2015-16

Report on Audit Quality Review

QUALITY REVIEW BOARD

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India http://www.qrbca.in

December, 2016

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(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

Auditors play a key role in upholding continued public trust in the financial reporting system. A quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that exhibited appropriate values, ethics and attitudes; was sufficiently knowledgeable and experienced; had sufficient time allocated to perform the audit work; and applied a rigorous audit process and quality control procedures.

While the audit is designed to protect the public interest, audit firms are often commercial entities. Each firm's culture is an important factor in determining the extent to which its partners and staff function in the public interest as opposed to merely achieving the firm's commercial goals. As a result, audit firms see the need to tailor their approaches and are structuring themselves in many and varied ways. First and foremost, the tone from firm leaders has been a critical component to effecting positive change within a firm. When firm leaders set an appropriate tone – one that is focused on audit quality – it facilitates necessary changes in a firm's system of quality control which in turn results in improvements in the performance of audit.

I am glad to inform that the Quality Review Board (the 'Board'), currently being the sole body statutorily mandated to perform audit quality review function of various entities in India in the public interest, is vigorously continuing its independent review of statutory audit services of the audit firms auditing accounts of top listed and other public interest entities in India. Since August 2012, the Board has selected a total of 454 review assignments for review of statutory audits of 349 companies/entities, being public interest entities in India. These entities from various industries selected for review represent more than 75% market cap of the stocks listed on the National Stock Exchange (NSE, world's 12th largest stock exchange with an overall market capitalization of US$1.65 trillion as of January, 2015) and Bombay Stock Exchange (BSE, world's 11th largest stock exchange with an overall market capitalization of US $1.7 trillion as of January, 2015). Total of 249 Audit firms registered with the ICAI were selected for review of audit quality of these selected audit file/s. Since then, the Board has finalised a total of 257 review reports while reviewing audits of top listed and other public interest entities in India. Based upon these 257 review reports, 28 cases have been recommended to the ICAI Council for consideration in terms of the requirements of Section 28B(a) of the Chartered Accountants Act, 1949 and in 136 cases appropriate advisories were issued by the Board to the concerned Audit firms for improvement in audit quality in terms of the requirements of Section 28B(c) of the Chartered Accountants Act, 1949. Out of the 28 cases recommended to the ICAI Council, it has decided to refer 6 cases to the Disciplinary Committee for initiating disciplinary proceedings; issue appropriate advisory to the concerned Audit firms in 18 cases; and close 3 cases. One case is under consideration of the ICAI Council. Out of the total 257 review reports completed till date, findings of 155 review reports were presented in the earlier Report of the Board 'A Report on Audit Quality Review Findings (2012-15)'. Since then, 102 reviews have been completed till August, 2016. In this report, we have included key findings, analysis and summary of observations made by the Reviewers in these 102 review reports. I hope the stakeholders will find them useful.

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. During the financial year 2015-16, the Board took various initiatives. In line with the international best practices, the Board decided to adopt risk based approach for selection of audit engagements consisting of various listed and other top public interest entities for initiating their audit quality reviews. After detailed analysis, a comprehensive reporting format was specified for the Technical Reviewers. Further, we have been continuously guiding our Reviewers in terms of their role and responsibilities and how they should structure their review emphasizing upon compliance of technical standards, ethical standards, relevant laws and regulations and other aspects. We have also planned to undertake root cause analysis of the deficiencies identified during our review and also plan to take various other measures to disseminate the review findings amongst various stakeholders. 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 have pioneered needed improvements in audit practices. We all know there is much more to do to achieve to maintain high audit quality on a consistent basis. QRB is acutely focused on helping the profession build public confidence in the audit. I believe the audit profession has a bright future. Society's needs for assurance are expanding. At the same time, the profession faces both old and new challenges that will have to be dealt with to achieve that bright future.

I would like to thank each Member and special invitees of the Board for their tremendous contribution and devotion enabling the Board to achieve its stated objectives. I would like to thank, in particular, Mr. Tapan Ray, Secretary, Ministry of Corporate Affairs and CA. M. Devaraja Reddy, President, ICAI for their continuous overall support and guidance spearheading the activities of the Board. I also thank all the Convenors and Members of the Quality Review Group and other Sub-Committees constituted by the Board for their invaluable contribution. 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. I also highly appreciate the role of Mr. Mohit Baijal, Secretary, QRB and all other staff of the QRB Secretariat who provided excellent support to the Board throughout this period and in finalization of this Report.

Yours sincerely,

Sd/-

Place: NOIDA
Date: 21.10.2016

Dr. (Mrs.) Parvinder Sohi Behuria
Chairperson, Quality Review Board

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 Statutory auditors; and (b) the quality control framework adopted by the Statutory 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 has selected a total of 454 Quality Review assignments for initiating reviews of statutory audits of 349 companies/entities, being top listed and other public interest entities in India. The Board had selected 249 Audit firms, registered with the ICAI, who had performed these audits. These 349 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; those of 93 companies/entities pertained to financial statements for the year ended on 31 March 2014 or the year 2013 as the case may be; and those of 88 companies/entities pertained to financial statements for the year ended 31 March 2015 or the year 2014 as the case may be.

In line with the international best practices, the Board decided to adopt risk based approach for selection of audit engagements for initiating audit quality reviews during the F.Y. 2015-16. Companies/entities selected for review by the Board till now represent more than 75% market cap of the stocks listed on National Stock Exchange (NSE) and 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 300 qualified professionals were available with the Board for conducting these review assignments.

Out of a total of 454 reviews started since August 2012, a total of 257 review reports have been finalized by the Board till now. Based upon these 257 review reports, 28 cases have been recommended to the ICAI Council for consideration and in 136 cases appropriate advisories were issued by the Board to the concerned audit firms for improvement in quality. Out of the 28 cases recommended to the ICAI Council, it has decided to refer 6 cases for initiating disciplinary proceedings; issue appropriate advisory to the concerned Audit firms in 18 cases; and close 3 cases. One case is under consideration of the ICAI Council. 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. A total of 155 reports were accepted by the Quality Review Board till 31 March, 2015 and their review findings were presented in the earlier Report of the Board 'A Report on Audit Quality Review Findings (2012-15)'. Since then, 102 reviews have been completed till August, 2016. Out of these 102 reviews, 59 pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be; and 43 pertained to the financial statements for the year ended on 31 March, 2014 or the year 2013 as the case may be. A summary of the observations noticed by the Technical Reviewers in respect of these 102 review reports is enclosed at **Appendix A.** Key findings with respect to compliance with various Standards on Auditing, Accounting Standards, other relevant laws and regulations alongwith their comparative position as depicted in the previous review report of the Board for the period 2012-2015 are as per following:-

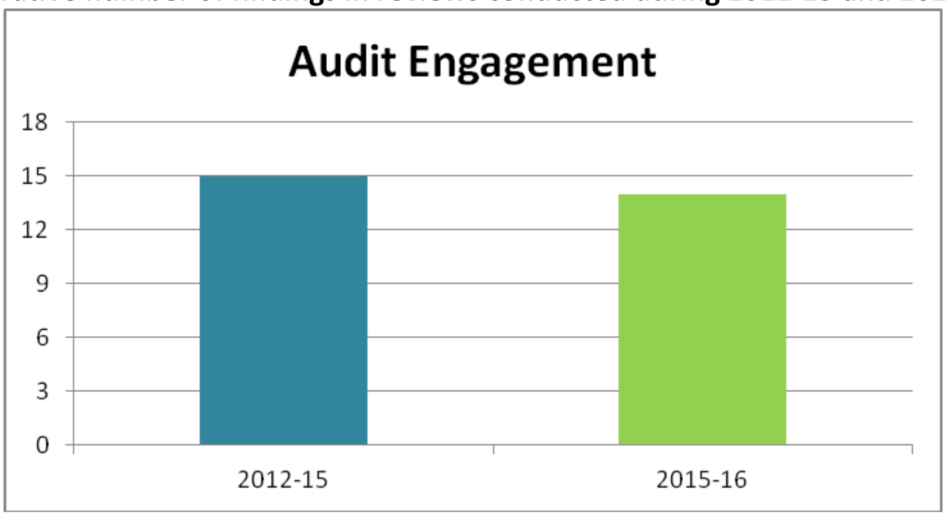
Key Findings

Standards on Auditing[1]

Audit Engagement (SA 210)

Failure to agree on the terms of the audit engagement with management or those charged with governance was the most common finding.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



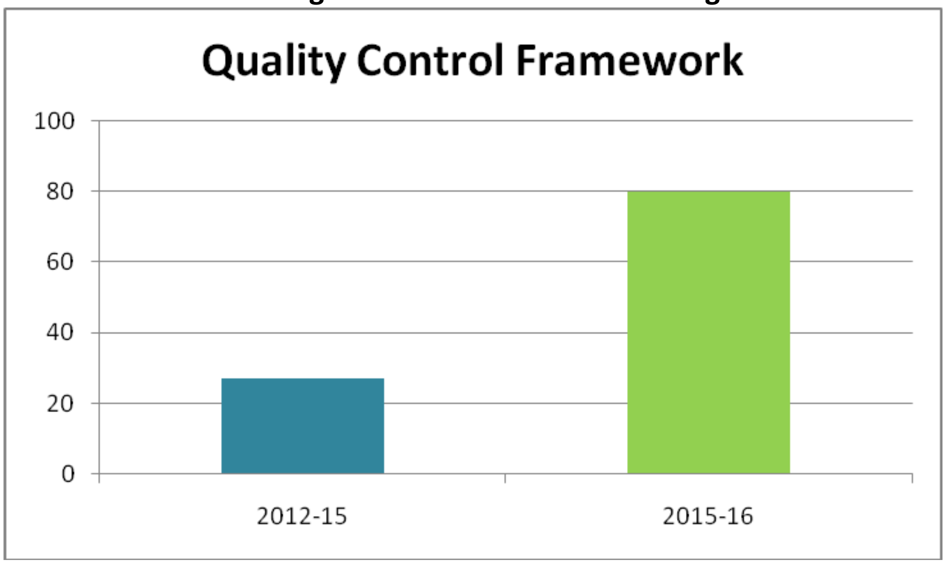
Quality Control Framework (SQC-1)

Failure to implement various elements of the system of quality control was the most common finding. Other findings included failure to set out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; failure to establish policies and procedures designed to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements; failure to establish policies and procedures designed to provide with reasonable assurance that firm 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

[1] The various graphs included in this section represent the comparative number of findings under the respective categories for reviews completed during 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014), viz-a-viz the previous Review Report of the Board for reviews completed during the period 2012-15 (pertaining to the financial statements for the years ended after 31 March, 2010 to 31 March, 2013).

reports that are appropriate in the circumstances; and failure to obtain relevant information from the firm and network firms to identify and evaluate circumstances and relationships that create threats to independence.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Audit Documentation (SA- 230)

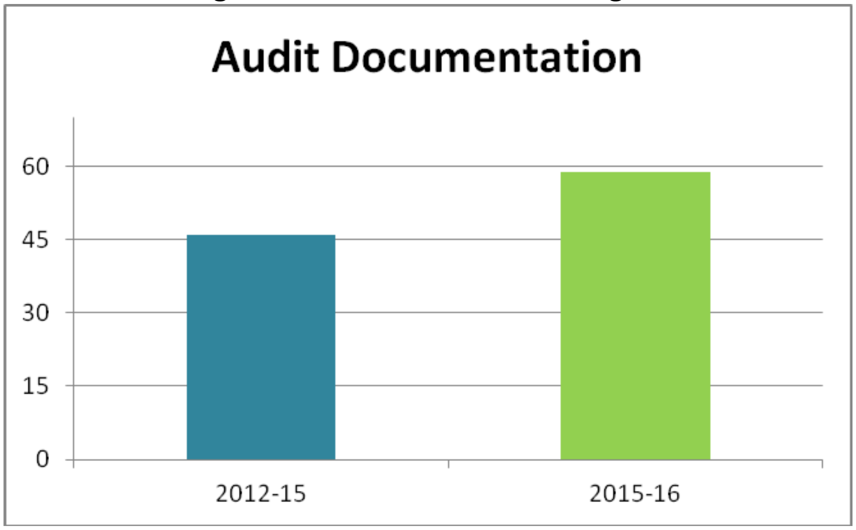
Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached. Findings in this area included failure to prepare audit documentation that is sufficient to enable an experienced auditor having no previous connection with the audit, to understand the nature, timing, and extent of the audit procedures performed; results of the audit procedures performed; the audit evidence obtained; significant matters arising during the audit; the conclusions reached thereon and significant professional judgments made in reaching those conclusions; and failure to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. During the review, some aspects which highlight the scope for improvement while maintaining documentation were observed:

- Documents to substantiate substantive procedures performed.
- Documentation relating to testing of controls relating to IT general controls or automated controls set within the IT systems of the company's financial systems & involvement of any IT specialist in the audit.
- Evidence of open queries in work papers being closed to the satisfaction of the auditor or being dropped on account of materiality.
- Documentation for review of subsequent events.
- Documentation with regard to Materiality for the financial statements as a whole; materiality level or levels for particular classes of transactions, account balances or

disclosures; performance materiality; any revision of the same as the audit progressed were not available.

- Documents relating to significant audit observations of the past, analysis of significant ratios etc.

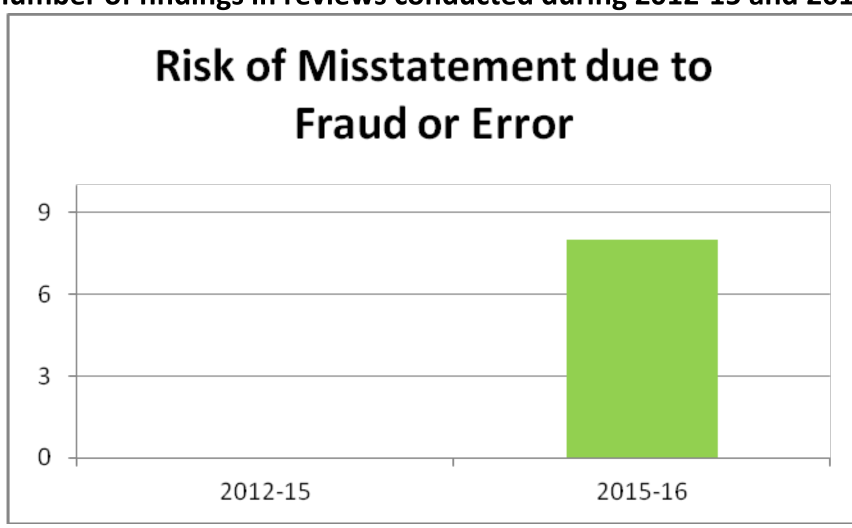
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Risk of misstatement due to fraud or error (SA- 240)

Findings in this area included failure to have sufficient and appropriate audit documentation for procedure for assessing the risk of material misstatement due to fraud or error; and failure to identify fraud risk factor.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



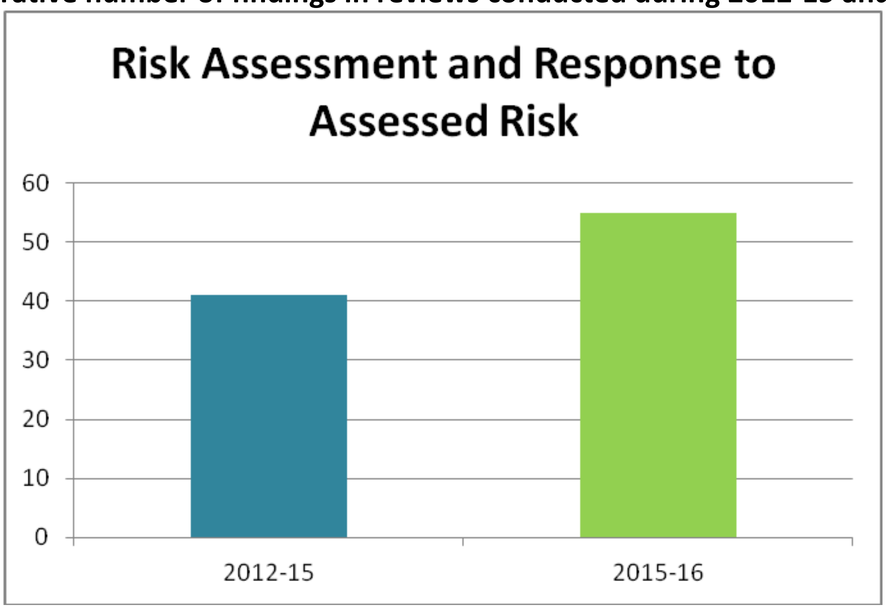
Internal control (SA- 265)

Failure to communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance was one of the noticeable finding in this area.

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

Failure to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels was the common type of finding in this area. Other frequent findings included the failure to obtain an understanding of control environment relevant to audit; failure to document identified and assessed risk of material misstatement at the financial statement level and at the assertion level; failure to perform appropriately further audit procedure whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level; failure to include in the audit plans the nature, timing and extent of planned risk assessment procedures; failure to ascertain the nature, timing and extent of resources necessary to perform the engagement; failure to document overall audit plan; failure to determine materiality for the financial statement as a whole; failure to accumulate misstatement identified during the audit.

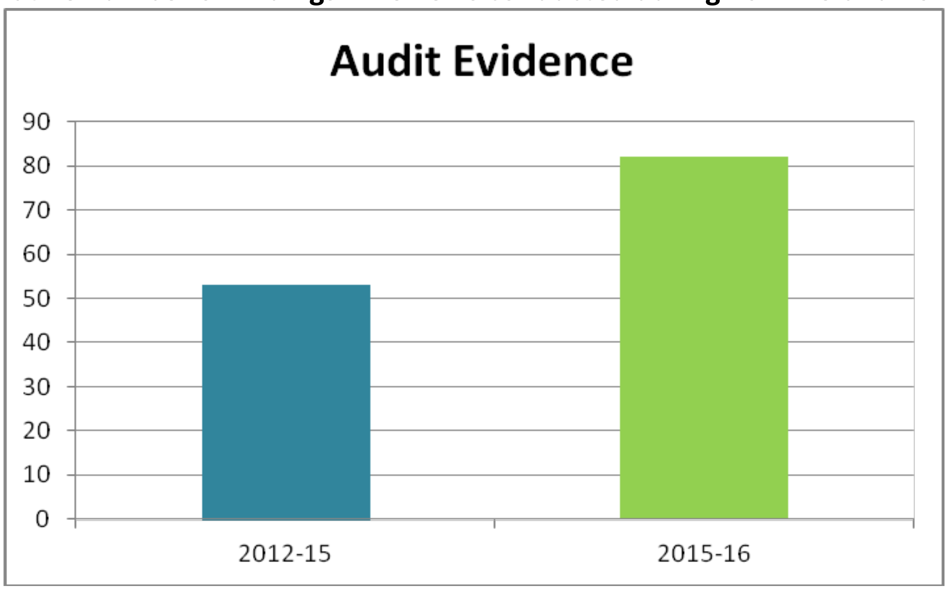
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Audit Evidence (SA- 500, 505, 520, 530, 540, 550, 570, 580)

Findings in this area included failure to perform audit procedure that is appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. Failure to maintain control over external confirmation request; in few cases firms had not obtained direct confirmations, and where obtained were not satisfactory in terms of their sufficiency. There were cases where audit firms had no formal external confirmation policy. In some other cases, there was failure to perform alternative audit procedures designed to obtain relevant and reliable audit evidence in case management refuses to allow the auditor to send a confirmation request. Other findings included failure to design and perform analytical procedure near the end of the audit; failure to determine a sample size sufficient to reduce sampling risk to an acceptably low level; failure to select items for the sample in such a way that each sampling unit in the population has an equal chance of selection; failure to identify and assess the risk of material misstatement for accounting estimates; failure to remain 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; failure to perform risk assessment procedures for considering whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; failure to obtain written representation to support other audit evidence relevant to the financial statement or specific assertions in the financial statement.

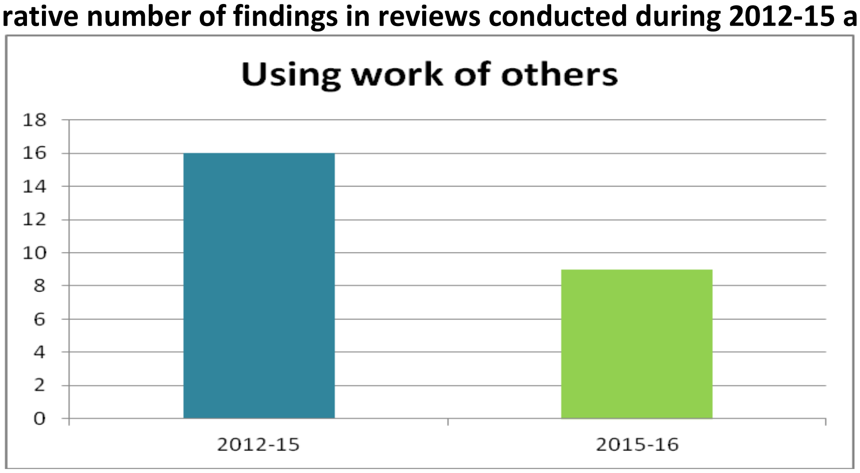
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Using work of others (SA- 610, 620)

Findings in this area included failure to determine the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures; failure to evaluate the adequacy of the expert's work for the auditor's purposes; failure to evaluate whether the expert has the necessary competence, capabilities and objectivity.

