

© क्वालिटी पुनर्विलोकन बोर्ड, भारत सरकार द्वारा चार्टर्ड एकाउंटेंट्स अधिनियम, १९४९ की धारा २८ए के अंतर्गत स्थापित।

सर्वाधिकार सुरक्षित। यह रिपोर्ट चार्टर्ड एकाउंटेंट्स अधिनियम, १९४९ की धारा २८ए के अंतर्गत भारत सरकार द्वारा स्थापित क्वालिटी पुनर्विलोकन बोर्ड द्वारा तैयार की गई है। इस रिपोर्ट के किसी भी हिस्से को क्वालिटी पुनर्विलोकन बोर्ड से लिखित रूप में बिना पूर्व अनुमति के पुनः प्रस्तुत नहीं किया जा सकता है, न ही एक पुनर्प्राप्ति प्रणाली में संग्रहीत किया जा सकता है अथवा प्रेषित किया जा सकता है, किसी भी रूप में या किसी भी तरह से, इलेक्ट्रॉनिक, मैकेनिकल, फोटोकॉपी, रिकॉर्डिंग, या अन्यथा किसी प्रकार से।

© Quality Review Board established by Government of India under Section 28A of the Chartered Accountants Act, 1949.

All rights reserved. This report has been prepared by the Quality Review Board established by Government of India under Section 28A of the Chartered Accountants Act, 1949. No part of this report may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise without prior permission, in writing, from the Quality Review Board.

<http://www.qrbca.in>

अगस्त, २०२६

August, 2026

क्वालिटी पुनर्विलोकन बोर्ड | Quality Review Board

आईसीएआई भवन, सी -१, सेक्टर १, नोएडा – २०१३०१ (उ. प्र.) भारत |

ICAI Bhawan, C-1, Sector 1, NOIDA - 201301 (U.P.) INDIA

दूरभाष | Phone: 0120 6540241, 242

ई-मेल | Email: reviews@qrbca.in

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

From the Chairperson's Desk

The Quality of financial reporting is fundamental to investor confidence, sound corporate governance, and the stability of financial markets. In an increasingly interconnected and technology-driven business environment, characterized by disruptive technologies and global developments, stakeholders expect audit professionals not only to provide assurance on financial statements but also to demonstrate integrity, independence, objectivity and a steadfast commitment to the public interest. As businesses embrace digital transformation and regulatory expectations continue to evolve, audit quality must remain the defining principle of the audit profession. This calls for continuous enhancement of professional competence, effective implementation of accounting and auditing standards, robust systems of quality control, and an unwavering culture of ethical conduct within audit firms. The profession must remain agile, embracing innovation while preserving the fundamental principles that underpin public confidence in the audit process.

The Quality Review Board continues to play a pivotal role in strengthening the audit ecosystem by promoting excellence in audit practices through an independent and objective review mechanism with focus on ethical conduct and making the quality review mechanism technology driven. The Board remains committed to fostering greater confidence in the audit profession by assessing whether audit engagements have been performed in accordance with the applicable professional standards, statutory requirements, and established quality control frameworks. Beyond identifying areas requiring improvement, the Board seeks to promote a culture of continuous learning and quality enhancement by encouraging audit firms to strengthen their internal systems, reinforce professional discipline, and adopt best practices. Through its constructive review process, the Board aims to facilitate sustained improvements in audit quality, thereby contributing to stronger financial reporting and serving the broader public interest. The Board focuses not only on conducting quality

Significant Initiatives

- ✓ The QRB has now transitioned to a fully online review eco system through the QRB Portal. New features have been introduced to enhance user experience, improve functionality, and ensure that the portal remains dynamic through continuous updates.
- ✓ Proposed to expand the coverage of Quality Reviews by including a larger number of Audit Firms, with greater focus on firms located in Tier II and Tier III cities.
- ✓ QRB organised virtual interactive session with Technical Reviewers to create greater awareness about the developments in review procedure, evaluation methodologies, key observations, and significant review findings, thereby improving quality of reviews.
- ✓ Webinars will continue to be conducted in future also to sensitize members and all the stakeholders regarding continuous improvement and ensuring audit quality.

reviews but also on modernising and expanding the review framework to enhance its effectiveness and outreach.

In a significant digital transformation initiative, the QRB Portal has become fully functional. It provides for a role based access to various stakeholders automating the entire review cycle from allocation of review cases to Technical Reviewers, submission of questionnaires, observations, responses and reports. Reports on audit quality review of Urban Cooperative Banks were finalized during this year. During the FY 2025-26, the Board finalized 59 review reports. These initiatives reflect the Board's commitment to fostering a culture of continuous improvement and ensuring that audit quality keeps pace with the evolving expectations of stakeholders.

This year's Report presents a comprehensive overview of the Board's activities, significant initiatives, and the key observations emerging from the quality reviews finalized during FY 2025-26. The Report highlights key trends and areas requiring greater professional attention, particularly in relation to compliance with Accounting Standards, Standards on Auditing, Audit documentation, reporting responsibilities under the Companies Act, 2013, the Banking Regulation Act, 1949, and other applicable statutory and regulatory requirements. The report focuses on review findings for audit quality of selected engagements of Limited Companies/ Private Limited Companies and Urban Co-operative Banks (UCBs). The Report is intended to serve as a valuable knowledge resource for the profession in terms of key learnings from the review process. We believe that the observations and recommendations contained in this report will serve as valuable guidance for all audit firms in identifying areas for improvement, undertaking root cause analysis, and implementing sustainable corrective measures to further strengthen audit quality.

I extend my heartfelt appreciation to Ms. Deepti Gaur Mukerjee, Secretary (Corporate Affairs), and Mr. Inder Deep Singh Dhariwal, the then Joint Secretary (Corporate Affairs), for their continued guidance and support. I would also like to thank the leadership of the Institute of Chartered Accountants of India, CA. Prasanna Kumar D, President, ICAI, CA. Mangesh P. Kinare, Vice-President, ICAI, CA. Charanjot Singh Nanda, Immediate Past President, ICAI and CA. (Dr.) Jai Kumar Batra, Secretary, ICAI for their unwavering support. My sincere appreciation goes to my fellow Board Members and the Special Invitees to the Board for their invaluable guidance, active participation, and commitment towards advancing the mission of the Quality Review Board and in particular, to all the members of QRG-I and II, viz; Mr. Rajesh Kumar Bhoot, Pr. Commissioner of Income Tax, Mr. Naveen Singhvi, Principal Director, O/o C&AG of India, Mr. Malladi Siva S., IAAS (Retd.), Mr. Deep Mani Shah, CGM, SEBI, CA. Pramod Jain, CCM, ICAI, CA. Dayaniwas Sharma, CCM, ICAI, CA. Durgesh Kabra, CCM, ICAI and CA. Abhay Chhajed, CCM, ICAI. I also thank CA. C.V. Chitale, CCM, ICAI and Mr. Chandra Wadhwa for their invaluable contribution to the Board. Their collective wisdom and dedication continue to strengthen the Board's efforts in promoting excellence in audit quality and reinforcing public confidence in the profession.

I also appreciate the efforts of CA. Aakanksha Khanna Kapoor, the Secretary of the QRB during 2025-26 who provided assistance to the Board and also led the initiatives. I would also like to place my appreciation on record for the efforts of CA. Mohit Baijal, Secretary of the QRB, CA. Rahul Dayal and the entire QRB secretariat for preparing this report and for providing continued assistance to the Board.

सादर,

एसडी/-

मीनाक्षी गुप्ता

Meenakshi Gupta

अध्यक्ष, क्वालिटी पुर्नविलोकन बोर्ड

Chairperson, Quality Review Board

स्थान: नोएडा

दिनांक: 19.08.2026

Contents

From the Chairperson's Desk	3
About the Board	8
Composition of the Board	9
Composition of Sub-Committees/Groups of the Quality Review Board	10
Our Approach	13
Our Expectations	14
How We Select Audit Firms for Review	14
How We Conduct Audit Quality Review	15
Significant Achievements and Initiatives during FY 2025-26	19
Trend of Audit Engagements Reviewed	20
Key Highlights of Audit Engagements Reviewed during the Financial Year 2025-26	21
Review Findings w.r.t Private Limited Companies including Summary of Observations	26
Review Findings w.r.t Urban Co-operative Banks (UCBs) including Summary of Observations	82
Matters of General Guidance for Audit Firms	110
Annex A: Number of observations and percentage of AFURs having observations on Engagement and Quality Control Standards in reviews conducted w.r.t Private Limited Companies	112
Annex B: Number of observations and percentage of Entities having observations on AS and Ind AS in reviews conducted w.r.t Private Limited Companies	115
Annex C: Number of observations and percentage of Entities having observations on Other Relevant Laws and Regulations in reviews conducted w.r.t Private Limited Companies	118

Annex D: Number of observations and percentage of AFURs having observations on Engagement and Quality Control Standards in reviews conducted w.r.t Urban Co-operative Banks	119
Annex E: Number of observations and percentage of Entities having observations on Accounting Standards in reviews conducted w.r.t Urban Co-operative Banks	121
Annex F: Number of observations and percentage of Entities having observations on Other Relevant Laws and Regulations in reviews conducted w.r.t Urban Co-operative Banks	122
Annex G: Meetings Organised during FY 2025-26	123
Annexure I: Composition of the Board during the Financial Year 2025-26	125
Annexure II: Composition of Sub-Committees/Groups of QRB during the Financial Year 2025-26	126
Glossary	129

About the Board

The Quality Review Board ('QRB' / 'Board'), established by the Central Government of India in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949 (The 'Act'), operates as an independent body to review the quality of services rendered by Chartered Accountants in India. The constitution of the Board consists of a Chairperson, five members appointed by the Central Government, and five members nominated by the Council of the Institute of Chartered Accountants of India (ICAI), ensuring a balanced governance structure.

In accordance with Section 28B of the Act, the functions of the Board consist of:

- ✓ To make recommendations to the Council with regard to the quality of services provided by the members of the Institute.
- ✓ To review the quality of services provided by the members of the Institute including audit services.
- ✓ To guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.
- ✓ To forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

Subsequent to the establishment of National Financial Reporting Authority (NFRA) by the Central Government in 2018, the jurisdiction of QRB has been correspondingly defined. The QRB is now mandated to undertake reviews of audit quality in respect of entities falling outside the ambit of Rule 3 of the NFRA Rules, 2018, as well as those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. Accordingly, the audit quality reviews of following entities can now be undertaken by the QRB:-

- ✓ Unlisted public companies having paid-up capital of less than Rs. 500 Cr.; having annual turnover of less than Rs. 1,000 Cr.; and having, in aggregate, outstanding loans, debentures and deposits of less than Rs. 500 Cr.
- ✓ Private limited companies.
- ✓ Other entities not specified under Rule 3(1) of NFRA Rules, 2018.
- ✓ Companies or body corporates referred to in Rule 3(1) of NFRA Rules, 2018 on a reference made by NFRA to the Board under Rule 9(4) of NFRA Rules, 2018

Further, Government of India has also issued 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'. In terms of 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.

Pursuant to this Rule 6, the QRB has issued the detailed 'Procedure for Quality Review of Audit Services of Audit Firms' providing the necessary system for conducting audit quality reviews of audit firms in India. In discharge of its mandate, the Board has been carrying out review of statutory audit services of the Audit firms in India in accordance with this Procedure on a recurring basis and are designed to determine the extent to which audit firms have, and adhere to, adequate quality control policies and procedures that address all significant aspects of auditing.

Composition of the Board

The current composition of the Quality Review Board, established under the Chartered Accountants Act, 1949 is given below. Composition of the Board during the year 2025-26 is given at Annexure I.

Nominees of the Central Government

1. Ms. Meenakshi Gupta, IAAS (Retd.), New Delhi – Chairperson (w.e.f. 30.06.2025)
2. Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member (w.e.f. 30.06.2025)
3. Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai - Member (w.e.f. 12.10.2023)
4. Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Member (w.e.f. 30.06.2025)
5. Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax – 7, CBDT, Ministry of Finance, Government of India, New Delhi - Member (w.e.f. 12.10.2023)

Nominees of the Council of the ICAI

6. CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member (w.e.f. 24.08.2023)
7. CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member (w.e.f. 24.08.2023)
8. CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member (w.e.f. 24.08.2023)
9. CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member (w.e.f. 24.08.2023)
10. CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member (w.e.f. 24.08.2023)

Special Invitees

- Mr. Chandra Wadhwa, New Delhi – Special invitee (nominated by the Central Government w.e.f. 10.06.2016)
- CA. (Dr.) Jai Kumar Batra, Secretary, ICAI – Special invitee

Secretary to the Board

- CA. Mohit Baijal, Joint Director, ICAI

Composition of Sub-Committees/Groups of the Quality Review Board

The Board has set up two Quality Review Groups to examine the final reports of Technical Reviewers. In addition, the Audit Committee, a Sub Committee and an Expert Group has been set up to assist the Board. The current composition along with terms of reference of various Sub-committees/Groups constituted by the Quality Review Board is given below. The composition of the Sub Committees and Groups as it existed during 2025-26 is given in Annexure II.

A. Quality Review Group -I (QRG-I)

Terms of Reference:

QRG-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:

- Review the quality of audit services of audit firms, selected by the QRB, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

Composition:

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Convenor
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- Secretary, QRB to provide necessary secretarial support.

B. Quality Review Group -II (QRG-II)

Terms of Reference:

QRG-II may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:

- Review the quality of audit services of audit firms, selected by the QRB, in respect of the cases placed before QRG-II, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.

- Perform such other functions as may be requested by the QRB from time to time.

Composition:

- Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax – 7, CBDT, Ministry of Finance, Government of India, New Delhi – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member
- CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member
- Secretary, QRB to provide necessary secretarial support.

C. Sub-Committee-I

Terms of Reference:

Sub-Committee-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board for its further consideration:

- Recommend selection of Audit firms for quality review of their audit services and allotment of quality review work to the Technical Reviewers.
- Recommend Technical Reviewer/s that may be empanelled with the Quality Review Board and suggest measures as may be considered appropriate to further broaden the panel and issues connected therewith.
- Recommend industry specific experts, if required, for associating with the Quality Review Board.
- Look into all the issues arising from time to time relating to eligibility of Technical Reviewers to perform Quality Review assignments and the Sub-Committee could take appropriate decisions which may later on be informed to the Board for noting.
- Perform such other functions as may be prescribed from time to time.

Composition:

- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- Secretary, QRB to provide necessary secretarial support.

D. Audit Committee of QRB

Terms of Reference:

- To consider audit report and financial statements of Quality Review Board (QRB) and recommend to QRB adoption of the financial statements.
- To recommend to QRB appointment /re-appointment of Auditors of the QRB and their audit fees.

Composition:

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the C&AG, New Delhi – Convenor
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- The Audit Committee is further authorized to invite Auditor of the QRB
- Secretary, QRB to provide necessary secretarial support.

E. Expert Group to examine QRB Procedure for Quality Review of Audit Services of Audit Firms and other matters**Terms of Reference:**

Group may perform, inter alia, the following functions and submit its recommendations for further consideration by the Quality Review Board:

- Keeping in view the experience gained during the process of reviews being carried out by the QRB, changes to the domestic regulatory framework for audit oversight as well as international practices and requirements for audit oversight, undertake holistic examination of the various aspects of reviews and make recommendations to the Quality Review Board, from time to time, for suggesting appropriate amendments, if required, to the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB.
- Update, from time to time, the Technical Guide on Conducting Quality Reviews for the guidance of Technical Reviewers.
- Perform such other functions as may be prescribed from time to time.

Composition:

- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Convenor
- CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member
- Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax – 7, CBDT, Ministry of Finance, Government of India, New Delhi – Member
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- Secretary, QRB to provide necessary secretarial support

Our Approach

Quality Review Board (QRB/ Board) established by the Government of India under the provisions of Section 28A of the Chartered Accountants Act 1949 is a dedicated Board formed with the objective to review the quality of services provided by the members of the ICAI including audit services. The Board reviews all the aspects of how an audit was performed by an audit firm with respect to the entities selected for the review. In order to review the quality of audit services, the Board annually selects audit firms and entities based on a predefined criterion. While the focus of the review is to assess and thereby enable improvement in the audit quality services of the audit firms, an equitable weightage is given to the quality of financial reporting by the preparers of the Financial Statements. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, statutory and regulatory requirements, quality of disclosures and reporting, ethical standards and firm's quality control framework. The Board ensures that persons involved in the review exercise, at all stages, maintain confidentiality of information obtained and avoid conflict of interest.

