SA 540 "AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES AND RELATED DISCLOSURES"

- Documentation was not available as required by Para 6 of SA 540 Auditing accounting estimates, including fair value Accounting estimates and Related Disclosures.

SA 550- RELATED PARTIES

- The firm had not documented the audit procedures as per SA-330 and SA 550 during the course of audit.
- Firm had not obtained the signed copy of the list of related parties.

- Related party transactions being substantial to the entity's operation, however, no separate sampling procedure had been obtained to select such transactions especially in the case of audit of purchase transactions.
- There were no working papers for verification of figures disclosed in Related Party Disclosures.

SA 580- WRITTEN REPRESENTATIONS

- The Management representation letter obtained by the firm did not mention about the management's responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- Management representation letter received by the firm in connection with the statutory audit was dated post the date of issuance of the audit report.
- An assurance from the management that compliance with DPE and Administrative Ministry's Guidelines has been made was not mentioned in the written representation.
- Management's responsibility for the Financial Statement describing the responsibility of management, omitted the responsibility of management for preparation of the cash flows of the company.
- The audit firm had received the written representation which was signed by company secretary and not by CFO or CEO, however as required by Para 8 of SA 580 Witten Representation, the auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.
- The written representation was obtained much before the date of adoption of financial statements.
- Management representation letter contained a statement that, "the Current Investments were appearing in the financial statements and the same had been valued at lower of cost and fair value". However, the company had no current investment as per the financial statements at the year end.
- The fact of providing all relevant information and access as agreed in the terms of audit engagement and recording and reflecting all transactions was not incorporated in the representation letter.

SA 600 –USING THE WORK OF ANOTHER AUDITOR

- The firm relied upon the report of another firm of chartered accountants for hedge effectiveness testing and valuation. However, as per SA 600 it was not evaluated as whether they are experts in the field. Further, reports were not signed and kept as part of documentation and the fact that reliance was placed upon the report was also not disclosed.

SA 610 – USING THE WORK OF INTERNAL AUDITORS

- The audit firm had not obtained or documented internal audit reports for most of the internal audits conducted during the year.
- The documentation of the firm relating to notes on the review of internal auditor's observations/reports needed to be improved.
- No documents had been held on record to demonstrate the evaluation by the audit firm with regard to relying on the work of internal auditor.
- There was no documentation on record for evaluation of scope of internal audit and their independence. Further, there was no document as to how the points raised by the internal auditors in internal audit report were evaluated (SA-610).

SA 620-USING THE WORK OF AN AUDITOR'S EXPERT

- No evidence of verification of reasonableness of actuarial assumptions of discount rate, future salary increase, expected rate of return on plan assets etc. were maintained by the firm.
- Details of any tie-up with outside expert or consultant required in respect of audit assignment specific were not on record.
- Signed copy of report from actuary was not available as part of documentation.
- Audit checking notes for discount rate and other assumptions of actuary were not clear.
- The IT security control /audit was not done by the firm or by an external expert.

SA 700- FORMING AN OPINION AND REPORTING ON FINANCIAL STATATEMENTS

- The auditor while signing the Balance Sheet, Statement of Profit & Loss and Cash Flow statement did not mention his membership number and firm's FRN.
- The auditor's report of a listed Bank had been addressed to the President of India instead of to the Members.
- The requirement of SA 700 was not complied with in respect of one of the branch.
- Long format audit report did not comply with the provisions of SA-700; it did not bear the date, place and signature of the auditor.
- The auditor has to mandatorily report the compliance of all the applicable Accounting Standards in its report. However, the audit firm had not reported it in its report.

- According to SA 700, an audit report should be appropriately addressed as required by the circumstances of the engagement. However, the firm had not mentioned the addressee, to whom it was addressed in its report.
- The Independent Auditor's Report was issued in old format i.e. not as per SA-700(Revised) as applicable to the financial year 2012-13.
- In the heading of auditor report for consolidated financial statement of the company the word "Independent" was not used. It should have been "Independent Auditor's report".
- Annexure to audit report did not comprise comments on internal control system with respect to purchase of inventories, fixed assets, and for the sale of goods and services.
- The firm had not reported in its auditor's report that whether any fraud on company or by the company had been noticed or reported during the period of audit or not.

SA 706 EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

- There had been a continuous diminution in the value of the investments, which according to the company was temporary in nature. However, there were not sufficient documents to prove that diminution was temporary and no provision was made, moreover the matter was not emphasized in Auditor's Report as required by SA 706.

SA 710 COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

- In notes to financial statements, corresponding figures were not mentioned as required by the SA 710 (revised) Comparative Information.
- Previous year data was not given in relation to proportion of ownership.
- Previous year figures had not been disclosed in the notes of share capital.

SA 720- AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

- No working papers were available for having verified the information contained in management report, financial summaries with the Audit Report.
- There was difference in the amount shown in the notes to CFS on employee obligations for Provision for Gratuity Benefit Plan and that reported in management discussion & analysis section.

SQC 1- STANDARD ON QUALITY CONTROL

- The checklist for auditing & assurance standards, guidance notes etc. was not prepared to ensure compliance with all standards while performing attestation engagements.
- The documentations for communication of policies and procedures by the audit firm to its personnel as well as communication of the identity and role of engagement partner to key members of client's management and those charged with governance were not maintained.
- Documented policy or other evidences of procedures for rotation were not available.
- Audit firms had not properly framed its quality control policies and procedures, as it did not ensure that the firm or its staff were free from any self interest which might be regarded as being incompatible with integrity and objectivity.
- No policies and procedures were designed to provide reasonable assurance that the firm had sufficient personnel with capabilities, competence and commitment to ethical principles necessary to perform its engagement.
- Firm did not have an established policy in relation to client acceptance including background checks of key management, performing conflict checks and formalizing documentation for the same in compliance with requirement of SQC-1.
- Quality control review Partner and Partner-in-charge were the same which is not in line with SQC-1.
- No carry forward working papers were prepared by the firm containing the summary of major observations and related documents to be used in subsequent audits.
- The policies and procedures relating to conflict checking system were not documented.
- There was no systematic manner of implementation of certain aspects of the policy in terms of competencies, career developments, evaluation etc.
- Compliance procedures of firm's code of ethics did not address the firm's policies and procedures regarding ethics and independence and its importance was not conveyed to the staff by way of regular trainings and in staff meetings.
- Audit firm did not have any established recruitment policy.
- There were no policies and procedures established to provide it with reasonable assurance that the policies relating to quality control were relevant, adequate and there were periodic inspection of selection of completed engagements.
- As per Para 23 of SQC-1 the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel. However, it was noticed that declarations were only in relation to details of investment made.