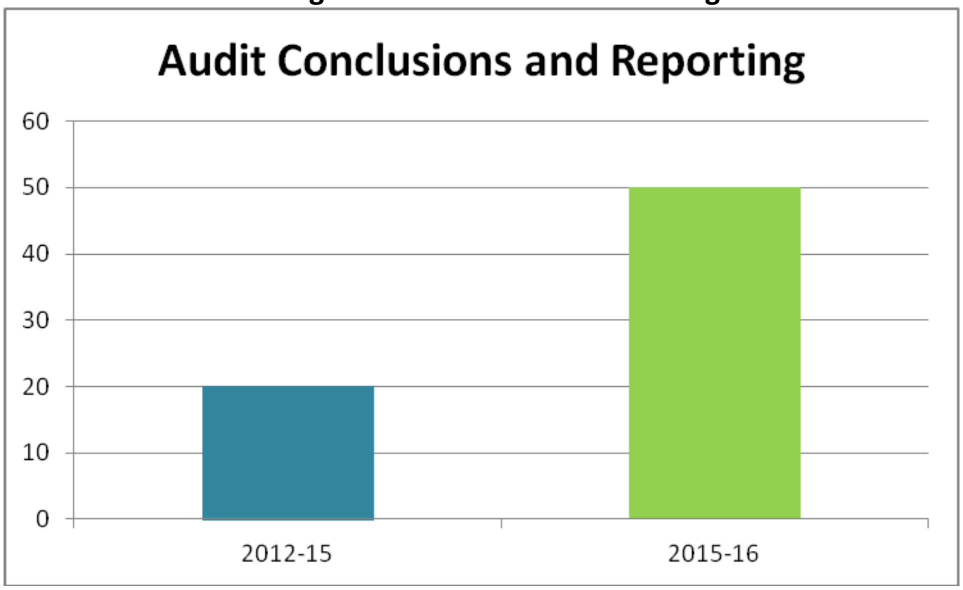
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Audit Conclusions and Reporting (SA- 700, 705, 706)

Findings in this area included failure to describe appropriately management's responsibility as described in SA 700; failure to describe appropriately auditor's responsibility as described in SA 700; failure to describe matters giving rise to the modification in the auditor's report; failure to include Emphasis of Matter paragraph in the auditor's report; failure to include Other Matter paragraph in the auditor's report.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:

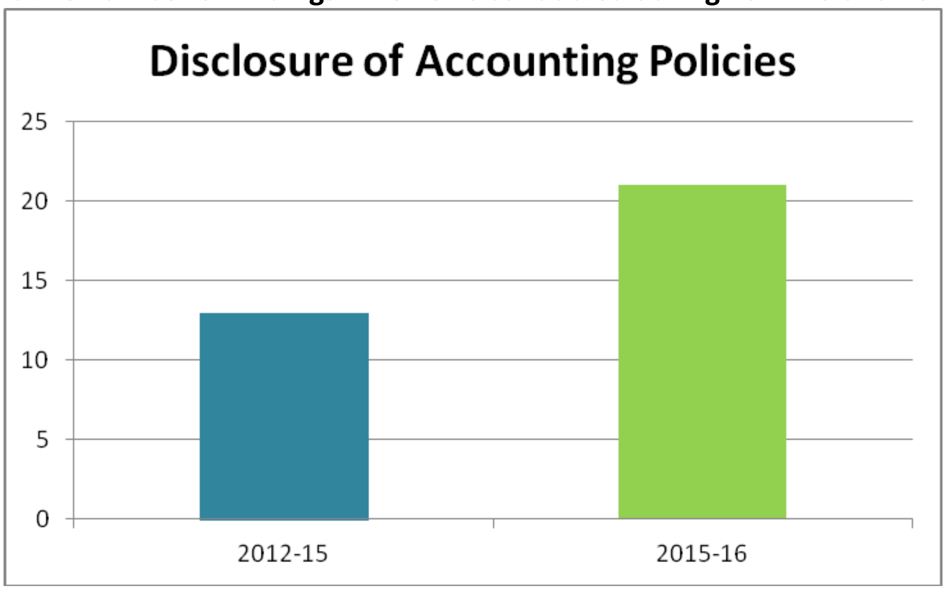


Accounting Standards[2]

Disclosure of Accounting Policies (AS-1)

Findings in this area included failure to disclose all the significant accounting policies adopted in the preparation and presentation of financial statements; and failure to adopt adequate and appropriate accounting policies required for disclosure of certain aspect of financial statement.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:

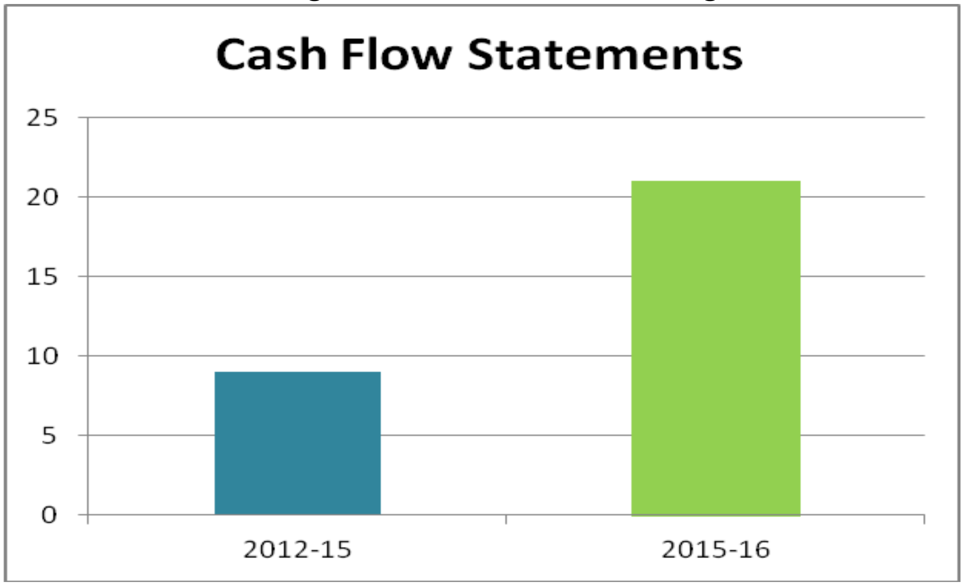


Cash Flow Statements (AS-3)

Findings in this area included failure to disclose correctly various cash flows arising from operating, investing and financing activities; failure to properly classify various items of cash flows in cash and cash equivalents; failure to disclose the components of cash and cash equivalents and present reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet; and failure to report separately major classes of gross cash receipts and gross cash payments arising from financing activities.

[2] The various graphs included in this section represent the comparative number of findings under the respective categories for reviews completed during 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014), viz-a-viz the previous Review Report of the Board for reviews completed during the period 2012-15 (pertaining to the financial statements for the years ended after 31 March, 2010 to 31 March, 2013).

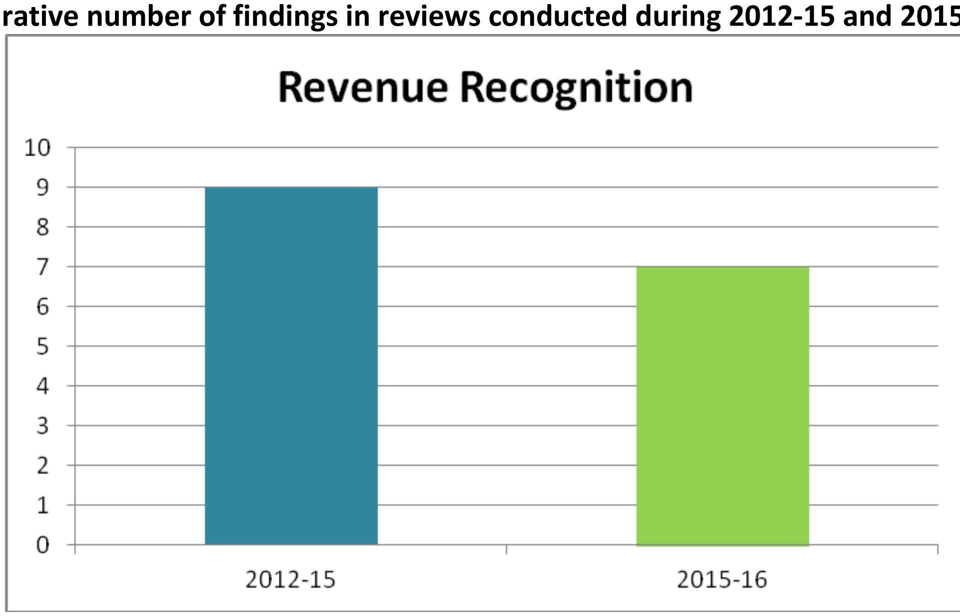
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Revenue Recognition (AS-9)

Findings in this area included the accounting policy on revenue recognition did not capture the point of recognition where significant risks and rewards were transferred; failure to make separate provision to reflect the uncertainty relating to collectability arising subsequent to the time of sale or the rendering of the service; and failure to recognize revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends at the time when no significant uncertainty as to measurability or collectability exists.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Accounting for Investments (AS-13)

Findings in this area included failure to reduce from the carrying amount the decline, other than temporary, in the value of a long term investment.

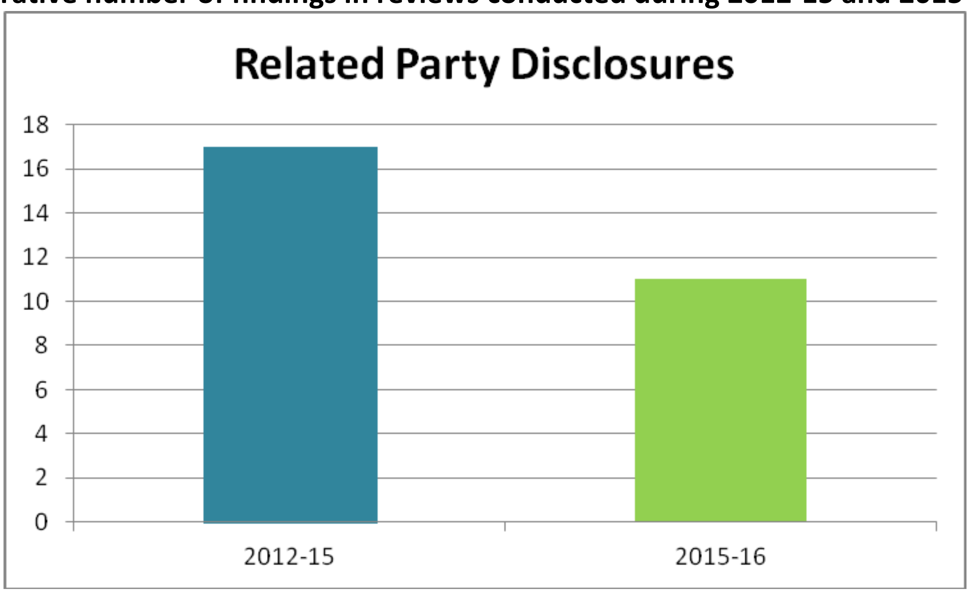
Employee Benefits (AS-15)

Findings in this area included failure to recognize actuarial gains and losses in the statement of profit and loss as income or expense; and failure to disclose the method used for the present value of defined benefit obligations, current service cost and past service cost.

Related Party Disclosures (AS-18)

Findings in this area included failure to disclose name of the transacting related party; failure to disclose nature of all the related party transactions; failure to disclose related party relationship and transactions with key management personnel and relatives of such personnel; and failure to disclose previous year figures of related parties transactions.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



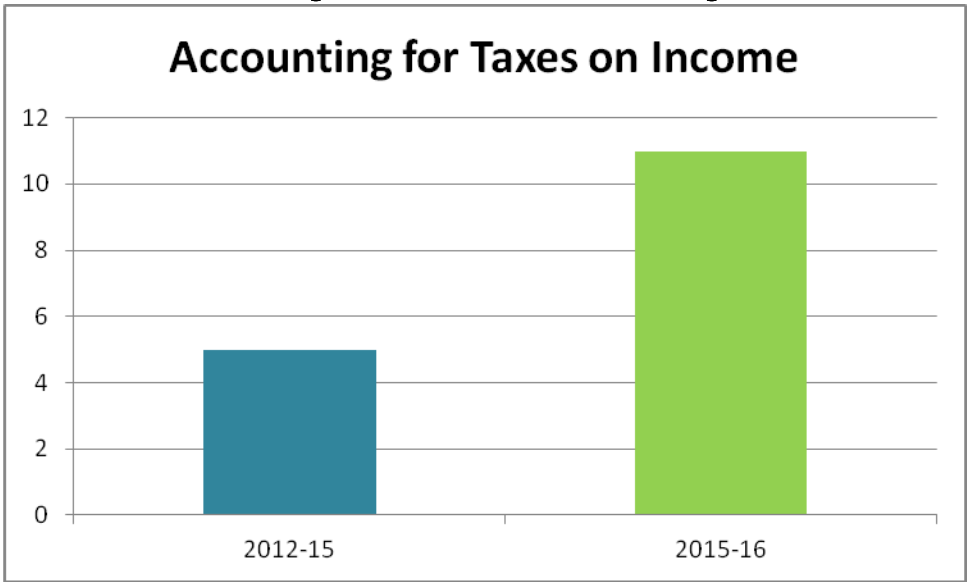
Leases (AS-19)

Findings in this area included failure to make appropriate disclosure for operating and finance lease as required under AS-19.

Accounting for Taxes on Income (AS-22)

Findings in this area included failure to create deferred tax on some of the timing differences; failure to offset asset and liability representing current tax; failure to measure deferred tax assets and liabilities using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and failure to disclose in the notes to accounts break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:



Intangible Assets (AS-26)

Findings in this area included failure to disclose the useful life or the amortisation rates used for intangible assets.

Financial Reporting of Interests in Joint Ventures (AS-27)

Findings in this area included failure to disclose in standalone financial statement the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.

Impairment of Assets (AS-28)

Findings in this area included failure to assess indication of impairment of assets; and failure to disclose the events and circumstances that led to the recognition of impairment loss.

Provisions, Contingent Liabilities and Contingent Assets (AS-29)

Findings in this area included failure to disclose contingent liability in respect of revenue department levying penalty for delayed payment of indirect tax in the notes forming part of the financial statements.

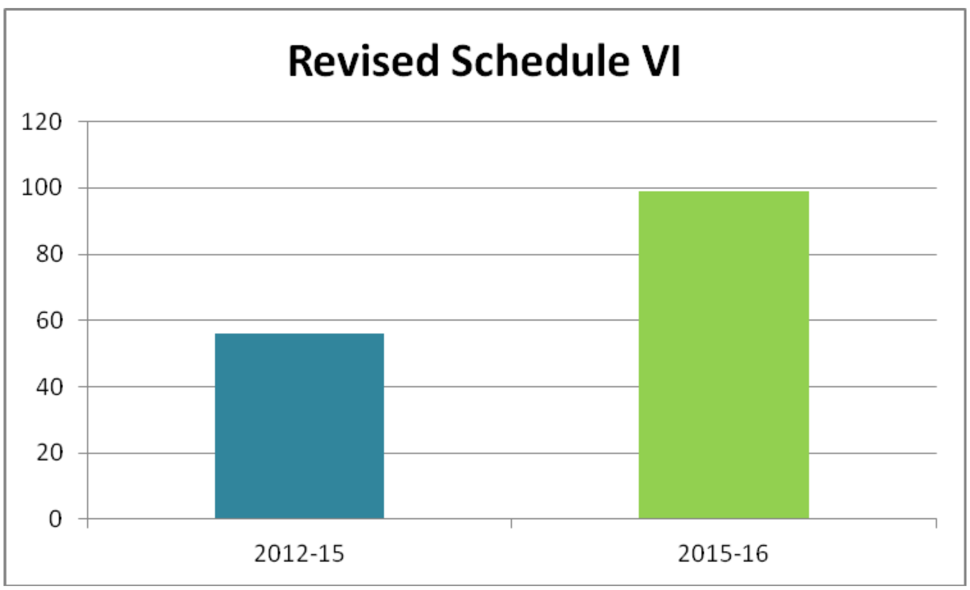
Other Relevant Laws and Regulations[3]

Revised Schedule VI of the Companies Act, 1956

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

Cases of deficiencies in regard to the compliance with revised schedule VI have been noted, relating to the disclosure and classification by the companies in their financial statements. Though these deficiencies did not result in any material misstatement and did not have financial impact on the results of the company but adherence should be made to the Revised Schedule VI for preparing the financial statements.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:

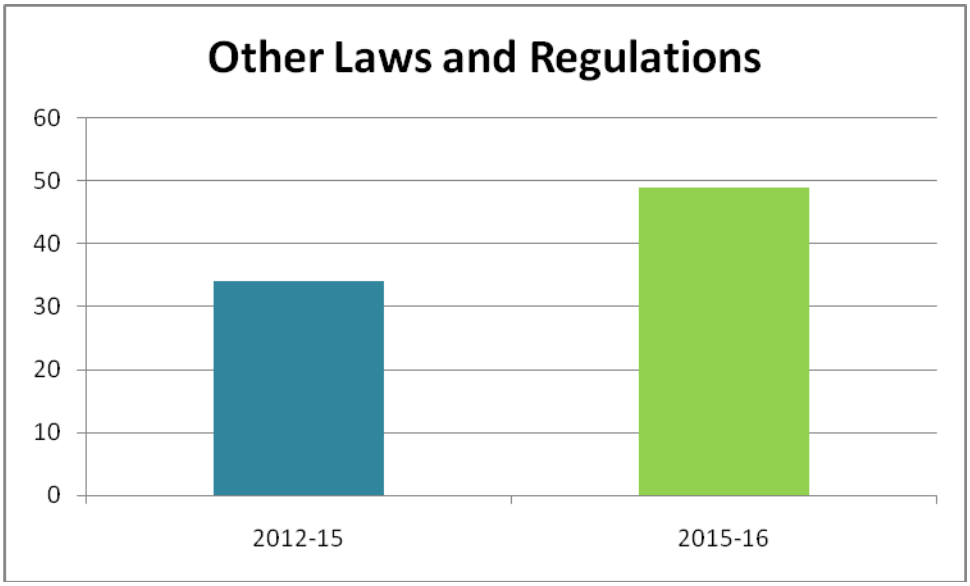


[3] The graph included in this section represents the comparative number of findings for reviews completed during 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014), viz-a-viz the previous Review Report of the Board for reviews completed during the period 2012-15 (pertaining to the financial statements for the years ended after 31 March, 2010 to 31 March, 2013).

Other Laws and Regulations[4]

Findings in this area included failure to disclose and report appropriately under various clauses of CARO 2003; and in some cases failure to disclose requirements of Clause 32/ 49 of listing Agreement; failure to meet requirement of Clause 41 of Listing Agreement; and failure to issue certificate of corporate governance in correct form.

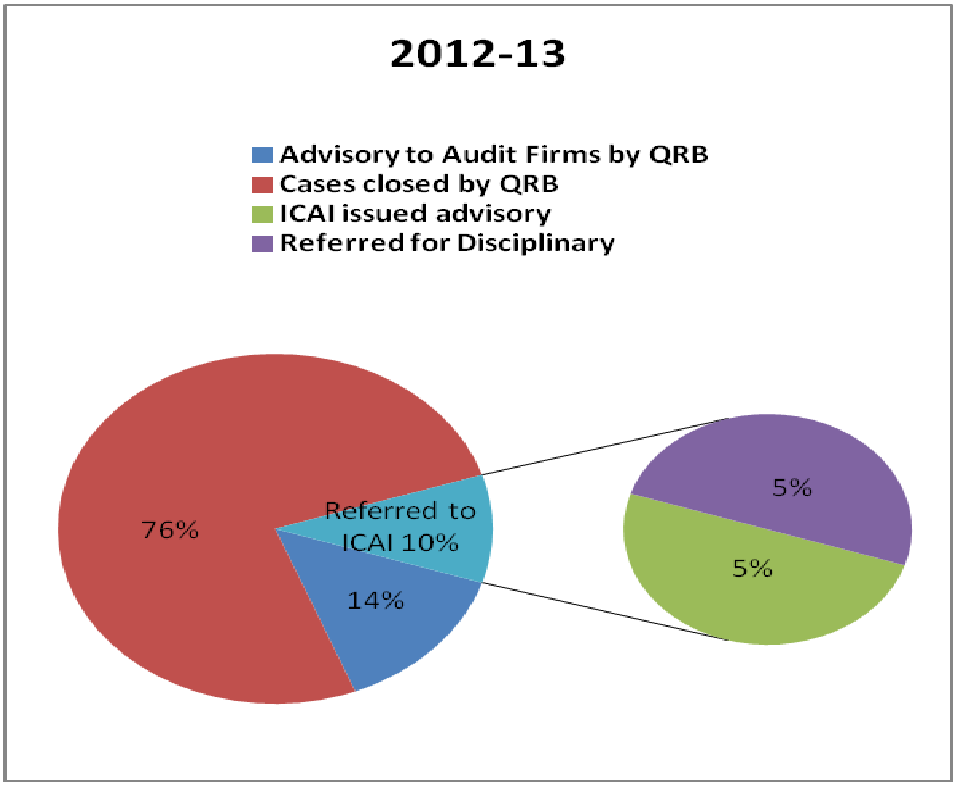
Comparative number of findings in reviews conducted during 2012-15 and 2015-16:

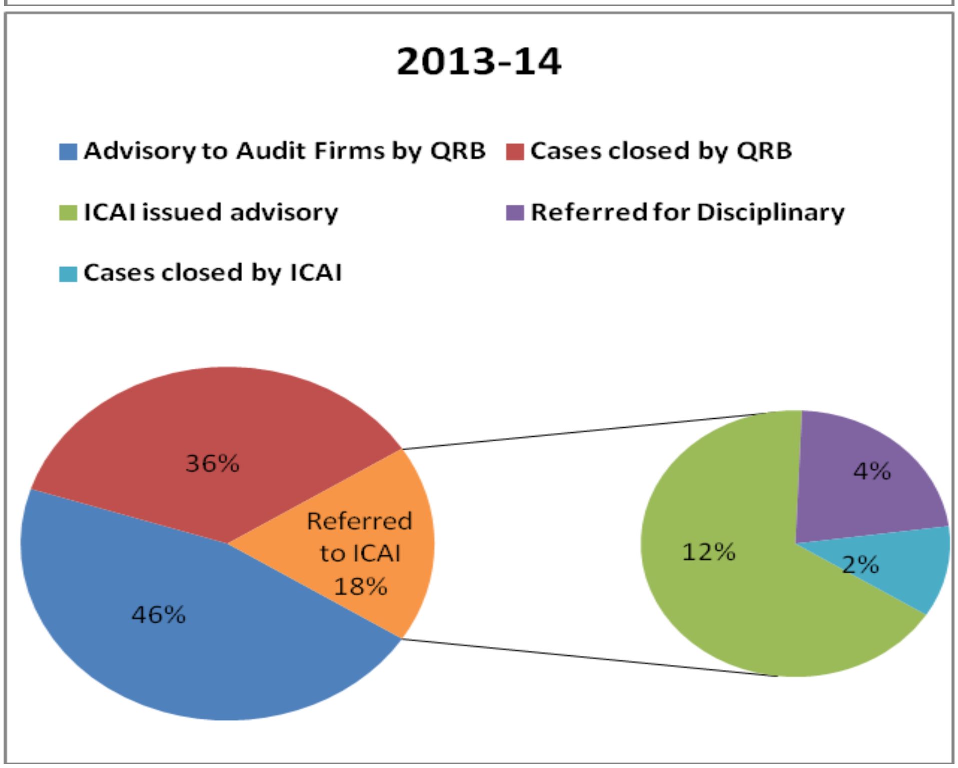


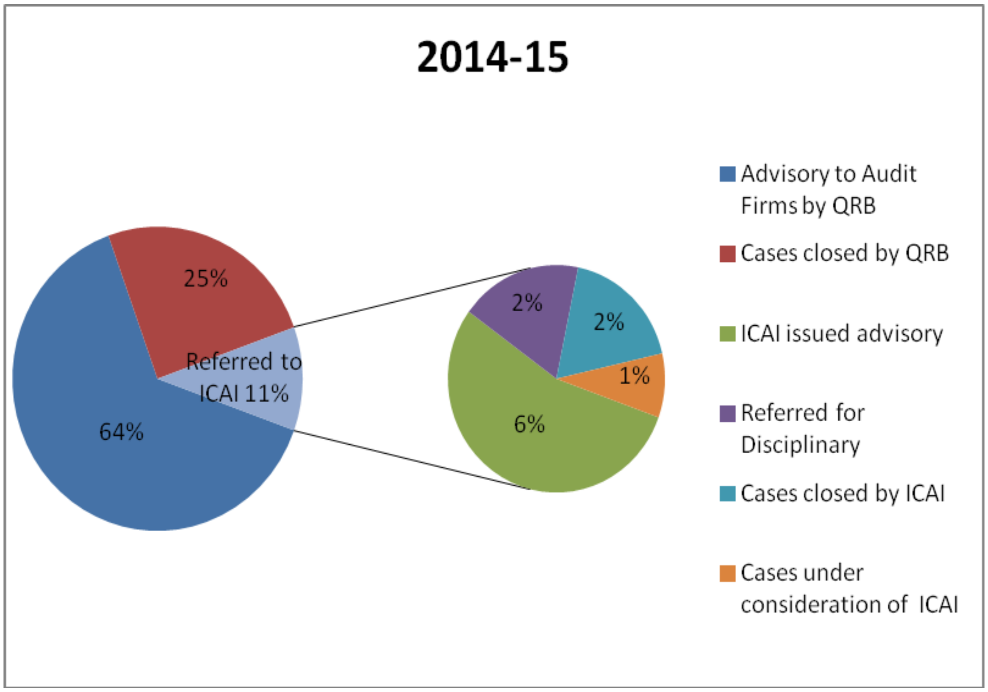
[4] The graph included in this section represents the comparative number of findings for reviews completed during 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014), viz-a-viz the previous Review Report of the Board for reviews completed during the period 2012-15 (pertaining to the financial statements for the years ended after 31 March, 2010 to 31 March, 2013).