Cases of non-compliances are forwarded to the Disciplinary Directorate of the ICAI for its examination. In line with Para 39(d) of the Procedure for Quality Review of Audit Services of Audit Firms, such cases of non-compliance of technical standards and other relevant laws and regulations are intimated to the regulatory bod(y)/ies relevant to the entity as well. Some instances/types of non-compliance are listed below:

- financial statements are not materially prepared in accordance with the requirements of the applicable financial reporting framework considering qualitative aspects of the entity's accounting practices as would affect the truth and fairness of the financial statements and auditor has not reported accordingly as per applicable standard on auditing; or
- auditor has not obtained reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error; or
- auditor does not express a modified opinion when, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually, or in aggregate, are material; or
- in other cases of non-compliances of technical standards or other relevant guidance or other relevant laws and regulations as would materially affect the truth and fairness of the financial statements.

In other cases, involving matters of improvement to compliance to various requirements of technical standards, other relevant laws and regulations and other relevant guidance which are not material in nature as would affect the truth and fairness of the financial statements, individually or in aggregate, QRB issues advisory to the concerned AFUR for undertaking remedial measures for improvement in quality of services in future. However, in cases where total number of observations (i.e., observations raised by the Technical Reviewer as well as the observations noticed by QRG/QRB) are five or less and none of the observation has any financial effect, whatsoever, in the preparation and presentation of the financial statements of the entity/company, such observations are categorized as 'Observations for

Improvement'. These are also followed-up for compliance within a specified period. In matters involving general guidance that needs to be issued to the Audit firms/ members at large, recommendations are made to the Council of the ICAI, in an aggregate manner at appropriate intervals.

To provide guidance to the Audit firms for ensuring improvement in the quality of their services, QRB publishes this report, on an annual basis, providing key audit quality review findings in an aggregated manner. These reports are widely disseminated and publicly made available at QRB website.

Our Expectations

Audit firms should continue their efforts to improve audit quality on a consistent basis by keeping abreast with the latest developments in the field of auditing and accounting and other regulatory framework. Further, the Audit firms which have been reviewed should address the deficiencies identified and highlighted by performing a root-cause analysis. This will help them prevent these issues from recurring.

We also encourage all the Audit firms to take note of the key findings and trends published annually in the QRB's 'Report on Audit Quality Review' which are available at QRB website at <https://www.qrbca.in/reports-publications/>

How We Select Audit Firms for Review

QRB has adopted risk-based approach for selection of audit engagements for initiating audit quality reviews. After the constitution of National Financial Reporting Authority (NFRA) under section 132 of the Companies Act 2013, QRB is undertaking review of the quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018 and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.

In the financial year 2024 – 25, the approach of selection of the audit firms / companies for initiating audit quality review has been modified by the Board. Revised selection criteria is more dynamic in nature and covers larger and multifaceted sections of the companies / audit firms. Under the revised selection criteria not only the original risk-based approach has been kept as one of the key factors but new matrix, such as stratified random sampling, size of the audit firms, past advisories-based selection, have also been incorporated in the process. The same selection criteria have been continued during the year 2025–26. Accordingly, the selection has been done on the basis of following criteria:

- (A) Entity based selection: Under the entity-based selection, the selection of the companies has been done on the basis of following parameters:
 - (I) Stratified random sampling,
 - (II) Risk based selection.

(B) Audit firm-based selection: Under the audit-firm based selection following parameters were considered:

(I) Size of the firm,

(II) Audit firms to whom advisories have been sent in previous year(s).

For selection during the FY 2025-26, companies outside the scope of Rule 3(1) of NFRA Rules 2018 i.e., unrestricted public limited companies not falling within the scope of Rule 3(1) and private limited companies having turnover of Rs. 250 crores or more, were considered. Further, the database of companies as per MCA 21 data was used for making selection of entities more robust.

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

The Board assigns the audit quality review, so selected, amongst the empanelled Technical Reviewers as per the Standard Operating Procedure.

How We Conduct Audit Quality Review

QRB has constituted Quality Review Group-I (QRG-I) and Quality Review Group-II (QRG-II) to conduct preliminary reviews with a view to assess the quality of audit and reporting by the auditors. QRG-I and QRG-II are assisted by Technical Reviewer/s (TRs), who are empanelled by the QRB on engagement basis from across the country. These TRs are practicing professionals and possess requisite experience and expertise essential to carry out the reviews. The role of the TRs is to conduct on-site and off-site review with a view to assess the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the AFURs in conducting audit. The TR, based upon the conclusions drawn from the review, shall first upload preliminary observations on the QRB portal for the AFUR and subsequently, based upon the replies of the AFUR, uploads his final observations. AFUR is once again provided an opportunity to submit its response on the final observations. Upon receipt of AFUR's Final response, the TR submits its final comments and issues the final report to the QRB and AFUR. The report, so prepared by the TR, along with the submissions of the AFUR thereon, are considered at the meetings of the QRG-I/ QRG-II. The QRG-I and QRG-II may also consult the QRB on any issue, on which they feel that the

guidance of the QRB is necessary. The QRG-I and QRG-II complete the review of cases referred to them by examining report of TR along with the replies of AFUR and submit their recommendations to the QRB. QRGs may request additional details or clarification from the TR and/or Audit Firm. In the process, they also assign rating to the work of Technical Reviewers.

Based on the recommendations of QRG-I and QRG-II, the QRB decides to:

- (a) forward the cases where non-compliance has been observed to the Disciplinary Directorate of ICAI for its examination and also inform the non-compliance of technical standards and other relevant laws and regulations to the regulatory bod(y)/ies relevant to the entity; or
- (b) issue advisory and guidance to AFUR as 'Letter for Advisory' or 'Observations for Improvement' for improvement in quality of services which are subsequently followed-up for compliance; or
- (c) accept the report and close the case if no/ trivial observations were reported on the quality of audit and reporting and where the AFUR has also agreed to take effective corrective steps in future or has already taken corrective steps; and/ or
- (d) make recommendations to the Council in an aggregated manner for any matters of general guidance to the Audit firms/ members at large.

The QRB has specified the format for the Quality Review Program Questionnaire containing questions concerning various aspects of Standard on Quality Control (SQC) -1, Standards on Auditing, Accounting Standards/ Indian Accounting Standards (Ind AS), as applicable, Schedule III of the Companies Act, 2013 (Div. I / II/ III), Companies Auditor's Report Order and other relevant laws and regulations. QRB has also specified certain focus areas for review.

Engagement of Technical Reviewers

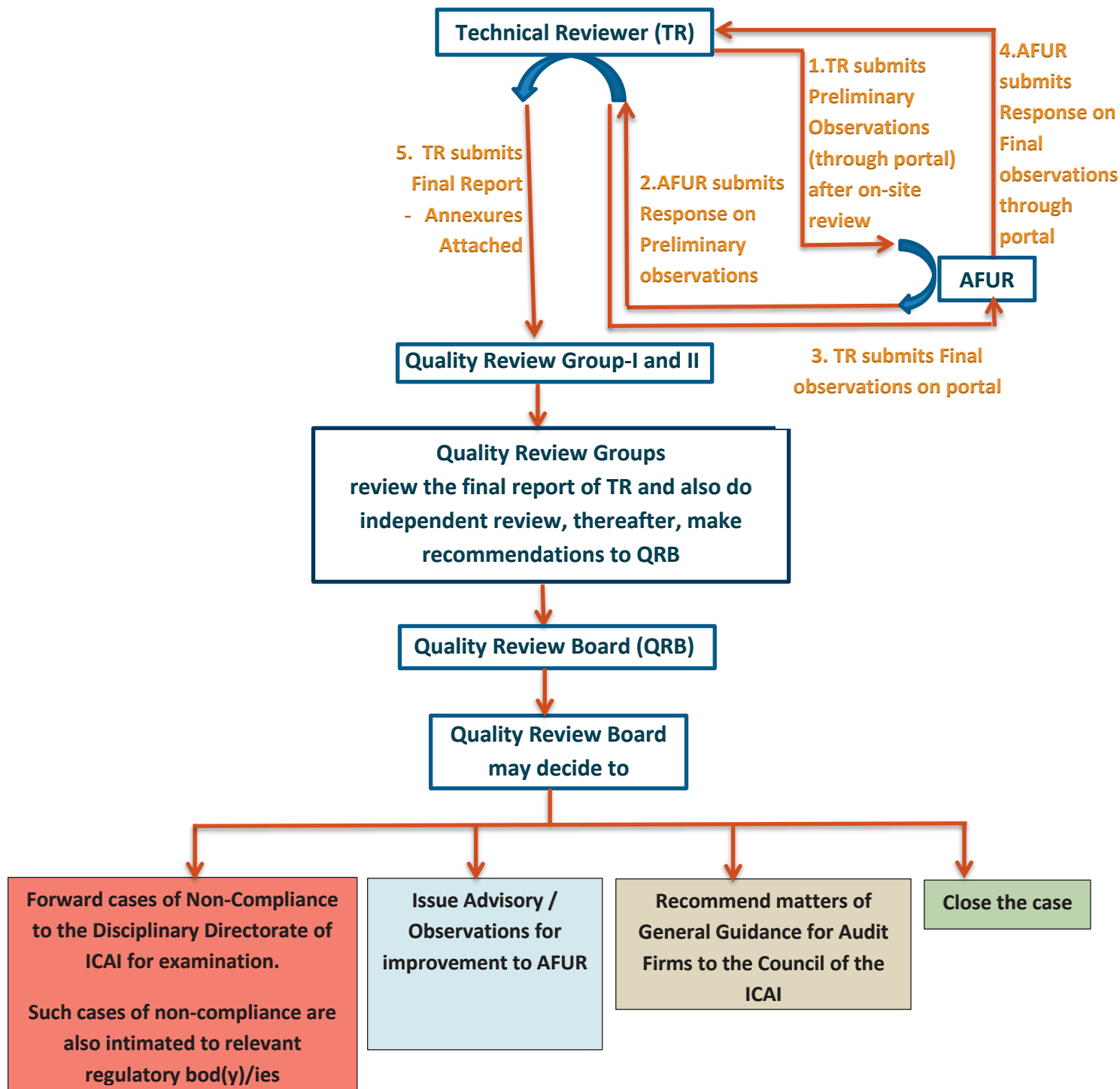
The system of review of statutory audit services of the audit firms, initiated by the Board, includes selection of Audit firms for review and engagement of Technical Reviewers (TRs). The Board has specified basic minimum criteria for empanelment of Technical Reviewers, applications in respect whereof are invited through an on-line empanelment process at the website of QRB (<https://www.qrbca.in>). Independence of the TR and also the members of the review team viz-a-viz the AFUR as well as the auditee is also imperative. Accordingly, TRs are required to fulfil, inter alia, the following conditions:

- a) TR does not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him/her during last three financial years and/or thereafter.
- b) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have been the statutory auditor of the company/entity under review or have rendered any other services to the said company/entity during the last three financial years and/or thereafter.
- c) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have had any association with the AFUR, during the last three financial years and /or thereafter.

- d) TR complies with all the eligibility conditions laid down for appointment as an auditor of the company/entity under review under section 141(3) of the Companies Act, 2013 so far as applicable.
- e) TR is not from the city/region of head office of AFUR.

TRs are also required to submit declaration for independence and eligibility for each one of his/her assistants, if any. The QRB considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Accordingly, TR as well as all the members of the review team are required to submit a confidentiality declaration.

Chart 1 : How we conduct Audit Quality Review

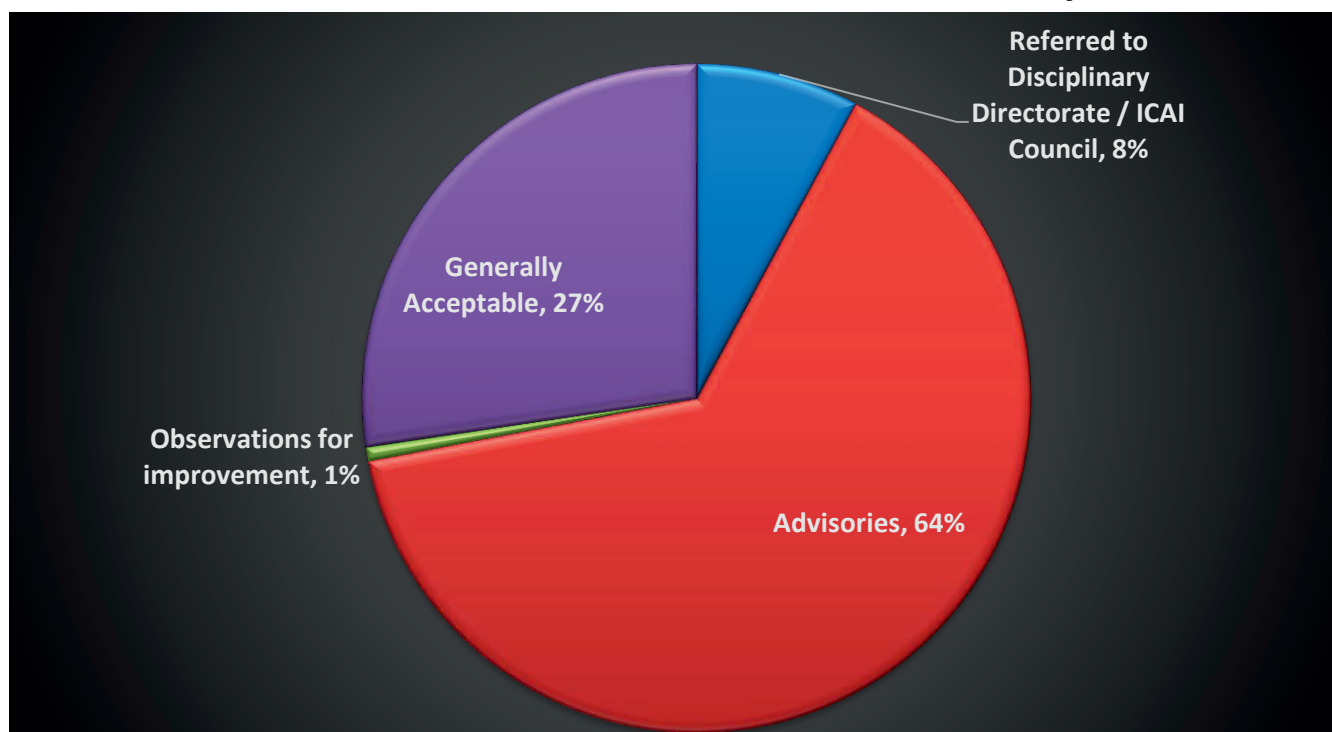


Significant Achievements and Initiatives during FY 2025-26

- ✓ During the FY 2025-26, the Board has finalised 59 audit quality reviews comprising 54 Audit firms and 57 entities (including 41 Private Limited Companies and 16 Urban Co-operative Banks). Out of these 59 audit quality reviews finalised, 9 cases were forwarded to the Disciplinary Directorate of ICAI for its examination. 44 cases resulted into issuing advisories to concerned Audit firms for improvement in quality of their services and in 5 cases observations for improvement were identified for the Audit firms and 1 case was closed.
- ✓ Procedure for Quality Review of Audit Services of Audit Firms was also modified to:
 - categorise cases where upto 5 observations are identified for improvement without having any financial impact as 'Observations for Improvement' instead of as 'advisory'.
 - revise criteria for empanelment of Technical Reviewers with the Board.
 - enable submission of Review Report and replies to observations through QRB web portal.
 - amend SOP for conducting quality reviews.
- ✓ The Board also revised rating parameters and evaluation methodology for empanelled Technical Reviewers.
- ✓ A webinar was organized with Technical Reviewers to create greater awareness about the developments in review procedure, evaluation methodologies, key observations, and significant review findings, thereby improving quality of reviews.
- ✓ 11 New Technical Reviewers were empanelled by the Board during FY 2025-26.
- ✓ The selection of Audit Firms for review during FY 2025-26 was made out of companies outside the scope of Rule 3(1) of NFRA Rules 2018 i.e., unrestricted public limited companies not falling within the scope of Rule 3(1) and private limited companies having turnover of Rs. 250 crores or more. The database of companies as per MCA 21 data was used for making selection of entities more robust.