- Firm needed to strengthen the mechanism to promote a quality oriented internal culture including frequent actions and messages from all levels of firm's management relating to quality.
- Annual independence declarations and declarations for insider trading for all clients did not include detailed list of securities, moreover, in respect of dependents/ relatives, declarations were not consistent. Further, in terms of conserving price sensitive information, declarations were taken on yearly basis.
- There were no specific documentation in the audit working papers with regard to the process on consultation and differences of opinion as required by the firm's SOC-1 policy.
- The Quality control policy of the audit firm did not cover all the elements of standards of quality control- SQC 1.
- More frequent programmes and seminars needed to be conducted to appraise the partners and staff about latest changes in law, regulation and accounting and other standards.

- There was no policy document in respect of issues detailing the implementation processes and documentation thereof. Moreover, the policies and its implementation with reference to safeguards in respect of the senior personnel on assurance engagements over a long period of time were not documented.
- The firm lacked in defining and designing detailed policies & procedures for systematically implementing policies related to competence, career development, evaluation etc as per SQC -1
- The firm had not effectively designed and documented 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. Further, engagement planning memoranda, working paper, deliverables, evaluation process, controls, etc. were not in tune with the requirement of SQC-1.
- Formal documentation of procedures for rotation of audit engagement partner was not maintained as required by the Para 27 of SQC-1.
- Documentation for communication of policies and procedure by the firm to its personnel was not maintained as required by the Para 106 of SQC-1.
- Audits were conducted only by Articled Assistants who had a maximum tenor of 3 years with the firm. Engagement partner was also not rotated (Ref Para 27 of SQC-1).
- Checklists for Standards on Auditing, Guidance Notes etc. were not prepared.

- The audit firm's system of quality control had not been designed to meet the requirements of quality control standards for attestation services and did not provide a reasonable assurance of complying with technical standards in all material aspects.
- The audit firm had not provided the policy on quality control, if any, implemented within the firm regarding the responsibilities for its system of quality control for audits and review of historical financial information, and or other assurance and related services engagements (Ref SQC-1).
- The quality review programme/checklist containing the details of team involved, test performed, extent of verification etc. were not found.
- There were no policies and procedures designed to provide with reasonable assurance that the audit firm, its personnel and, where applicable, others subject to independence requirements (including the experts contracted by the firm and network firm personnel) maintained independence where required by relevant ethical requirements. (Para 18 to 27 SQC-1).
- Annual declarations for independence from all the personnel at firm level were not obtained as suggested by SQC-1.
- Clearance by engagement partner & professional practice director was given on a later date, however, the Audit Acceptance Letter had been sent much earlier.

ACCOUNTING STANDARDS

- Point of recognition of revenue in case of commission income was not disclosed in significant accounting policies.
- Accounting policies related to revenue recognition of services rendered, interest, and dividend had not been disclosed in the significant accounting policies.
- Copy of actuary's Certificate was not available in the files to validate the provision made in the accounts as disclosed in the Significant Accounting Policies as required by Para 8(i) of Statement of Significant Accounting Policies.
- Company had not disclosed accounting policies in respect of cash & cash equivalents, revenue recognition in respect of interest on fixed deposits and dividend.
- Accounting policy in respect of capital subsidy in reserve was not disclosed.
- No disclosures were made in significant accounting policies in respect of employee VRS on actuarial valuation basis.
- The accounting policy for recognition of intangible assets was not disclosed separately, though it was significant in respect of the company.
- AS-1, disclosure of accounting policies, states the disclosure of significant accounting policies followed by the company. However, the company had not disclosed separately in its notes or accounting policies, the indirect method used for presenting its cash flow statement.
- The accounting policy disclosure as per AS-1 was incomplete, as it did not indicate the event and point of recognition of revenue in respect of goods dealt with by the enterprise, nor did the policy of revenue recognition (AS-9) reflect the recognition of revenue in respect of the subsidy paid by the government as part of sales revenue.
- Company had taken the foreign currency loan for acquisition of fixed assets. The policy on exchange difference on loan contracted for acquiring fixed assets was not stated.
- Policy for valuation of inventory of raw material was not disclosed by the company.
- The valuation of inventory had not been done as per the adopted accounting policy of the company. Thus, the auditor should have qualified the audit report or requested to change the accounting policy followed, but no measures were taken.
- Stores and spares were valued at cost. However, it should be lower of cost or NRV. It was not stated that cost of material was net of taxes /duties for which input credit was available.
- The Auditors had not reported whether Cash Flow Statement was in compliance with the Accounting Standards or not.
- The company had written back on account of provision for doubtful debts and advances. It was not adjusted from profits to arrive at the Operating profit before working capital

changes, while preparing cash flow statement under indirect method. Thus, violating the provisions of AS-3.

- Company had shown as inflow on account of “proceeds from sale of current investments” under the cash flow from investing activities head. However no calculation for the said figure was available in the working papers of the Auditors.
- As required by Para 25 of AS 3 effect of changes in exchange rates of cash and cash equivalents were not disclosed.
- It was observed that company had not disclosed the effects of change in exchange rates on cash and cash equivalent held in foreign currency that should be reported as a separate part of reconciliation of the changes in cash & cash equivalents during the period.
- In Cash Flow Statement, interest from Inter-corporate deposit had been included in the income from the operation instead of disclosing the same as income from investing and financing activity. Similarly profit and loss on sale of fixed assets was shown in operating income instead of disclosing as income from investing activity, and purchase of fixed assets was shown net of sales proceeds.
- The method adopted for preparation of Cash Flow Statement was not disclosed by the entity.
- Company had not disclosed the components of cash and cash equivalents and had not presented the reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet.
- The cash flow statement of the audited entity disclosed the aggregate value of investments made and loans & advances to subsidiary companies. However, cash flow from operating activities and financing activities was different. Even after considering the proceeds of sale of investments, there was a decrease in cash and cash equivalents which reflects that the short term funds had been utilized for investing in long term assets like investment in subsidiary companies and advancement of loans and advances. Further, it was presented that long term loans obtained from banks had been advanced to the subsidiary companies for purchase of lands. However, one of the condition mentioned in sample sanction letters produced was that the “proceeds of loans should not be utilized for procurement of land”.
- The requirement of AS 5 was not met by the company, as it did not make adequate provision for loss, even though no interest was serviced on loans for several years. Thus, the auditor should have issued a qualification that the profits and assets were overstated.
- The proceeds received on termination of licenses were not disclosed as an extraordinary item. There was no documentation in place to conclude why the same had not been disclosed as extraordinary item.