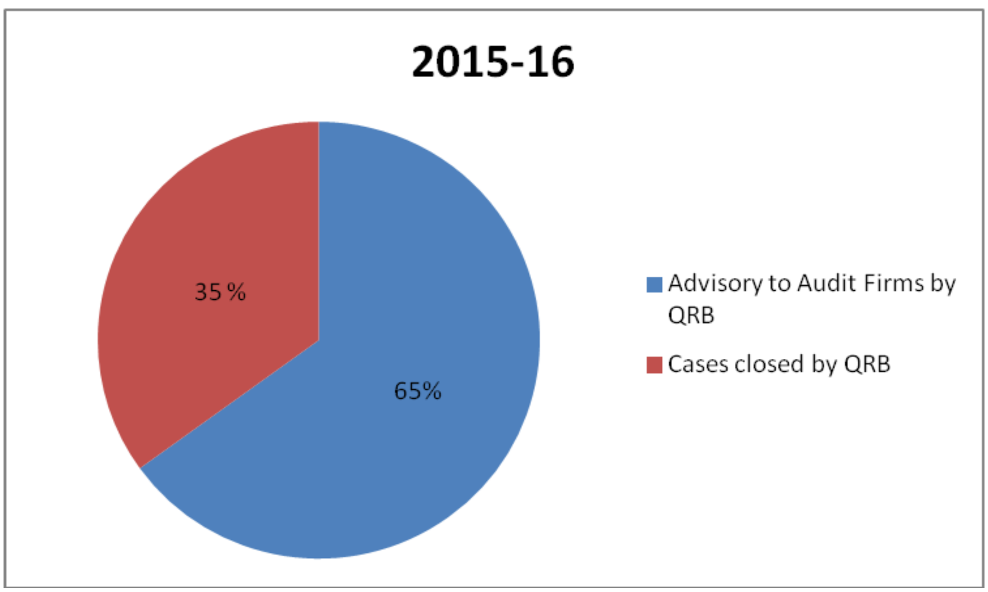
Key Indicators

Yearly outcome of the reviews completed on the basis of number of review assignments:

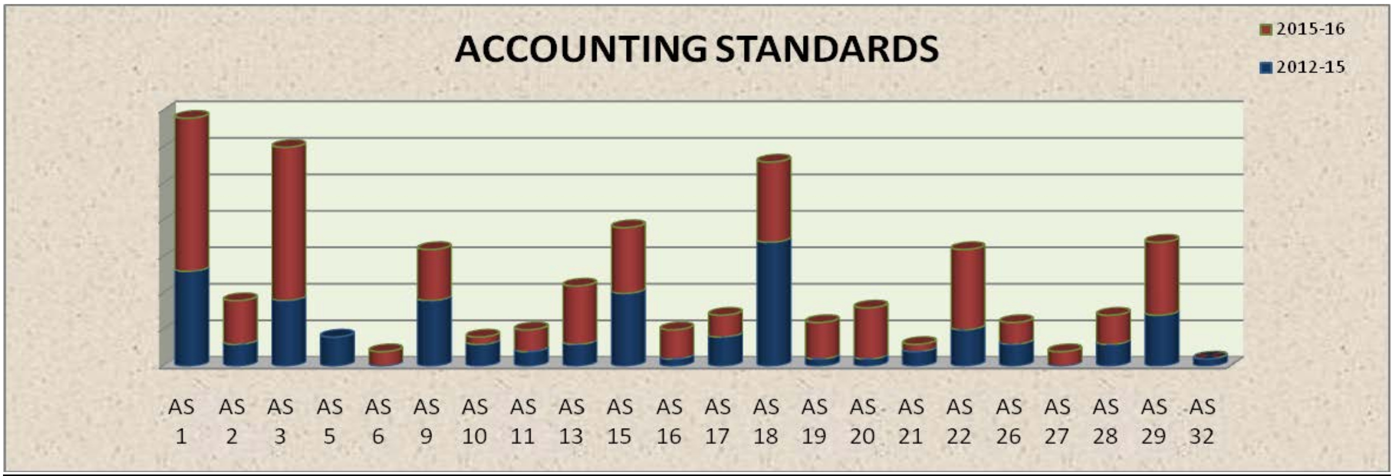


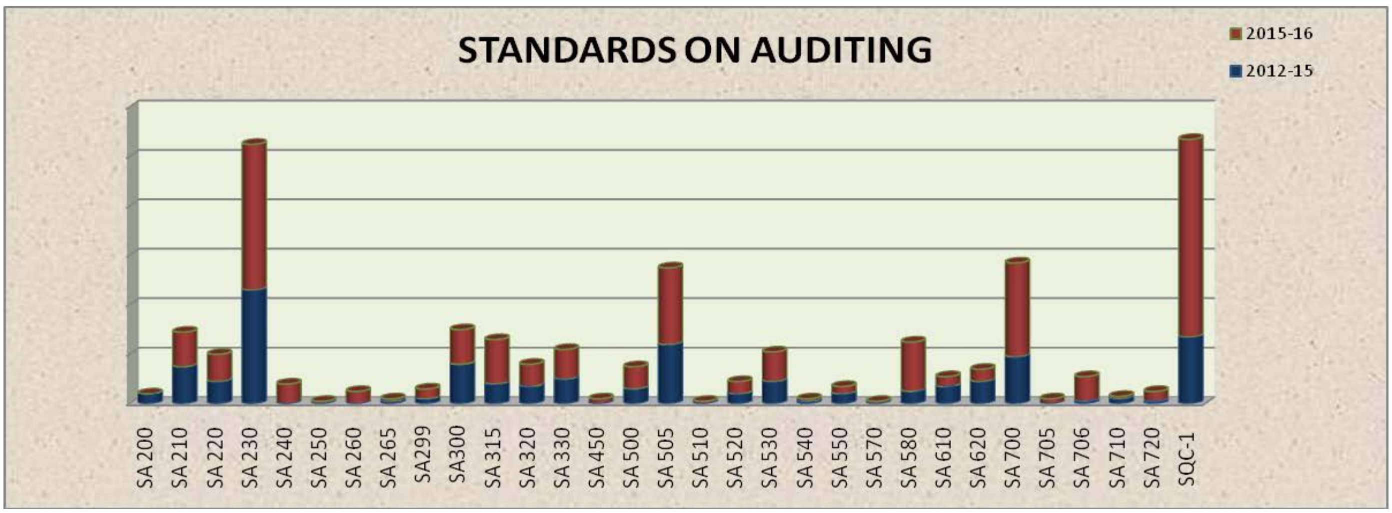


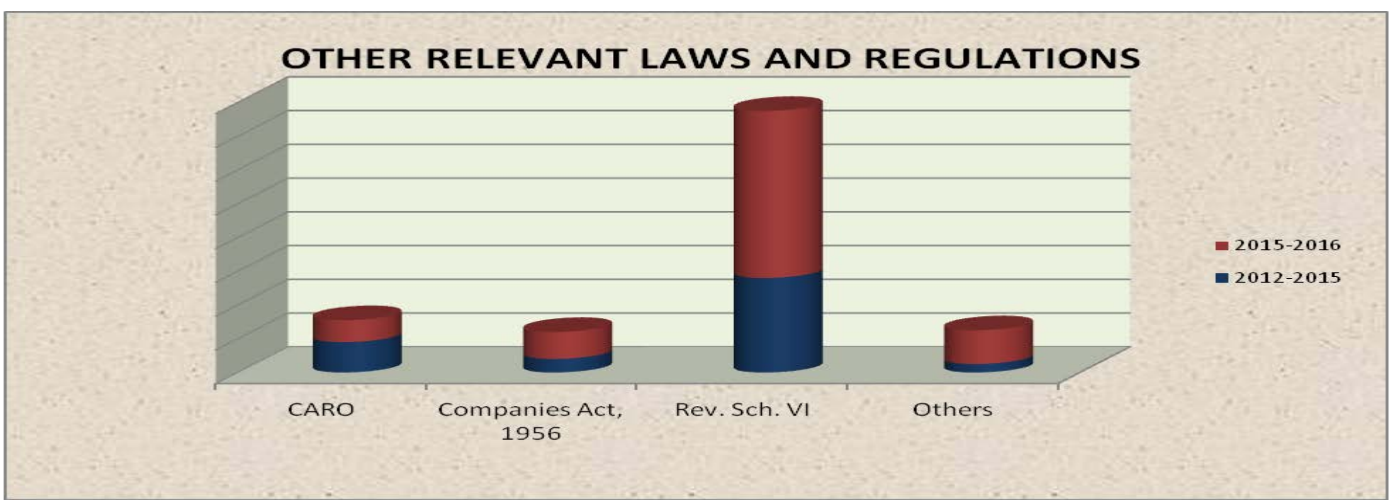

2014-15
25%
Referred to ICAI 11%
64%
2%
2%
1%
6%
Advisory to Audit Firms by QRB
Cases closed by QRB
ICAI issued advisory
Referred for Disciplinary
Cases closed by ICAI
Cases under consideration of ICAI


2015-16
35 %
65%
Advisory to Audit Firms by QRB
Cases closed by QRB

Comparative Graphical Presentation of Number of Observations on*:







*Note: For details of titles of Accounting Standards (AS) and Standards on Auditing (SA), please refer Tables 2 & 3 at Pages 47 & 48 respectively.

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 Quality Review Board vide Notification No. GSR 38(E) dated 19th January, 2011 in the Gazette of India: Extraordinary as amended from time to time vide Notification Nos. GSR 684 (E) dated 14th September, 2011, GSR 441(E) dated 12th June, 2012, GSR 486 (E) dated 21st June, 2012, GSR 810 (E) dated 5th November, 2012, 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, Notification No. GSR 837(E) dated 24th November, 2014, Notification No. GSR 563(E) dated 20th July, 2015, Notification No. GSR 744(E) dated 30th September, 2015 and Notification No. GSR 681(E) dated 12th July, 2016.

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

1.2 Composition of the Board

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

Nominees of the Central Government

1. Dr. (Mrs.) Parvinder Sohi Behuria, IRS (Retd.), Gurgaon – Chairperson (wef 20.7.2015)
2. Mr. Rajat Sethi, Advocate, Mumbai – Member (wef 12.07.2016)
3. Mr. K. V. R. Murty, Joint Secretary, Ministry of Corporate Affairs, New Delhi – Member (wef 12.07.2016)
4. Mr. Jayanta Jash, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member (wef 12.07.2016)
5. Mr. Vithayathil Kurian, Director General (Com.)-I, Office of the Comptroller & Auditor General of India, New Delhi – Member (wef 12.07.2016)
6. Mr. Mahendra Khandelwal, Additional Government Advocate, Ministry of Law and Justice, Department of Legal Affairs, New Delhi – Member (wef 12.07.2016)

Nominees of the Council of the ICAI[5]

7. CA. K. Raghu, Past President, ICAI, Bengaluru – Member (wef 1.3.2014)
8. CA. Manoj Fadnis, Immediate Past President, ICAI, Indore – Member (wef 1.3.2014)
9. CA. Subodh K. Agrawal, Past President, ICAI, Kolkata – Member (wef 1.3.2014)
10. CA. Rajkumar S. Adukia, Mumbai – Member (wef 1.3.2014)
11. CA. Charanjot Singh Nanda, New Delhi – Member (wef 1.3.2014)

Special Invitees

- CA. M. Devaraja Reddy, President, ICAI, Hyderabad – Special invitee
- Mr. V. Sagar, Secretary, ICAI, New Delhi – Special invitee
- Mr. Chandra Wadhwa, Council Member, ICAI, New Delhi – Special invitee
- Mrs. Saroj Rajware, IRAS (Retd.), New Delhi – Special invitee

Secretary to the Board

- CA. Mohit Baijal

[5] The ICAI has now nominated CA. Nilesh S. Vikamsey, CA. Dhinal A. Shah, CA. M. P. Vijay Kumar, CA. (Dr.) Debashis Mitra and CA. Sanjay Vasudeva. Gazette notification is awaited.

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' issued vide Notification No. GSR 735(E) dated 27th November, 2006 in the Gazette of India: Extraordinary as amended from time to time vide Notification Nos. GSR 152 (E) dated 5th March, 2009, GSR 8 (E) dated 10th January, 2012, GSR 32 (E) dated 16th January, 2014 and GSR 148 (E) dated 8th February, 2016.

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 Meetings Held

1.6.1 The details of various meetings held during the financial year 2015-16 of the Quality Review Board and the Quality Review Group/ various Sub-Committees 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 Statutory auditors; and (b) the quality control framework adopted by the Statutory 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 the audit firms auditing accounts of top listed and other 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

2.2.1 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 2015-16:-

- 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.

2.2.2 The Board also decided that a total of 95 Technical Reviewers, as recommended by the Sub-Committee-I, may continue to act as Technical Reviewers with the Quality Review Board for the block period of 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.

2.2.3 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.

2.2.4 Based upon the recommendations made by the Sub-Committee-I, the Board empanelled 100 Chartered Accountants as Technical Reviewers with the Quality Review Board for the block period of 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
39-50	24
51-60	42
61-70	28
71-80	6
TOTAL	**100**

EXPERIENCE OF TRs (YEARS)	NUMBER OF TRs
15-25	30
More than 25-35	44
More than 35-45	23
More than 45	3
TOTAL	**100**

2.3 Industry Specific Experts for associating with the Board

2.3.1 On-line applications were also invited from industry specific experts 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 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.

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, insurance companies, NBFCs, unlisted Public Sector Undertakings, asset management 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. 2015-16

2.4.2 Upon consideration of the recommendation made by the Sub-Committee-I of QRB for initiating Quality Reviews during the financial year 2015-16, and in line with the international best practices, the Board decided to adopt risk based approach for selection of audit engagements for initiating audit quality reviews during the F.Y. 2015-16. Accordingly, various entities were selected as per following criteria:-

Category	Basis of selection of Companies/Entities	Weightage
1	Companies/entities from BSE 100/NSE CNX 100 indices selecting those not yet selected by the QRB	30%
2	Companies/entities from BSE 200/NSE CNX 200 indices selected randomly	29%
3	Top NPA suit filed account holders	30%
	Top life insurance companies	
	NBFCs and RNBCs holding certificate of registration to accept public deposits as on June 30, 2015 selected randomly	
	Top Asset Management Companies	
	Top Companies which came out with IPOs during last three years with issue amount of Rs. 500 Crores and above	
	Top Companies under the industry of Construction from NSE CNX 200 and BSE 200 indices excluding those already selected as aforesaid	
4	Unlisted Banks excluding cooperative banks, gramin banks & foreign banks selected randomly	11%
	Unlisted PSUs with Initial Public Offers in pipeline selected randomly	

2.4.3 It was further decided that:

- The statutory auditors for the year ending on 31.3.2014 or the year 2013, as the case may be, in respect of the companies/entities selected as per above, may be selected for their Quality Review.
- Generally maximum of five audit engagements in respect of a particular audit firm may be selected for review during the year. However, in certain cases, more than five audit engagements of an audit firm may also be selected for review on case to case basis.
- In case of a joint central statutory audit, each of the joint statutory auditors may be reviewed by different Reviewers.

2.4.4 Pursuant to the above, during the financial year 2015-16, a total of 138 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 top listed and other public interest entities in India for the financial year 2013-14 or the year 2013, as the case may be, of the 93 Companies/ entities selected by the 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 In accordance with the Procedure as aforesaid, the Board constituted a Quality Review Group (QRG) consisting of some of the members of the Board comprising both nominees of the Central Government and the ICAI. The QRG is headed by the nominee of the office of the Comptroller & Auditor General of India (C&AG) on the Board. The QRG considers the reports of the Technical Reviewers and makes its recommendations to the Board.

2.5.8 The recommendations of the Quality Review Group are then considered by the Quality Review 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 Reviewers is as under:-

a) The Technical Reviewers 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 Reviewers had to examine whether the Statutory Auditor has ensured compliance with the relevant laws and regulations.
c) The Technical Reviewers 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 Reviewers 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 Reviewers 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 Reviewers might, within the scope of 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 any other matters.

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 three 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 three 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 three financial years and /or thereafter.
d) You comply with all the eligibility conditions laid down for appointment as an auditor of a company u/s 141(3) of the Companies Act, 2013 which apply mutatis mutandis in respect of your review of the quality of statutory audit of the company/entity, as specified, so far as applicable.

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 three 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 duly signed statement of confidentiality including by each one of their 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 persons involved with the entire review process including members of Board/Group, Technical Reviewers, his/her assistants and QRB secretariat shall maintain confidentiality of information obtained during reviews and also 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 statutory audit firm being reviewed by Board or entity concerned whose audit was selected for review.

2.6.6 During the period, the Board had also specified the format for the Final Report, and the Quality Review Program General Questionnaire containing questions concerning various aspects of an audit firm such as Quality control, ethical requirements & audit independence; leadership and responsibilities; assurance practices; client relationships & engagements; human resources, consultation; differences of opinion; engagement quality control review; engagement documentation; audit planning & risk assessment; materiality; audit sampling & other selective testing procedures; audit documentation; audit evidence; written representations; and Auditor's report. A copy of specified format for aforesaid final report, 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 were 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 were advised to complete the aforesaid quality review assignment and send their final report alongwith a copy of Annual report of the company/entity for the year, as specified, to the Board in the specified format, which may be based upon the guidelines as provided and, in terms of the requirements of, the Procedure issued by the Board on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment. In addition, they were also required to send a copy of their final report to the Statutory Auditor/Audit firm, requesting the Statutory Auditor/Audit firm to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewers were also required to submit within next 7 days a summary of their findings, reply of the audit firm thereon and their final comments in the specified format.

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. Also marking a copy of the intimation to 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 alongwith a copy of Annual report of the company/entity for the year, as specified, to the Board in the specified format, on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment. In addition, they shall also send a copy of their final report to the Statutory Auditor/Audit firm, requesting the firm to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewer shall submit within next 7 days a summary of their findings, reply of the audit firm thereon alongwith their final comments in the specified format.
9.	Quality Review Group to consider the report of the Technical Reviewer and responses of the Audit firm and make recommendations to Quality Review Board.
10.	Quality Review Board to consider the report of the Quality Review Group and decide.

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 454 Quality Review assignments initiating reviews of statutory audits of 349 companies/entities, being top entities listed at prominent stock exchanges in India and other top public interest entities in India. These audits were performed by 249 Audit firms, registered with the ICAI. An update of the details of various Quality Reviews initiated by the Board are as follows:-

Details of Quality Review assignments initiated by the QRB

S. No.	Particulars	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	Total
1.	Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year	37	56	123	138	100	454
2.	Total number of Companies/entities involved in Quality Review assignments selected at 1 above	26	42	100	93	88	349
3.	Total number of final reports of Technical Reviewers received in respect of the assignments at 1 above	37	56	121	112	--	326
4.	Out of the total number of final reports received at 3 above:						
a)	Total number of final reports accepted by the Quality Review Board	37	56	121	43	--	257
b)	Out of the balance final reports: -Under consideration of /yet to be considered by QRG - Under consideration of QRB				23 46		23 46
5.	Out of total number of final reports considered by the Quality Review Board as at 4 above:[6]						
a)	Total number of final reports	27	22	30	15	--	94

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

	taken on record and matter was considered as complete by so informing concerned Statutory audit firm/s						
b)	Total number of cases recommended to the Council of the ICAI for consideration and appropriate action u/s 28B(a) of the Chartered Accountants Act, 1949	4	10	14	0	--	28
c)	Total number of cases where appropriate advisories were issued to concerned Audit firm/s u/s 28B(c) of Chartered Accountants Act, 1949 under intimation to ICAI	5	26	77	28	--	136
d)	Others	1	3	-	-	-	4
6.	Out of the total number of cases recommended to the Council of the ICAI for consideration and appropriate action u/s 28B(a) of the Chartered Accountants Act, 1949 as at 5 (b) above:						
a)	Total number of cases where Council decided to refer the matter to the DC	2	2	2	-	-	6
b)	Total number of cases where Council decided to issue appropriate advisory to the concerned Audit firm/s	2	7	9	-	-	18
c)	Total number of cases closed by the Council	-	1	2	-	-	3
d)	Total number of cases under consideration of the Council	-	-	1	-	-	1

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 year 2015-16 is:-

<u>During the financial year 2015-16 :-</u>

S. No.	Name of Sector	Name of Industry	No. of Entities	No. of Public Sector Entities	No. of Private Sector Entities
1.	Agro products		1	1	
2.	Asset Management Cos.		5	1	4
3.	Automobile	Auto - LCVS & HCVS	1		1
		Auto Ancillaries	1		1
		Auto Parts & Equipments	1		1
		Automobile	2		2
4.	Cement & Cement Products		2		2
5.	Chemicals		1		1
6.	Construction/ Realty		7	1	6
7.	Consumer Goods	Food & food processing	3		3
		Apparel & Accessories	1		1
8.	Engineering		1	1	
9.	Fertilizers & Pesticides		2		2
10.	Financial Services	Banks	11	7	4
		Financial Institutions	9		9
		Housing Finance	1		1
		Others	1		1
11.	Industrial Manufacturing	Heavy Electrical Equipments	4		4

		Miscellaneous	1		1
		Industrial Manufacturing	3	1	2
		Pipes	1		1
12.	Infrastructure		1		1
13.	Insurance		6	2	4
14.	IT		3		3
15.	Iron & Steel		2		2
16.	Media & Entertainment		1		1
17.	NBFCs		5		5
18.	Oil & Gas		1		1
19.	Paper		1	1	
20.	Pharma		3		3
21.	Power	Hydro	1	1	
		Solar	1		1
		Generation & distribution	2		2
22.	Services	Oil Drilling & Exploration	2	1	1
		Marine Port	2	1	1
		Travel & Transport	1		1
23.	Telecom		2	1	1
TOTAL			**93**	**19**	**74**

2.7 Findings Observed during the Quality Reviews conducted[7] [8]

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.