Trend of Audit Engagements Reviewed FY 2012-13 to FY 2025-26

Chart 2 : Decisions taken on the basis of Audit Quality Reviews



Action Taken

Since FY 2012-13 to FY 2025-26, the QRB has completed 761 reviews. Of these:

- 60 cases - 35 cases recommended to the ICAI Council for consideration and necessary action in terms of the requirements of Sec. 28B(a) of the Chartered Accountants Act, 1949 and 25 cases forwarded to the Disciplinary Directorate (DD) of ICAI for its examination in terms of the requirements of Sec. 28B(d) of the Chartered Accountants Act, 1949.
- 493 cases – 488 Advisories and 5 Observations for improvement were issued by Quality Review Board to concerned AFURs for improvement in quality in terms of the requirements of Sec.28B(c) of Chartered Accountants Act, 1949.
- 208 cases – Closed with no further action.

Key Highlights of Audit Engagements Reviewed during the Financial Year 2025-26

Highlights given hereunder are with respect to the audit quality reviews completed by the Quality Review Board during the financial year 2025-26 as per following data:

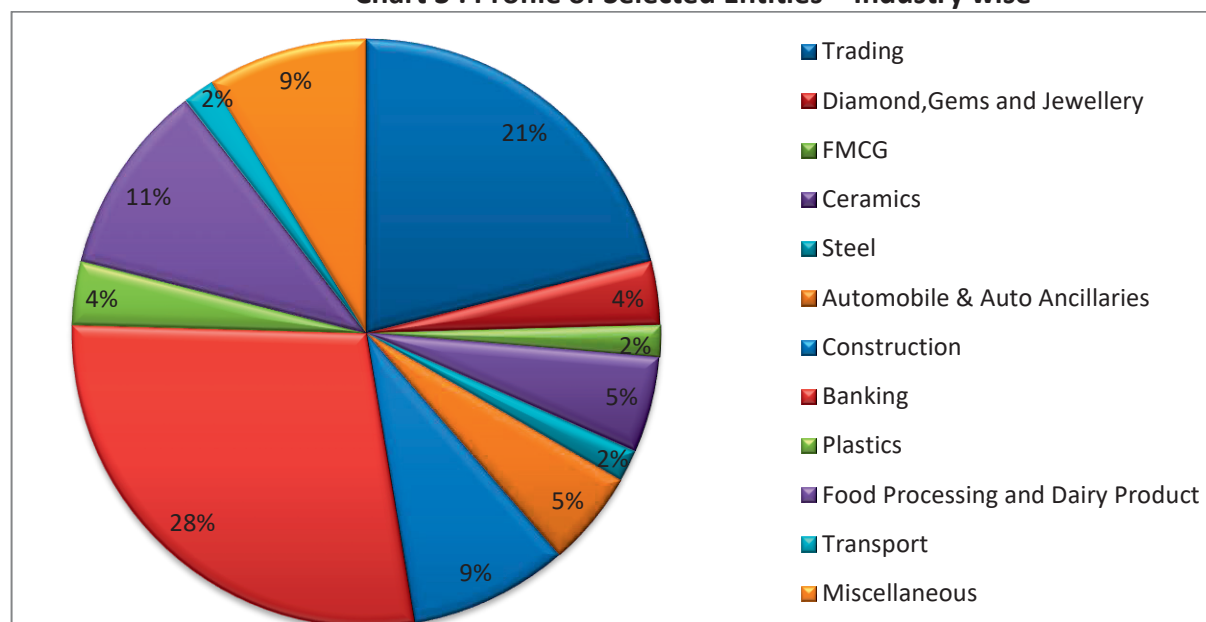
Total Numbers included in the report				
Total Number of Audit Engagements				
59				
Total Number of AFURs				
54				
Region wise break up of AFURs:				
Western	Southern	Eastern	Central	Northern
31	06	02	06	09
Total Number of Entities				
57				
Entity wise/ Year of Audit wise break-up of entities:				
Private Limited Companies for audit of FY			Urban Cooperative Banks for audit of FY	
2017-18	2020-21	2021-22	2020-21	
02	02	37	16	

These findings have been categorised under various sections such as Standards on Auditing, Accounting Standards viz. IGAAP along with Division I of Schedule III of Companies Act, 2013 and Ind AS along with Division II of Schedule III of Companies Act, 2013, Banking Regulation Act 1949 and Other Relevant Laws and Regulations.

a) Profile of Selected Entities and AFURs

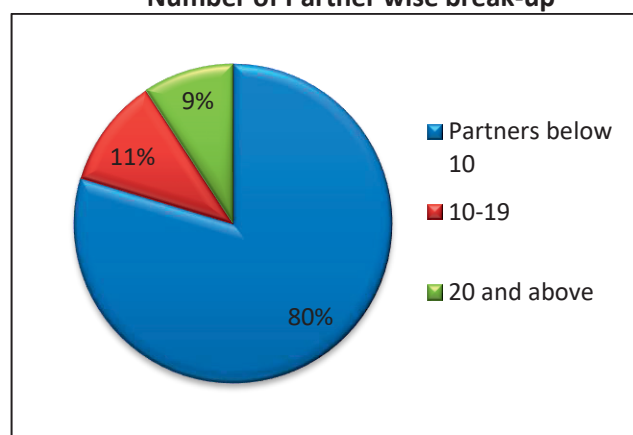
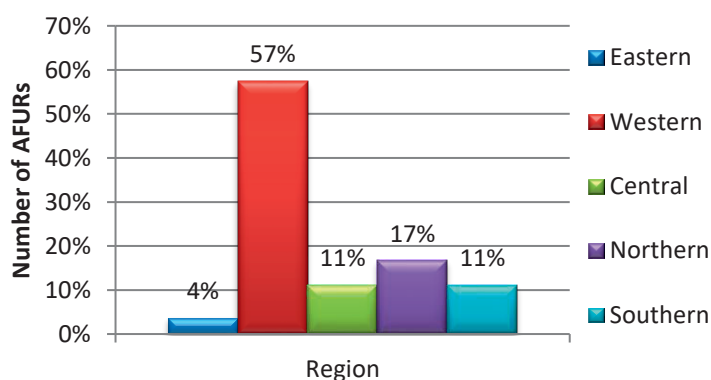
❖ Profile of Selected Entities – Industry wise

The following chart represents the number of industries forming part of the 57 Entities. It can be seen that 28 percent entities are from Banking followed by 21 percent companies from Trading, 11 percent companies from Food Processing and Dairy Products and so on.

Chart 3 : Profile of Selected Entities – Industry wise

❖ Profile of Selected AFURs during the year – Number of Partners and Region wise break-up

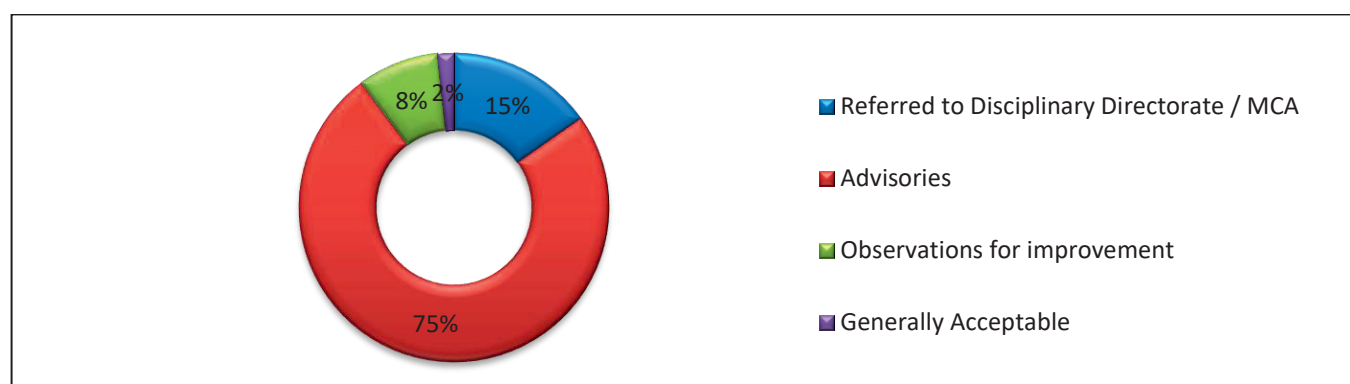
The following charts represent the break-up of selected AFURs in terms of the number of partners and region of the firms. Out of 54 AFURs reviewed during the period, 80% AFURs had less than 10 Partners, while 11% AFURs had between 10-19 Partners and 9% AFURs had 20 and above Partners. Further, out of 54 AFURs, 57% AFURs from the Western Region, followed by 17% AFURs from the Northern Region, 11% AFURs each from Central Region and Southern Region and 4% AFURs are from Eastern Region.

Chart 4 : Profile of Selected AFURs during the year – Number of Partner wise break-up**Chart 5 : Profile of Selected AFURs during the year– Region wise Break-up**

b) Overall Findings of Audit Engagements Reviewed during the year

The following chart represents the decisions taken based on the findings of the Audit Quality reviews carried out in respect of 59 audit engagements during the year. In 98% of the audits reviewed, QRB has initiated action, while 83% cases required improvement where QRB issued advisories (75%) or observations for improvement (8%) to the concerned AFURs to ensure improvement in the quality of their services in future. 15% cases were forwarded to the Disciplinary Directorate (DD) of the ICAI for its examination. Further, 2% cases were found to be acceptable and therefore closed with no further action.

Chart 6 :Findings of Audit Engagements Reviewed during the year



Action Taken

For FY 2025-26, QRB has completed reviews of 59 audit engagements of 41 private limited companies and 16 Urban Co-operative Banks (UCBs) in respect of 54 AFURs. Of these:

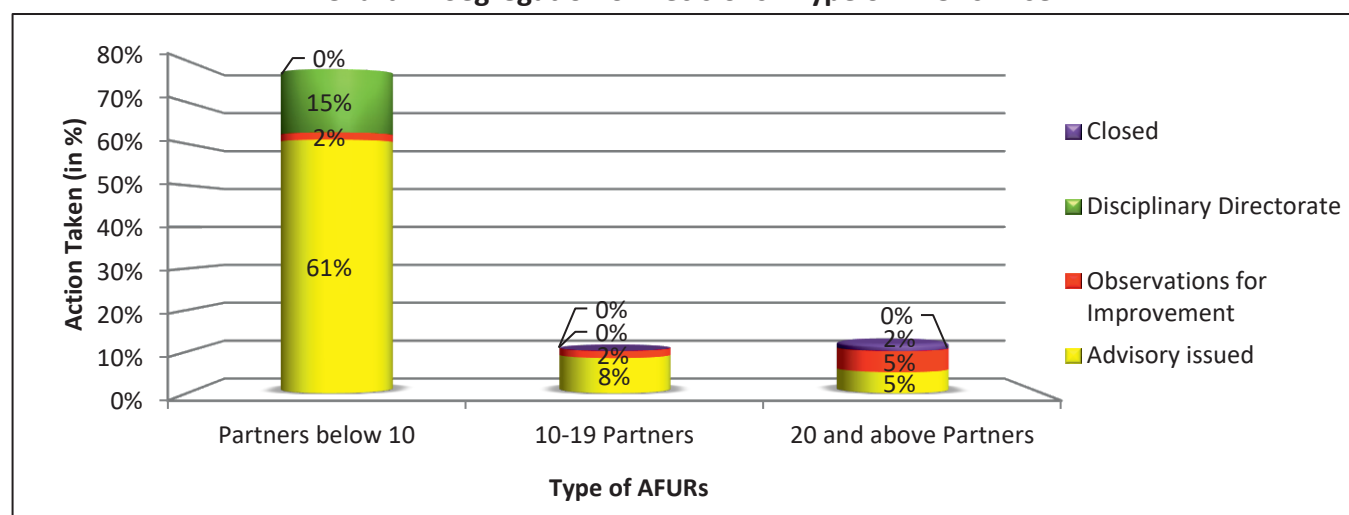
- 9 cases - Forwarded to the Disciplinary Directorate (DD) of ICAI for its examination in terms of the requirements of Sec. 28B (d) of the Chartered Accountants Act, 1949.
- 49 cases – 44 Advisories and 5 Observations for improvement were issued by Quality Review Board to concerned AFURs for improvement in quality in terms of the requirements of Sec. 28B(c) of Chartered Accountants Act, 1949.
- 1 case - Closed.

❖ Break-up of Action Taken - Type of AFURs wise

The following chart represents further break-up of the action taken in respect of the audit engagements reviewed as per type of AFURs. AFURs are divided into 3 categories namely, AFURs having Partners below 10, between 10-19 Partners and with 20 and above Partners.

As can be seen in chart 7, in case of AFURs having less than 10 Partners, 78 percent cases required action where advisories (61%) / observations for improvement (2%) were issued by the QRB and 15 percent cases were forwarded to Disciplinary Directorate. One also needs to understand that this situation has arisen because 80% selected AFURs had less than 10 Partners. In case of AFURs having between 10 – 19 Partners, 10 percent cases required improvement where advisories (8%) / observations for improvement (2%) were issued by the QRB. In case of AFURs having 20 and above Partners, 10 percent cases required improvement where advisories (5%) / observations for improvement (5%) were issued by the QRB and 2 percent cases were closed with no further action.

Chart 7 : Segregation of Decisions - Type of AFURs wise



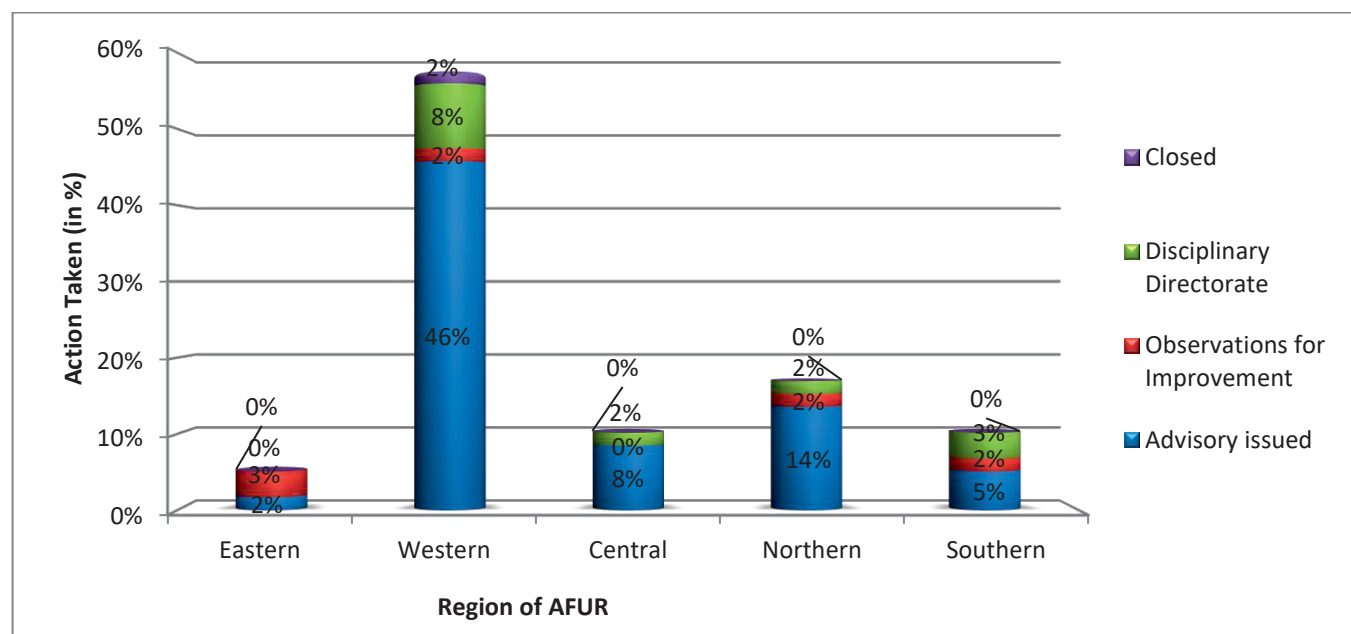
❖ Break-up of Action Taken - Region wise

The following chart represents the region-wise break-up of the action taken in respect of the audit engagements reviewed. AFURs were selected from five regions, namely Eastern, Western, Central, Northern and Southern.