- Excess/ short depreciation as a result of non segregation of furniture and fixture, and office equipments was not quantified by the management, as depreciation is charged at different rates on Furniture and Office Equipments under Companies Act.
- Sales were shown at net of excise duty in the Statement of Profit and Loss instead of the gross value; however, excise duty should be shown as a deduction in the Statement of Profit and Loss.
- Disclosure with respect of interest received and interest paid were net off which was in contravention to AS-9 Revenue Recognition.
- Accounting policy stated that dividends on equity shares had been recognized on receipt basis. However, para 13 of AS 9 requires dividends on equity shares to be recognized when owner's right to receive is established.
- Cost of fixed assets was net of taxes/duties which were eligible for credit. It was not stated in policy to fixed assets.
- Land was wrongly capitalized as part of plant & machinery in earlier years rectified during the year under audit but the impact of depreciation on reversal was not evident from the working papers.
- Note on fixed assets did not disclose preceding previous year figures of Gross block, Depreciation and net block.
- No permanent diminution had been provided for in respect of investments made even though there was substantial reduction in the net worth of the companies in which investments were made.
- Company had not disclosed un-hedged foreign currency transactions in the Financial Statement.
- Conversion of items of Income & Expenditure of non integral entities at the year-end rates was not in accordance with the requirement of AS-11 as well as the accounting policy.
- Company's long term investment in the subsidiary company, recorded at cost showed negative net worth for more than 12 years, indicating a decline in value of investment that was not temporary. Thus, the cost of investments should have been written off and the auditor should have qualified that the profits and assets were overstated.
- Note on Current Investment did not disclose breakup of investment in various mutual funds both in units and values, whether these were quoted or unquoted and method of valuation and its market value. Bifurcation of investments purchased, traded during the year along with units were also not stated in the Financial Statements.
- The company had disclosed the movement in the liability for gratuity and compensated absences where the present value of defined benefit obligation, current service cost, etc. was mentioned. However, the movement of various cost components did not tally

with the certificate obtained from an independent actuary on the valuation of the obligations.

- Actuarial Valuation report was not obtained in case of Gratuity Liability at the year end and hence disclosures as mentioned in AS 15 were not made in the financial statement.
- Disclosure required under Para-120(n) had not been given in the financial statements. Further, there was a variation in the opening balance of the present value of obligation of gratuity the reason for which was not explained.
- An amount had been wrongly classified as provision for ‘Leave Encashment’. Further the provision for gratuity was understated.
- Company had not disclosed the disclosures in respect of Leave encashment as required under AS-15.
- The employee benefits were not in accordance with AS-15 Employee Benefits as it comprised only gratuity.
- Interest expense should include Exchange difference on foreign currency borrowing in accordance with para 4(e) of AS 16. This amount was not quantified and reclassified under interest. Instead it was included under Exchange Gain/Loss(net).
- Type of products and services in each business segment was not mentioned as required by AS 17 Segment reporting.
- Net revenue as well as net profit (results) from interest income was more than 10% of the total net profit, however, the same was not considered as a separate segment as per the requirements of AS 17.
- Secondary segment information was not disclosed.
- The Sales Promotion expenses paid amounting to service charges were not disclosed as related party expense as per AS-18 ‘Related Party Disclosures’.
- Company had made investment in an associate company. However, the said transaction was not disclosed in the related party transactions as per AS 18. Further the interest accrued on the share application money receivable from the said company was also not disclosed.
- Company had not disclosed the nature of a transaction related to its subsidiary.
- Related party disclosure was not made in respect of debit balance against subsidiary of the Company.
- Company had not made complete disclosure of nature of transaction with related parties. There were outstanding receivable/payable balances as at the year-end. The opening balances with these parties were nil. Thus, the company had transactions with such entities during the year. However, no disclosure had been made for such transactions under “Nature of transaction with related Parties”.

- Nature of transaction with the related parties had not been disclosed by the company as per Para 23 of AS 18 “Related Party Transactions”. Further, the company had disclosed the year-end balances with related parties but had not disclosed all transactions contributing towards such balances.
- As required by AS 18, material balances (over 10% of total) with related parties should be disclosed separately. However, it had been disclosed by the company in aggregate in the standalone financial statements.
- In the Related Party disclosures relating to Purchase of Fixed Assets, a sum was shown to be relating to one subsidiary; however, the fixed assets were purchased from another subsidiary.
- EPS was not shown on the face of Statement of Profit and Loss as required by AS 20- Earnings Per Share.
- In relation to Employee stock option plan, instances of non compliances with respect to the disclosure requirements of Para 48 to 51 of the Guidance Note on “Accounting for Employee Share based Payment” was observed.
- Disclosure required by the Guidance Note on Employee Share based Payments was not made in the Financial Statements.
- There was non-compliance of AS-21 with regard to reporting of consolidated financial statements in the annual report of a subsidiary of the company under audit. Further, the name of the subsidiary company was not disclosed in note disclosing related party name and transactions with them as per requirements of AS-18.
- In CFS, the auditors' remuneration of the subsidiaries had been clubbed under "Professional fee" in order to restrict the consolidated figure of audit fee to the auditors of the Holding Company only. However, the audit fee of the CFS should be the aggregate of the audit fee of the Holding Company and all the subsidiaries grouped under the CFS. (Ref para 13 of AS 21).
- The Company included land as an item considered for WDV of assets from the books of accounts and computed deferred tax, whereas the land does not suffer depreciation and thus has no timing difference, hence it should not be considered for deferred tax computation.
- Incomplete disclosure had been made in respect of Deferred tax assets and deferred tax liabilities as required by para 31 of AS 22.
- The company had netted off DTL from DTA, management had not disclosed it separately looking at the materiality.
- Intangible assets were included under the head ‘Other Fixed Assets’ however, these assets were taken on lease and intangible assets should be shown separately for proper classification and disclosure. Further, the fixed assets were not classified in Balance Sheet viz. premises and other fixed assets as required by the Banking Regulation Act.

Moreover, the gross carrying amount and accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period was not disclosed with each class of intangible assets as per AS-26 'Intangible Assets'.