[7] 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.

[8] 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 aspects 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 May, 2016, 63,716 firms are registered with the ICAI which include 20,056 partnership firms and 43,660 proprietary firms. Since August 2012, the Quality Review Board had selected a total of 454 Quality Review assignments for initiating reviews of statutory audits of 349 companies/entities, being top entities listed at prominent stock exchanges in India and other top public interest entities in India. These audits were performed by 249 Audit firms, registered with the ICAI. These 349 entities represent various industries/sectors and more than 75% market cap of the stocks listed on National Stock Exchange (NSE) and 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; those of 93 companies/entities pertained to the financial statements for the year ended on 31 March, 2014 or the year 2013 as the case may be; and those of 88 companies/entities pertained to the financial statements for the year ended on 31 March, 2015 or the year 2014 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 more than 300 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 is duly reflected in the type of issues identified, and in particular, those discussed in this report. 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, certain matters to the ICAI Council for further consideration. Out of a total of 454 reviews started since August 2012, the Board has finalized a total of 257 review reports till August, 2016 as depicted in the table below:-

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

S. No.		Reviews Initiated in the financial year					Total
		2012-13	2013-14	2014-15	2015-16	2016-17	
1	Number of reviews initiated	37	56	123	138	100	454
2	Number of reviews completed till date	37	56	121	43	-	257
3	Number of reviews where QRB issued advisories to concerned Audit firm/s	05	26	77	28	-	136
4	Number of reviews recommended to the ICAI Council for consideration and action	04	10	14	-	-	28
5	Number of reviews where ICAI Council decided to issue advisory to the concerned Audit firm/s	02	07	09	-	-	18
6	Number of reviews where ICAI Council decided to refer the matter for Disciplinary	02	02	02	-	-	06
7	**Percentage of review cases referred for Disciplinary [6/2 x 100]**	**5.41%**	**3.57%**	**1.65%**	**-**	**-**	**2.33%**

2.7.8 A total of 155 reports were accepted by the Quality Review Board till 31 March, 2015 and their review findings were presented in the earlier Report of the Board 'A Report on Audit Quality Review Findings (2012-15)'. Since then, 102 reviews have been completed till August, 2016. Out of these 102 reviews, 59 pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be; and 43 pertained to the financial statements for the year ended on 31 March, 2014 or the year 2013 as the case may be. A summary of the observations noticed by the Technical Reviewers in respect of these 102 review reports is enclosed at **Appendix A.** The following tables summarize/analyze the review results in respect of these 102 reviews completed by the Board till August, 2016:-

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

Observations on Accounting Standards	Total Number of observations
AS – 1 Disclosure of Accounting Policies	21
AS -2 Valuation of Inventories	6
AS -3 Cash Flow Statements	21
AS-6 Depreciation Accounting	2
AS – 9 Revenue Recognition	7
AS – 10 Accounting for Fixed Assets	1
AS – 11 Effects of Changes in Foreign Exchange Rates	3
AS – 13 Accounting for Investments	8
AS – 15 Employee Benefits	9
AS – 16 Borrowing Costs	4
AS – 17 Segment Reporting	3
AS – 18 Related Party Disclosures	11
AS – 19 Leases	5
AS – 20 Earnings Per Share	7
AS – 21 Consolidated Financial Statements	1
AS – 22 Accounting for Taxes on Income	11
AS- 26 Intangible Assets	3
AS – 27 Financial Reporting of Interest in Joint Ventures	2
AS – 28 Impairment of Assets	4
AS – 29 Provisions, Contingent Liabilities and Contingent Assets	10

Graphical Presentation of Observations on Accounting Standards (AS):

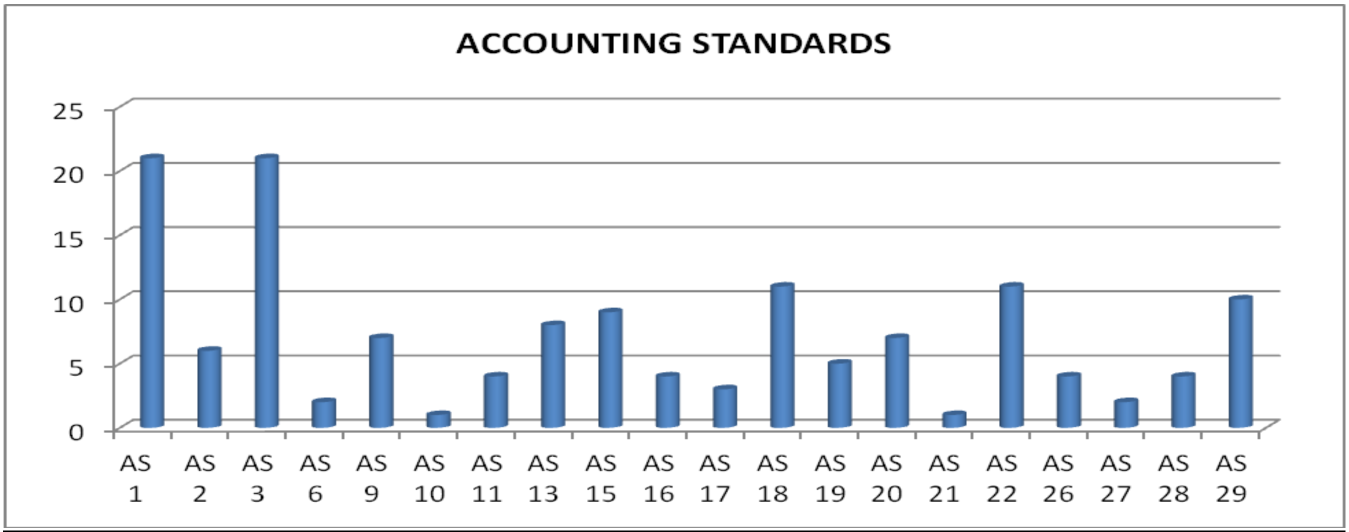


Table 3: Number of Observations on Standards on Auditing (SA)

Observations on Standards on Auditing	Total number of observations
SA 210 Agreeing the Terms of Audit Engagements	14
SA 220 Quality Control for an Audit of Financial Statements	11
SA 230 Audit Documentation	59
SA 240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	8
SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements	1
SA 260 Communication with those Charged with Governance	5
SA 265 Communicating deficiencies in internal control to Those charged with Governance and Management	1
SA 299 Responsibility of Joint Auditors	4
SA 300 Planning an Audit of Financial Statements	14
SA 315 Identifying and assessing the risks of material misstatement through understanding the Entity and its environment	18
SA 320 Materiality in Planning and Performing an Audit	9
SA 330 Auditor’s responses to assessed risks	12
SA 450 Evaluation of Misstatements Identified During the Audit	2
SA 500 Audit Evidence	9
SA 505 External Confirmations	31
SA 510 Initial Audit Engagements- Opening Balances	1

SA 520 Analytical Procedures	5
SA 530 Audit Sampling	12
SA 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates and related Disclosures	1
SA 550 Related Parties	3
SA 570 Going Concern	1
SA 580 Written Representations	20
SA 610 Using the work of Internal Auditors	4
SA 620 Using the work of an Auditor's Expert	5
SA 700 Forming an Opinion and reporting on Financial Statements	38
SA 705 Modification to the opinion in the Independent Auditor's Report	2
SA 706 Emphasis of matter paragraphs and other matters paragraphs in the Independent Auditor's Report	10
SA 710 Comparative information – Corresponding Figures and Comparative Financial Statements	1
SA 720 Auditor's responsibility in relation to other information in documents containing audited Financial Statements	4
SQC-1 Quality Control for Firms that perform Audits and Reviews of Historical Financial information, and other assurance and related services engagements	80

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

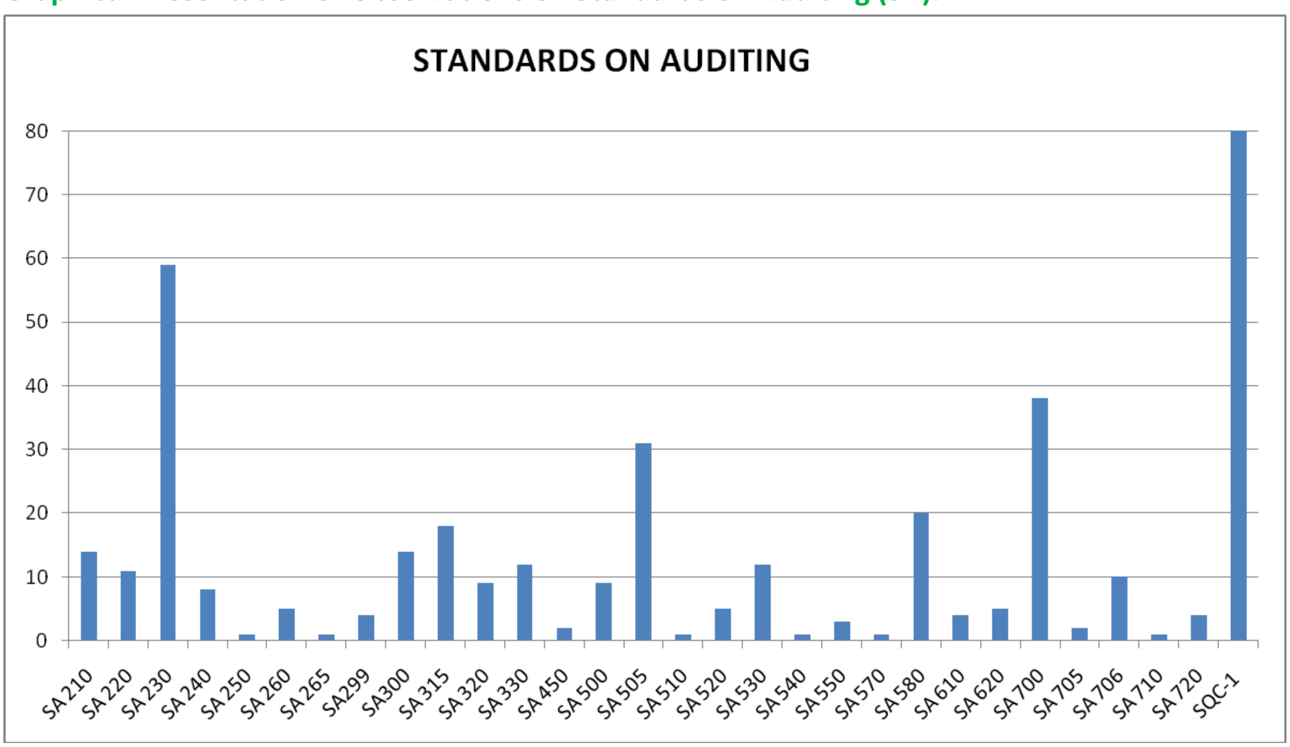
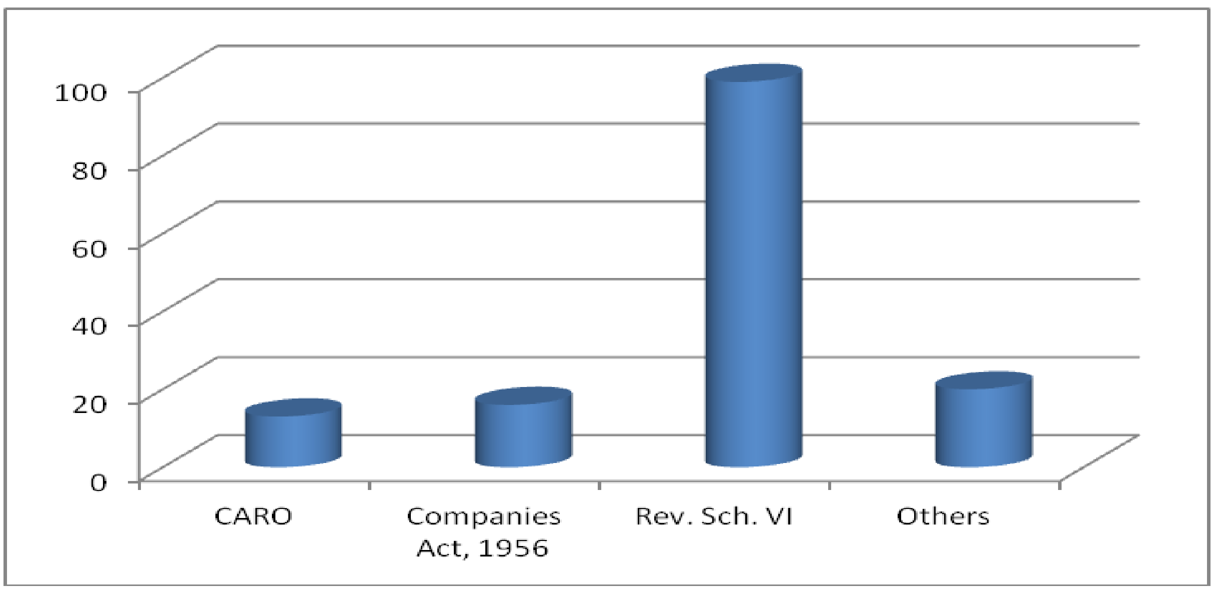


Table 4: Number of Observations on Other Relevant Laws & Regulations

Observations on Other Relevant Laws & Regulations	Total Number of observations
CARO	13
Companies Act, 1956	16
Revised Schedule VI of Companies Act, 1956	99
Others	20

Graphical Presentation of Observations on Other Relevant Laws & Regulations:



Appendix A

A brief summary of the observations of the Technical Reviewers

STANDARDS ON AUDITING
SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS

- Engagement letter did not mention that management acknowledges and understands its responsibility for preparation of consolidated financial statements, as envisaged by Para 6 of SA 210.
- As required by SA 210, engagement letters may be issued for engagements like compilation of accounts/financial statements. Such engagement letters did not cover the responsibility of management and limitations of engagement for compilation.
- The engagement letter which had been signed on behalf of the entity was not dated, further engagement letter did not mention about the reports which were required under the laws and regulations and there was no reference to the Long Form Audit Report.
- Request for no objection certificate sent to the previous auditors was after the date of formal acceptance of the engagement.
- The Audit firm has not issued the Engagement letter for the audit assignment, review of unaudited financial statements, assignment and corporate governance and other certificate assignments.
- There was no evidence of review of audit work papers like Accounting Standard checklist / CARO checklist / Revised Schedule VI Checklists by way of sign off by the Engagement Partner on manual print outs maintained in the physical working paper file.
- Audit engagement letter is as per format prescribed in ‘Guidance Note on Audit of Banks’ but did not include reference of the basis of which fees are computed and any billing arrangements agreed. (Para A22 of SA 210)
- It has been observed that
    - Board Resolution in favour of the Authorised Person who was authorised to sign Management Representation/ Engagement Letters to Auditors and other documents and statements, extracts of minutes (Board – Audit Committee) etc. were not available with the Audit firm.
    - Time sheets of assistants conducting audit and conclusion of the observations noted were not signed by the Audit assistants, Partner in Charge, Signing Partner.
- Firm had not issued engagement letter to the Auditee.

SA 220- QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

- As envisaged by Para 11 read with Para A2 of SA 220, Audit Firm had not obtained written confirmation/declaration from all firm personnel and others who were required to be independent during the course of audit engagement.
- There was no proof of assembly of the audit files within 60 days as required by SA 220.
- As envisaged by Para 23 and further by Para A32, Firm had not established a process or mechanism by which the firm, its partners, managers and other personnel monitor their financial and other interests in other entities. Further, the annual confirmations evidencing compliance with independence policies was not on record.
- Periodic internal inspection for compliance with the firm's independence policies and procedures was not undertaken.
- Engagement Letter sent by the firm(s) and the Management Representation Letter was not in file at the time of review. Further, the said Engagement Letter did not set out the inherent limitations of audit.
- Minutes of the planning meetings of the partners and qualified staff/ assistants were not maintained.
- Few of the significant judgments made viz., non-provisioning for diminution in value of investments in the summary of uncorrected misstatements had not been highlighted by the Engagement Quality Control Reviewer. Similarly, significant work papers like the 'Tailored Audit Plan', 'Understanding the Entity & its Environment', & standard checklists on Accounting Standards, Revised Schedule VI**,** CAR0 work papers, etc had not been reviewed and signed off by the Engagement Quality Control Reviewer."
- The firm had not documented policies and procedures in accepting prospective client and assessing engagement risk.
- Firm had not documented detailed policies and procedures regarding the involvement of Engagement Quality Control Reviewer.

SA 230- AUDIT DOCUMENTATION

- As envisaged by Para 8 of SA 230, no evidences were found in the file in respect of the walkthrough process conducted for cash payments and for sales, the physical copy of the documents verified was also not available on record.
- Product wise workings for quantitative reconciliation were not evident from the work papers.
- Substantive procedure relating to stock in transit was stated to be verified, however, no evidence were there on record.
- Work papers relating to testing of quantitative reconciliation of production and the closing stock were not tied up with the records.

- Minutes of the discussion of significant matter with management were not documented.
- Procedures for confidentiality, safe custody, integrity, accessibility and retrievability of audit records were not documented.
- No working papers or other documentation for provisioning in case of debts barred by limitation maintained.
- The checklists of the firm were very brief, detailed checklist covering Advances and other key areas such as Restructured advances, Interest paid and received, acceptance of deposits etc. was not made.
- Standard format for checking various types of advances including documentation, type of security, scrutiny of the account, details of restructuring / CDR etc. were not implemented. At present the firm had no standard format and the documentation were not readily available.
- Working papers alongwith third party certificates and other evidences regarding contingent liabilities were not available with the audit firm.
- Working papers for different amounts disclosed under different heads in Cash Flow Statement were not available with the audit firm.
- Following documents were not found in Audit File of the Company:
  - Facility locations, plant locations, details of product along with classification.
  - EDP- systems security, source code security, authorization and back up policy
  - List of bankers, solicitors, investment analysts, Registrars, credit rating agency
- No presentations were made to the Audit Committee about the audit plan, audit strategy and the audit findings.
- Copies of minutes of Audit Committee, working papers for borrowings taken and repaid during the year, cash flow statement testing, legal and inter-company confirmations were not available with the firm.
- No documentation for testing of compliance with the Securities and Exchange Board of India (Prohibition of Insider Training) Regulations, 1992 was available in file.
- Company's investments in its subsidiary company were redeemed at the end of the year. It was ascertained from the work papers of the Statutory Auditors that these shares were redeemed on 30th March 20XX. However, no working papers were available to demonstrate the reconciliation of the same.
- Dividend and Dividend tax was considered in the financial statement, whereas in director's report dividend was not considered due to corporate debt restructuring and agenda for declaration was not considered in the notice convening annual general meeting.
- The program of verification specifying items of assets verified in the past years were not available in the working papers.

- Documentation file did not contain work sheet showing how net realizable value had been arrived at and also comparison of NRV vs. Cost.
- No working papers were available to conclude that terms and conditions of the guarantee given by the company for loans taken by the wholly owned subsidiary was not prejudicial to the interest of the company.
- There was difference in Bank balance as per confirmation from bank as against the balance as per the bank statement.
- As per Auditor’s Report, in “few cases” loans disbursed by the bank against the security of property already mortgaged to other banks, which may tantamount to a fraud & results in the secured loans converted in unsecured loans. No documentation available that assesses whether the impact of these loans have been considered & proper provisioning made thereon.
- Computation of NPA for the bank as a whole was not documented and without adequate documentation it was not clear how the assets were identified as standard or otherwise.
- Firm was not having sufficient documents regarding the designing and implementation of the maintenance of internal control relevant to the preparation and presentation of the financial statements; obtaining of audit evidences and evaluating the appropriateness of accounting policies and or estimates made by the management; and to form an audit opinion that the audit evidence obtained was sufficient and appropriate.
- Documents with regard to Materiality for the financial statements as a whole; Materiality level or levels for particular classes of transactions, account balances or disclosures; Performance materiality; Any revision of the same as the audit progressed were not available.
- As envisaged by Para 13, there was no documentation for the review of subsequent events, Information Technology General Controls.
- Engagement Summary Memorandum had not been filled up.
- Long Form Audit Reports “LFAR” annexures were not linked to work papers wherever possible**.**
- Evidence of all open queries in work papers being closed to the satisfaction of the auditor or being dropped on account of materiality or being taken to branch audit report or LFAR were not documented.
- In LFAR, there were unreconciled differences, wherein it was stated that pending final clearance the overall impact on the accounts in the opinion of the management of the company will not be material/ significant. However, how this assertion was validated/ evaluated by the firm was not documented.
- The audit file did not contain any documentation relating to testing of controls relating to IT General controls or automated controls set within the SAP of the Company’s financial systems & involvement of any IT specialist in the audit file.