As can be seen from Chart 8, the Western region accounted for the highest proportion of cases (58%), of which 46% resulted in issuance of advisories, 2% resulted in observations for improvement, 8% cases were referred to the Disciplinary Directorate (DD), and 2% were closed with no further action. However, one also needs to keep in mind that of all the AFURs selected for review, 57% AFURs were from the Western Region. This explains the highest proportion of actionable cases (58%) from this region. This is followed by the Northern region which accounted for 18% of the cases, comprising 14% advisories, 2% observations for improvement, and 2% Disciplinary Directorate referrals. The Central region represented 10% of the cases, with 8% advisories and 2% Disciplinary Directorate referrals. The Southern region also accounted for 10% of the cases, including 5% advisories, 2% observations for improvement, and 3% Disciplinary Directorate referrals. The Eastern region constituted 5% of the cases, comprising 2% advisories and 3% observations for improvement.

Overall, the majority of cases across all regions resulted in advisories being issued, while 2% of the total cases were closed with no further action.

Chart 8 : Segregation of Decisions - Region wise



Review Findings w.r.t Private Limited Companies including Summary of Observations

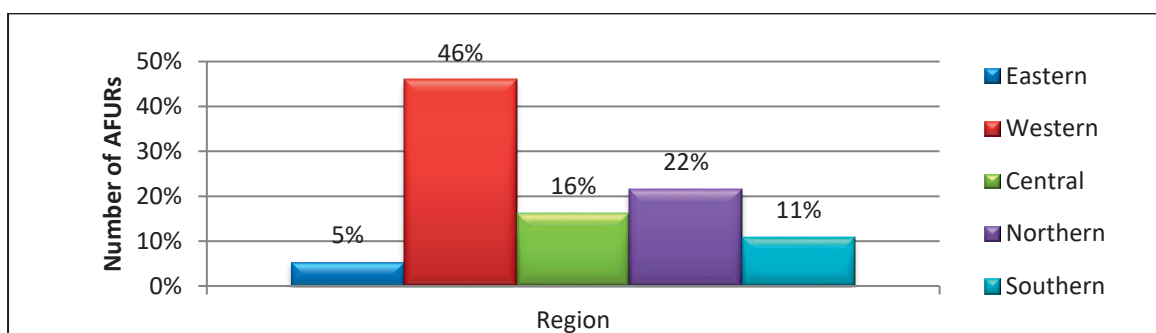
Highlights given hereunder are with respect to the audit quality reviews completed by the Quality Review Board w.r.t Private Limited Companies during the financial year 2025-26 as per following data:

					Total Numbers included in the report
Total Number of Audit Engagements					41
Total Number of AFURs					37
Region wise break up of AFURs:					
Western	Southern	Eastern	Central	Northern	
17	04	02	06	08	
Total Number of Private limited Companies					41
2017-18		2020-21	2021-22		
02		02	37		

❖ Profile of Selected AFURs during the year – Region wise break-up w.r.t Private Limited Companies

The following charts represent the break-up of selected AFURs w.r.t Private Limited Companies in terms of the region of the firms. Out of 37 AFURs w.r.t Private Limited Companies, 5% AFURs are from Eastern Region, 46% from Western Region, 16% from Central Region, 22% from Northern Region and 11% AFURs are from the Southern Region.

Chart 9 : Region wise Break-up of Selected AFURs w.r.t Private Limited Companies

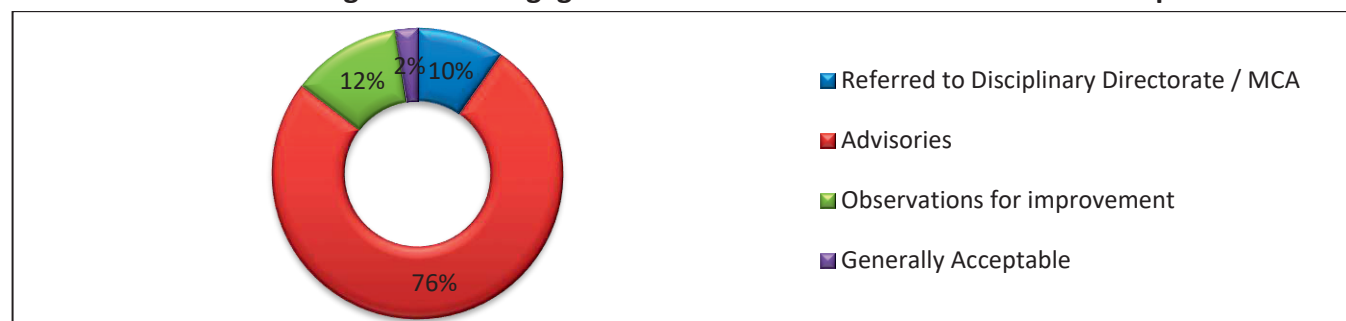


a) Findings of Audit Engagements Reviewed w.r.t Private Limited Companies

The following chart represents the decisions taken based on the findings of the Audit Quality review carried out in respect of 41 audit engagements w.r.t Private Limited Companies during the year. In 98% of the audits reviewed, QRB has initiated action, while 88% cases required improvement where QRB

issued advisories (76%) or observations for improvement (12%) to the concerned AFURs to ensure improvement in the quality of their services in future. 10% cases were forwarded to the Disciplinary Directorate (DD) of the ICAI for its examination. Further, 2% cases were found to be acceptable and therefore closed with no further action.

Chart 10 :Findings of Audit Engagements Reviewed w.r.t Private Limited Companies



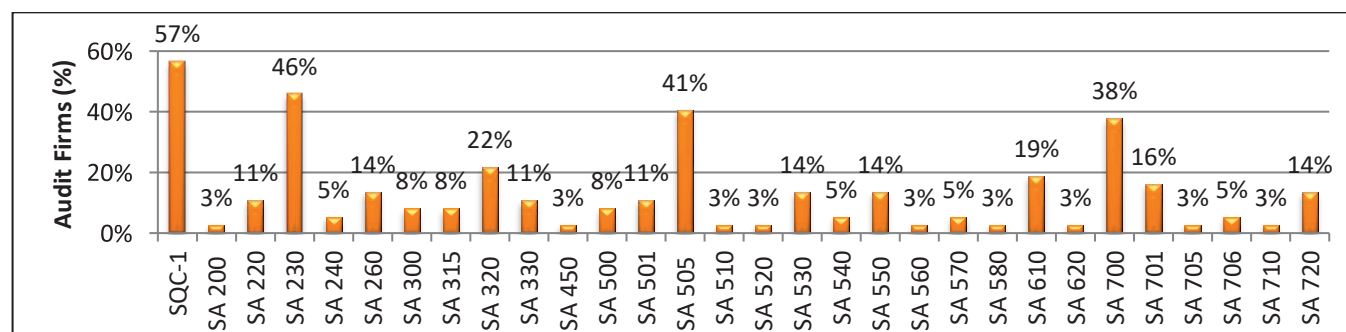
b) Analysis of Reviewed Audit Files w.r.t Private Limited Companies

The following charts represent the analysis of reviewed AFURs in respect of audits of aforesaid private limited companies under different categories:

❖ Percentage of reviewed AFURs having observations on various Standards on Auditing (SA)

The following chart represents the percentages of reviewed AFURs having observations under various SAs as noted during audit quality reviews. It can be seen that maximum AFURs had observations on Standard on Quality Control (SQC)-1 (57 percent) followed by SA 230 Audit Documentation (46 percent), SA 505 External confirmations (41 percent), SA 700 Forming an Opinion and Reporting on Financial Statements (38 percent) and so on.

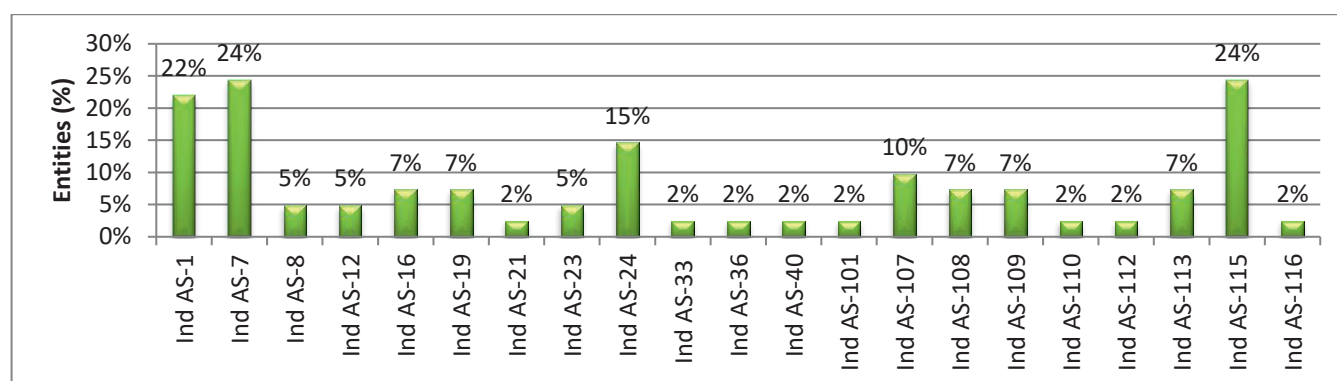
Chart 11 : Percentage of Reviewed AFURs having observations on Standards on Auditing (SA)



❖ Percentage of reviewed Companies having observations on Indian Accounting Standards (Ind AS)

The following chart represents the percentages of reviewed private limited companies having observations under various Ind AS as noted during audit quality reviews. It can be seen that maximum entities had observations on Ind AS 7 Statement of Cash Flows (24 percent) and Ind AS 115 Revenue from Contracts with Customers (24 percent).

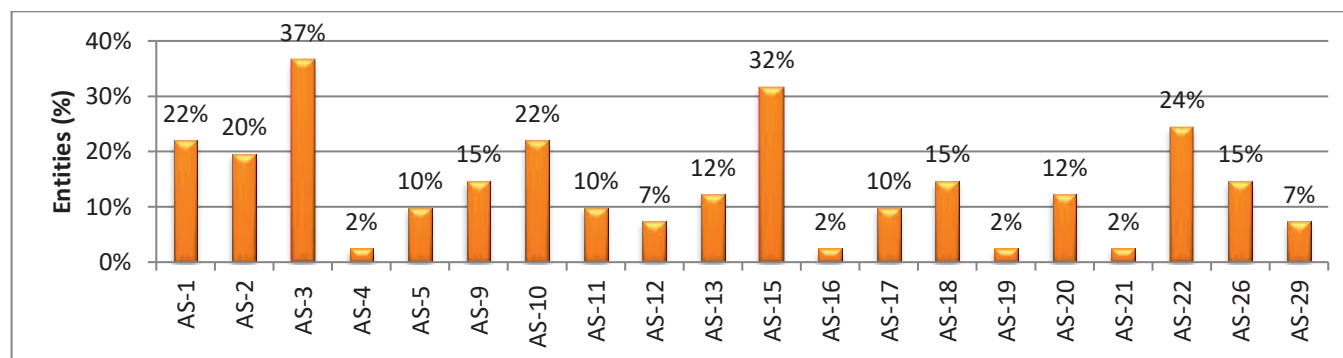
Chart 12 : Percentage of reviewed Companies having observations on Indian Accounting Standards (Ind AS)



❖ Percentage of reviewed Companies having observations on Accounting Standards (AS)

The following chart represents the percentages of reviewed private limited companies having observations under various AS as noted during audit quality reviews. It can be seen that maximum entities had observations on AS 3 Cash Flow Statements (37 percent) followed by AS 15 Employee Benefits (32 percent), AS 22 Accounting for taxes on Income (24 percent), AS 1 Disclosure of Accounting Policies (22 percent) and so on.

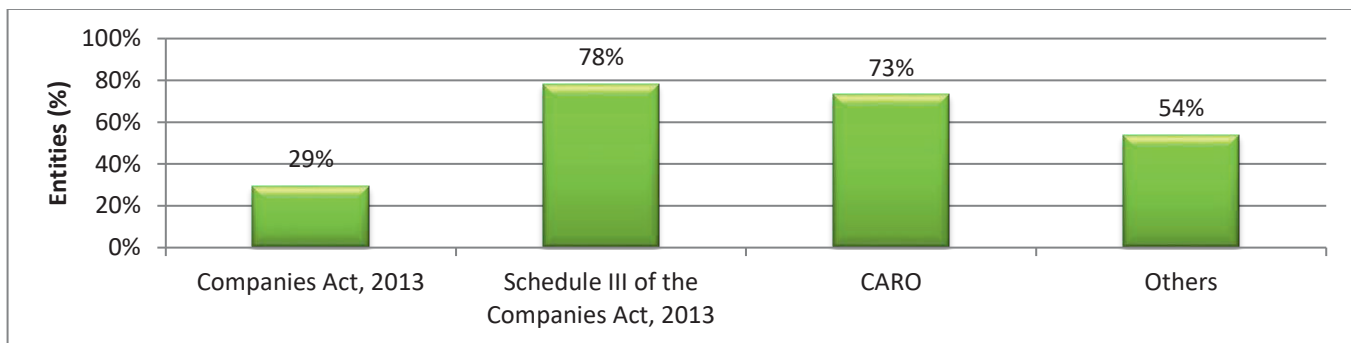
Chart 13 : Percentage of reviewed Companies having observations on Accounting Standards (AS)



❖ Percentage of reviewed Companies having observations on Other Relevant Laws and Regulations

The following chart represents the percentages of reviewed private limited companies having observations under Other Relevant Laws and Regulations as noted during audit quality reviews. It can be seen that maximum Entities had observations on Division I & II under Schedule III of the Companies Act, 2013 (78 percent) followed by CARO 2016 / 2020 (73 percent), Companies Act, 2013 (29 percent) and Others (including MSMED Act 2006, Guidance note on audit of internal financial controls, Guidance note on audit of inventories, Implementation guide on auditor's report and other relevant guidance) (54 percent).