- Company had made an addition during the year in Intangible Assets which being amount transferred from capital work in Progress. The amount being expenditure incurred during various previous years which according to the management have no further economic benefits, even then it has been capitalized to Software head and also depreciated this amount on an accelerated basis (i.e. 100% written off during the year). The Accounting policy of the Company given under the Notes to Accounts states that "Cost of software is amortized over a period of 6 years, being the estimated useful life as per the management estimates." However, the Company had provided the amortization in the very first year without any disclosure.
- In respect of two standstill projects undertaken by the company due to Court orders, the carrying value was material however; no impairment testing was done as per AS 28 (Impairment of Assets) and AS 29 (Provisions, Contingent Liabilities, and Contingent Assets).
- Service tax demand was not shown as contingent liability.
- No disclosure was made in contingent liability for the interest portion of the disputed demands.
- Contingent liability in respect of the amount discounted through Bank was not disclosed. (AS 29).
- No disclosure was made in contingent liability for consequential demands under service tax on the basis of demands raised by the department for earlier years.
- No disclosure had been made as per AS 29, Provision, Contingent liabilities and Contingent Assets for the factoring arrangements entered into by the Company.
- Disputed demands in respect of Sales tax and excise duty were not disclosed under "Contingent Liability". (AS-29).
- The company in its Director's report had mentioned demands of excise duty and demands of luxury tax were pending decision before various Courts and Appellate Authorities. However, the company has not treated it as contingent liabilities.
- The operating profit was shown under total consolidated profit by the company, and no segment wise break up was given for this profit, thus, not distinguishing between the amount received as dividends from subsidiaries and that from mining activities.
- Disclosure prescribed under AS 32 for financial instruments & Derivatives had not been made in the financial statement.

REVISED SCHEDULE VI OF THE COMPANIES ACT, 1956

- The requirements of Revised Schedule VI with regard to other commitments were not disclosed.
- The company had not complied with the Guidance Note on Revised Schedule VI, which provides that the caption 'cash and cash equivalents' should be changed to 'cash and bank balances'. Also, the net (gain)/ loss on foreign currency transactions except where there are borrowing costs involved, should be shown under other expenses instead of finance cost.
- The company has not shown sales under broad heads in its financial statements.
- The company disclosed capital advances under short term loans and advances, instead of long term loans and advances. Moreover, it has not specified the nature of other loans and advances.
- The borrowings from related parties repayable on demand had been disclosed as long term borrowings instead of unsecured short term borrowings, since, as per Revised Schedule VI, long term borrowings are those which contractually are repayable after one year as on balance sheet date.
- The quoted investments were treated as unquoted investments and no distinction had been made under unquoted investments for Current and Non Current Investments.
- The entity had wrongly classified and disclosed short term loans from Banks as Trade Acceptances in contravention of disclosure requirements of Revised Schedule VI. Nature of security and terms of repayment were also not stated in respect of Bank loan.
- The amounts set aside to provisions made for meeting specific liabilities should be separately disclosed as a charge to the Statement of Profit and loss. The entity had debited miscellaneous expenses including Bad Debts written off and credited other income on account of provision for doubtful debts and advances no longer required.
- The payment made by the entity to 'Employee State Insurance Fund' had been included in the welfare expenses instead of being disclosed separately as "contribution to provident and other funds" as per Revised Schedule VI.
- The disclosure under the head 'Trade Payable' in relation to amount due to Micro & Small enterprises had not been made, and the note given was insufficient to comply with the provisions.
- The company treated provision of Gratuity as long term provision instead of short term, though it was being payable by the company to the trust within next financial year.
- The entity had not disclosed other manufacturing expenses under appropriate head which resulted in understatement of consumption of raw material and packing material.
- Consolidation of Non Current Assets into Current Assets in Consolidated Financial statements. An amount was classified as short term security deposits in consolidated

financial statements of the company but in the signed balance sheet of one of its subsidiary, security deposit had been classified as Non Current Assets.

- Format used for presentation of B/S and P&L was not as per Revised Schedule VI.
- While disclosing short term borrowings, the financial statements prepared by the company did not incorporate the phrase “Loan repayable on demand” as warranted by ‘General instructions for preparation of Balance Sheet’.
- According to the Revised Schedule VI, bonds/ debentures shall be stated in descending order of maturity, or conversion starting from the farthest date, however, the auditee had disclosed series of bonds in ascending order.
- As per the Revised Schedule VI, corresponding amounts (comparatives) for the immediately preceding reporting period shall be given for all the items shown in the financial statements including notes. However, the notes to the consolidated accounts; significant accounting policies, did not disclose the percentage of ownership of preceding year.
- As per Revised Schedule VI the aggregate value of quoted current investments and their market value has to be disclosed. However, the company had not disclosed the market value of quoted investments.
- The entity classified MAT Credit entitlement and Advance Tax/ TDS receivable as Short term loans and advances but as per the Guidance Note on the Revised Schedule VI, they should be classified as long term loans and advances.
- The entity has classified Margin Money/ Security under the head “Cash & Bank Balances”. However, Margin Money/ Security with the banks were non-current in nature and should have been classified as “other Non-Current Assets instead of “Other Bank Balances” as per the Revised Schedule VI to the Companies Act, 1956.
- The company had converted stock in trade to capital work in progress, however, there was no evidence of verification of minutes of the Board resolution having being verified by the firm for the decision to convert the stock.
- Term Loan repayable within a year did not constitute Term Loan alone. The balance pertained to Deferred Sales Tax Liability, but was not shown separately.
- Investments in subsidiaries in fully paid equity instruments and other investments were not classified as held for trade or non trade investments.
- Para 8.7.2.3 of Guidance Note on Revised Schedule VI was not complied with, as it recommends to disclose the amount of provision netted off for each long term investment.
- Investments in mutual funds were not disclosed as quoted or unquoted in accordance with the Revised Schedule VI.

- Profit on sale of mutual funds instead of being shown as 'Other income' was shown on netting basis under the expenditure head of 'Finance & Treasury Charges' resulting in its understatement and generating an impression of higher operating income.
- One misstatement was not corrected by the management i.e. Interest expense not payable for pension fund whereby the profit was understated and liability was overstated.
- In respect of revaluation reserve appearing in the balance sheet, the company had no details regarding year/date of revaluation made, items revalued, and whether those assets have been disposed off/scrapped.
- Long term loans & advance, security deposit included amount from related parties. This was not separately disclosed as per Revised Schedule VI.
- There was no explanatory note as to how the following amounts were identified and measured:
    - Reserves and surplus- Hedging reserve
    - Other Non-current Assets- derivative Assets
- Payment made to statutory auditor with respect to IPO related work was not disclosed at all in the financial statement as required in payments to the auditor [Clause (j) of Note 5 (i) of Revised Schedule VI to the Companies Act, 1956].
- The disclosure and presentation of long term borrowings were not done as per the requirement of Revised Schedule VI. As required the borrowing should be further sub – classified as secured and unsecured.
- Leasehold land for factory had been erroneously classified as factory freehold land.
- Items shown under the head "other" in long term loan and advances included a sum given to Director and Chairman of the Company. Disclosure requirements of Revised Schedule VI have not been complied with. Further a sum of advance given to suppliers/creditors for expenses had been wrongly classified as Long term advances.
- The presentation under 'Note of inventories' in the financial statement was not in compliance with the requirements of Revised Schedule VI of the Companies Act, 1956. It was not possible to determine break-up of the "stock –in-transit" relating to raw material, work-in-progress, finished good and stores and spares.
- The presentation of deposits with more than twelve months maturity was not in conformity with the requirement of the Revised Schedule VI as the bifurcation between current and non-current portion of the deposits was not made. Non-current portion should have been classified as "other non-current assets" along with a separate disclosure.
- Advance to Excise/Custom and other departments had not been classified as "short term loans and advances" and not "other current assets".