- On work papers, there was no indication of team members, who performed the audit work and the date such work was completed, and who reviewed the audit work performed and the date and extent of such review.
- There was a difference in the amount of Deferred tax assets and Deferred tax liabilities reported in note and working papers. There was no documentation to substantiate how this difference was addressed.
- Audit firm's documentation were not proper in respect of dealing with procedures employed for assessment of control risks, manner of Audit Sampling and discussions with those charged with governance/ joint auditors.
- Copies of notices received from directors in form DDA & 24AA were not available with the firm. Copy of board minutes for taking on record notices received under section 274(1)(g) of the Companies Act, 1956 was also not available with the firm.
- Documents and / or working papers / evidences in respect of matters reported in Cash Flow Statement, notes to accounts, groupings, etc. were not available with the Audit Firm.
- Proper records with respect to SA-230 "Audit Documentation" SA-240 "Auditor's Responsibility to Consider Fraud and Error", SA-300 "Audit Planning", SA-315 – "Identifying and Assessing the Risk of Material Misstatement through understanding the entity and its environment " etc. had not been maintained by the Firm as required.
- The firm did not have a copy of Branch Audit / LFAR / Tax Audit reports of branches audited by Branch Auditors in its records.
- Firm had not standardized the formats for maintaining file notes at a firm level. (SA 230)
- The Audit Firm had obtained a business understanding of the company by perusing systems documentation and interaction with client staff. However the same was not formally documented. (SA 230)
- Based on the discussions with engagement partners and review of the available documents, communication with management was conducted to discuss the issues during the audit. In addition to verifying the working produced by the clients, the firm did not prepare work papers, either in hard copy or in soft copy, for all material account balances and disclosures outlining the process of verification conducted on those material account balances and disclosures. (SA 230)
- Documentation to show whether 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 was not in detail and in structured format.

SA 240- AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

- The documents provided were insufficient to conclude whether the risk of fraud was considered during the audit of the company's financial statements.

- No reply was received by the audit firm for the letter addressed to AGM, for the fraud cases, for which insurance claims were lodged.
- It was difficult to conclude whether fraud risk factors were considered during the audit of the Company's financial statements. Audit process in relation to fraud inquiry procedures were not performed and hence not documented.
- Audit procedures adopted by the firm in assessing the risk of material misstatement due to fraud or error in accordance with SA 240 were not adequate. Further, the audit documentation relating to SA 240, which was reviewed by the engagement quality control reviewer and by the engagement partner did not mention the occurrence of fraud.

SA 250- CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

- As envisaged by Para 13 of SA 250 that the firm shall obtain sufficient appropriate audit evidence, however no copy of legal advice was available in auditor's file with regard to the legal advice obtained against crystallization of liability on account of demand raised by fiscal authorities which had been disputed.

SA 260- COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

- Firm communicated Audit Findings but not the other communications like plan, timing of audit etc., as required by para 10 to 13 of SA 260. Further the communication was not done with appropriate level of management i.e. those charged with governance.
- Discussion and replies from management were mentioned in "Drafts for discussion" letters but the unsigned copies of the same were on record.

SA 265- COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

- There was no documentation to substantiate communication by the auditor with management in writing, about significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances.

SA 299- RESPONSIBILITY OF JOINT AUDITORS

- No formal records were maintained for discussion between the joint auditors.
- Joint audit communication letter was not countersigned by the company and in case of the areas to be allocated among the joint audit firms.
- With regard to Engagement Acceptance, common work allocation sheet was not countersigned by the entity & a formal letter for joint responsibility of each joint auditor was not issued.

SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS

- In audit program, there were a few areas where the details of work checked were not mentioned. Moreover, for Bank audit, quarterly review checklists were prepared but in some instances, unsigned copies were on record. Further, the notes were not signed or initialed by the preparer or reviewer.
- The audit plan was a general audit plan, and not specific to the assignment under review.
- Key risks of the audit and how the audit procedures take care of the various risks were not documented.
- Firm did not document either in terms of an audit manual describing risk based audit procedures or did it follow any documented risk based audit procedures. Further, the materiality workings were also not found in file.
- No reference was made of identification of risks of material misstatement leading to fraud and error evidenced the audit plans.
- There was no documentation to evidence customization of audit procedures to suit the nature, size, and complexity of the audit engagement under review.
- Engagement audit procedures were not tailored to meet the specific requirements of the engagement. Such planned audit procedures were not documented with necessary justifications and cross reference to where the work was performed and concluded.
- CARO checklist had not been filled in.
- Audit Program did not cover the extent and scope of physical verification of borrowers Assets to protect the bank’s interest in security charged.
- It has been observed that detailed and elaborate documentation demonstrating compliance with SA- 300, SA-315, SA-320 and SA-330 relating to Risk Assessment and Response to Assessed Risk has not been maintained.

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

- No audit procedure had been performed by the firm, though in some cases the items also had crossed the Performance Materiality level set by the Reviewed firm.
- Memorandum/ documentation detailing identification of risks of material misstatements, planned audit procedures, strategy in terms of reliance of controls, approach to validate IT related controls, testing of IT generated reports was not explicit.
- Minutes of meeting with the management of the company had not been documented.
- Review of the entity's selection and application of accounting policies, and whether it is consistent with the applicable financial reporting framework had not been documented.
- Documentation of understanding of the business of the entity was not readily available.

- Risk assessment procedures had not been carried out, no fraud inquiry procedures had been performed & documented detailing identification of risks of material misstatements, planned audit procedures, minutes of meeting/ discussions, application of accounting policies and consistency with the applicable financial reporting framework were not documented.
- There was no document to represent the revision of the risk assessment from the risks assessed in the previous year.
- The firm had solely relied on inspection reports and the reports of the concurrent auditors, and had not undertaken an independent review of the internal control systems of the auditee.
- There was no documentation on the responses of the internal audit comments on the internal controls and how they have been mitigated.
- The risks identified and assessed have not been documented by the firm and hence could not be reviewed by us. (SA 315)
- The Audit Firm had not documented the risk assessment procedures during the course of audit. (SA 315)
- The risks identified and assessed have not been documented by the firm and hence could not be reviewed by us. (risks requiring special audit consideration) (SA 315)

SA 320- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

- No evaluation had been done to determine the materiality level for particular class of transactions, account balances or disclosures.
- Materiality with reference to the threshold as defined by RBI Guidelines was used for coverage of branches, particularly advances. However, materiality at financial statements level was not determined including for disclosure related aspects.
- The basis of considering the benchmark 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 audit firm.
- No documents have been prepared by the Audit Firm that can facilitate to assess if the firm has determined Materiality for the report as a whole or for class of transactions, balances and disclosure. (Para 6 of SA 320)

SA 330- AUDITOR’S RESPONSES TO ASSESSED RISKS

- Work papers relating to test of details for Interest Income on bank deposits was not reconciling to the amounts as per the statement of profit and loss.

- 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.
- Related party transactions were substantial in 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).
- Work papers relating to overall reconciliation of sales showed that there was a difference between the actual Sales and total sales calculated by the firm. The audit firm's response to such observation is not documented.
- In terms of understanding the entity and its control environment, no specific document was available in the form of narratives, flow charts for internal control questionnaires.
- Work papers wherein substantive testing was performed were not cross referred to the groupings/ trial balance with reference numbers in all cases. Further, there was no evidence of cross referencing the financial statements to the trial balance.
- Risk assessment procedures had not been carried out. Moreover, documentation of testing and the results of vouching done on a test check basis had not been documented.
- There were no audit documents to substantiate procedures performed relating to the financial statements closing process:

  (a) Agreeing or reconciling the financial statements with the underlying accounting records; and

  (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.
- No documents were available to substantiate the following procedures:
  - Detailed Audit Planning Memorandum (APM).
  - Identification of risk of material misstatement at assertion level for all the material account balances/class of transactions.
  - Risks identified and procedures planned there against to mitigate the risks with respect to the nature and size of entity.
  - The aspects of the external factors affecting the entity, the laws and regulations and their monitoring by the Entity are to be covered.

SA 450- EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

- There was no document in the file of the firm, where misstatements both corrected and uncorrected were compiled, evaluated and concluded.
- Documentation of how uncorrected misstatements were evaluated was not done including documenting communication of the same with those charged with governance.

SA 500- AUDIT EVIDENCE

- The Audit Firm had been re-appointed as Statutory Auditors in the AGM held on 31st July 20XX, which was received from the company on 10th August, 20XX and Form 23B had been filed with the Registrar of Companies on 13th September 20XX. However, there was no evidence of acceptance of letter been given by the audit entity to company. Similarly, approval for the audit fee in the Board Meeting was not made available for verification.
- No hard copies were kept for identification to obtain sufficient and appropriate audit evidence for all subsequent events up to the date of the auditor's report that requires adjustments/ disclosures in the financial statements.
- Documentation relating to control testing and substantive testing of certain areas was not specifically identifiable/ provided.
- Bank Reconciliation statement had not been taken for all the bank accounts.

SA 505- EXTERNAL CONFIRMATIONS

- No documentations were maintained for the procedures followed for selection, preparation and sending out confirmations by the audit team; for specific items such as legal confirmations given during the year.
- In respect of inter/group company balances, direct confirmations were not obtained by the Audit Firm.
- No confirmations of balances have been obtained pertaining to parties to Debtors, Creditors, Advances and related party balances.
- Control for the external confirmation from debtors, creditors was with the company and not with the firm. The firm could not present the total list of parties under consideration, parties selected for confirmation, evidences of request for confirmation sent, status of confirmation received and action taken after receipt of confirmation.
- Firm did not circularize requests for confirmations of vendor and customer balances as the management did not authorize the auditors to seek such confirmation of balances. However, the firm had not documented the reasons for management's refusal and also not performed any alternative procedures.
- There were no documentation supporting supplier confirmations sent and the management representation letter also did not state what steps had been taken and status of confirmation sent.
- Confirmation letters received by the audit firm were not having any evidence of acknowledgement of the date, time and person/department receiving the confirmation.
- Based on the review of the available documents and the discussions with the engagement partners the firm has obtained external confirmations through the Company. It is recommended that a summarized control sheet for the confirmations obtained vis a vis the total balance be maintained and also to initiate the process for direct confirmations.

Further, it is always appropriate substantive procedure to call confirmation directly by the firm from third parties (wherever applicable) for all material accounts balances and also a control sheet indicating that % of confirmation obtained and % of total financial statement caption covered. (SA 505)

- External confirmation was not matching with the books of account. Verification of working paper of audit firm revealed that despite differences in external confirmation and books of accounts, no further audit procedure had been performed on the audit difference, reason of difference and no action or noting was found in the working paper of audit firm.

SA 510- INITIAL AUDIT ENGAGEMENTS- OPENING BALANCES

- As envisaged by Para 6 of SA 510, testing of opening balances to verify whether the audited balances were brought forward to the next year was not documented by the firm.

SA 520- ANALYTICAL PROCEDURES

- Ratio analysis, trend analysis, comparison with industry etc. was not evident from firm's working papers.
- Firm did not clearly document application of analytical procedures that included the consideration of comparisons of the entity financial information with comparable information for prior periods. SA 520-Analytical procedures require the firm at planning stage to understand the business and identify the potential risks and identify the significant variances or inconsistence relationship.
- Analytical procedure adopted especially in checking of interest on advances and deposits, NPA provisioning, comparison of current period and previous period etc. were not documented.

SA 530- AUDIT SAMPLING

- Documented procedure for selection and use of sampling method was not evident in detail to reduce the sampling risk to acceptable low level. Further, it was not evident that the sampling provided the result as planned or whether the sample considered required any modification.
- Selection of samples was not on scientific basis and adhoc selections were made.
- The sample size checked for each category as well as the sample selection methodology was not documented.
- There were no audit documents to substantiate the sampling procedure performed and the samples selected.
- Sample selection was on the basis of professional judgment selecting specific items, however the audit sampling system of selection was not documented comprehensively. In case of selection of the sample size use of professional judgment is required along

with specific audit objective, sampling risk, tolerable error, and the result of the same should be documented properly.

- Audit Sampling has not been done as per SA-530 and also the extent of checking i.e. specific and general items selected by the firm in carrying out substantive checking has not been documented.

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

- Risks with regard to management estimates were not identified and no specific documentations were maintained of how management estimates had been reviewed by the audit team.

SA 550- RELATED PARTIES

- The Company had not disclosed transaction of a particular nature with the related party which constituted 10% and above of aggregate of related party transactions of similar nature undertaken by the company. There was no comment on this by the Firm.
- Firm had not obtained the copy of the Form No. 24AA, as required under section 299 of Companies Act, 1956, to confirm related party relationships and transactions.
- Transactions related to payment of rent and interest income with related parties was tabulated in note, however, no documents were obtained during the course of audit to establish that such transactions were related to business and were not in the nature of loans.

SA 570- GOING CONCERN

- No risks on Going Concern had been identified by the Engagement Team. Moreover, No Checklist had been filled up for evaluating Going Concern.

SA 580- WRITTEN REPRESENTATIONS

- Management representation letter had been obtained for the general points covering the financial statements not on other specific items of the financial statements.
- Management Representation Letter was not obtained at branch as well as zone level. Moreover, it did not include responsibility related to Tax Audits & Managements responsibility to design, implement & maintain internal controls to prevent & detect frauds.
- Management representation letter did not state that in Managements opinion whether the information obtained from bank's system was accurate.

- Audit firm did not obtain a written representation letter from the client stating that they had disclosed to the firm the results of management's assessment of risk and whether or not the financial report may be materially misstated as a result of fraud.
- Audit firm did not obtain a written representation letter from the client stating that they have disclosed to the member their knowledge of fraud, suspected fraud, or any allegations of fraud or suspected fraud, affecting the entity.
- Audit firm did not obtain a written representation letter from the client stating that they believe significant assumptions used in making accounting estimates were reasonable.
- Audit Firm, with a view to minimizing the audit risk, did not advise the auditee by issuing a separate letter to include in their Management representation letter the following issues:
    - Loans & Advances made by the auditee on the basis of security have been properly secured and the terms on which they have been made are not prejudicial to the interest of the auditee.
    - The transactions of the auditee which are represented merely by book entries are not prejudicial to the interest of the auditee.
    - Personal expenses have not been charged to the revenue account.
- No Management Representation Letters were obtained for issuance of certificate on Corporate Governance, limited review and other engagements.
- The quantitative details of fixed assets in respect of overseas branches in BOOT projects were under compilation but the representation letter did not specify the period by which compilation of records will be completed.
- On perusal of management representation letter, entry tax under dispute as represented by the management was different from that disclosed in the contingent liabilities on this count.
- The firm did not obtain representations on other matters like significant judgments and estimations used in certain specific items of financial statements in addition to the other points. (SA 580)

SA 610 – USING THE WORK OF INTERNAL AUDITORS

- The extent of the work of internal auditors on the audit procedures of the audit firm has not been documented. Further, the audit firm had not documented the risk attached with regard to using the work of internal auditors and extent of potential reliance on such work.
- Engagement team did not document the evaluation of points raised by the internal auditor and its impact on planned audit procedures.

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

- A portion of defined benefit obligation arising on account of leave encashment benefit was accounted for on the basis of management estimate instead of actuarial computation envisaged under AS- 15(revised) thereby indicating non compliance of referred SA 620.
- Working papers of the firm did not evident that the procedures or requirements of SA 620 Using the work of an Auditor's Expert had been followed.
- No documentation to substantiate the procedures carried out regarding evaluation of expert was available for verification.
- Technical evaluation of life of machinery was done by Chartered Engineer. The firm had not assessed the competence, capability and objectivity of the expert before accepting his report as audit evidence.

SA 700- FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

- Management responsibility statement in the auditor's report did not include certain framework requirements, as required by Para 26 of SA 700. Moreover, the word 'Cash Flow statement' was not mentioned at respective places.
- As envisaged by Para 25 & 26 of SA 700, Management Responsibility statement did not include Management responsibility in respect of preparation of standalone and consolidated financial statements that gave a true and fair view of the financial position, financial performance and cash flows of the entity.
- Emphasis of matter paragraph is to be given immediately after the opinion paragraph whereas the same was given before opinion Paragraph.
- Date of Audit Report and place of signature was not mentioned while issuing independent Auditor's Report.
- The Auditor had not given the reason and justification for issuing a revised report as required by the Guidance note issued by ICAI on revision of Audit Report.
- Firm in its audit report had not stated the fact about the receipt of returns from branches not visited by them.
- While framing consolidated auditor's report on consolidated financial statements, auditor was required to consider company and its subsidiaries, however the firm stated that they audited company and their subsidiaries (including subsidiaries of subsidiaries) which was incorrect.
- Various typographical errors were there in the auditor's report furnished u/s 227(4A) of the Companies Act, 1956.
- As required by Para 21 read with Para A15, Auditor's Report for the year did not have a title to indicate that it is an Independent Auditor's Report.
- Financial Statements signed by the auditors was not referring to auditor's report.

- Consolidated Audit report of the zones did not include statistics on the total number of branches audited/unaudited & total number of branches included in the consolidation of that zone.
- Names of directors who have not signed the financials have been incorporated in Printed Annual Report.
- There was a difference in cess under dispute as per company's disclosure in note to accounts as against disputed cess to the extent not being deposited as per relevant audit Para. The anomaly had not been addressed in audit report.
- Common seal of the Company was not affixed on the Financial Statements, notes and significant accounting policies forming part of financial statements.
- The audit firm had not documented any procedures in its audit plan/audit program/audit check list/audit working papers to ensure that the written representations received from the directors u/s 274(1)(g) of the Companies Act, 1956 were taken on record by the Board of Directors while reporting the same in the Independent Auditors' Report.
- Long Form Audit Report (LFAR) did not bear the date, FRN, Name and Membership No. of the partner signing the report.
- Bank transferred an amount from General Reserve and created deferred tax liability for the periods up to 31-03-20xx on the amount outstanding in Special Reserve created u/s 36(1)(viii) of the Income Tax Act, 1961 as required vide Reserve Bank of India circular No. DBOD No.BP.BC.77/21.04.018/2013-14 dated December 20,2013.

  This matter should have formed part of Emphasis of Matter in the Independent Auditors' Report to comply with the requirements of SA 706 as the special dispensation for transfer from reserves had been provided by RBI whereas the normally accepted accounting principles do not permit such treatment.
- In the Independent Auditors' Report of the Bank for the year under review, there was no reference of the other important responsibilities described in the audit engagement letter including the accounting principles generally accepted in India, Accounting Standards notified under the Companies Act, 1956 read with the guidelines issued by the Reserve Bank of India in so far they are applicable to the Bank and in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act, 1949 as applicable. Therefore, the compliance of Paras 26 and 27 (read with Paras A20, A21 and A22) of SA 700 had not been ensured.
- The format of Auditor's Report contained the following deficiencies
  i) There is no para of Management's Responsibility for the consolidated Financial Statements.
  ii) There is no para for Auditor's Responsibility.
  iii) There is no opinion para.

The formats for above should have been in accordance to paras in Standalone Auditor's Report, but with modifications as necessary.

- That the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control' has not been reported by the auditor in its audit report. (SA 700)
- In the Audit Report, under the requirement of CARO as per para 4 (x), particulars about Cash Losses incurred in the immediately preceding financial year has not been mentioned.
- Auditor's report had certain other deficiencies with respect to SA 700.

SA 705- MODIFICATIONS TO THE OPINION IN INDEPENDENT AUDITOR'S REPORT

- Provisions of AS-10 and AS-16 had not been complied with, however, the auditor in their audit report under the head Basis for Qualified opinion and in addition to this para 2(d) of report on other legal and regulatory requirements had stated that qualification constitutes departure from accounting standards but in the report there was no clear mention of which AS were not complied with.

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

- Independent Auditor's Report drew attention to various matters but the same had not been disclosed as "Emphasis of Matter Paragraph". It was further not disclosed in the Auditor's Report that "Our report is not modified in respect of these matters emphasized" as required by Para 7 of SA-706.
- Treatment of expenditure given by the company was not in accordance with applicable standards, guidance notes & Expert opinion given by the Expert Advisory Committee. Non compliance of technical standard issued by ICAI is a matter of qualification. An "Emphasis of Matter" paragraph cannot substitute a "Qualified Opinion" as envisaged by Para A3 of SA 706.
- While framing their opinion on consolidated financial statements of the company the auditor had not disclosed that opinion was based on the consideration of the other auditors on the financial statements of the subsidiaries and joint ventures.
- The requirements specified in Para 6 & 7 of SA-706 had not been complied with in the Auditor's Report.
- The erstwhile statutory auditors had expressed a qualified opinion for the year ended 31.03.20xx, on the amount claimed by Banks in respect of derivative transactions which were under dispute not acknowledged as debt, being shown under contingent liabilities and commitments. However, the current auditors had included the same under 'Emphasis of Matter' in Independent Audito'rs Report for F.Y. ended 31.03.20x1, though there had been no change of status for the same liability during the year.

- Audit firm has reported under the head 'Emphasis of Mater" "without qualifying our report we draw the attention to the following notes appearing in Financial Statement-Note No-___- regarding recognition of gain on foreign currency translation of Rs. _____ crores.
  The audit firm was required to issue a qualified opinion as it is a misstatement in the Financial Statement. Similarly, the audit firm was also required to flag / mention this issue at the Audit Committee of the company in accordance with listing agreement under clause 49 of SEBI but the same has not been done.

SA 710 - COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

- The break-up of the finance cost was not provided for the previous financial year.

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

- In terms of SA 720, auditors are required to read the draft of annual report containing the audited financial statements along with the financial statements so as to identify and communicate material inconsistencies, if any, with the audited financial statements before issuing the auditor's report. This information had not been brought out in the engagement letter to request the above information from the management.
- There was no documentation to demonstrate whether the firm obtained and reviewed the Draft Annual Report to meet the requirements of SA 720.
- Company had not commented upon the end use of funds in the Director's report, how had this been reviewed as per the requirements of SA 720.
- The firm has not read the other information (e.g. management report, financial summaries) to identify material inconsistencies, if any, with the audited financial report as per SA- 720.

SQC 1- QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

- Records were not maintained regarding implementation of policies and procedures addressing each of the six elements of quality control.
- Quality Control Document of the firm was deficient due to the non-inclusion of the following aspects from SQC1 - engagement quality control review, monitoring complaints and allegation documents, auditor rotation policies, money laundering, acceptance and continuation of clients- including checking identity of new clients etc.
- Firm's SQC 1 document did not stipulate policies and procedures to mitigate the familiarity threat to independence as it did not cover/set out the criteria for rotation of senior personnel (including partners) for listed and unlisted audits.