Chart 14 : Percentage of Reviewed Companies having observations on Other Relevant Laws and Regulations



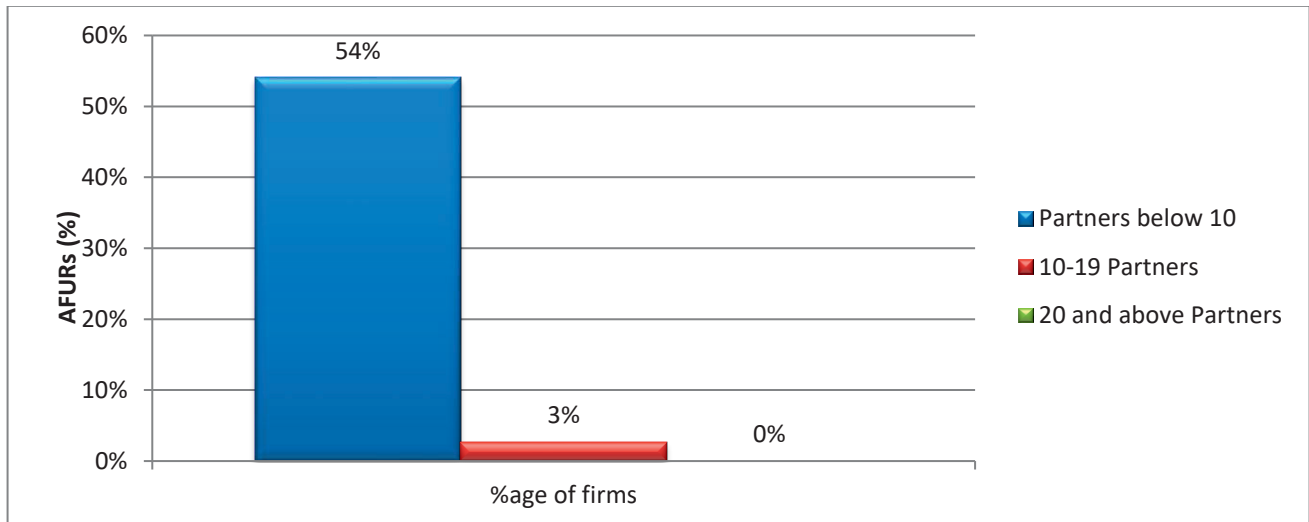
Summary of Observations w.r.t Private Limited Companies

Engagement and Quality Control Standards

Standard on Quality Control (SQC) - 1

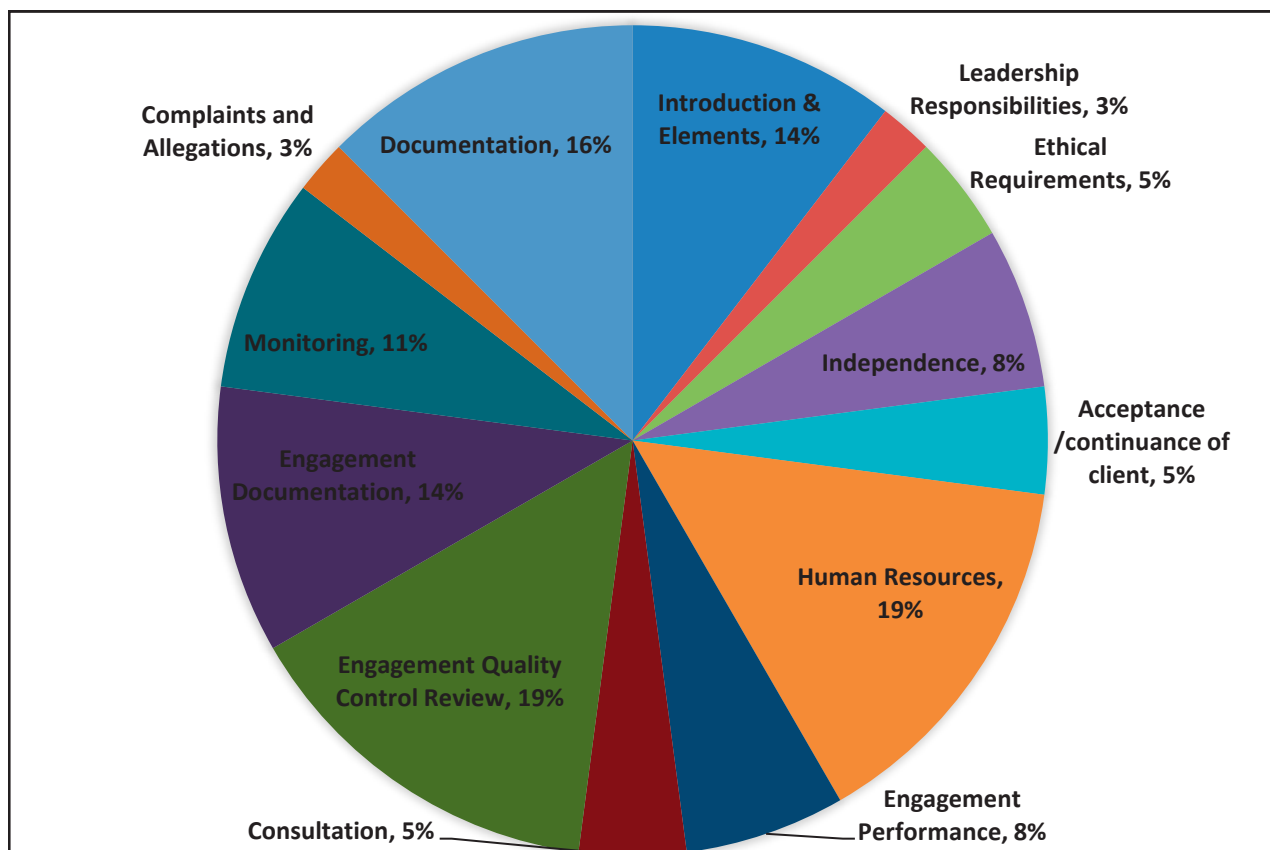
The following chart represents the percentages of reviewed AFURs having observations in respect of **Standard on Quality Control (SQC) – 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements**. It can be seen that out of total AFURs selected for reviews w.r.t Private Limited Companies, 57 percent had observations on Standards on Quality Control (SQC-1).

Chart 15 : Percentage of Reviewed Audit Firms having observations on SQC-1



Further, Chart No. 16 represents the percentage distribution of reviewed audit firms based on observations on the Standard on Quality Control (SQC) 1. It can be seen that Human Resources and Engagement Quality Control Review account for the highest share at 19 percent each, followed by Documentation at 16 percent. Introduction & Elements of system of quality control and Engagement Documentation each account for 14 percent, while Monitoring constitutes 11 percent. Independence and Engagement Performance each contribute 8 percent, Ethical Requirements, Acceptance and continuance of client, and Consultation account for 5 percent each, and Leadership Responsibilities and Complaints and Allegations represent the lowest share at 3 percent each.

Chart 16 : Percentage of Reviewed Audit Firms based on observations on Standard on Quality Control (SQC) 1



The following major observations in respect of **Standard on Quality Control (SQC) – 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements** were noticed during the course of Quality Reviews finalized during the year:

Introduction & Elements of a System of Quality Control

- Not maintaining quality control policy and procedures to establish consistency in the quality of engagement performance (*Para 3 & 106*).
- Not establishing a system of quality control by establishing quality control policies and procedures for (i) leadership responsibilities for quality, (ii) ethical requirements, (iii) client acceptance and continuance, (iv) human resources, (v) engagement performance, and (vi) monitoring (*Para 3 read with para 7*).
- Not documenting the procedures to obtain and record personnel feedback on audit engagements as part of the firm's quality control system (*Para 8*).

- Not documenting and communicating quality control policies & procedures with the firm's personnel (*Para 8*).

Leadership Responsibilities for Quality within the Firm

- Not documenting the management emphasis on quality control policies and procedures (*Para 10 read with para 106*).

Ethical Requirements

- Not framing the quality control policies w.r.t ethical requirements (*Para 15 and 17*).
- Not maintaining documentation regarding imparting education and adequate training to the audit staff (*Para 17 read with para 106*).
- Not maintaining documentation in respect of Continuing Professional Education and Development (CPED) such as structured mechanism to monitor compliance with CPE hour requirements (*Para 17 read with para 108 of SQC and Para 4.7 of the Implementation Guide on SQC 1*).

Independence

- Not establishing the policies and procedures regarding independence containing the detailed descriptions about identification and evaluation of circumstances and relationships that can create threats to independence, appropriate actions to eliminate threats and safeguards (*Para 18, 19 & 20*).
- Not providing the document containing written policies and procedures designed to safeguard independence (*Para 18 read with para 106*).
- Not having the policy & procedures w.r.t rotation of engagement partner for pre-defined period which shall not exceed seven years (*Para 18 read with para 27*).
- Not obtaining written confirmation of compliance with its policies and procedures on independence annually (*Para 23*).
- Not establishing the policies and procedures to obtain, at least annually, confirmations of compliance with independence requirements from all personnel required to be independent (*Para 23*).
- Not establishing and documenting policies and procedures w.r.t (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code (*Para 25 read with para 106*).

Acceptance and Continuance of Client Relationships and Specific Engagements

- Code of Ethics Compliance Declaration was signed in the following year after Client 'Acceptance of Audit & Assurance Engagements' letter was signed by the Engagement Partner which makes the documents ineffective for ensuring compliance during the audit period (*Para 28*).
- Not establishing policies and procedures for the acceptance and continuance of client relationships and specific engagements (*Para 28, 29 & 30*).
- Not containing any reference to the confirmation or assessment of conflict of interest in the document related to client acceptance (*Para 32*).

Human Resources

- Not establishing policies and procedures to provide reasonable assurance that the firm has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform engagements (*Para 36*).
- Not systematically implementing and documenting policies and procedures relating to personnel matters such as competence, capabilities, career development, promotion, performance evaluation, compensation, and estimation of personnel needs (*Para 37, Para 38 read with Para 106*).
- Not having an effective process for continuing professional development of staff through regular training programmes (*Para 38*).
- Not maintaining the records of people who attended the seminar and training programs regularly (*Para 38 and Para 48 read with Para 106*).
- Not maintaining appropriate documentation regarding establishment of policies and procedures requiring that: (a) The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role and (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner (*Para 42 read with para 106*).
- Not establishing policies and procedures which set out the parameters to decide the appropriate capabilities, competences of the engagement partner (*Para 42(b) read with Para 45*).
- Not maintaining adequate documentation to assess and ensure that engagement team members possess the necessary competence and capabilities to perform the audits (*Para 45 read with Para 106 & Para 107*).

Engagement Performance

- Not establishing or maintaining the necessary policies and procedures to ensure consistency in engagement performance including briefing the engagement team, implementing appropriate supervision, and training, ensuring compliance with professional standards, and maintaining proper documentation of work performed (*Para 46 and 47*).
- Not ensuring effective implementation through enhanced engagement supervision, EQCR involvement, and periodic monitoring of compliance with standards on auditing (*Para 46*).
- Not maintaining documentation of policy and procedures of (a) how engagement team is briefed on the engagement in order to obtain understanding of the objectives of their work (b) compliance with applicable engagement standards (c) staff training and coaching (d) methods of reviewing the work performed, significant judgements made, form of the report being issued (*Para 47 read with para 106*).
- Not keeping the documentation about details of work performed, issues raised and communication with TCWG and their resolution (*Para 49 read with para 106 of SQC-1*).
- Not maintaining an effective supervision mechanism to ensure adherence to the standards on auditing (*Para 49*).

Consultation

- Not establishing policies and procedures for managing consultations (*Para 51*).

Engagement Quality Control Review

- Not establishing policies and procedures requiring an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report (*Para 60*).
- Not establishing policies and procedures setting out the criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed (*Para 60(b)*).
- Not maintaining policies and procedures in respect of Engagement Quality Control Review (EQCR) being a proprietary firm (*Para 60 of SQC-1 read with Para 5 w.r.t applicability and Para 6(f) w.r.t definition of Firms as per SQC-1*).
- Not stating in the firm's policies and procedures that the completion of the engagement quality control review should be done before the report is issued (*Para 61 read with Para 73(b)*).
- Not establishing the policies & procedures setting out; (i) the nature, timing and extent of an engagement quality control review (ii) criteria for the eligibility of engagement quality control reviewers (iii) documentation requirements for an engagement quality control review (*Para 63*).
- Not establishing the policies & procedures addressing the appointment of engagement quality control reviewers and establishing their eligibility (*Para 68*).
- Not establishing policies and procedures for engaging suitably qualified external person as EQCR who may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control review (*Para 70, Para 71 & Para 72*).
- Not establishing policies and procedures for ensuring objectivity of the engagement quality control reviewer (*Para 70*).
- Not establishing policy specifying whether the Engagement Quality Control Review (EQCR) should be performed internally or by an external reviewer (*Para 71*).

Engagement Documentation

- Not establishing and documenting policies and procedures for assembly of final engagement files on a timely basis after finalizing the engagement reports (*Para 74 read with Para 106*).
- Not establishing adequate controls over confidentiality, safe custody, and accessibility of audit documentation (*Para 77*).
- Not ensuring the protection & safe custody of audit files kept in electronic form (*Para 77 & Para 79 of SQC-1 read with Para 39 on Implementation Guide on SA 230*).
- Not indexing the working papers in the audit file (*Para 81 of SQC-1 read with Para 5.7 of Implementation Guide on SQC-1*).

Monitoring

- Not establishing and implementing an effective monitoring mechanism (Para 86).
- Not including written confirmation of compliance with independence requirements and documentation of decisions relating to acceptance and continuance of client relationships in the firm's policy (Para 89).
- Not performing inspection of a selection of completed engagement on a cyclical basis (Para 90, Para 91 & Para 92).
- Not mentioning the period of inspection cycle in the SQC policy (Para 90 read with Para 106).
- Not communicating the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm (Para 97).

Complaints and Allegations

- Not establishing policies and procedures for dealing with complaints and allegations (Para 101).

Documentation

- Not providing reference to the types of reports to be issued in the SQC policy (Para 106 of SQC 1 read with Para 7 to 9 of SA 705).
- Not keeping the documents to provide the evidence of training and development of human resources (Para 106).
- Not documenting the evidence of operation of each element of system of quality control (Para 106).
- Not maintaining documentation regarding the establishment of policies and procedures designed to maintain the confidentiality (Para 106 & 107).

Standards on Auditing

The following major observations in respect of Standards on Auditing (SA) were noticed in the Audit files reviewed in respect of audits of reviews finalized during the year:

General Principles and Responsibilities (SA 200, 220, 230, 240, and 260)

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- Not maintaining documentation w.r.t professional judgement exercised throughout the audit (*Para 16: Ref A27*).

SA 220 - Quality Control for an Audit of Financial Statements

- Not following the procedures regarding the acceptance and continuance of client relationships and audit engagements w.r.t competence of engagement team to perform the audit engagement and necessary capabilities, including time and resources and whether the firm and the engagement team can comply with relevant ethical requirements (*Para 12 read with Para A8*).
- Not conducting, by engagement of quality control reviewer, an objective evaluation of the significant judgments made by the engagement team (*Para 20*).
- Not complying with the documentation requirements by the engagement quality control reviewer (*Para 25*).
- Not maintaining documentation by the Engagement Quality Control Reviewer (EQCR) demonstrating an objective evaluation of the significant judgments made by the engagement team and the appropriateness of the conclusions they reached (*Para 25(c)*).

SA 230 - Audit Documentation

- Not keeping documentation of audit procedures
 - Carried out for audit of deferred tax, investments in LLP, bank reconciliation, and external confirmations.
 - For determining reasonableness of bases used for inventory write-off, provision for expenses, and payroll audit procedures (*Paras 7 & 8 of SA 230*).

Key Takeaways

- ❖ Documentation of audit procedures not maintained w.r.t SA 501, SA 505, SA 520, SA 530, SA 550, and SA 560.
- ❖ Documentation not maintained w.r.t audit evidence & conclusions, results of procedures, professional judgments and significant matters.
- ❖ Working paper not maintained w.r.t reviewer details, dates, audit file assembly, retention and updating.
- ❖ Working papers not linked with trial balance, FS line items, supporting schedules.

- Not maintaining audit documentation w.r.t:
 - Terms of advance and Gratuity;
 - Audit procedures carried out under clause 3(i) of CARO 2020 ;
 - Balance confirmation from creditors and debtors, along with bills for purchase of fixed assets;
 - Verification of assumptions made by actuary for recognition and measurement of employee benefits;
 - Sufficient and appropriate audit evidence;
 - Significant matters arising during audit, conclusions reached, and professional judgment used in reaching conclusions (*Para 8 of SA 230*).
- Not making cross-references to relevant supporting audit documentation within working papers (*Para 8(c) of SA 230 read with Para A11*).
- Not cross-referencing audit documentation related to existence and valuation of inventories (*Para 8 of SA 230 read with Para A17*).
- Not providing cross-referencing of working papers to groupings or trial balance for financial statement line items (*Para 8 & A22 of SA 230*).
- Not keeping documentation of audit procedures relating to inventories including comparison of stock records and review of physical verification sheets (*Para 8 of SA 230 read with Para 4 of SA 501*).
- Not maintaining documentation with respect to performance of alternate audit procedures as per requirement for external confirmations (*Para 6(a) read with Para 8 of SA 230 and Para 12 of SA 505*).
- Not keeping documentation of analytical procedures performed including variances noticed (*Para 8 of SA 230 read with Paras 5–7 of SA 520*).
- Not keeping documentation of results of sample and whether audit sampling provided reasonable basis for conclusion on population tested (*Para 8 of SA 230 read with Para 15 of SA 530*).
- Not maintaining adequate supporting documentation for audit procedures relating to sampling, including detailed sampling plan outlining audit objectives, nature of population, sampling approach, basis for sample size determination, and evaluation of results including deviations and corrective actions (*Paras 8 & 9 of SA 230 read with Paras 6–11 & 15 of SA 530*).
- Not maintaining documentation for procedures performed for identifying and assessing risks of material misstatement associated with related parties (*Para 8(a) of SA 230 read with Para 11 of SA 550*).
- Not providing documentation for verification of subsequent events beyond year end until date of audit report (*Para 8 of SA 230 read with Para 7(b) & Para A9 of SA 560*).
- Inconsistency in facts recorded in documentation and audit procedures performed in respect of certain items (*Para 8 of SA 230 read with Implementation Guide to SA 230 (Q13)*).
- Not maintaining documentation substantiating sample procedures performed (*Para 9(a) of SA 230 read with Para A12*).
- Not documenting who performed audit work and date of work performed (*Para 9(b)*).
- Not maintaining documentation regarding who reviewed audit work performed and date and extent of review (*Para 9(c) of SA 230 read with Para A13*).