- Break-up of sales and excise duty was not disclosed as per the requirement of Revised schedule VI /AS 9. Further, included in sales were freight outward (CST & VAT) and insurance.
- No disclosure had been made giving a breakup of the amount paid to auditors as per the provisions of Revised Schedule VI.
- Bad debts included written off amount of Inter-corporate deposit. As the Inter-corporate deposit are not “Trade Receivables”, thus the presentation was inaccurate and not in compliance with the requirement of Revised Schedule VI.
- The rate of interest on the long term and short term borrowings had not been disclosed.
- Company had not shown the comparative figures with respect to the additions and disposals/adjustments made during the year under the Tangible Assets. (Refer Revised Schedule VI under General instructions head in point No. 5)
- There was wrong classification of Long Term Assets in Short Term assets in the Consolidated Financial Statements.
- The expenditure capitalized was not disclosed.
- Company had not disclosed the details of applicable rate of interest on the term loans in Note.
- The Company had not de-recognized the financial asset (debtors) and had not recognized a financial liability (amount received from banks at the time of factoring) in case of assignment of debtors without insurance backing.
- No disclosure had been made/note given in financial statements with regard to the debtors assigned to bank (without insurance backing).
- Company disclosed in note “Trade payables and other current liabilities”, as “other Payable”. However, as per Para 8.6.3 of the Guidance Note on Revised Schedule VI, a Company is required to specify the nature of “Other Payables”.
- Bifurcation between current and non-current portion of leave encashment provision was not made and total provision was shown under short term provisions only. Gratuity provision was not shown separately but was shown under ‘other current liabilities’.
- Share capital in financial statement for previous year figure was not correctly brought out.
- Terms and right attached to shares were not disclosed either on the face of the financial statement or in the notes to accounts.
- The notes on classification of Assets & liabilities refer to Company’s normal operating cycle. But operating cycle was not defined.
- Company had taken the foreign currency loan for acquisition of fixed assets. However, the policy on exchange difference on loan contracted for acquiring fixed assets was not stated.

- Marketing division had accounted for accrual of Commission. There was nothing on record to compare the treatment of such accrual in previous year.
- Nature of Other Advance Payments and Other Receivables was not disclosed, neither were they disclosed item wise as per the Guidance Note on Revised Schedule VI.
- Company had investment in the Equity shares of Associate Companies and the same had not been separately disclosed as per Revised Schedule VI, further it has also not been disclosed whether the investments were partly paid or fully paid.
- The company added capital advances of WIP in the capital WIP and did not show it under the head capital advances.
- Notes in the consolidated financial statement did not disclose the terms of borrowing with respect to its repayment, interest, and securities.
- Other operating revenue included rent and hire charges, interest income, dividend income etc., which should be classified as other income instead of other operating revenue.
- Other current liabilities included excise duty & service tax payable, however, it was observed that previous year outstanding was after netting off Advance payments whereas current year figure was without netting off advance tax.
- There was a mismatch of classification which on the one hand had been disclosed as advance towards Share Capital under "Other Current liability" by the subsidiary, and on the other hand had been disclosed under "Long Term Loans and Advances" by the Holding Company.
- Bifurcation of sundry debtors as more than six months and less than six months was not disclosed in the financial statements.
- Printed financial statements of the company were not signed by the Chief financial officer of the company.
- There were variations in the printed financial statements and the signed copy of the financial statements of the company.
- Deferred Tax Asset was clubbed under Non-Current Asset instead of being separately disclosed on the face of the balance sheet in the annual report.
- The terms & conditions mentioned by the Company in relation to preference shares were those prevalent at the time of issue of these preference shares. There had been a major change in the terms of redemptions of preference shares and the revised terms and conditions for the redemption of preference shares were not disclosed.
- As per Management Representation Letter, roll-over of the inter-corporate deposits had been done based on mutual discussion, and in respect of few cases management had initiated legal proceedings. However, no independent balance confirmations had been

obtained and held on record by the auditors for inter-company deposit. (Refer explanations of Guidance Note on Revised Schedule VI).

- Reconciliation of number of shares, other details of equity shares for period of 5 years, immediately preceding the year-end with respect to shares allotted for other than cash, shares allotted as fully paid up, bonus shares, aggregate numbers of shares bought back and shares reserved for issue under option were not disclosed.
- Note in standalone financial statement of non-current investment did not disclose the details of investments in various subsidiaries. Further, whether these were held for trade or non-trade and were they quoted and unquoted was not classified.
- Note on Long term loans & advances did not disclose whether these were secured and classified whether considered good or doubtful.
- Other Current Assets were not classified into secured/unsecured and good/ doubtful.
- MAT Credit available to the company as per income tax return was inconsistent with that shown in the financial statements.
- Certain provisions were not classified under the head Other Long terms Liabilities rather as trade payable in accordance with Revised schedule VI.
- The short term loans had been understated in the financial statements, as the company repaid it through cheque as at the end of the financial year with due date falling subsequent to the end of the financial year however, there was not enough balance in the Bank account as on the balance sheet date and the amount was lying under bank reconciliation.
- Company had shown an amount as received from one of the related company towards loans and advances given to related parties; however, this amount was actually received on a date falling subsequent to the end of the financial year and was lying in bank reconciliation as at the year-end.
- Lien on the deposit was not disclosed.