- There was no evidence of second partner review for listed companies as stipulated in firm's SQC Policy. Moreover, the process of EQCR was non existent for listed and unlisted company audits.
- Audit firm had not framed any policy so far as to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
- For one of the listed companies, the engagement partner had signed the accounts for more than 7 years, resulting in non compliance of SQC-1.
- The firm had no policy of rotation of engagement partner.
- There was no documented SQC Policy on monitoring relating to periodic inspection of completed engagements post issuance of the report and inspection cycle per engagement partner.
- The Firm had not documented an overall Policy dealing with the aspects covered by SQC-1 including the personnel matters and also have not written and documented detailed policy to address the personnel issues of Recruitment, Performance evaluation, Capabilities, Competence, Career development, Promotion, Compensation, Estimation of personnel needs.
- The majority of partners of the firm were interested in various firms/LLPs. Due to the existence of multiple firms with common interested partners and also because no detail was provided in respect of audit assignments taken by network firms and their inter arrangements, it was not possible to arrive at the specified number of audit assignments taken up by the firm in compliance of section 224 of the Companies Act. Further, the paid assistants engaged in audit and assurance were interested in various firms/LLP's some of which were close competitors.
- Clearance by Engagement Partner & Professional Practice Director was given on 21/5/20xx however, the Audit Acceptance Letter had been sent much earlier on 17th April, 20xx.
- There was no separate policy in place to avoid the submission of misleading or incorrect information to the authorities or to the client.
- The firm had not designed and implemented performance evaluation and advancement system to reward partners and staff involved.
- In case of evaluation of I.T. Controls in SAP, specialist consultation was not taken and results were not discussed with those charged with governance.
- Adequate documentation including background checks of promoters, directors, KMP etc. was not readily available to evaluate the process of acceptance and continuance of client engagement or new engagement.
- Firm did not have a formal training program schedule and a training calendar. Further, there was no monitoring of whether the qualified and other staff attended ICAI's CPE or not.

- Assignment of engagement teams, monitoring of work etc., was done through review of timesheets by the partners, and these timesheets were consolidated on a weekly basis. However, upon review, some of them contained client details while the others did not.
- No documentation was available to assert the skills, competence and independence of the Engagement Team and the Review Partners being considered by the Engagement Partner before the commencement of audit.
- No record was maintained of training program organized for students and employees, and the specific training given to the Engagement Team was also not on record.
- Annual independence declaration was not obtained from partners/staff before the audit was taken up. Further, it also did not cover the areas like business relationship with clients, secrecy undertaking, money laundering information, compliance with Companies Act, etc.
- Declarations of Independence from the audit team were not dated.
- In respect of consultation amongst the various partners involved in the audit, written notes were not documented.
- Formal records were not maintained in respect of policies and procedures that ensure that staff adheres to other ethical standards outlined by ICAI, being professional competence and due care, confidentiality, and professional behavior.
- EQCR review was not carried out by an independent person other than the team members and list of documents shared were not documented and signed off.
- The managing partner of the firm assumed ultimate responsibility for the firm's system of quality control; however the policy and mechanisms of reviewing the policy were not documented.
- There was no procedure of obtaining an annual declaration from the employees and partners with regard to compliance with all the ethical requirements.
- Firm had not documented policies covering the aspects of Prevention of Insider Trading; mitigating the familiarity threat to independence; rotation of senior personnel (including partners) for listed and unlisted audits.
- There was no documentary evidence in the working papers of the Firm which demonstrated the procedures carried out by the firm, with respect to review of client acceptance and continuance procedures.
- In majority of the engagements, the financials were signed by the Managing Partner of the Firm for a continuous period of more than 5 years which in some cases exceed 10 years, whereas the Firm's SQC Policy stipulates for rotation of personnel on attested engagements every 5 years.
- Firm's Audit Approach Manual did not adequately cover the elements of risk based approach. The Managing/Audit Partner verbally gave appropriate guidance to the engagement team w.r.t the identification of risks, testing of controls etc.

- Firm's SQC policy did not cover the quality control aspects in respect of the associated firms. In respect of all listed engagements, firm did not seek declarations from Partners/professional staff under the Prevention of Insider Trading Regulations in accordance with SEBI Regulations.
- The training programs predominantly covered the technical/regulatory updates and not the ethical aspects. Further, these training programs were attended by only few professional staff. The firm also did not implement any whistle blower mechanism.
- Firm had no supporting documents available for having conducted the background checking in respect of the client's principal owner, their KMP etc. Further, the acceptance clearance had been signed by the engagement partner instead of firm's national level risk & quality partner when there was one.
- Firm had obtained written confirmations on independence from the members of engagement team. However, the annual confirmation on independence was obtained only by circulating e-mails to all the staff and through negative confirmation. There was no written confirmation being followed.
- Minutes or attendance register regarding the training of the staff by organising meetings/ seminars was not available.
- The firm did not have conflict checking system to identify and manage potential conflicts relating to business or financial relationships.
- The system of documentation did not provide the segregation and indexation making it difficult to access and retrieve. Further, engagement planning, working papers, deliverables, evaluation process, controls etc. were not in tune with the requirement of SQC-1.
- The firm had not documented the quality control Policies & Procedures (P & P) covering and addressing each of the following six elements:
    - Leadership responsibilities for quality within the firm.
    - Ethical requirements
    - Acceptance and continuance of client relationships and specific engagements
    - Human resources
    - Engagement performance
    - Monitoring
- Deficiencies in Quality Control, Ethical Requirement & Audit Independence, Independence, Assurance Practices only, Client Relationships & Engagements, Human resources, Consultation Engagement quality control review, Engagement documentation, Audit Planning and Risk Assessment, Audit Sampling and Other Selective Testing Procedures, Audit Documentation, Audit Evidence was observed.
- Firm did not have policy on Difference of opinion inbuilt in it's policy as per SQC-1

- Firm did not have policy on “Engagement Quality Control Review system ” inbuilt in its policy as per SQC. Hence, the requirements in this respect of para 68 “Criteria for the Eligibility of Engagement Quality Control Reviewers”, Para 73 “Documentation of the Engagement Quality Control Review”, had not been complied with.
- Firm did not have policy on Engagement Documentation inbuilt in its policy on Completion of the Assembly of Final Engagement Files as per para 74 of SQC, Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation as per para 77 of SQC, Retention of Engagement Documentation as per para 82 of SQC and Ownership of Engagement Documentation as per para 85 of SQC.
- Firm had referred Monitoring para in its policy however the procedures had not been designed to provide reasonable assurance that the SQC-1 is being complied with as desired.
- The firm was not maintaining any documentary record to show continuous activities for further development of staff capabilities including training by more experienced staff etc.
- The firm has policy for obtaining the declaration for independence from all the partners with respect to specific engagement and whereas from other engagement team it was by exception reporting.

ACCOUNTING STANDARDS

AS- 1 DISCLOSURE OF ACCOUNTING POLICIES

- As per Para 24 of Accounting Standard – 1, "Disclosure of Accounting Policies", "All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed." Disclosure of accounting policies as required under the applicable accounting standards or relating to significant matters were not done for Cash and Cash equivalents (for the purposes of Cash Flow Statement), Intangible assets and Intangible assets under development & Operating cycle.
- Policy for AS 2 "Valuation of Inventories" and AS 26 "Intangible Assets" has not been disclosed in financial statements.
- Policy on Non-monetary foreign currency items was not mentioned even though there were foreign currency transactions entered into during the year which included both monetary and non-monetary foreign currency items.
- Accounting Policy for Amortization of Intangible Assets was not mentioned in Significant accounting Policies of Consolidated Financial Statements.
- Significant Accounting Policies did not include disclosures of policies in respect of:-
    - Recognition of Insurance claims
    - Accounting of Leases
    - Treatment of IPO Expenses
- Company had not disclosed in its accounting policies in the respect of following incomes:
    - Interest income
    - Dividend income
    - Income from sale of investments

  Further, the Company had not disclosed separately in its notes to accounts or under the head of significant accounting policies the indirect method used for presenting its cash flow statement.
- Volume discount was accounted for on accrual basis by the company whereas cash discount was accounted for on cash basis. The accounting policy did not elaborate to include the actual accounting procedure being adopted by company.
- Accounting policy of the company on 'Leasehold Land' stated that "leasehold land was not amortised", which was incomplete and did not disclose the complete facts of the lease terms.
- Long-term investment accounting policy was not appropriate, it did not discuss when adjustment to carrying amount in case of diminution or other than temporary had to be made.

- Insurance claims were pending for settlement, which had neither been adjusted in financial statements, nor the fact that such insurance claims will be accounted for other than on accrual basis had been disclosed in significant accounting policies.
- Company had not disclosed in its accounting policy, the rates and method of depreciation used for “Furniture and Fixtures, Computers and Office Equipment” under the head significant accounting policies, in its financials. There was separate disclosure of “Other Assets” in the notes to accounts in the annual report and the Company had disclosed its depreciation policy regarding the “Other Assets”.
- Entity had neither disclosed any accounting policy on “Cash and Cash Equivalents” nor separately in its accounting policies or notes, the method (indirect) used for presenting its cash flow statement.
- There was no Accounting Policy stating that provision on Non Performing Advances was created as per Reserve Bank of India guidelines. There was also no disclosure of rates of provisions on different categories of Standard Assets.
- Accounting Policy on “Transactions Involving Foreign Exchange” did not clearly mention ‘foreign currency’ monetary assets and liabilities or monetary assets and liabilities ‘denominated in foreign currency’. Further, there was no reference of the fact that the exchange rates are being provided by Foreign Exchange Dealers Association of India (FEDAI).
- Company had not made disclosure in significant accounting policy about use of estimates.
- The quantum of effect of consequential adjustments of pending items in reconciliation of Branch adjustments / balancing of Subsidiary Ledgers was not ascertained and specified.
- "Investment in India" are showing on gross basis whereas as per the significant accounting policy, Investment are to be stated in balance sheets are net of depreciation. (AS 1)
- As per significant accounting policy, Advances were stated net of provision made towards non-performing assets whereas Schedule on "Advances" was silent for this.

AS-2 VALUATION OF INVENTORIES

- Inventory of traded goods was not shown separately from that of finished goods.
- Company had deducted advance to suppliers of work in progress for the purpose of showing Work in Progress in Financial Statements instead of accounting for advance from Customer in other current liabilities thereby contravening classifications laid down under Revised schedule VI. This led to understatement of inventory in contravention of AS-2 mandated by Companies (Accounting Standard) Rules, 2006.
- The description of certain inventories stated did not tally with the description as mentioned in the Notes.

AS-3 CASH FLOW STATEMENTS

- Method of preparation of cash flow statement had not been disclosed in standalone financial statements and consolidated financial statements. Company had not disclosed the components of Cash and Cash Equivalent in the Cash Flow Statement in consonance of the AS 3.
- The company had not disclosed separately, proceeds and/or repayments of Long term borrowings.
- There were certain deficiencies in Cash Flow Statement related to:
  - Purchase of fixed assets had been erroneously shown
  - Dividend (including tax thereon) payment had been wrongly shown
  - Either proceeds of purchase of investment was understated or that of sale of investment was overstated as reconciliation of investment amount between year opening and year closing balances suggests.
  - Cash and cash equivalent included fixed deposit maturing after a period of 1 year and Bank Balance earmarked against unpaid dividend both of which did not form part of cash and cash equivalents.
  - Interest income has been shown incorrectly as against the actual receipt by the company
  - The amount stated did not tally with amount stated in the Notes
  - The amount shown under Loss / gain on sale of Fixed Assets (net) was stated but such amount not shown in any Notes, attached to financial statements.
  - The amount of loss/gain on sale of Investments (net) did not tally with Statement of Profit and Loss amount.
  - Dividend received was not disclosed under investing activities.
  - Purchase / Sales of Investments were not disclosed separately.
  - The amount shown under Cash Flow from Financing Activities did not tally with amount shown under Cash Flow from Operating activities and amount shown in Notes (finance costs).
  - Disclosure for Unrealized Foreign Exchange Gain / Loss was not reflected in the Cash Flow Statement.
- Closing cash and cash equivalent included fixed deposits maturating after 1 year and fund earmarked for unpaid dividend which was not cash and cash equivalent as per AS-3. Further, the comprehensive impact of distortion in movement of cash because of same was not readily quantifiable.
- Margin money or deposits under lien for issuance of bank guarantees, though smaller in quantum but was not excluded from 'cash and cash equivalents' for future reporting periods.

- Margin money, security for borrowings, guarantees and other commitments was classified as Cash and Cash Equivalent instead of Cash and Bank Balances. Further, a sum of money on which restrictions were placed by the High Court, was reflected as Cash and Cash Equivalents though not available for use.
- As per the financial statements of the company, total dividend paid was less than the actual payment shown in Cash Flow Statement.
- The Bank had not disclosed the components of cash and cash equivalents (Para 42 of AS-3) and had not presented the reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet.
- As per Para 31 of AS-3 Cash Flow statement, the total amount of interest paid during the period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of profit and loss or capitalised in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets. The company had not shown interest paid, which was capitalised, in cash flow statement.
- Fixed Deposits having maturity of more than 3 months and Fixed Deposits held as margin money considered as "Cash and Cash Equivalents". Movement in Loan Portfolio was not considered as Operating Cash Flows in case of Finance Companies. (AS -3).

AS-6 DEPRECIATION ACCOUNTING

- In case of revalued assets, the depreciation should have been charged on the basis of remaining useful life of the asset. However, as per the accounting policy, the same had been charged at normal rates without considering remaining useful life of the asset.

AS-9 REVENUE RECOGNITION

- Accounting policy on revenue recognition did not capture the point of recognition where significant risks and rewards were transferred.
- Income Recognition did not include policy on revenue recognition from Transfer of Rights, policy relating to income recognition from interest income, lease income and dividend income. Moreover, it did not mention about adjustments arising from liquidated damages and price variations arising from agreements. Further, the policy on accounting treatment for foreseeable losses had not been mentioned.
- Financial statements did not contain the disclosure as to the component of excise duty on the difference between the opening and closing stock of finished goods as warranted by Para 10 of AS-9.
- Policy regarding accounting for insurance claims accounted for other than on accrual basis were not disclosed in Revenue Recognition Policy in schedule, as per relevant accounting standard issued by ICAI.

- When the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded. Accounting Standard requires that a provision be made to reflect the uncertainty in the collection from Debtor." The management had to make appropriate provision for doubtful debts.
- In view of certain items having been maintained on cash basis, the fact that AS – 9 is not fully complied with was not stated.
- In the Notes to Balance sheet and Statement of Profit and Loss, under Accounting Policies, Basis for Accounting, it was stated that the accounts are prepared "……. on an accrual basis of accounting…….". However, under Revenue recognition, it was stated that "Export Incentives …. have been recognised on the basis of amount received", which tends to suggest that this is recognised on the Cash system of accounting and is against Accrual system of accounting.

AS-10 ACCOUNTING FOR FIXED ASSETS

- Method adopted to compute the revalued amounts and the nature of any indices used had not been mentioned in the notes to accounts as required by AS-10.

AS-11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

- Reconciliation of opening and closing balances of foreign currency translation reserves had not been made in accordance to Para 40(b) of AS-11.
- In respect of derivative contracts, premium paid, gain/losses on settlement and provision for losses on restatement were recognized along with the underlying transactions and charged to statement of profit and loss which was not in accordance with AS -11.
- No disclosure had been made for unhedged exposure in foreign currency against assets and liabilities in different categories.
- The following significant accounting policies related to fixed assets had not been disclosed- "From accounting periods commencing on or after 7th Dec 20xx, the company adjusts exchange differences on translation / settlement of long term foreign currency monetary items pertaining to the acquisition of a depreciable asset to the cost of the assets and depreciates the same over the remaining life of the assets (para 46 and 46- A of AS-11).

AS-13 ACCOUNTING FOR INVESTMENTS

- As per Note, the account balance included share application money. Pending allotment of shares by the subsidiary company, the amount cannot be an Investment. The same should have been disclosed as Advances.
- Amount provided for diminution in value of investments was not disclosed.

- As per Note, Company had acquired Equity Shares by transferring certain assets, liabilities relating to a project under construction based on book value of assets transferred. This was a non-compliance with the Accounting standard given inadequate explanation of the same in the financial statement on the basis of the transfer.
- Neither any provision has been made in the accounts of the company nor has any audit comment been given by audit firm regarding Impairment in value of investment in the subsidiary companies. (AS-13)

AS-15 EMPLOYEE BENEFITS

- Enterprise had not complied with AS-15 since actuarial adjustments were not included as part of employee benefits.
- The policy of benefits did not explicitly mention that the benefits have been discounted using Projected Unit Credit method as per Para 51(b) of AS 15- employee benefits. Moreover, the accounting policy on employee benefits dealt with Indian operations of the Company and did not state the method of recognition and measurement in respect of foreign branches.
- No disclosures had been made towards break up of defined contribution plan as required under Para 120(O) of AS-15 mandated by Companies (Accounting Standard) Rules 2006.
- AS 15 detailed disclosures like assumptions, movements in P&L, movements in Balance sheet had not been provided**.**

AS-16 BORROWING COSTS

- Accounting policy did not deal with the exchange component to be classified as interests as per para4 (e) of AS16- Borrowing Costs.
- Accounting Policy in respect of Borrowing Cost was not disclosed in Financial Statements (AS-16).

AS-17 SEGMENT REPORTING

- Segment accounting policies and detailed working papers for segment reporting were not available within the AS checklist.
- Total amount of segment assets did not match with the total assets in the Balance Sheet, after considering the unallocated assets.
- The Audit Firm had verified the details of segment reporting and other necessary disclosure as required under AS-17, except for as per para 5.8 & 5.9 of AS-17, which state that Segment assets do not include income tax assets and Segment liabilities do not include income tax liabilities respectively, however Tax expenses paid in advance/tax deducted at source (net of provisions) and Deferred tax liabilities(net) has been considered and allocated between different segments.

AS-18 RELATED PARTY DISCLOSURES

- Disclosures relating to previous year figures in regard to related parties were not given.
- It had been observed that under transactions with related parties, requirements of AS 18, to disclose names of the parties where transactions were more than 10% in value for each type of transaction had not been done.
- Further, as per AS 18 all related party transactions that were material were required to be disclosed. In the financial statements material disclosures such as guarantees, loans given/ taken etc have been referred to as a foot note. No specific reference was provided as to where in the Financial statements such disclosures were made.
- Director's remuneration has not been included in related party disclosures.
- Company had not disclosed transactions separately for Key Management Personnel and those related to Individuals having control or significant influence over the Company by reason of voting power and their relatives.
- Loan given to the Directors had not been disclosed in the related party transactions, disclosure as per Para 23 of AS-18 requirements and the closing balance of the same had also not been disclosed.

AS-19 LEASES

- It was unclear whether the Lease Equalization Reserve was followed or not.
- In the note forming part of the financial statements, the lease arrangements were for a specified period; however cancellable factor of operating lease had not been mentioned therein.
- Company had not framed any accounting policy in relation to both Operating Leases and Financial Leases. (AS- 19)
- Details in respect of Assets Given on Operating Lease was not disclosed. (AS-19)

AS-20 EARNINGS PER SHARE

- Basic & Diluted Earnings per share had not been separately disclosed on the face of the Statement of Profit and Loss as per AS-20, even though both were same.
- Weighted average number of shares had been disclosed incorrectly due to calculation mistake.
- EPS disclosed without any classification about Basic and Diluted. Further, numerator and denominator and face value of share had not been disclosed in consolidated financial statements.
- The presentation and disclosure of EPS was not in accordance with AS-20 related to the following:

  - bonus shares released during the year had been considered from the date of allotment. This will impact the weighted number of shares reported in the financial statement.
  - As per Notes to accounts, some equity shares were kept in abeyance as the matter was sub-judice and hence had not been considered for computation of EPS. However, based on definition of potential equity shares as defined in para 4.4 of AS-20 the same should have been considered for computation of diluted EPS.
- Reconciliation between Net Profit and Adjusted Profit was not disclosed in Financial Statements. (AS-20)

AS 21 CONSOLIDATED FINANCIAL STATEMENTS

- In the notes forming part of the Consolidated Financial Statements there was no disclosure of consolidated figures of payment to auditors and break up giving Audit Fees, other service fees and reimbursement of expenses.

AS-22 ACCOUNTING FOR TAXES ON INCOME

- As per note, the tax effect of share issue expenses eligible for IT deduction U/s 35D was credited to Securities premium reserve account. It was not in accordance with AS -22.
- Deferred tax was not recognized for Depreciation on fixed assets, gratuity/ pension liability, provision for standard assets, and depreciation on investments.
- The short term advance tax has not been netted off against the provision for tax.
- Deferred tax liability on account of depreciation and deferred tax asset on account of employee benefits, which reversed during the tax holiday period should not be recognized.
- Company had recognized Deferred Tax Assets (DTA) but detailed working for ascertaining virtual certainty was not in working file. Further, no disclosure was provided in the Notes to Accounts by the company that such deferred tax assets can be realized against future profits. Moreover, the matter related to deferred tax assets was not covered in the Written Representation Letter given by the auditee company.
- Measurement of Deferred tax assets and liabilities was on the basis of effective tax rate instead of the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. (Para 21 of AS-22).
- As per para 31 of AS-22, the break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances had not been disclosed in the notes to accounts.
  - o As per para 31 of AS-22 require to disclose the major component of deferred tax assets and deferred tax liabilities. However as per notes to accounts, the major component of deferred tax assets i.e. DTA on provision and contingencies have been shown as "Others".

- Firm had verified the computation of deferred tax and disclosure of assets/liability as per AS-22, however, deferred tax asset on the provision on standard assets had not been considered in the financial statements.

AS-26 INTANGIBLE ASSETS

- There was no distinction between internally generated intangible assets and other intangible assets. Non disclosure & policy was not in line as per AS-26.
- As per Para 90 (a) of AS – 26, the useful lives or the amortisation rates used is required to be disclosed, but the same was not disclosed by the Company.
- There were intangible assets. But the basis of amortisation of such assets had not been disclosed in the accounting policies.

AS-27 FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

- No disclosures had been made in standalone financial statements of company's share of each of assets, liabilities, income and expenses in aggregate perspective as required under Para 53 of AS-27.
- The aggregate amount of the assets, liabilities, income, expenses, contingent liabilities and commitments related to the banks interests in jointly controlled entities had not been disclosed in notes to the consolidated financial statements.

AS-28 IMPAIRMENT OF ASSETS

- There were no documentary evidences for carrying out test of impairment as per AS-28.
- Disclosure of impairment of Land was incomplete in the notes to the financial statements.
- Disclosure for impairment in the financial statements did not give a specific disclosure as to the main events and circumstances that led to the recognition of impairment loss and also the basis of valuation done.

AS-29 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- There was difference in the amounts disclosed in Note on Provision for Warranty under Short-Term Provisions and Note on Disclosure as required by AS-29 (Contingent Liabilities and Provisions)", Closing Balance for Provision for Warranty.
- As per paragraph 68 of AS-29, contingent liability in respect of VAT department levying penalty for delayed payment of VAT had not been disclosed in the notes forming part to the financial statements.
- Proper reference of the note re: income tax liabilities had not been made under Schedule of Contingent Liabilities. Alternatively, reference of this note should have been given in Schedule of Contingent Liabilities.