- Not documenting discussions of significant matters with management, TCWG and others including nature and timing of discussions (*Para 10 of SA 230 read with Para A14*).
- Failure to properly assemble and retain necessary audit documentation in audit file (*Paras 14 & A23 of SA 230 read with Para 82 of SQC 1*).
- Not maintaining documentation of audit procedures carried out for audit of inventories (*Paras 7 & 8 of SA 230 read with Para 34 of Guidance Note on Audit of Inventories*).
- Not providing copy of relevant documentation to confirm procedures performed regarding existence and valuation of debtors (*Para 6 and Para 33 of Guidance Note on Audit of Debtors, Loans and Advances read with Para 8 of SA 230*).
- Not providing copy of relevant documentation and management approval letter to confirm that audit procedures have been appropriately performed (*Para 11 and Para 5(a)(v) of Guidance Note on Audit of Debtors, Loans and Advances read with Para 8 of SA 230*).

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

- Not documenting the inquiries made with the management w.r.t its assessment of risk of material misstatement due to fraud, process for identifying and responding to fraud risk, communication with TCWG and employees, knowledge of any actual, suspected or alleged fraud affecting the entity (*Para 17, 18 & 21 of SA 240 read with Para 45 and 46*).
- Not maintaining documentation w.r.t identification and assessment of the risks of material misstatement due to fraud (*Paras 25 and 26 read with Para 47*).
- Not carrying out the audit procedures for identification of risk of material misstatement due to fraud (*Paras 25 – 27*).
- Not documenting significant decisions reached from discussion with engagement team regarding susceptibility of material misstatement due to fraud in financial statements, identified and assessed risk of material misstatement due to fraud, overall responses to the assessed risk due to fraud, nature & timing of audit procedures and linkage of the audit procedures with assessed risk at assertion level, results of audit procedures for risk of override controls (*Paras 44 – 45*).

SA 260 - Communication with Those Charged with Governance

- Not maintaining documentation of communication with the management w.r.t issues regarding “absence of internal audit system and use of a cash basis of accounting for long term employees’ benefits” (*Para 23*).
- Not maintaining audit documentation with respect to oral discussion with key employees and management staff (*Para 23*).

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

SA 300 - Planning an Audit of Financial Statements

- Not documenting in the audit program the allocation of specific audit procedures or areas of work to individual members of the audit team (*Para 4 read with Para A5*).

- Not including “timing and extent of resources necessary to perform the engagement” while establishing overall audit strategy and developing audit plan (*Para 7(e) read with Para 10*).
- Not preparing an audit plan containing description of the information specified in Para 8, including detailed checklist and reference of substantive & analytical procedures, risk assessment procedures, understanding of internal control and information system, and other planned audit procedures (*Para 8*).
- Not maintaining the nature, timing & extent of audit procedures in the planning memorandum as against the risks identified (*Para 8*).
- Not describing in the audit plan:
 - Nature, timing and extent of planned risk assessment procedures as determined under SA 315,
 - Nature, timing and extent of planned further audit procedures at the assertion level as determined under SA 330,
 - Other planned audit procedures that are required to be carried out so that the engagement complies with the SAs (*Para 8*).
- Not documenting the nature, timing and extent of supervision of engagement team members and the review of their work in the audit plan (*Para 10 and Para 11*).
- Not documenting the evidence with respect to audit strategy in a single file (*Para 11: Ref A17 of SA 300*).
- Not documenting the audit strategy and changes made therein, if any (*Para 11(a) & (c)*).

SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- Not documenting the procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels (*Para 5 of SA 315 read with Para 8(a) of SA 300*).
- Not performing the assessment of risks of material misstatement including how risks associated with the negative cash balance were identified and assessed at both the financial statement level and assertion level and not documenting the basis for designing and performing further audit procedures, particularly regarding potential misstatements or irregularities related to cash transactions or cash flow management (*Para 25 and Para 26*).
- Not maintaining documentation w.r.t the assessment of risk of material misstatement at the assertion level (*Para 32(c)*).

SA 320 - Materiality in Planning and Performing an Audit

- Not keeping documentation of materiality for the financial statements as a whole, materiality level for particular classes of transactions, performance materiality and any revision on these materiality levels (*Para 10 read with Para 11 and Para 14*).
- Not documenting the amounts and factors considered in determination of materiality level (*Para 14*).

SA 330 - The Auditor's Responses to Assessed Risks

- Failure to adequately cross-reference the “working papers of performing substantive testing” with the underlying accounting records while reconciling the financial statements (*Para 20(a)*).
- Not maintaining the documents relating to verification of risk control matrix (*Para 28(a)*).
- Not providing the documents in respect of (a) responses to assessed risks, (b) linkage of audit procedures with identified risks, and (c) results and conclusions of audit procedures (*Para 28 read with Para A63*).

SA 450 - Evaluation of Misstatements Identified During the Audit

- Not providing the documentation in respect of the amount below which misstatement would be regarded as clearly trivial (*Para 15(a)*)

Audit Evidence (SA 500, 501, 505, 510, 520, 530, 540, 550, 560, 570 and 580)**SA 500 - Audit Evidence**

- Not carrying out the audit procedures in relation to sale and return, price validity on sales etc (*Para 6 of SA 500 read with Para 9 and Para 10 of Guidance Note on Audit of Revenue*).
- Not performing the adequate audit procedures w.r.t outstanding balances that were subject to confirmation and reconciliation (*Para 9*).
- Not designing and performing the audit procedures to obtain sufficient and appropriate audit evidence regarding receivables, payables, loans & advances (*Para 9*).

SA 501 - Audit Evidence – Specific Considerations for Selected Items

- Not maintaining audit documentation for verification of litigation and claims (*Para 9 read with Para A17–A25*).
- Not obtaining written representation from the management and, where appropriate, those charged with governance that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable financial reporting framework (*Para 12*).
- Not obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory by attending physical inventory counting, unless impracticable, to evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting (*Para 4(a)*).
- Failure in audit of inventories including insufficient testing of quantitative reconciliation, and inadequate documentation on compliance assessment (i.e., compliance of AS 2) (*Para 4–8 of SA 501 read with Paras 9, 10, 24, 25, 30 and 34 of Guidance Note on Audit of Inventories issued by ICAI*).

SA 505 - External Confirmations

- Not obtaining external confirmation directly from confirming parties (*Para 2*).
- Not obtaining direct confirmations w.r.t borrowers balances (*Para 2*).
- Not obtaining confirmation w.r.t bank balance (*Para 7 read with Para 13–25 of Guidance Note on Audit of Cash and Bank Balances*).
- Not keeping documentation w.r.t audit procedures performed for external confirmations (*Paras 7 & 8*).
- Not obtaining confirmations w.r.t loans given to related parties and receivable from/payables to related parties and not maintaining control over external confirmation procedures (*Para 7*).
- Not obtaining balance confirmations by determining sample size sufficient to reduce sampling risk to an acceptably low level and not carrying out audit procedures to obtain balance confirmation from trade payables (*Para 7 of SA 505 read with Para 7 of SA 530, Para 28 of Guidance Note on Audit of Debtors, Loans and Advances and Para 41–53 of Guidance Note on Audit of Liabilities*).
- Not designing confirmation requests to ensure responses are sent directly to auditors (*Para 7(c)*).
- Not maintaining control over external confirmation requests including determining information to be confirmed, selecting confirming parties, designing requests, ensuring proper addressing and return information, and sending requests including follow-up requests (*Para 7*).
- Not Providing documentation regarding external confirmation procedure performed or carried out alternate audit procedures for existence and valuation of debtors (*Para 7 of SA 505 read with Para 8 of SA 230*).
- Not taking external confirmation as per the format prescribed under Appendix-I of Guidance Note on Audit of Liabilities and not maintaining documentation as required by Para 8 of SA 230 (*Para 7 of SA 505 read with Para 8 of SA 230*).
- Not sending letters directly to bankers requesting them to confirm balances directly to the AFUR and not obtaining confirmation w.r.t bank balance (*Para 7 of SA 505 read with Para 13–25 of Guidance Note on Audit of Cash and Bank Balances*).

Key Takeaways

- ❖ External confirmations not obtained for debtors, borrowers, bank balances, related parties, loans and liabilities.
- ❖ Alternative audit procedures not performed where confirmations were not available.
- ❖ Inadequate control over confirmation requests including selection of confirming parties, designing requests, direct communication, follow-up procedures, and sampling for confirmations.
- ❖ Documentation of confirmation procedures, alternative audit procedures, and supporting audit evidence w.r.t confirmations were not maintained.
- ❖ Ambiguous disclosure regarding balance confirmations in the financial statements.

- Not performing external confirmation procedure w.r.t debtor and not maintaining documentation in order to support audit procedures carried out in accordance with Para A18 of SA 505 (*Para 7 of SA 505 read with Para 8 of SA 230 and Para A18 of SA 505*).
- Not maintaining documentation w.r.t alternative audit procedures designed to obtain relevant and reliable audit evidence w.r.t external confirmations (*Para 8(c) read with Para 8(a) of SA 230*).
- Using phrases like “Trade receivables and advances from customer balance are subject to balance confirmation and reconciliation, if any” in the financial statements as this creates confusion for the readers of the financial statements that balance confirmations have not been done and auditor has not carried out appropriate procedures in accordance with SA 505 External Confirmations.

SA 510 - Initial Audit Engagement – Opening Balances

- Not providing the documentation in support of audit procedures performed on the opening balances, verifying consistency of accounting policies and record findings, evidence of reliance on prior year audits or independent testing (*Para 6*).

SA 520 - Analytical Procedures

- Maintaining insufficient documentation w.r.t the analytical procedures performed (*Appendix: Analytical Procedures read with Para 8 of SA 230*).

SA 530 - Audit Sampling

- Not maintaining documentation w.r.t how the items were selected for testing to ensure that means of selecting items for testing are effective in meeting the purpose of the audit procedure (*Para 6 to 8 of SA 530 read with Para 8 of SA 230*).
- Not determining a sufficient sample size of external confirmations to be taken from trade payable in order to reduce sampling risk to an acceptably low level (*Para 7 of SA 530 read with Para 49 of Guidance Note on Audit of Liabilities*).
- Not selecting samples in such a way that each sampling unit in the population has a chance of selection (*Para 8 read with Para A12 of SA 530*).

SA 540 - Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures

- Not having policy for identification and assessment of risks of material misstatement for accounting estimates w.r.t how management makes the accounting estimates, and an understanding of the data on which they are based (*Para 8(c) read with Para A22-A23*).
- Not obtaining written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable (*Para 22*).
- Not maintaining the documentation regarding the basis for conclusions on the reasonableness of accounting estimates (*Para 23*).

SA 550 - Related Parties

- Not maintaining documentation w.r.t audit procedures performed to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions (*Para 11 of SA 550 read with Para 8(a) of SA 230*).
- Relied on management information instead of obtaining sufficient appropriate audit evidence by including the statement under Notes to the financial statements that “parties identified by the management and relied upon by the auditors” (*Para 9(b), Para 14(a), Para 15 and Para 25(a) of SA 550*).
- Not maintaining documentation in respect of audit procedures concerning related party transactions which includes:
 - Substantive procedures, including the nature of tests and techniques used;
 - Verification of signed contracts or agreements for related party transactions, including pricing policy for Arm’s Length Price verification;
 - Quantification of amounts involved in related party transactions (*Para 13, Para 14 and Para 23 of SA 550 read with Para 8 of SA 230*).
- Not keeping the documentation related to the auditor's responsibility in evaluating management's assertion (*Para A44 read with Para 8 of SA 230*).

SA 560 - Subsequent Events

- Not obtaining written representation from the management and, where appropriate, those charged with governance that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed (*Para 9*).

SA 570 - Going Concern

- Not documenting the management’s evaluation and conclusions, as well as the audit procedures performed to assess the entity’s ability to continue as a going concern (*Paras 12, 13 & 17 of SA 570, Going Concern (Revised), read with para 8 of SA 230, Audit Documentation*).
- Not maintaining adequate documentation in support of the auditor’s judgement on appropriateness of going concern assumption (*Question No. 20 of Implementation Guide to Standard on Auditing 570, Going Concern*).

SA 580 - Written Representations

- Not obtaining management representations regarding whether all transactions have been recorded and properly reflected in the financial statements (*Para 10(b) read with Para A7-A9*).

Using the Work of Others (SA 610 and 620)**SA 610 - Using the Work of Internal Auditor**

- Not carrying out audit procedures such as evaluation of internal audit function and procedures such as discussion of planned use of work, understanding of procedures carried out by internal auditor, and evaluation of work of internal auditor (*Paras 15, 16 and Paras 21–23 of SA 610 (Revised)*).

- Not keeping the documents regarding evaluation of work of internal auditor, nature and extent of work used, audit procedures performed to evaluate the work of internal auditor etc (*Para 36 of SA 610 (Revised)*).

SA 620 - Using the Work of an Auditor's Expert

- Not maintaining documentation for evaluation of the accuracy of the data of the auditor's expert (*Para 12(c) of SA 620 read with Para 8(a) of SA 230*).

Audit Conclusions and Reporting (SA 700, 701, 705, 706, 710 and 720)

SA 700 - Forming an Opinion and Reporting on Financial Statements

- Using the term 'financial statements' at various places instead of 'consolidated financial statements' in the independent auditor's report on consolidated financial statements (*Illustration 2*).
- Using the term management and BOD of group companies instead of "management and BOD of holding company" under the head, responsibility of management for the consolidated financial statements (*Illustration 2*).
- Using the term financial position and financial performance instead of consolidated financial position and consolidated financial performance under the head, responsibility of management for the consolidated financial statements (*Illustration 2*).
- Using the term company at various places instead of using the term "the group" under the head, responsibility of management for the consolidated financial statements (*Illustration 2*).
- Not reporting the para relating to obtaining sufficient and appropriate audit evidence under the head, auditor's responsibility for the audit of consolidated financial statements (*Illustration 2*).
- Not stating responsibility regarding entities included in consolidated financial statements audited by other auditors (*Para 39(c)*).
- Omitting responsibility regarding direction, supervision and performance of audit of components in consolidated financial statements (*Para 39(c) read with A45*).

Key Takeaways

- ❖ Inconsistencies in the format, structure and mandatory elements of the Independent Auditor's Report.
- ❖ Inaccurate references to the Group, Holding Company, component auditors, etc. in the auditor's report for Consolidated Financial Statements.
- ❖ Inadequate description of auditor's responsibilities in the Independent Auditor's Report.
- ❖ Incorrect description of management's and Board's responsibilities in standalone and consolidated auditor's reports.
- ❖ Deficiencies in identification, presentation and cross-referencing of Key Audit Matters.
- ❖ Incorrect titles, terminology, references to financial statements, statement of changes in equity, and other prescribed wordings.
- ❖ Errors or omissions relating to engagement partner details, membership number, Firm Registration Number, and other mandatory report particulars.