RELEVANT LAWS AND REGULATIONS

- There was difference in number of subsidiaries as per various records showing deficiency in reporting requirement as per Section 212 of Companies Act, 1956.
- In a couple of accounts, classification of advances had not been made strictly as per the prudential norms prescribed by the RBI.
- An asset had been created as an asset by the company on account of inventory valuation timing difference as per Sec 145A of Income Tax Act. The Deferred Tax Liability was created on difference in excise and sales tax amount in the opening and closing stock valuation, and the amount calculated for difference had been offered as Income. However, when valuation of both opening and closing stock has been done in accordance with Sec 145A & AS 2, then no income should have been offered on account of difference in valuation and there should be no timing difference.
- As per constitution certificate, 6 partners out of 20 partners were partners in a network firm and no details had been provided in respect of audit assignments taken by network firms so it was unable to arrive at specified number of audit assignments of companies which the audit firm could take as per Section 224 of the Companies Act, 1956.
- In case of loans and advances granted to subsidiaries and other related parties, Company had charged interest at the rate which was much lower than their regular commercial borrowing rate from Banks.
- Auditors' observation that no loans were granted to the parties covered in the register maintained u/s 301 of companies Act, 1956 was not correct, since loans were granted to a wholly owned subsidiary which was covered u/s 301.
- In respect of physical verification of inventories, final inventory sheets were available but physical verification instructions were not kept with CARO check list.
- Company had entered into transaction with Private Ltd companies in which directors were interested. The transactions with these companies were based on long term contracts entered into when they were Public Ltd companies. These transactions were not considered for CARO reporting. However no legal opinion was kept with CARO check list.
- The amount paid under protest was not reported as per Para 64(h) of Statement of the Companies (Auditor's Report) Order, 2003.
- The company had invested bought and sold Mutual fund securities out of Term Loans drawn but not immediately utilized. But clause (xiv) of CARO was reported as not applicable.
- Directors & their relatives were having possession of gold and diamonds jewellery given to them on consignment sales basis. However, it was observed that the prior approval of Central Government was not obtained as required by Section 297 of the Companies Act,

1956. It was further noticed that audit evidence did not disclose whether transactions were entered into register maintained under section 301 of Companies Act 1956 or not.

- There was a contradiction between the CARO report and supplementary Report u/s 619(3)(a) of Companies Act, 1956, regarding the physical verification of Fixed Assets. CARO report stated "we are informed that during the period the fixed assets were physically verified by the management and no material discrepancies were noticed between the books records and physical existence of assets". However the Supplementary Report stated "The physical verification of fixed assets has not been carried out. The company had no specific policy on physical verification of Fixed Assets".
- Short term funds had been used for long term purpose. However, no audit comment had been included by the audit firm in this regard either in CARO or in main report.
- Firm had reported under clause xxi of the CARO, two instances of fraud; (a) misappropriation of inventory by transporter and contractors amounting, and (b) one instance of wrongful claim of expenditure by an employee. On review of the work papers relating to SA 240 relating to fraud considerations, these instances had not been mentioned during the inquiries made with the management. There was no other evidence of any further audit procedures being adopted (in the form of increased test of details/ substantive procedures) to confirm that the extent of misappropriation of inventory or the wrongful claim of expenditure was only as reported.
- Firm had not reported the disputed dues related to income tax in the CARO.
- There was divergence between the Memorandum of Association, Articles of Association, and Financial Statements. Further, the rights, preferences, and restrictions attached to each class of shares including restrictions on the distribution of dividends and the repayment of the capital were not disclosed.
- The Certificate issued by the Audit Firm (3CEB), the loans given to the Associate had been shown net of repayments, instead of displaying the entire loans given to them as international transaction for the year. (Ref sec 92C of Income tax Act read with rule 10D (d) of Income tax Rules).
- The audit firm mentioned that the method used for determining Arms Length price as "other specified method". But the details of such method including the workings for determining the ALP was not available in the file. (Ref sec 92D of Income tax Act read with rule 10D (i) of Income tax Rules)
- Audit firm had paid the managerial remuneration in excess of prescribed limit under Sections 198 and 309 of the Companies Act, 1956 whereas the approval of Central Government was pending as well as the Auditor's Report did not indicate the excess remuneration was paid.

- The liability on account of FBT recovery was also outstanding for a period exceeding six months. However, the same was not considered as such for the purpose of reporting under CARO being below the threshold limit.
- The wording used by the Auditor under CARO report of the Company did not mention about quantitative details and situation of fixed assets.
- Loans were granted interest free and the auditor did not report whether reasonable steps were taken by the company for recovery/payment of the principal and interest or not.
- Auditor had not reported whether prices for which no comparable quotations were available were reasonable having regard to the prevailing market prices at the relevant time or not. (Ref CARO 2003 requirements: Transaction with 301 parties)
- The disclosure made by the firm in CARO was not appropriate as the requirements of Paragraph 4(vi) of the Order are applicable to deposits taken by the company even if the same have not been taken in current year but in prior years.
- The disclosure did not mention about defaults in repayment to dues to financial institution or debenture holders as required by CARO clause 4(xi). The interest to debenture holders was due as at the year-end, but not paid and the same was not reported as a default in repayment of dues to debenture holders.
- Firm had adopted a checklist for CARO Compliance, to be completed by the audit team. The checklist compliance was not signed and dated. Supporting documentation was not kept with check list.
- Transactions entered into by the auditee company with parties listed in Sec 301 register comparative prices were not kept with the check list to come to a conclusion that prices were reasonable.
- Procedures/Instructions for physical verification of fixed assets were not kept in file and were not recorded adequately.
- A firm was found to have not issued certificate for disqualification of directors u/s 274 (1) (g) of Companies Act, 1956 to show whether any director of the company was disqualified for appointment as a director or not;
- Para 50 (d) of Statement on CARO states that the auditor should obtain a list of companies, firms or other parties covered in the register maintained u/s 301 of the Companies Act from the management. However, the audit procedures did not reveal the procedures carried out to obtain such list.
- An account was classified as standard asset despite continuous irregularities in the account which later on made NPA following the end of the financial year.
- Company had shown indirect tax credit availed under VAT as Other Operating Revenue in statement of profit and loss, and included the amount of VAT in the cost of material,

which was not in accordance with the Guidance Note on VAT as well as Guidance Note on Revised Schedule VI of the Companies Act, 1956.

- There was a contradiction between the Notes to financial statements and supplementary report u/s 619 (3)(a) of the Companies Act, 1956, regarding the balance confirmation of sundry debtors, creditors, loans and advances and deposits.

Appendix B

Details of Meetings

2012-13:

Quality Review Board Meetings

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

1. 24th meeting of the Quality Review Board held on 27th August, 2012 at India Habitat Centre, Lodhi Road, New Delhi
2. 25th meeting of the Quality Review Board held on 2nd November, 2012 at India Habitat Centre, Lodhi Road, New Delhi.
3. 26th meeting of the Quality Review Board held on 4th January, 2013 at India International Centre, Max Mueller Marg, New Delhi.
4. 27th meeting of the Quality Review Board held on 18th February, 2013 at The Orchid, Nehru Road, Vile Parle (E), Mumbai.

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

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

Quality Review Group

5. 1st meeting of the Quality Review Group constituted by the QRB held on 21st December, 2012 at New Delhi.
6. 2nd meeting of the Quality Review Group constituted by the QRB held on 6th February, 2013 at New Delhi.
7. 3rd meeting of the Quality Review Group constituted by the QRB held on 28th March, 2013 at New Delhi.