- AS -29 Disclosure for claim against the Bank had not been disclosed in Schedule of Contingent Liabilities.
- Annual accounts showed Contingent liability for custom duty up to a certain period. Discussion with audit firm revealed that pursuance to a notification of Government of India with retrospective effect, company had created the contingent liability for the retrospective period whereas custom duty after the date of notification has been duly paid by the company. No work papers in the working paper of audit file were there for justification of showing this liability as contingent liability instead of liability. (AS -29)
- Interest free advance given by the company was outstanding since last few years. Neither any provision has been made for this advance outstanding since last few years nor any audit comment has been given by audit firm. The working paper of audit firm did not justify the non creation of provision for the above advance outstanding for more than 04 years. (AS-29)

REVISED SCHEDULE VI OF THE COMPANIES ACT, 1956

- Note on cash and Bank balances did not disclose fixed deposit with banks segregating between due for maturity within 3 months and 3 to 12 months.
- Statement of Profit & Loss showed “Profit before Prior Period Items, Exceptional and Extraordinary Items and tax from continuing operations”. This disclosure was not in accordance with Revised Schedule VI which requires “Prior Period Items” to be disclosed as part of “Other Expenditures”.
- Reconciliation of the number of shares outstanding at the beginning & at the end of reporting period was not given.
- Respective deduction from revaluation reserve was not shown in schedule VI- depreciation on property.
- Disclosure of repairs and maintenance was not in accordance with the requirements of Revised Schedule VI, as the expense of repairs and maintenance was not shown separately for each item in respect of building and machinery.
- Company classified trade receivables between ‘Dues outstanding for a period exceeding six months’ and ‘Other debts’ as against Revised Schedule VI, that stipulated to classify the same between ‘Dues outstanding for a period exceeding six months since due date of payment’ and ‘Other debts’.
- The disclosure of “Advance Income Tax & TDS” under the head “Loans and Advances” as short term & “Provision for Taxation” under the head “Provisions” as short term was not in accordance with Revised Schedule VI.
- Company added capital advances of WIP in the capital WIP instead of showing it under the head of capital advances.
- Company had invested in the equity share of Associate Companies but it was not separately disclosed, further it had also not been disclosed whether the investments were partly paid or fully paid.
- Previous year figures were not disclosed in various Notes.
- Additions, Deletions/ adjustments of the amount of accumulated depreciation transferred on amalgamation, Deletions/ adjustments of amount arising on the realignment of depreciation policies consequent to amalgamation were disclosed as ‘consolidated figures’ by way of sub notes, instead of disclosing the same separately for each class of assets.
- An amount had been shown as “other amounts recoverable in cash or kind for value to be received” under “Other loans and advances, considered good, comprise”. And the financial statements did not include any further details of the said amount though the same constituted 23% of the total amount of loans and advances.
- The movement for Capital Reserve and Securities Premium Reserve had not been presented.

- Company had entered into an agreement for sponsoring Cricketing events. However, the total amount of expenditure for the year on account of this event was not mentioned in the financial statements.
- Totals were not tallying in Balance Sheet, Profit & Loss and Cash Flow due to rounding off.
- Trade payable included an amount which should have been shown under Other current Liabilities.
- Breakup of broad heads has not been given in respect of sales included in revenue from operations and purchases in Profit & Loss.
- Consolidated accounts did not give reference to Notes and Accounting Policies.
- The nomenclature “Special Reserve” should be elaborated to state special reserve created under Income Tax Act, 1961.
- There was a casting error in disclosure of exposure to Real estate sector, due to adding a sub total to the aggregate figure.
- There was a difference between the Financial statements signed by the auditors and the Published Financial statements. Provisions for NPA as per Note was different than as shown in the signed Financial statements.
- Significant Accounting Policies and notes to accounts were not mentioned at the bottom of the consolidated Balance Sheet and consolidated Profit and Loss Account.
- There was no uniformity in the presentation of the figures in Balance Sheet, Schedules, Cash Flow Statements as some were presented in thousands, some in lakhs and Crores.
- Profit on sale of investments and profit on sale of land, building, and other assets was disclosed as net, however, break up should be given as gross amount less any loss.
- Bond R-1 series had redemption starting from 11/2/xx and Bond P series had redemption starting from 1/2/x1. However, Bond P series was placed after Bond R series.
- Significant accounting policy stated that the sales were inclusive of VAT and Central Sales Tax, which was not in conformity with the Revised Schedule VI, and the financial impact due to such deviation was not quantified and reported by the audit firm.
- Present value of obligation in note did not match with the short term & long term provisions as disclosed in other note.
- Dues to Investor Education and Protection Fund (IEPF) had not been disclosed.
- Note given in the financial statements was not as per the requirements of Guidance Note on Revised Schedule VI, as the margin money and fixed deposits having maturity of more than 12 months had not been disclosed separately.
- Interest on income tax refund was not credited to profit and loss account under other income, rather was credited to balance sheet under the head of “short term loans and advances” thus resulting in understatement of the profits of the company.

- Liability in the balance sheet in respect of Gratuity at the year end was not reflected in the Long / Short Term provisions.
- Stores and spares had been reflected as inventories but Consumption of stores and spares had not been reflected in the Profit and Loss / Notes to Profit and Loss.
- Company classified investments in Mutual Fund as Quoted Investments whereas it was unquoted.
- Company classified "Income Tax (Net) and Fringe Benefit Tax(Net)" under Non-Current Assets which is contravention of Guidance Note to the Revised Schedule VI to the Companies Act, 1956.
- Expenditure incurred on unbilled services was inventoried as per the accounting policy. However, as per revised schedule VI, "unbilled Revenue" should be disclosed under "Other Current Assets".
- Reference of finance lease obligation was made to different note than the note dealing with finance lease obligation.
- There was a difference in the number of equity shares issued during the year as shown in note and as on conversion of FCCB.
- Other payables included statutory dues which were not separately disclosed.
- The percentage disclosure in respect of the total consumption of imported and indigenous raw materials had not been disclosed.
- As per the note to the quarterly financial results it was stated that the entire funds received from the public issue have been utilised. However, as per the schedule of Cash and Bank balances filed as a back up to the amounts disclosed in the Balance sheet, amount was still available in the Public issue bank accounts.
- Disclosure on unhedged foreign currency exposure had not been made.
- Total of rent rates and taxes figures disclosed were not tallying with that disclosed as per Schedule VI.
- Total of Repairs was not tallying with figures disclosed in totality under the Schedule.
- Firm had failed to make the disclosures in the Financial Statements with regard to the Fixed Assets; other non current assets and trade receivables; cash and cash equivalents; and short term loans and advances and other current assets.
- Bank had clubbed the income and expenses and had shown net income in the profit & loss account.
- Bank while calculating the Income Tax Liability added an amount under section 43B of the Income Tax Act in its computation of income tax liability for the year. The same was wrongly added back and excess income tax liability was created accordingly.

- Bank had not given any disclosure with respect to inter branch balances. Even if the same was nil a disclosure in this requirement should have been given. Also the trial balance of the bank showed a head of account whose nomenclature was of inter branch account.
- Bank for classification of advances under 'secured / unsecured' had treated an advance to be fully secured even though the total of the security value was more than 10% of the total advance amount.
- Company under Other Commitments had made disclosure of certain arrangements and agreements which they had entered into and had described the nature without giving the possible quantification in amounts.
- Schedule VI requires the Interest rates of the Borrowings to be disclosed for better understanding of the borrowings by the stakeholders. The same had not been disclosed by the Company.
- The Company had not disclosed the product wise details of the Finished and Traded Goods sold by them.
- As per Note No.6(F) (i) of General Instructions for preparation of Balance Sheet of Part-I of the Revised Schedule VI to the Companies Act, 1956, Short-Term Borrowings should be classified in the prescribed heading. However, it was observed that the same was not followed.
- As per Note No.6(G)(a) of General Instructions for preparation of Balance Sheet of Part-I of the Revised Schedule VI to the Companies Act, 1956, requires that Current maturities of Long-Term Debt should be classified separately under the head Other Current Liabilities. However the same was not followed.
- As per Note No. 6(G)(j) of General Instructions for preparation of Balance Sheet of Part-I of Revised Schedule VI to the Companies Act, 1956, nature of 'Other payables' under Other Current Liabilities needs to be specified. But the same was not done.
- Plant & Equipment was classified as Plant & Machinery; Office Equipment & Computer was not classified separately. Tangible Fixed Assets was not classified in the order as mentioned in Note on General Instructions for preparation of Balance Sheet of Part-I of Revised Schedule VI to the Companies Act, 1956.
- Investment in Equity Shares in Subsidiary Companies, Equity Shares in Joint Venture Subsidiary Companies, Preference Shares in Subsidiary Companies had been classified as Non-Trade Investments instead of Trade Investments as all these Companies were promoting the trade / business of concerned company.
- Housing Deposit to Key Managerial Personnel and Loans given to Subsidiary Company was not classified under 'Loans and advances to related parties'. Further, nature was not specified for 'Advances recoverable in cash or kind' under 'other loans and advances'. Housing Deposit to Key Managerial Personnel was not classified correctly as this was not given to Key Managerial Personnel but to other Directors.

- Under the heading ‘Current Investments’ proper classification had not been made. As per Note No. 6(N) (ii) (b) and (c) of General Instructions for preparation of Balance Sheet of Part-I of Revised Schedule VI to the Companies Act, 1956, classification was required only in respect of Quoted & Unquoted Investments.
- The Company had not made full disclosures as required under the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.
- Nature of ‘Others’ under the head ‘Earning in Foreign Currency’ was not disclosed.
- In long term Borrowings head; Security was not specified for secured borrowings and also terms of repayment of term loans were not disclosed.
- As per Note No.6 (F) (ii) of General Instructions for preparation of Balance Sheet of Part-I, of Revised Schedule VI to the Companies Act, 1956 requires that in case of Short-Term Borrowings, it shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case. However, it had been observed that security was not specified for secured borrowings from other parties.
- ‘Short term loans and advances’ head included ‘Loans and advances to related parties’ was not classified as Others, specifying nature thereof, as these Loans & Advances are not given to Related Parties (which was evident from Related Party Disclosures, forming part of the Consolidated Financial Statements).
- Payment to Auditors had not been disclosed separately as required by Note of General Instructions for preparation of Statement of Profit and Loss of part-II of the Revised Schedule VI to the Companies Act, 1956. Instead it was shown under Other expenses head.
- Amount was not specified in Notes– Micro & Small Enterprises, forming part of the Financial Statement and in Notes – Contracts in Progress (CIP), forming part of the Financial Statement.
- There was a difference in figures in various notes to accounts, as forming part of financial statements (opening & closing inventories, Raw material, consumption of raw material & components etc, stock of trading purchase).
- Figures of Deferred Tax Assets and Deferred Tax Liabilities were not mentioned correctly.
- In Notes under Cash and Cash Equivalents, Bank Deposits of more than 12 months in maturity had been specified. But only a small portion of Bank Deposits with more than 12 months in maturity has been transferred to Notes under the head Other Non-Current Assets instead of full amount.
- As per Guidance Note on the Revised Schedule VI to the Companies Act, 1956, Revenue that was not arising out of the company’s main operating activity should be shown as other income. However it has been observed that Insurance claims are recognized as Income under the head “Revenue from operation” instead of “Other incomes”.
- It had been observed that under ‘Other Provisions (Long Term & Short Term)’ head
    - The amounts did not tally with the amount stated in Notes

- There was a difference in the amounts shown in different notes and the previous year figure of the same was incorrectly stated.
- Nature of other provisions was not specified.
- Classifications i.e., Investments in Equity Instruments and other matters was not done as per requirements of Schedule VI.
- Aggregate provision for diminution in value (NAV breakup value) of unquoted investments was not stated.

- Company had not disclosed the Leasehold land and freehold land separately in its notes, under the head fixed assets. (Para 8.7.1.1 (ii) of Guidance note on Revised Schedule VI).
- Company had not disclosed the numbers of shares authorised, issued and subscribed for the immediately preceding reporting period in its notes.
- Company had not disclosed comparative figures in respect of forward contracts and derivative instruments in its notes. (Para 3.3 of Guidance Note on the revised schedule VI not complied with)
- Company wrongly classified its “Other Long Term Liabilities”, in its notes as-(a) Dealers’ Security Deposit & (b) Others whereas the correct classification given by the Guidance Note on Revised Schedule VI is into: (a) Trade Payables, (b) Others. Further, in case, where the classification is made as "others", each such items falling in "others" category should be disclosed "nature wise". However, the Company had not specified the nature of "others". (Para 8.4 of Guidance Note on the Revised Schedule VI).
- Company had incorrectly classified its “Short Term Borrowings”, in its notes as- (a) Working Capital Facilities from Banks & (b) Buyer’s Line of Credit. Whereas the classifications of short term borrowings, under different heads given by the Guidance Note on Revised Schedule VI were as: (a) Loans repayable on demand, (b) Loans and advances from related parties, (c) Deposits, (d) Other loans and advances (specify nature). The disclosures were not made by the company under the relevant heads, as mentioned above. (Para 8.6.1 of Guidance Note on the Revised Schedule VI)
- Company had not made disclosure of the following facts, in its notes, under the head short term borrowings, with a specific mention of:(a) the terms of repayment including period of maturity with respect to the Balance Sheet date and (b) the applicable rate of interest. (Para 8.6.1.2, Para 8.3.1.7 and Para 8.3.1.18 of Guidance Note on Revised Schedule VI).
- Company had not specified the “Nature of Other Assets” under the head tangible assets in its notes. (Para 8.7.1.1 (i) of Guidance Note on revised schedule VI).
- In standalone financial statements, the disclosure of ‘aggregate figure’ as mentioned in detail of sales under broad head, in notes, under the head revenue from operations, was “Not Reconciled” with the aggregate sales figure. The disclosure made under broad heads was not as per the suggested format as given in Para no. 10.8.1 of the Guidance note on

the Revised Schedule VI to the Companies Act, 1956, where all the minor heads are clubbed in "Others" category. (Para 10.8.1 of Guidance Note on the Revised Schedule VI).

- In case of consolidated financial statements, the Company had not specified “name of the body corporates and mutual funds”, where investment have been made, under the head non-current investments, and under the head current investments. Further, “basis of valuation is not disclosed thereon”.
- Different investment amount had been reported under the above heads in the standalone and consolidated financial statements. (Para 8.7.2.7 & Para 8.7.2.5 of Guidance note on the Revised Schedule VI)
- The presentation of MAT credit liability and recognizing an asset by way of credit in Profit & Loss account and in Balance Sheet was not in accordance with Para 13 – not disclosing ‘MAT credit Entitlement’ as a separate line item required vide Para 15 (read with Para 6 of ASI 6) of “Guidance Note on Accounting for Credit Available in Respect of Minimum Alternate Tax (MAT) under the Income Tax Act, 1961” issued by the ICAI.
- No disclosure regarding the nature of accounts or transactions in certain material funds/accounts had been given in the Notes to Accounts.
- The following was observed in Notes- Share Capital head
  - (i) The rights, preferences and restrictions including on distribution of dividend and the repayment of Capital, had not been disclosed in full.
  - (ii) The terms of securities convertible into equity shares along with the earliest date of conversion was not disclosed.
  - (iii) The amount should have been stated in Rupees in Lakhs instead of figures in US$ in millions.
- The following was observed in Notes- Reserves & Surplus head

  Appropriations :
  - i) The rate of Dividend on Equity Capital was not specified and the words Proposed Dividend on Equity shares should have been stated instead of Dividend Equity Capital.
  - ii) The amount of Dividend & Tax for previous years was not disclosed separately instead was grouped in one head.
- The following was observed in Notes- Long Term Borrowings head
  - (i) Term Loans and External Commercial Borrowings was not classified under:

    From Banks

    From Other Parties
  - (ii) Nature of securities in each case was specified.
  - (iii) Particulars and dates of redemption of Debentures / Bonds should were not specified instead of Year.
  - (iv) Terms of repayment of term loans and other loans were not stated.

(v) The figures in case of External Commercial Borrowings under Notes, were not stated in Indian Rupees. Whether the note is for secured or unsecured was also not specified.

(vi) Whether the maturity schedule, as stated, in for secured or unsecured Debentures / Bonds, not specified.

(vii) Under heading it had been stated as Rupees in Lacs but amount was stated as “$”.

- The following was observed in Notes- Short Term Borrowings head

  (i) Nature of securities was not specified separately in each case.

  (ii) The particulars of inventories mentioned under Particulars of security were not in accordance to the nature of inventories as detailed in Note of Inventory and the nature of securities should have been stated instead of particulars of security.

- The following was observed in Notes-Trade Payables head

  (i) Advance(s) from customers were not grouped under Other Current Liabilities.

- The following was observed in Notes- Other Current Liabilities head

  (i) The amount of unclaimed dividend stated did not tally with amount stated under Notes (cash and Bank Balances) amount**.**

  (ii) The nature of other liability was not specified and certain amounts (as per Note stated) seem to be sundry creditors for goods and services, which were not grouped under Note of Trade Payables.

- The following was observed in Notes- Fixed Assets head

  (i) Details of Additions, deductions, other adjustments, depreciation, and totals relating to previous year should have been disclosed in each class of asset.

  (ii) Adjustments, if any, on account of Foreign Exchange Fluctuations should have been disclosed separately.

  (iii) Intangible Assets, if any, should have been disclosed separately and basis of amortisation should have been disclosed under Notes of Significant Accounting Policies.

- The following was observed in Notes- Non – Current Investments head

  (i) Whether fully paid or partly paid not specified.

  (ii) The Investments should have been classified as Trade Investments and Other Investments.

  (iii) The following disclosure not made :
  Aggregate provision for diminution in value of Investments.

  (iv) Under Notes, appropriate mark/ number should have been stated for clarity of the notes.

  (v) In Notes to Accounts

As per Note, Market value of certain quoted investments not available, hence indicates, diminution in value of such shares for which necessary disclosures should have been made.

- The following was observed in Notes- Long Term Loans and Advances head
  - (i) The disclosures was not made as under :
    - a) Capital Advances
    - b) Security Deposits
    - c) Loans and Advances to related parties
    - d) Share application money to related parties.
  - (ii) The amount of loans and advances to related parties did not tally with the amount as stated in Notes.
  - (iii) Under Note, the previous year's figures should have been stated.
  - (iv) No disclosures made as required as per clause 32 of Listing Agreement.

- The following was observed in Notes-Current Investment head
  - (i) When held for more than one year should not have been considered as Current Investments (as nothing is mentioned in notes on accounts the normal operating cycle is assumed to have duration of 12 months).
  - (ii) Whether fully paid or partly paid not stated.
  - (iii) Basis of valuation of individual investments not stated.
  - (iv) NAV of mutual funds/bonds are always available and accordingly such value should have been considered as Market Value.
  - (v) When market value is not available then how basis of valuation considered at lower of cost or fair market value and should not have been considered as Quoted but should have been considered as Unquoted– as stated in Notes.
  - (vi) The following disclosures should also have been made :
    - a) Aggregate amount of unquoted investments.
    - b) Aggregate provision made for diminution in Value of investments.

- The following was observed in Notes- Inventories head
  - (i) The details of work in progress under broad heads should have been disclosed.

- The following was observed in Notes- Cash & Cash Equivalents head
  - (i) The classification should have been stated as under:
    - a) Balance with Banks
    - b) Cash on hand
  - (ii) The amount of unpaid dividend do not tally with amount as stated in notes.

(iii) Bank deposits with more than 12 months maturity should have been disclosed separately.

(iv) Other Bank balances should have been grouped with Balanced with Banks**.**

- The following was observed in Notes- Short Term Loans & Advances head

  (i) All loans and advances should have been disclosed nature wise separately instead of stating including advances to suppliers, prepaid expenses, staff advances and balances with revenue authorities.

  (ii) MAT credit entitlement – whether secured/unsecured, good or doubtful not disclosed. Such amount should have been disclosed in Note of 'long term loans and advances' as it is not expected to be realised within next twelve months.

- The following was observed in Notes- Revenue head

  (i) Other income should have been disclosed by way of separate Note No. and not grouped under revenue.

  (ii) The following disclosures had not been made in Note of Other Income

  a) Interest income

  b) Dividend income (whether from long-term or current investments to be shown separately)

  -From subsidiary companies

  -From others

  c) Net gain/loss on sale of long term investments

  d) Net gain/loss in sale of current investments

  e) Other non-operating income

  Instead of grouping in other income in revenue.

  (iii) Components bought (and sold) should not have been grouped here but disclosed separately as Purchases of stock-in-trade and details of purchases disclosed under broad heads.

- The following was observed in Notes-Imported and Indigenous Raw material head

  (i) a) The consumption of raw materials should be percentage of consumption of raw material to total consumption (imported and indigenous).

- The following was observed in Notes- Change in Inventories head

  (i) The nature should have been specified under opening stock/closing stock instead of stating as others.

- The following was observed in Notes- Expenses head

(i) Finance costs

Exchange fluctuation loss should have been disclosed as net gain/loss on foreign currency transactions and translation instead of disclosing as Exchange Fluctuation loss under (B) Administrative & selling Expenses in other Expenses.

(ii) Administrative & selling Expenses (other expenses)

a) Directors Remuneration & perquisites amount do not tally with amount as stated in note.

- The following was observed in Notes- Other Expenses head
- Disclosure regarding whether Auditor's Payments included Audit fee, tax audit fee, limited review certification fee, other certification fees had not been made.
- The following was observed in Notes-Expenditure in Foreign Currency head

  The disclosure should have been made as under
  - Interest
  - Professional and consultation fee
  - Other matters (may specify also)

  Instead of as disclosed under one grouping as interest, legal and other expenses.
- The following was observed in Notes- Earnings in Foreign Exchange head

  (i) The requirement is to disclose Export of goods instead of Export/Deemed Export of goods.

  (ii) Deemed Export can be disclosed separately as distinct item and not grouped with Export
- It was observed that disclosure should have been made in respect of amount remitted in foreign currencies on account of dividends mentioning total number of non-resident shareholders, total number of shares held on which dividends were due and the year to which the dividend related.
- The following was observed in Notes- Earnings Per Share head

  The nominal value of shares along with the earnings per share figures should have been disclosed.
- The following was observed in Notes- Related Party Disclosures & Transactions head

  (i) The nature of balance receivable and balance payable should have been stated.

  (ii) Dividend income and Dividend paid should have been disclosed separately.

  (iii) As per para 23 of AS – 18 the details of transaction with each related party (name wise) is required to be disclosed separately and accordingly should have been disclosed, and not as disclosed.

  (iv) Guarantee given for a subsidiary company should have been disclosed.