- Giving reference of the key audit matters, although there is no KAM paragraph in the independent auditor's report (*Illustration 2*).
- Using the terms balance sheet, statement of profit & loss and cash flow statement instead of consolidated versions in report on other legal and regulatory requirements (*Illustration 2*).
- Using the term directors instead of directors of the holding company and incorrect reference to board of directors in consolidated reporting requirements (*Illustration 2*).
- Not stating in Other Matter paragraph that certain entities included in consolidated financial statements are not audited by the firm (*Illustration 2*).
- Using financial statements instead of standalone financial statements in opinion and management responsibility paragraphs (*Illustration 3*).
- Using the term financial statements instead of standalone financial statements under report on legal and regulatory requirements (*Illustration 3*).
- Giving incorrect reference of statement of changes in equity in opinion paragraph though it was not applicable (*Para 24(c)*).
- Not stating materiality and misstatement description in auditor's responsibility section (*Para 38(b) and Para 38(c)*).
- Not stating responsibility regarding internal financial controls under auditor's responsibility section (*Para 39(b)(ii) of SA 700 read with Sec 143(3)(i) of Companies Act 2013*).
- Not including statement acknowledging responsibility for internal financial control opinion (*Para 39(b)(ii)*).
- Including incorrect phrase indicating internal control is not considered for opinion even though separate internal financial control report is issued (*Para 39(b)(ii)*).
- Not ensuring compliance with the requirements relating to identification, determination, and disclosure of Key Audit Matters in the auditor's report (*Para 40(c) of SA 700 read with SA 701*).
- Using incorrect title "Report on the Standalone Ind AS Financial Statements" (*Para 45*).
- Not mentioning membership number of engagement partner in Independent Auditor's Report and annexures (*Para 46*).
- Incorrect Firm Registration Number mentioned in Independent Auditor's report and annexures (*Para 46*).
- Incorrect reporting that company has made provision for foreseeable losses on long-term contracts despite no such contracts existing.
- Using the term "auditor's report" instead of "independent auditor's report" of even date on the standalone financial statements (*Example 1 of Guidance Note on Audit of Internal Financial Controls Over Financial Reporting*).
- Giving incorrect reference of Accounting Standards instead of Indian Accounting Standards (Ind AS) while reporting on Other Legal and Regulatory Requirements (*Annexure I of Implementation Guide on Auditor's Reports under Indian Accounting Standards for Transition Phase issued by the Auditing and Assurance Standards Board of ICAI*).
- Stating in the opinion paragraph of Independent Auditor's Report that financial statements give a true and fair view in conformity with the accounting principles under Section 133 of the Act read

with Companies (Indian Accounting Standards) Rules, 2015. However, the same were prepared in accordance with accounting standards (*Companies (Accounting Standards) Rules, 2006*).

- Inconsistency in the audit report heading, where the section is titled as 'Other Information in the Annual Report', whereas the opening paragraph under this heading states 'The other information comprises the information included in Board's Report...'
- Giving incorrect reference of "Rule 7 of the Companies (Accounts) Rules, 2014" in the Auditor's Report instead of mentioning "Companies (Indian Accounting Standards) Rules, 2015" in the Auditor's Report.
- Providing reference to Section 197(16) in the 'Report on the Other Legal and Regulatory Requirements' (ROLRR) section of the audit report even though the same is not applicable to private limited companies.

SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

- Incorrectly stating under the "Key Audit Matters" section of the audit report that KAM is not applicable to the company as it is an unlisted company, whereas SA 701 permits communication of KAM in specified circumstances even for unlisted entities (*Para 5 of SA 701 read with Question No. 3 of Implementation Guide to SA 701*).
- Including the paragraph on Key Audit Matters stating that "We have determined the matters described below to be the key audit matters to be communicated in our report", however, no Key Audit Matters were provided in the independent Auditor's report (*Para 5*).

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

- Not modifying the audit report on the matters which are otherwise reported under EOM paragraphs, having material effects on true and fair presentation of the financial statements (*Para 6A*)

SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- Giving EOM para on matter relating to balance confirmations stating that balance of the parties for which confirmations have not been received are subject to confirmation and for using the phrase "we are unable to quantify the impact" under the EOM paragraph given in the Auditor's report (*Para 8 read with Para A5 and A6*).
- Not mentioning in the Independent Auditor's Report that the auditor's opinion is not modified in respect of the emphasis on matter given there at (*Para 9*).

SA 710 - Comparative Information – Corresponding Figures and Comparative Financial Statements

- Not including the "Other Matter" paragraph in the audit report, that the financial statements of the prior period were audited by a predecessor auditor, along with the type of opinion expressed and the date of the report, irrespective of whether the predecessor auditor's report was modified, unmodified, or a disclaimer of opinion (*Para 13*).

SA 720 - The Auditor's Responsibilities Relating to Other Information

- Not considering the inconsistency between the information disclosed in the Board's Report and disclosures made regarding Related Party Transactions in notes to the financial statements (*Para 11*).
- Not reporting in the independent auditor's report on standalone financial statements, regarding "other information" which is included in the entity's annual report (*Para 21 of SA 720 read with Illustration 1 of SA 720*).
- Not documenting the procedures performed for obtaining the Other Information, including discussion with management to identify annual report documents and obtaining final versions in a timely manner (*Para 13 read with Para 25 of SA 720*).
- Not documenting the procedures performed for considering other information to identify material inconsistencies in the financial statements (*Para 14 read with Para 25 of SA 720*).

Indian Accounting Standards (Ind AS)

The following major observations in respect of Indian Accounting Standards (Ind AS) were noticed in the Audit files reviewed in respect of audits finalized during the year:

Ind AS 1 - Presentation of Financial Statements

- Using the nomenclature "As at" in the headings of Notes related to the Statement of Profit and Loss, instead of "For the Year Ended" (*Para 7 read with Para 10 of Ind AS 1*).
- Incorrectly disclosing prepaid expenses under Other Comprehensive Income (OCI) which does not fall under any categories specified in Paragraph 7 (*Para 7*).
- Wrongly stating that investments in equity shares of subsidiaries are measured at FVTPL instead of "at cost" under notes to the financial statements (*Para 7*).
- Not disclosing information relating to the previous year under Note w.r.t Leases (*Para 10 and 38*).
- Stating incomplete information under note w.r.t financial instruments in the standalone financial statements, while giving descriptions under:
 - capital management (including footnote)
 - financial risk management – market risk, credit risk, liquidity risk, interest risk (*Para 7*).
- Incorrectly classifying the entire gratuity provision as a current under current provisions, with no bifurcation under non-current provisions (*Para 69*).
- Disclosing various components of Other Comprehensive Income (OCI) using different presentation options i.e. some items are presented net of related tax effects (Remeasurement of Defined Benefit Plans), while others are shown at gross figure and tax effect is disclosed as a single aggregated amount (Net gain on fair value of Investment classified as FCTOCI) instead of following consistent presentation approach for all OCI components (*Para 91*).
- Disclosing expenses on the basis of functional classification instead of classifying based on the nature of expense method (*Para 99 read with Para 102 of Ind AS 1*).
- Not disclosing accounting policies for Export of Services, Other Operating Revenues, Other Non-operating Revenue, Contingent Liabilities and Borrowing Costs by the company in its significant accounting policies under Notes to the financial statements (*Para 117 and Para 119*).
- Not disclosing the fact in the accounting policy related to non-elimination of entire intra group balance (*Para 117(b)*).
- Not making disclosures relating to Capital Management in the financial statements of the company (*Para 134–136*).

Ind AS 7 - Statement of Cash Flows

- Not disclosing changes in long-term non-current loans & advances and short-term loan & advances (other than advances and loans made by a financial institution) under Investing activities. Rather disclosed them under Operating Activities (*Para 16*).

- Not reporting the cash flows from short – term borrowings under the head ‘Cash Flows from Financing Activities’ (Para 17(c) and (d)).
- Not disclosing the method (direct or indirect) used for reporting cash flows from operating activities (Para 18).
- Incorrectly adjusting profit before income tax (PBT) with an item of Other Comprehensive Income (OCI) (Gratuity) while arriving at profit/ loss before working capital changes (Para 18(b)).
- Not disclosing separately, the effect of unrealized foreign currency gains / losses (Para 28).
- Not presenting a consistent and clearly segregated disclosure of cash and non-cash movements in financing liabilities, particularly in respect of finance cost towards lease liabilities under Cash Flow Statement (Para 43 read with Para 44A–44E of Ind AS 7).
- Not disclosing the components of cash and cash equivalents and the reconciliation of amounts in its statement of cash flows with equivalent items reported in the Balance Sheet (Para 45).

Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

- Incorrectly disclosing the note titled “Events Occurring after the Balance Sheet Date” under “Significant Accounting Policies” of the Notes forming part of the standalone as well as consolidated financial statements (Para 5).
- Disclosing Increase in Employee Benefit Expense and Increase in Current and non-current liability under change in accounting policy (Para 28).

Ind AS 12 - Income Taxes

- Not recognizing the deferred tax on ‘Liability Towards Government Grant’ (Para 24).
- Not providing reconciliation between Tax expense and product of accounting profits multiplied by applicable tax rate(s) (Para 81 read with Para 5 of Ind AS 12).
- Incorrectly disclosing “Profit from continuing operations before income tax expense” as the sum of “Profit before tax” and “Other Comprehensive Income” (Para 81(c) read with Para 5 of Ind AS 12).
- Not specifying the applicable tax rate used in reconciling the tax expense to accounting profit in notes to the financial statements (Para 81(c) read with Para 85 of Ind AS 12).
- Providing inconsistent information in respect of applicability of Minimum Alternate Tax (MAT) in significant accounting policies indicating that the company applies the provisions of Minimum Alternate Tax (MAT) for taxation purposes. However, the company has opted for the provisions under Section 115BAA of the Income Tax Act, 1961, under which tax rate is 22% (Para 81(c)).

Ind AS 16 - Property, Plant and Equipment

- Not disclosing the movement in Capital–Work–in–Progress (CWIP) (Para 74(b)).
- Not disclosing the fair value of property, plant and equipment (carried under cost model) when this is materially different from the carrying amount for the class of assets like freehold land and building (Para 79).

- Not providing reconciliation of carrying amount of CWIP and previous year figures for all the items of Property, plant and Equipment, CWIP and Intangible Assets (*Para 73(e) read with Para 6 of Schedule III, Division-II of The Companies Act, 2013*).

Ind AS 19 - Employee Benefits

- Not disclosing contribution made to defined contribution plans i.e. Provident Fund (PF) and Employees' State Insurance (ESI) for Key Managerial Personnel under Employee Benefit (*Para 54*).
- Not providing the disclosures in the consolidated financial statements related to:
 - i) Information about the characteristics of defined benefit plans,
 - ii) A description of the risks to which the plan exposes the entity, and
 - iii) A description of any plan amendments, curtailments, and settlements in the notes forming part of the Financial Statements (*Para 139*).
- Not disclosing the maturity analysis of the defined benefit obligation, which provides an indication of the effect of the defined benefit plan on the entity's future cash flows, in both the Standalone and Consolidated Financial Statements (*Para 147*).
- Not disclosing funding arrangements, expected contributions for the next year, and the maturity profile of defined benefit obligations (including weighted average duration and timing of benefit payments) to indicate their impact on future cash flows (*Para 147*).

Ind AS 21 - The Effects of Changes in Foreign Exchange Rates

- Disclosing non – monetary item at closing rates (*Para 23*).

Ind AS 23 – Borrowing Costs

- Mentioning in the accounting policy that borrowing costs, if any, directly attributable to the acquisition / construction / installation of qualifying assets are capitalized as part of the cost of such assets up to the date the assets are 'put to use' instead of 'ready to use' (*Para 22*).
- Not disclosing the capitalization rate used to determine the borrowing costs eligible for capitalization in the Financial Statements (*Para 26*).

Ind AS 24 - Related Party Disclosures

- Not providing the required breakdown of compensation to Key Managerial Personnel (KMP) into the following categories:
 - Short Term Employee benefit
 - Post-employment benefits
 - Other long-term benefits
 - Termination benefits (*Para 17*).
- Not disclosing the contribution to the defined benefit plans for Key Managerial Personnel (KMP) (*Para 17 read with Para 54 of Ind AS 19*).
- Not disclosing "nature of the related party relationship" for entities grouped under category "others" under Related parties given in the financial statements (*Para 18*).

- Not disclosing in related party disclosures, transactions pertaining to loan to subsidiary and interest on loan to subsidiary even though these amounts were presented in Loans and Other Financial Assets (*Para 23*).
- Not disclosing in the financial statements that the related party transactions were made on terms equivalent to those that prevail in arm's length transactions (*Para 23 read with Para 24.23 of Ind AS Disclosure Checklist issued by ICAI*).
- Incorrectly referring to AS 18 instead of AS 24 while reporting under clause 3(xiii) of CARO 2020.

Ind AS 33 - Earnings per Share

- Incorrectly computing EPS including items of other comprehensive Income instead of using profit or loss attributable to equity shareholders (*Para 9 of Ind AS 33 read with Para 7 of Ind AS 1*).

Ind AS 36 – Impairment of Assets

- Not recognizing impairment on investment in subsidiaries even though it is disclosed under Impairment of investment in subsidiaries that recovery is doubtful on the basis of net worth as at the year-end (*Para 12(h) read with Para 59 and 60 of Ind AS 36*).

Ind AS 40 – Investment Property

- Not disclosing the accounting policy relating to the measurement of investment property (*Para 75(a)*).
- Not disclosing the depreciation method applied and the useful lives or depreciation rates used in respect of the investment property disclosed in notes to the financial statements (*Para 79(a) and 79(b)*).

Ind AS 101 - First-time Adoption of Indian Accounting Standards

- Not disclosing the impact of transition from previous GAAP to Ind AS, including reconciliations of equity and comprehensive income, along with disclosures of impairment losses or reversals recognized under Ind AS (*Para 23 and 24*).

Ind AS 107 – Financial Instruments: Disclosures

- Not providing the "Category wise disclosure of Financial Instruments" (*Para 8*).
- Not providing the disclosure related to categories of financial assets, including Investments in Unquoted Non-Trade Investments and Mutual Funds, in the Consolidated Financial Statements (*Para 8*).
- Not disclosing accounting policy for Derivatives under the notes to the financial statements (*Para 21 read with Para 117 of Ind AS 1*).
- Not referencing the disclosure related to the currency hedged risk given under Forward Contract Receivables in the financial statements (*Para 21B*).
- Not providing the risk-specific disclosures for each hedging category, consistent with the risk exposure being hedged in the financial statements (*Para 21C*).

- Not providing disclosures regarding items designated as hedging instruments, separately by risk category, their carrying amounts, nominal amounts, and line items affected in the balance sheet (*Para 24(A) and 24B(a)(ii) and (v)*).
- Not giving disclosure in relation to hedge ineffectiveness in the financial statements (*Para 24C*).
- Not providing the disclosure of fair value for each class of financial assets and financial liabilities and not providing the disclosure of fair value hierarchy for each class of financial assets and financial liabilities (*Para 25 read with Para 72 and Para 93(b) of Ind AS 113*).
- Not making disclosures for Risk Management which includes disclosures related to credit risk, liquidity risk and market risk in the financial statements of the company (*Para 33-42*).
- Not disclosing the maturity analysis of non-derivative financial liabilities under the liquidity risk section (*Para 39(a)*).

Ind AS 108 - Operating Segments

- Not disclosing geographical information relating to: (a) revenues from external customers, split between the country of domicile and all foreign countries (with separate disclosure for any material individual foreign country); and (b) non-current assets (other than specified exclusions) located in the entity's country of domicile and in all foreign countries, with separate disclosure where assets in a specific foreign country are material (*Para 33(b)*).
- Not providing information about the extent of the entity's reliance on its major customers (*Para 34*).
- Including share capital in the segment liability of 'Food Segment' whereas the same is an 'un-allocable item'.

Ind AS 109 – Financial Instruments

- Not giving disclosures related to hedged items separately for the types of hedges i.e., fair value hedge and cash flow hedge under the notes to the financial statements (*Para 6.5.1(b) of Ind AS 109 read with Para 24B and 24C of Ind AS 107*).
- Incorrectly stating that security deposits are carried at 'fair value through amortized cost' in notes to the financial statements. However, there is no such classification for measuring financial assets at fair value through amortized cost (*Para 4.1*).

Ind AS 110 – Consolidated Financial Statements

- Not fully eliminating the amount of intragroup assets and liabilities, relating to transactions between entities of the group and not disclosing the effect of the same in the financial statements (*Para B86 (c)*).