Sub-Committee-I

8. 1st meeting of the Sub-Committee-I constituted by the QRB held on 12th December, 2012 at India Habitat Centre, Lodhi Road, New Delhi.
9. 2nd meeting of the Sub-Committee-I constituted by the QRB held on 12th March, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.

<u>2013-14:</u>

Quality Review Board Meetings

The details of meetings of the Quality Review Board constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949 held during the financial year 2013-14 are as follows:-

10. 28th meeting of the Quality Review Board held on 5th April, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
11. 29th meeting of the Quality Review Board held on 20th May, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
12. 30th meeting of the Quality Review Board held on 27th June, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
13. 31st meeting of the Quality Review Board held on 7th October, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
14. 32nd meeting of the Quality Review Board held on 31st October, 2013 at Hotel Taj Mahal, Mansingh Road, New Delhi.
15. 33rd meeting of the Quality Review Board held on 19th December, 2013 at India Habitat Centre, Lodhi Road, New Delhi.
16. 34th meeting of the Quality Review Board held on 10th January, 2014 at Hotel Taj Mahal, Mansingh Road, New Delhi.

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

The details of meetings of the Sub-Committee/ Quality Review Group constituted by the Board during the financial year 2013-14 are as follows:-

Quality Review Group

17. 4th meeting of the Quality Review Group constituted by the QRB held on 10th May, 2013 at New Delhi.
18. 5th meeting of the Quality Review Group constituted by the QRB held on 6th August, 2013 at New Delhi.
19. 6th meeting of the Quality Review Group constituted by the QRB held on 24th September, 2013 at New Delhi.
20. 7th meeting of the Quality Review Group constituted by the QRB held on 6th December, 2013 at New Delhi.
21. 8th meeting of the Quality Review Group constituted by the QRB held on 7th January, 2014 at New Delhi.

Sub-Committee-I

22. 3rd meeting of the Sub-Committee-I constituted by the QRB held on 6th June, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.
23. 4th meeting of the Sub-Committee-I constituted by the QRB held on 6th August, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.
24. 5th meeting of the Sub-Committee-I constituted by the QRB held on 9th September, 2013 by teleconferencing.
25. 6th meeting of the Sub-Committee-I constituted by the QRB held on 6th December, 2013 in the office of the ICAI at ICAI Bhawan, Indraprastha Marg, New Delhi.

Sub-Committee-II

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

Sub-Committee-III

27. 1st meeting of the Sub-Committee-III constituted by the QRB held on 9th April, 2013 at New Delhi.

2014-15:

Quality Review Board Meetings

The details of meetings of the Quality Review Board constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949 held during the financial year 2014-15 are as follows:-

28. 35th meeting of the Quality Review Board held on 2nd April, 2014 at India Habitat Centre, Lodhi Road, New Delhi.
29. 36th meeting of the Quality Review Board held on 28th May, 2014 at Taj Mahal Hotel, Mansingh Road, New Delhi.
30. 37th meeting of the Quality Review Board held on 30th July, 2014 at Taj Mahal Hotel, Mansingh Road, New Delhi.
31. 38th meeting of the Quality Review Board held on 17th October, 2014 at India Habitat Centre, Lodhi Road, New Delhi.
32. 39th meeting of the Quality Review Board held on 11th December, 2014 at India Habitat Centre, Lodhi Road, New Delhi.
33. 40th meeting of the Quality Review Board held on 24th February, 2015 at India Habitat Centre, Lodhi Road, New Delhi.
34. 41st meeting of the Quality Review Board held on 25th March, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

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

The details of meetings of the Sub-Committee/ Quality Review Group constituted by the Board during the financial year 2014-15 are as follows:-

Quality Review Group

35. 9th meeting of the Quality Review Group constituted by the QRB held on 17th May, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
36. 10th meeting of the Quality Review Group constituted by the QRB held on 26th September, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
37. 11th meeting of the Quality Review Group constituted by the QRB held on 2nd December, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
38. 12th meeting of the Quality Review Group constituted by the QRB held on 30th December, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
39. 13th meeting of the Quality Review Group constituted by the QRB held on 15th January, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
40. 14th meeting of the Quality Review Group constituted by the QRB held on 6th February, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

41. 15th meeting of the Quality Review Group constituted by the QRB held on 16th February, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
42. 16th meeting of the Quality Review Group constituted by the QRB held on 18th March, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Sub-Committee-I

43. 7th meeting of the Sub-Committee-I constituted by the QRB held on 9th July, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
44. 8th meeting of the Sub-Committee-I constituted by the QRB held on 2nd December, 2014 at ICAI Bhawan, Indraprastha Marg, New Delhi.
45. 9th meeting of the Sub-Committee-I constituted by the QRB held on 19th March, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Appendix C

Procedure for Quality Review of Audit Services of Audit Firms

Introduction

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

Definitions

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

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

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

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

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

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

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

(g) "Technical Standards" include:-

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

Practices and Guidance Notes on Related Services issued by the Institute of Chartered Accountants of India;

iv. Statements issued by the Institute of Chartered Accountants of India;

v. Compliance of the Guidance Notes issued by the Institute of Chartered Accountants of India;

vi. Notifications/Directions issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature; and

vii. Compliance of the provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed.

3. Words and expressions used and not defined in these procedures but defined in the Companies Act, 1956 (1 of 1956) or Chartered Accountants Act, 1949 (38 of 1949), shall have the same meanings respectively assigned to them in those Acts.

Scope and functions of the Board

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

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

(a) to make recommendations to the Council with regard to the quality of services provided by the members of Institute;

(b) to review the quality of services provided by the members of the Institute including audit services; and

(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements."

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

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

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

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

Manner of Review

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

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

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

Selection of Audit Firms

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

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

i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected on the basis of one or more of the following:-

- random selection;
- on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
- regulatory concerns pointing towards stakeholder risks;
- reported fraud or likelihood of fraud;
- major non-compliances with provisions relating to disclosures under relevant statutes.

ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either *suo moto* or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.

iii. The Board may select any enterprise for *suo moto* review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for *suo moto* reviews may, however, be done using methods such as random sampling, selection of particular class or classes of enterprises/audit firms.

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

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

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

Constitution of Quality Review Groups

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

(a) Industry Specific; and

(b) Generic.

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

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

Functioning of the Review Groups

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

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

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

(a) Particulars of the enterprise;

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

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

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

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

Reporting

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

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

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

- non-compliance with technical standards;
- non-compliance with relevant laws and regulations;
- quality control system design deficiency;

- non-compliance with quality control policies and procedures; or
- non-existence of adequate training programmes for staff.

Basic elements of the Reviewer's Report

19. The report should contain:

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

i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.

ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.

iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.

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

i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.

ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.

iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.

iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.

v. A reference to the preliminary report.

vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

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

Guidelines for qualifying Review Report

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

(a) whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.