- A clarificatory note clarifying that the current years accounts were for a period of 15 months as against 12 months in previous years and hence the figure for current year were not comparable with those of previous year was not given.
- As laid down in the General Instructions, Para 1 of Revised Schedule VI, requirements of the Accounting Standards would prevail over the Revised Schedule VI and the company should make necessary modifications in the Financial Statements which may include addition, amendment, substitution or deletion in the head/sub-head or any other changes inter se. Accordingly, the conflict should be resolved by changing the caption “Cash and cash equivalents” to “Cash and bank balances,” which may have two sub-headings, viz., “Cash and cash equivalents” and “Other bank balances.” (Refer Para 6.4 Guidance note on Revised schedule VI).
- In Notes of consolidated financial statement regarding ownership interest of subsidiaries and joint ventures the percentage of ownership of previous year has not been given.
- In consolidated financial statement there was a difference in the total of “Non Current Assets” reported.
- Disclosure of key assumptions of Employee Stock Option Plans has not been mentioned in the financial report. (Guidance note on Accounting for Employees share-based Payments Para 51).
- As per IRAC norms para 5.5.(iii) Provision for standard assets should be shown separately as ‘Contingent provision against standard assets’ under ‘Other liabilities and provision’ in Schedule 5 of the balance sheet. However, it was noted that the provisions for standard assets have been shown along with “Others” and not separately as required above.
- Company had not disclosed "Amount of further interest due and payable even in the succeeding year, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under MSMED Act 2006 in its notes.

OTHER RELEVANT LAWS AND REGULATIONS

Companies (Auditor's Report) Order, 2003 (CARO)

- Firm had reported under clause xxi of the CARO, two instances of fraud, (a) misappropriation of inventory by transporter and contractors and (b) one instance of wrongful claim of expenditure by an employee. However, 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 to confirm that the extent of misappropriation of inventory and the wrongful claim of expenditure was only of the amount stated.
- Para 7 of CARO affirms existence of internal audit function commensurate with the size of the company and nature of its business. But internal audit covered 13 projects only against more than 21 Active projects undertaken by the company. Thereby testifying inadequacy of coverage of internal audit not being reported.
- Loans to parties were observed to be interest free which had not been adequately reported/disclosed in financial statements.
- Whether the procedures of physical verification of inventory followed by the management were reasonable and adequate in relation to the size of the company and nature of inventories was not reported by the audit firm under CARO report.
- An occasion of fraud perpetrated by a vendor on the company by submitting a fraudulent bank guarantee was not reported being immaterial in CARO report.
- It had been incorrectly reported in CARO audit report by the firm "The company did not have any term loan outstanding during the year" whereas the term loans were outstanding as per the annual accounts. Further, the CARO audit report required audit firm to report whether term loan taken have been utilized for the purpose for which it has been taken or not.
- Under clause (viii) of CARO, reference to Cost Accounting Records Rules prescribed (applicable from April 2011) or the industry to which these are applicable had not been done in the report.
- Under clause (ix) (b); disputed dues - details of such dues had been tabulated as:
    (a) In the second row of the table, against Name of the Statute - Central Excise Act, nature of dues has been mentioned as 'Excise' but in the forum has been mentioned as 'Service Tax Dept.'
    (b) Under the column 'Year to which the amount relates' has been mentioned as '2007', typically the assessment period is a fiscal year, unless the demand is for a specific period wherein the month and year have to be specified. The CARO requirement is to mention the 'Period' and not the year.

- Under clause (xvii) reporting had been done for usage of long-term funds for short-term assets which was not required to be done as per CARO.
- Under clause (xix) of the CARO report it was mentioned that 'According to the information given to us, and the record of the company examined by us, the company has not issued any debentures', which was in contrary to the Balance Sheet position wherein there were Secured Redeemable Non-convertible Debentures.
- Under clause (xx) of the CARO report it was mentioned that 'According to the information and explanation given to us and the record of the company examined by us, the company had not raised any money by public issue during the year'. However, with reference to the financial statements, it was noted that the Company issued Foreign Currency Convertible Bonds [FCCBs] during the year.
- Given that there was a public issue of FCCBs which were listed in overseas markets, the CARO reporting did not address this. The Company had not disclosed the end use of public issue of FCCBs, which were convertible into equity shares which would be listed on Indian capital markets.
- In respect of CARO reporting following was observed:-
  - Relative documents and / or working papers / evidences in respect of matters reported in Annexure to Auditors Report, in respect of some of matters, were not available with the firm.
  - <u>Para (iii) (a)</u>
    a. The Auditor had not given the number of parties and amount involved in the transactions.
    b. The Auditor had not commented as to whether receipt of principal amount and interest were also regular.
    c. The Auditor had not commented in case of overdue amount more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the Principal and interest.
  - <u>Para (v)(a)</u>

    The using of the words: We are of the opinion in the first line should not have been stated, as the Auditor was supposed to write about the facts and not give his opinion.
  - <u>Para (ix)(b)</u>

    The fact was not mentioned in respect of all nature of statutory dues as stated in para (ix)(a) instead it was stated only for income tax, wealth tax, sales/VAT, custom duty, excise duty and cess.
  - <u>Para (ix)(c)</u>
    a. The facts should also have been stated for VAT (which is part of Sales tax), Service Tax, Excise duty, cess instead of stating only for sales tax and income tax.

b. The amounts stated in above para did not tally with amounts disclosed under the Notes to accounts.

- <u>Para (xv)</u>

  a. Company had not received any consideration for guarantees given (any substantial amount). However, the terms and conditions were not considered prejudicial to the interest of the company.

  b. The guarantee given to a subsidiary company had not been shown in the Notes of Related Party Transactions.

- <u>Para (xvi)</u>

  a. The nature and amount should have been specified in case of non-compliance instead of stating "other than temporary deployment pending applications".

- <u>Para (xix)</u>

  The fact stated that the company has not issued any debentures during the period is not correct, as Debentures has been issued during the year, as evident from Balance Sheet.

Others

- Tax expenses for current year were understated due to non addition of legal fees paid without deduction of TDS and were to be added back to income u/s 40(a)(ia) of the Income Tax Act.
- Corporate governance certificate was not in correct form.
- Fraud was found on the public domain which had caused loss to the company. It was not reported either in Auditors Report or in the Annual Report of the company thereby non-adhering to the disclosures required as per the Listing Agreement.
- Disclosures under Clause 32 of the Listing Agreements were not given on related party transactions.
- Company made an investment in another company to make it a 100% wholly owned subsidiary based on a valuation report. The valuation was conducted by the Statutory Auditor of the companies, thus, attracting conflict of interest for which no proper safeguards were taken by the reviewed firm.
- As per clause 49 of Listing agreement the company is required to comment on mandatory provisions viz Whistle blower policy & shareholding pattern. However, the Auditors certificate did not mention aforementioned matters.
- Corporate Governance Compliance files containing relative documents/evidences having been verified by the Auditors in respect of various clauses were not available with the firm.
- It has been observed that the company does not have any policy for recognition of assets acquired under SARFAESI Act, 2002.

- The corporate governance certificate included the words "Opinion" instead of "Certify" as prescribed in the Illustrative format prescribed as per Guidance Note of Corporate Governance.
- Some of the Notes to Accounts had neither been signed/authenticated by the Directors/others nor the Auditors of the company.
- The firm had not signed the Notes to Accounts accompanying the Auditor's report.
- Company had not consolidated Financial Statement of its subsidiary company as the latter has not closed its first Financial Year on 31st March, 20xx. Further, the reason /rationale for not consolidating the financial statements of the subsidiary had not been mentioned in the financial statements.
- Depreciation on foreign branch assets had been provided at rate followed under relevant laws of foreign country, however, schedule XIV of the Companies Act, 1956 prescribes minimum rate of depreciation. Thus, in case of depreciation rate under relevant laws of foreign country being less, Schedule XIV needs to have been followed.
- Adjustment of income tax demand against refunds due from earlier years was not reported.
- The expressway toll road had been capitalized as an Intangible asset. The Firm had not explained in detail nor had it disclosed in the financial statements the basis on which the amounts were capitalized as an Intangible Asset when until the previous year it was being recognized and accounted as a Capital Work in Progress and not Intangible assets under development.
- RBI Circular states that an arithmetical reconciliation of the restructured accounts should be given in the Financial Statements, either through the table or by way of a foot note. The Bank had not shown any such kind of disclosure.

Appendix B

Details of Meetings held during FY 2015-16:

The details of meetings of the Quality Review Board, constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949, and Quality Review Group/ various other Sub-Committees constituted by the Board during the financial year 2015-16 are as follows:-

Quality Review Board

1. 42nd meeting of the Quality Review Board held on 14th May, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
2. 43rd meeting of the Quality Review Board held on 15th June, 2015 at India Habitat Centre, Lodhi Road, New Delhi.
3. 44th meeting of the Quality Review Board held on 20th August, 2015 at India Habitat Centre, Lodhi Road, New Delhi.
4. 45th meeting of the Quality Review Board held on 20th October, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
5. 46th meeting of the Quality Review Board held on 1st February, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Quality Review Group

6. 17th meeting of the Quality Review Group constituted by the QRB held on 12th May, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
7. 18th meeting of the Quality Review Group constituted by the QRB held on 1st July, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
8. 19th meeting of the Quality Review Group constituted by the QRB held on 6th October, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
9. 20th meeting of the Quality Review Group constituted by the QRB held on 29th December, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Sub-Committee-I

10. 10th meeting of the Sub-Committee-I constituted by the QRB held on 2nd June, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.
11. 11th meeting of the Sub-Committee-I constituted by the QRB held on 7th September, 2015 and continued on 26th September, 2015 at ICAI Bhawan, Indraprastha Marg, New Delhi.

Audit Committee of QRB

12. 1st meeting of Audit Committee of QRB held on 10th June, 2015 at 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

On the letter head of Technical Reviewer

Specified Format for Final Report of Technical Reviewer

TECHNICAL REVIEWER'S REPORT **Date:**

Ref: (*Reference number to be mentioned for future correspondence*)

To
The Chairperson
Quality Review Board (QRB)
(Insert address)

Sub: Quality review of (*M/s XYZ & Co* – Mention the Firm Name with the Firm Registration Number (the "Statutory Auditor" / the "Firm"/ the "Audit Firm")) in respect of Statutory Audit of ABC Company Limited ("the Company") for the year ended (*As applicable*)

Ref: No. XXX, dated Month XX, 20XX

Final Report on the Quality Review of the Audit Services of the Firm

With reference to your letter no XXX dated XXXX, I have conducted the Quality Review of M/s XYZ & Co (Firm Registration No……../Membership Number…………….) ("the Audit Firm") in respect of the Statutory Audit of ABC Company Limited ("the Company"), for the year ended ………………in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB ("the Procedures").

Brief Profile of the audit firm

M/s XYZ & Co. ("the Audit Firm") was established in the year xxxx. It operates with ___ (update as applicable) branches across India.

As informed to me, currently there are xx partners, xxxx professional and other staff including articles and semi-qualified (amend suitably based on information available).

Audit Firm's Responsibility

The compliance of conditions with applicable technical standards in India and other applicable professional and ethical standards, relevant laws and regulations, implementation of a system of quality control with reference to the applicable quality control standards, standards on auditing etc., is the responsibility of the

Audit Firm and, the compliance with the accounting standards and the generally accepted accounting principles while preparation and presentation of financial statements is that of the Management of the Company.

The Audit Firm's responsibility is to express an opinion on the financial statements of the Company for the year ended………………..based on its audit. The Audit Firm is required to conduct their audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that they comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Technical Reviewer's Responsibility

A quality review of the audit services of the firm in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB ("the Procedures") involves interviewing, making enquiries and performing such other procedures to examine whether the Firm has complied with the applicable technical standards relating to the audit of the financial statements, the professional and ethical standards as issued by the Institute of Chartered Accountants of India (ICAI) including whether the Firm has considered SA 240 "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by ICAI and considered relevant laws and regulations. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards.

My examination and review was limited to procedures and implementation thereof, adopted by the Audit Firm for ensuring the compliance of

- Whether the Statutory Auditor has ensured compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- whether the Statutory Auditor/ Audit Firm has implemented a system of quality control with reference to the applicable quality control standards;
- 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); and
- Whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company,

It is neither an audit nor an expression of opinion on the financial statements of the Company. I further state that such compliance is neither an assurance as to the future viability of the Audit Firm / Company nor of the efficiency or effectiveness with which the Audit Firm has conducted the audit of the Company.

Basis for Qualified Report

According to the Procedure for Quality Review of Audit Services of Audit Firms issued by the Quality Review Board, the report is being qualified in respect of the following matters which represent deviations/non-compliance:

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
Example:		
SA 505 Revised – External Confirmations	It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. I have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances. The Firm has not documented the reasons for Management's refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).	**C-2**

Other matters for improvement

Certain areas for improvement in terms of strengthening of policies and certain aspects relating to planning, risk assessment / documentation and certain disclosure requirements in relation to the financial statements of the Company for the year ended March 31, 20xx (please add any other relevant areas) have been detailed as under :

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
Example:		
SQC -1	The Firm has an overall Policy document dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues: (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) Estimation of personnel needs. It is noted that there is no systematic manner of implementation of certain aspects of the Policy in terms of competencies, career development, evaluation etc.	**C-1**

Report

In issuing the report, I have considered the size of the Audit Firm (Refer the brief profile of the Audit Firm stated above), the extent of the applicability of Standard on Quality Controls and the relevant documentation to be maintained by the Audit Firm.

I enclose in the Final Report (Appendix – I) certain findings/observations viz., Elements relating to audit quality of companies, Elements relating to quality control framework adopted by the Audit Firm in conducting the aforesaid audit and other matters which include my comments arising out of the examination of the audited financial statements of the Company for the year ended XXXX in terms of my scope. Such matters, along with my comments / recommendations thereon have been discussed with the Audit Firm during the course of my review and their responses have been included insofar as my observations are concerned.

Based on my review conducted and subject to the weaknesses and deficiencies stated in the under the paragraph 'Basis for Qualified Report' and read with my comments under the paragraph 'Other matters for improvement' and our findings/observations stated Appendix I, nothing has come to my attention that causes me to believe that the Audit Firm has not complied with the aspects covered in terms of my scope mentioned in the "Technical Reviewer's Responsibility" paragraph.

QRB reviews are designed to identify and address weaknesses and deficiencies related to how a firm performs audit work. To achieve that goal, QRB reviews include reviews of certain aspects of selected audit work performed by the firm and certain aspects of the firm's quality control system. It is not the purpose of a review, however, to review all of a firm's audit work or to identify every respect in which reviewed audit work is deficient. Accordingly, a Technical Reviewer's report should not be understood to provide any assurance that the firm's audit work, or the relevant Company's' financial statements or reporting on internal control, are free of any deficiencies not specifically described in a review report.

QRB Reviews encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The QRB, however, has no authority to prescribe the form or content of the Company's financial statements. That authority, and the authority to make binding determinations concerning whether a Company's financial statements are misstated or fail to comply with the disclosure requirements, rests with the relevant authority under the Companies Act or under the Listing Agreements with the Stock exchanges, SEBI or any other applicable Authority. Any description, in this report, of financial statement misstatements or failures to comply with such disclosure requirements should not be understood as an indication that the relevant Authority has considered or made any determination regarding these issues unless otherwise expressly stated.

I am also enclosing the Appendix II and III as required by the QRB, which is an attachment to the Final Report. In Appendix IV, I have enclosed brief profile of myself and each one of my assistants who assisted me in carrying out the above Quality Review assignment.

I would like to take this opportunity to thank the Partners, Managers and other personnel of the Audit Firm who have assisted me in carrying out my review.

Technical Reviewer
Chartered Accountant
Membership Number
Signature
(Name of the Member Signing the Report)

Enclosures:

1. Appendix I to Final Report
2. Appendix II
3. Appendix III
4. Profile of Technical Reviewer and Assistants on the engagement (Appendix IV)

Template Appendix 1

C-1	**Quality Control, Ethical requirement and Audit Independence**	
	Example: ***Background:*** Paragraph 36 of SQC -1 on Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements (herein after referred as “SQC 1”) states:“*The firm should establish 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.”* **Comment:** The Firm has an overall Policy document dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues: (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) Estimation of personnel needs. It is noted that there is no systematic manner of implementation of the professional education, continuing professional development, training aspects of the Policy in terms of competencies.	**Recommendation:** The implementation of the detailed policies and procedures in respect of personnel matters needs improvement. **Firm’s Response:** We have noted the comments made by the reviewer and his recommendations. We shall improve the implementation process as suggested.

C-2	**SA 505 Revised – External Confirmations**	
	Background: Paragraph 8 of SA 505 states that - If management refuses to allow the auditor to send a confirmation request, the auditor shall: (a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness;	**Recommendation**: The Firm has to mandatorily comply with the requirements of the Standards on

	(b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. **Comment**: It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. We have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances. The Firm has not documented the reasons for Management's refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).	Auditing and where departures are made, should document such circumstances and perform alternative procedures in accordance with the requirements of the Standards. **Firm's Response** : Noted.

Glossary

SQC	Standard on Quality Control
SA	Standards on Auditing
CARO	Companies Auditor's Report Order

Appendix II

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.	

Appendix III

Appendix III - Part A

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	Page Reference in the Final Report
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]			
<u>Client Relationships & Engagements</u>			
16. With regards to accepting and continuing client relationship and specific engagements, how does the firm ensure that it :			
a. is competent and capable ?			
b. complies with relevant ethical requirement ?			
c. appropriately assesses the integrity of the client?			
d.how does the firm obtain the necessary information before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client			
17. How does your firm ensure there is a clear understanding with the client regarding the terms of the engagement?			
Note : Engagement document/s are necessary under Revised Standard on TERMS OF AUDIT ENGAGEMENT 210 (Engagement documents may include letters, agreements or any other appropriate means in writing).			
18. Does each engagement document adequately cover the following common elements? **Note:** If the firm does not include these in their engagement documents, this does not constitute a breach of the professional/legislative standard(s). However, it is recommended they be incorporated in future. Further guidance on preparing an engagement document is found in SA 210			
a. an introduction explaining that the purpose of the engagement document is to confirm the member's understanding of the terms of the engagement?			

b. the purpose of the engagement?			
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.			

Appendix III - Part B

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	Page Reference in Final Report
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)			
Materiality			
54. (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			
55. (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**)			
(a) agreeing or reconciling the financial report with the underlying accounting records; and			
(b) 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			
56. (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			
57. (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)			

Appendix III - Part C

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	Page Reference in Final Report
Written Representations			
58. 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			
59. (a) Where the financial report is prepared in accordance with a fair presentation framework, does the firm's audit report comply with the requirements of 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)			

Appendix III - Part D

Quality Review Program - Questionnaire on Financial Statements Review

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	Page Reference in Final Report
1. Has the audit firm evaluated and documented, the applicable accounting standards for the entity?			
2. (a) Whether the audit firm has verified the applicable significant accounting policies for the purpose of disclosure in line with the requirements of AS - 1?			
2. (b) Has the audit firm evaluated and documented, whether the going concern assumption is appropriate?			
3. Whether the audit firm has verified the compliance with the requirements of AS 2 in respect of inventories ? (if applicable)			
4. Whether the audit firm has verified the compliance with the requirements of AS 3, for preparation of Cash Flow Statements ?			
5. Has the audit firm performed review of events occurring after the Balance Sheet Date as per AS 4 ? Does the documentation demonstrate the procedures carried out ?			
6. Whether the audit firm has verified the compliance with the requirements of AS 5?			
7. Whether the audit firm has verified the compliance relating to depreciation and disclosures thereof in the financial statements as per AS 6?			
8. Whether the audit firm has verified the compliance with the requirements of as per AS 7? (if applicable)			
9. Whether the audit firm has verified and documented that the Revenue recognised is in line with the guidance in Accounting Standard 9 - Revenue Recognition and the accounting policy stated in the financial statements.? (AS 9)			
10. Has the audit firm verified the compliance with the			

requirements of AS 10 ?			
11. Has the compliance with the requirements with AS 11 been evaluated and documented?			
12. Whether the company has complied with the requirements of AS 12 in respect of grants ? (if applicable)			
13. Whether the audit firm has evaluated the compliance with requirements of AS 13, for investments ?			
14. In case of any amalgamation, has the audit firm evaluated the compliance with the requirements of AS 14 ?			
15. Has the audit firm verified the assumptions used by actuary for recognition and measurement of employee benefits? Have the necessary disclosures been made in the financial statements as per AS 15?			
16. Whether the company has complied with the requirements of AS 16 ? (if applicable)			
17. Has the audit firm verified the details of the segment reporting and whether the necessary disclosures with regard to segments as per the requirements of AS 17 have been made ?			
18. Has the audit firm performed and documented procedures to verify compliance with the requirements of AS 18 ?			
19. Whether the audit firm has evaluated the compliance with requirements of AS 19 in respect of Leases ?			
20. Whether the presentation and disclosure of the EPS (basic and diluted, where applicable) is in accordance with AS 20 - Earnings per share			
21. Whether the audit firm has verified and documented that the Consolidated Financial Statements comply with the requirements of AS 21 ?			
22. Whether the audit firm has verified that, the computation of deferred tax and disclosure of asset / liability is as per requirements of AS 22 ?			
23. Whether the company has complied with the requirements of AS 23? (if applicable)			
24. Incase of any discontinuing operations, has the audit firm evaluated the compliances with the requirements of AS 24 and			

whether the disclosures in the financial statements have been made as per the standard ?			
25. Whether the company has complied with the requirements of AS 25 in case of interim financial reporting ?			
26. Whether the company has complied with the requirements of AS 26 with respect to intangible assets			
27. Whether the company has complied with the requirements of AS 27? (if applicable)			
28. whether the audit firm evaluated, if any assets of the entity require to be impaired ? Whether the compliance with requirements of AS 28 have been verified?			
29. Has the audit firm verified the provisions, contingent liabilities and contingent assets? Does the documentation of procedures carried out demonstrate the verification of compliance with the standards ?			
30. Has the Company complied with the requirements of AS 30, 31 and 32 with respect to financial instruments ? (if adopted)			
31. Has the audit firm evaluated that whether the disclosure requirements as per the applicable accounting standards have been complied with ?			

Appendix III - Part E

Quality Review Program - Questionnaire on Documentation

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

Paragraph reference in Report

Technical Reviewer's Comments	Firm's Response:
Audit Planning Documentation	
Identification of Risk of Material Mistatements	
Referencing and cross referencing documentation in the work papers	
Involvement of IT Specialists	
Calculation of Materiality	
Appropriateness of sample selection	
Issues Identified and conclusions reached	
Discussions with the Management	
Consolidated Financial Statements:	
Referencing and cross referencing documentation in the work papers	
Review of Elimination entries	
Basis of selection of components	
Resolution of issues noted by the component auditors	

Appendix IV

Brief profile of the Technical Reviewer and assistants assisted in carrying out the Quality Review assignment

	CA A…………….. **Membership No - xxxxxx**
Qualified in Nov 200x, A……… is a …………………………………………………..	
	CA S……………….. **Membership No – xxxxxx**
Qualified in May 199x, S……. is a ……………………………..	