(b) whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.

(c) whether independence of audit firm/ auditors is maintained in conducting audit.

(d) whether the firm has instituted adequate mechanism for training of staff.

(e) whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.

(f) whether the skill and competence of assistants are considered before assignment of attestation engagement.

(g) whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.

(h) whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.

(i) whether the audit firm maintains the permanent file and the current file as per the standards laid down by the ICAI.

(j) whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.

(k) whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

Consideration of the Reports of the Review Groups

22. The Review Group’s Report on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of Comptroller and Auditor General of India (C&AG), on case to case basis, and the C&AG’s views, if any, shall be

put-up before the Board along with the Report (on the particular PSU) of the Review Group. In all other cases, the Review Group's Report alongwith the decision of the Board on the quality of audit by the auditor of a PSU should be furnished to the Office of the C&AG for information.

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

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

Actions to be recommended by the Board

25. The actions that the Board may recommend include:

(a) Referring the case to the Director (Discipline) of the Institute for necessary action under the Chartered Accountants Act, 1949;

(b) Informing the details of the non-compliance to the regulatory bod(y)/ies relevant to the enterprise;

(c) Intimating the Auditor as to the findings of the Report as well as action initiated under Para 25 (a) and/or (b);

(d) Consider the matter complete and inform the audit firm/auditor accordingly.

Review Team composition and cost

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

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

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

27. The Board should be able to obtain the services of experts including from ICAI. Funding of such cost may be sought from Government of India through contribution from the Investors Education and Protection Fund (established by the Central Government) since the primary objective is sustenance and enhancement of quality of audit and related services, and the function was exercised to ensure that the public duties of an auditor were properly discharged in the interest of investors. In addition, if a review is needed to be carried out on a request by a Regulator or Government Agency, that Regulator or Government Agency may fund the cost of such review.

Confidentiality

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

Declaration(s) to be obtained from audit firms

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

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

Publication of the findings observed by the Board

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

Power to amend or modify operating Procedures

31. These operating procedures have been prepared by the Board to provide a broad framework for its functioning. It is recognised that the procedures to be followed by the Board might require modification/amendment for the efficient and effective

functioning of the Board. Wherever the Board is of the view that these operating procedures require modification in the light of the experience gained, it may amend or modify the operating procedures as it may deem appropriate.

Broad Checklist for Quality Reviews

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

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

5 Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.

6. Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.

7. Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
8. Does auditor monitor compliance with policies and procedures relating to independence?
9. Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?
10. Does auditor/audit firm has established procedures for record retention, including security aspects?
11. Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

Appendix D

Annexure to the Technical Reviewer's Final Report - Part 1

Name of Technical Reviewer (TR) & ICAI M. No.:
TR No.:
Reviewed Audit Firm:
Reviewed Audit Firm Registration No.:
Quality Review (QR) Assignment:

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

	(xiii)	Whether brief profile of the Technical Reviewer and each one of the assistants has been enclosed alongwith the Final Report?	
	(xiv)	Whether brief profile of the audit firm reviewed, giving details such as its constitution, structure etc. has been enclosed alongwith the Final Report?	
2 (a)	**Elements relating to audit quality of companies**		
	(i)	A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitations.	
	(ii)	A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.	
	(iii)	A statement indicating the instances of lack of compliance with relevant laws and regulations.	
	(iv)	Whether review of internal control systems was carried out properly in performing attestation engagement?	
	(v)	Whether the quality of audit reports in respect of format and content found proper? If no, please specify.	
(b)	**Elements relating to quality control framework adopted by the audit firm in conducting audit**		
	(i)	An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.	
	(ii)	A statement indicating that the system of quality control is the responsibility of the reviewed firm.	
	(iii)	An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestations services and whether it was complied with during the period reviewed to provide the reviewer with resonable assurance of complying with technical standards in all material respects.	
	(iv)	Whether general controls are in existence and operating effectively during the period under review? If no, please specify areas:	
		a. Independence	
		b. Professional Skills and Standards	
		c. Outside Consultation	
		d. Staff Supervision and Development	
		e. Office Administration	

	(v)	Whether proper systems and procedures exist within the audit firm to ensure compliance with technical standards? If no, please specify areas:	
		a. Accounting standards including interpretations thereof	
		b. Standards on Auditing including general clarifications thereof	
		c. Statements/ Guidance Notes/ICAI's notifications/directions etc.	
		d. Self regulatory measures.	
3	**Other matters:**		
	(i)	Whether independence of audit firm/ auditors is maintained in conducting audit.	
	(ii)	Whether the firm has instituted adequate mechanism for training of staff.	
	(iii)	Whether the audit firm ensures the availablity of expertise and/or experienced individuals for consultation with the consent of the auditee.	
	(iv)	Whether the skill and competence of assistants are considered before assignment of attestation engagement.	
	(v)	Whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.	
	(vi)	Whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.	
	(vii)	Whether the audit firms maintains the audit working papers as per the standards laid down by the ICAI	
	(viii)	Whether audit records administration is satisfactory?	
	(ix)	Whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statements.	
	(x)	Whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.	
	(xi)	Whether the audit conclusions drawn are duly supported by audit queries/observations?	
4	**Broad Checklist for Quality Reviews:**		
	(i)	Whether the company has prepared and presented the financial statements in the format relevant to it?	
	(ii)	Examine the accounting policies of the enterprise.	

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

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

Quality Review Program General Questionnaire

Quality Review Assignment:
Name of Technical Reviewer & ICAI M. No.:
Technical Reviewer's No.:

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

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

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

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

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

Consultation		
27. Are the firm's policies and procedures designed to ensure appropriate consultation takes place, with either internal or external professionals possessing the relevant expertise, to resolve difficult or contentious matters including to: • appropriate consultation takes place on difficult or contentious matters • sufficient resources are available to enable appropriate consultation to take • document and agree conclusions (Assurance Practices only); and • document reasons why alternative courses of action were undertaken; (Assurance practices only) • implement conclusions? [Quality Control -1 (SQC). SA 220]		
28. Are standard checklists, manuals, working papers and/or other appropriate methods used for client engagements to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff		
Differences of opinion		
29. How does the firm deal with and resolve differences of opinion regarding the performance and outcomes of an engagement		
Engagement quality control review		
30. How are engagement quality control reviews (i.e. second partner reviews) conducted for appropriate engagements in order to meet the requirements of [Quality Control -1 (SQC). SA 220]?		
31. How does the firm establish the eligibility, and maintain the objectivity, of engagement quality control reviewers?		

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

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

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

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

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

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

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

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

QUALITY REVIEW BOARD
(Established under an Act of Parliament)
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