Ind AS 112 – Disclosure of Interests in Other Entities

- Not providing the disclosures related to –
 - i) Profit or loss allocated to non-controlling interest for each material subsidiary during the reporting period in the Statement of Profit and Loss.
 - ii) Non-Controlling Interest balances under the Equity section for each material subsidiary.

iii) Summarized financial information (assets, liabilities, profit/loss, cash flows, etc.) for each subsidiary with material Non-Controlling Interest (*Para 12 read with para B10*).

Ind AS 113 – Fair value Measurement

- Not disclosing the valuation techniques and inputs used for fair value measurements of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition (*Paragraph 91(a)*).
- Not disclosing in the financial statements various disclosures as required by Para 91(b) and 93 (d) to (h) of Ind AS 113 (*Para 91(b) and 93 (d) to (h)*).
- Not giving disclosures regarding fair value measurement reconciliation and fair value hierarchy in the financial statements (*Para 91-99*).

Ind AS 115 - Revenue from Contracts with Customers

- Not specifying the following in the policy for revenue recognition:
 - The identification of performance obligations and the timing at which such performance obligations are typically considered to be satisfied (*Para 22 and Para 31 read with Para 119*)
 - The measurement principles adopted for revenue recognition, i.e., whether revenue is recognized at the transaction price and whether such price is determined in line with Para 47 of Ind AS 115 (*Para 46 and Para 47 read with Para 126*).
- Stating that revenue is measured at “fair value of consideration” under significant accounting policy, instead of the transaction price (*Para 46 of Ind AS 115 read with Para 117(b) of Ind AS 1*).
- Not disclosing revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period (*Para 116*).
- Not disclosing in the revenue recognition policy, “when the entity typically satisfies its performance obligation i.e., upon delivery or dispatch etc.” (*Para 119*).
- Not disclosing the reconciliation of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price (*Para 126AA*).
- Not including in the policy on revenue recognition that price on which the revenue is recognized does not include the amount collected on behalf of third parties (*Definition of ‘transaction price’ given under ‘Appendix – A’ to Ind AS 115*).

Ind AS 116 - Leases

- Not providing the disclosure w.r.t leases where the company is a lessee (*Para 52*).
- Not disclosing maturity analysis of lease liabilities, applying Para 39 of Ind AS 107 (Financial Instruments: Disclosures) (*Para 58*).
- Not disclosing additional qualitative and quantitative information regarding the company’s leasing activities (*Para 59*).

Division II, Schedule III of Companies Act, 2013 & Guidance Note on Division II Ind AS Schedule III to the Companies Act, 2013

General Instructions for Preparation of Financial Statements of a Company Required to Comply with Ind AS

- Not giving cross-reference of note w.r.t Borrowings on the face of the financial statements (*Para 4(ii)*).
- Not using a single unit of measurement uniformly in the financial statements (*Para 5*).
- Stating EPS on the face of the Statement of Profit and Loss without mentioning that it was in rupees as all the other amounts were rounded off to rupees crores (*Para 5*).
- Not reporting the corresponding amounts (comparatives) for the immediately preceding reporting period with respect to addition, deletion, depreciation, etc. for Property Plant and Equipment (PPE) for the previous financial year under Property Plant and Equipment (*Para 6*).
- Not providing the corresponding comparative figures for the immediately preceding reporting period in respect of the Trade Receivables Ageing, Trade Payables Ageing and Capital Work-in-Progress Ageing Schedule (*Para 6*).
- Not disclosing the line items 'changes due to prior period errors' and 'restated balance at the beginning of reporting period' in the Statement of Changes in Equity (SOCIE) as per the specified format (*Para 9*).
- Not using the same unit of measurement uniformly throughout the financial statements as the company has presented figures in absolute numbers and lakhs in non-current liabilities and other financial liabilities respectively whereas the figures disclosed in the financial statements have been rounded off to Rs. in crores (*Para 6.11 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013*).

Key Takeaways

- ❖ Not cross-referencing the financial statements and notes.
- ❖ Not uniformly using the same unit of measurement
- ❖ Non-disclosure of comparative figures

Part I – Balance Sheet

- Not disclosing loans to employees separately under financial assets on the face of balance sheet (*Part I – Balance Sheet*).
- Using the term 'other assets' instead of 'other current assets' on the face of the balance sheet (*Part I – Balance Sheet*).
- Not following the sequence as per the prescribed format with respect to Current Assets and Current Liabilities (*Part I – Balance Sheet*).
- Including 'Software', which is an item in the nature of an intangible asset, under Capital Work-in-Progress (CWIP) instead of presenting it separately as Intangible Assets under Development (*Part I – Balance Sheet*).

Non-Current Assets

- Not disclosing the leasehold land separately (*Note No. 6(A)(I)(ii)*).
- Not disclosing additions, disposals, acquisitions through business combinations, amount of change due to revaluation and other adjustments separately under Property Plant and Equipment (PPE) (*Note No. 6A(I)(iii) and 6A IV(ii)*).
- Not disclosing credit impaired trade receivable under disputed category while providing bifurcation of trade receivable in notes to the financial statements (*Note No. 6A(VII)(i)(d)*).
- Incorrectly disclosing loan to a related party, which is a Key Managerial Personnel, as loan to employees under Non-current Loans (*Note No. 6A(VIII) of General Instructions for Preparation of Balance Sheet read with Para 8.1.10 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Not sub-classifying Non-Current Loans as “Considered good – Secured / Unsecured”, “Loans which have significant increase in credit risk” and “Credit Impaired” (*Note No. 6A(VIII)*).
- Using the terms “Doubtful” and “Provision for Doubtful Debts” with respect to Loans instead of “Credit Impaired” and “Allowance for Bad and Doubtful Loans/Debts” (*Note No. 6A(VIII)(ii)*).
- Disclosing the “Security Deposits” under “Others” in Other Financial Assets instead of showing it as a separate line item (*Note No. 6A(IX) of General Instructions for Preparation of Balance Sheet read with the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Disclosing Capital Advances under Capital Work in Progress instead of Other Non-Current Assets (*Para 6A(X)(i)*).
- Not disclosing whether fixed deposits were given under lien (*Para 8.1.16 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).

Key Takeaways

- ❖ Incorrect classification of non-current assets
- ❖ Incorrect nomenclature used for financial assets

Current Assets

- Not classifying Inventories as Stock-in-Trade (in respect of goods acquired for trading) and not disclosing the mode of valuation in the financial statements (*Note No. 6B(I) of General Instructions for Preparation of Balance Sheet read with Para 8.1.13(i) and (iii) of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Mismatch under Trade Receivables ageing schedule and disclosure of Trade Receivables. Under the ageing schedule, Trade Receivables have been disclosed as Undisputed Trade Receivables – Considered Good and Disputed Trade Receivables – Considered Doubtful, whereas under Trade Receivables the entire amount is shown as Secured Considered Good (*Note No. 6(B)(III)(i)*).
- Using the terms “Doubtful” and “Provision for Doubtful Trade Receivable” under Trade Receivables

Key Takeaways

- ❖ Incorrect classification
- ❖ Inconsistencies between financial statement disclosures and supporting schedules
- ❖ Incorrect nomenclatures used

instead of “Trade Receivables which have significant increase in Credit Risk” and “Allowance for bad and doubtful debts” (Note No. 6(B)(III)(i)).

- Not disclosing unbilled revenue as a separate line item in the standalone and consolidated financial statements and instead disclosed it under Other Current Financial Assets (Note No. 6(B)(III)(iv)).
- Merging categories of outstanding for period of ‘1 to 2 years’ and ‘2 to 3 years’ in a single category of ‘1 to 3 years’ under Trade receivable (Note No. 6B(III)).
- Disclosing interest receivable on loans and advances under the head of trade receivables instead of other current financial assets (Para 8.1.9 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013).
- Not providing the appropriate classification for “Balances with banks to the extent held as margin money or security against borrowings” in other bank balance in the notes forming part of the financial statements (Para 8.1.11 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013).

Equity

- Not disclosing the issued and subscribed share capital for preference shares, as well as the rights and restrictions attached to them under Statement of Changes in Equity (Clause (b) and (e) of Note No. 6(D)(I) of General Instructions for Preparation of Balance Sheet read with Para 8.2.1.12 and Para 8.2.1.15 of the Guidance Note on Division II Schedule III to the Companies Act, 2013).
- Not disclosing the shareholding of promoters in the financial statements (Clause (m) of Note No. 6(D)(I)).

Non-Current Liabilities

- Not disclosing the nature of security and terms of repayment with respect to one of the term loan accounts with bank under borrowings (Note No. 6(E)(ii) and (vi)).
- Stating debentures (along with the rate of interest, and particulars of redemption) in ascending order of maturity instead of stating them in descending order (Note No. 6(E)(I)(iv)).
- Not disclosing the terms of repayment of loans taken from directors and their relatives (Note No. 6(E)(vi) of General Instructions for Preparation of Balance Sheet given under Part I of Division II, Schedule III to the Companies Act, 2013 read with Para 8.2.3.18 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013).
- Not disclosing the terms of repayment of long-term borrowings (Note No. 6(E)(vi) of General Instructions for Preparation of Balance Sheet read with Para 8.2.3.18 and Para 8.2.3.19 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013).

Current Liabilities

- Not presenting and classifying current borrowings in accordance with the requirements of schedule III (Note No. 6(F)(I) of General Instructions for Preparation of Balance Sheet read with Para 8.2.8 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013).

- Disclosing current maturities of long-term borrowings under other financial liabilities instead of current financial liabilities – borrowings (*Note No. 6(F)(I)(v)*).
- Not disclosing separately dues payable to MSME and the details of MSME dues such as principal, interest etc. (*Note No. 6(FA)*).
- Incorrectly disclosing the 'liability for capital goods' as non-current liability whereas it should have been disclosed as current liability and incorrectly disclosing the 'statutory liability' under the head provisions whereas it should have been disclosed under current liabilities (*Note No. 6(F)(III)*).
- Not disclosing the 'loan payable on demand' as current liability and the loan which was repayable after 15 months as non-current liability (*Para 7.6 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 read with Para 61 of Ind AS 1*).

Others

- Not ensuring that the total of CWIP ageing should tally with the CWIP amount in the Balance Sheet. The previous year figure disclosed under CWIP ageing schedule was not correct and did not tally with the CWIP figure disclosed in the balance sheet (*Note No. 6(L)(vi)(a) of Additional regulatory information of Division II Ind AS Schedule III to the Companies Act 2013*).
- Not disclosing the details of the satisfaction charges which are yet to be filed with ROC (*Note No. 6(L)(xii)*).
- Not disclosing the inventory turnover ratio (*Note No. 6(L)(xiv)(e)*).
- Using incorrect numerator and denominator in the computation of Return on Investment (*Note No. 6(L)(xiv)(k) of General Instructions for Preparation of Balance Sheet under Division II of Schedule III to the Companies Act, 2013 read with Para 7 of Annexure B to the Guidance Note on Division II – Ind AS Schedule III*).
- Not disclosing the return on investment (ROI) ratio in the financial statements although the company has income from equity (dividend) and fixed income (from bank deposits and loans) (*Note No. 6(L)(xiv)(k)*).
- Disclosing in notes to the financial statements that unquoted preference shares are stated to be measured at amortized cost. However the explanatory note states that they are measured at FVTPL.

Key Takeaways

- ❖ Non-disclosure of additional regulatory information
 - Details of Satisfaction of charges
 - Prescribed financial ratios

Statement of Changes in Equity

- Not disclosing details for previous reporting period in the statement of changes in equity as per the format prescribed (*Statement of Changes in Equity*).

Part II – Statement of Profit & Loss

- Using the following terms on the face of statement of profit and loss:
 - Cost of Raw material and components consumed instead of cost of materials consumed

- Purchase of traded goods instead of purchases of stock-in-trade
- Increase /Decrease in inventories of finished goods, work in progress and traded goods instead of changes in inventories of finished goods, stock-in-trade and work-in progress (*Part II – Statement of Profit and Loss*).
- Not following the sequencing as per the prescribed format with respect to finance cost and other expenses (*Part II – Statement of Profit and Loss*).
- Not disclosing the break-up of finance cost (*Note No. 4*).
- Disclosing finance income separately on the face of statement of profit and loss instead of disclosing the same under other income (*Note No. 5*).
- Incorrectly classifying the net gain on fair value of investment (FVTOCI) under the sub-head “Items that will be reclassified to statement of profit and loss” instead of “Items that will not be reclassified to statement of profit and loss” under other comprehensive income (OCI) (*Note No. 6A of General Instructions for Preparation of Statement of Profit and Loss, Schedule III read with Para 10.2 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Not disclosing payment to auditor (*Note No. 7(i)*).
- Not fully addressing the disclosures relating to CSR under CSR disclosures as:
 - i) The amount of expenditure and the shortfall, if any, relating to the previous year has not been disclosed.
 - ii) Details of related party transactions although disclosed as donation under related party disclosures, have not been disclosed under CSR disclosures
 - iii) The nature of CSR activities has not been disclosed (*Note No. 7(m) read with Section 135 of the Companies Act, 2013*).
- Disclosing export incentives under “Other Income” instead of “Revenue from Operations” as “Other Operating Revenue” (*Para 9.1.8 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Disclosing net decrease/(increase) in inventories on an aggregate basis instead of showing separately for finished goods, semi-finished goods and stock-in-trade (*Para 9.5.3 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).

Key Takeaways

- ❖ Inappropriate presentation, classification and sequencing of line items in the Statement of Profit and Loss.
- ❖ Non-disclosures relating to finance costs, auditor's remuneration, CSR expenditure and other prescribed disclosures under Schedule III.
- ❖ Deviations from the prescribed format, terminology and disclosure requirements under Schedule III.

Part III – General Instructions for the Preparation of Consolidated Financial Statements

- Not disclosing the additional information related to net assets, including total assets minus total liabilities, share in profit or loss, share in other comprehensive income, and share in total comprehensive income (*Para 2 of Part III of General Instructions for Preparation of Consolidated Financial Statements read with Para 12.3 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).

Accounting Standards

The following major observations in respect of Accounting Standards (AS) were noticed in the Audit files reviewed in respect of reviews finalized during the year:

AS 1 - Disclosure of Accounting Policies

- Not disclosing the policy related to long-term investments giving details of measurement principle used as well as the policy for the impairment of investment in the wholly owned subsidiary under the notes to the financial statements (*Para 18 read with Para 14 of AS 1*).
- Not disclosing the accounting policy related to gratuity under the significant accounting policies (*Para 18*).
- Incomplete disclosure of the accounting policy of earnings per share under the notes to the financial statements as it covers only Basic Earnings Per Share (BEPS) and not Diluted Earnings Per Share (DEPS) (*Para 18*).
- Not disclosing the accounting policy on revenue from job work, interest income, leases, employee benefits and exchange difference arising on non-monetary items under the notes to the financial statements (*Para 24*).
- Mentioning the words 'issued by ICAI' with respect to accounting standards in various accounting policies instead of giving reference of the Companies (Accounting Standards) Rules, 2006 (*Companies (Accounting Standards) Rules, 2006*).
- Stating in the accounting policy that sales include GST, resulting in revenue recognition not being presented net of GST collected (*Para 9.1.6 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).

AS 2 - Valuation of Inventories

- Not disclosing the cost formula used for valuation of inventories (*Para 16 read with Para 26(a)*).
- Not disclosing the accounting policy on valuation of inventory of work-in-progress (*Para 26(a)*).
- Not specifying the components considered while determining the purchase cost of inventories, such as purchase price, freight inward, insurance, loading and unloading charges and other directly attributable expenses incurred in bringing the inventories to their present location and condition in accounting policy (*Para 26(a)*).
- Classifying inventory as "Finished Goods" in the notes to the financial statements, while for a trading business, inventory should be termed as "Stock-in-Trade" in accordance with the prescribed classification for trading entities (*Para 27 read with Para 6(o)(d) of the General Instructions for the Preparation of the Balance Sheet under Schedule III*).

AS 3 - Cash Flow Statements

- Disclosing silver coins as a part of cash equivalents in notes to the financial statements (*Para 5.2*).

- Not disclosing the 'fixed deposits lien with Govt./other authorities' under the head 'Other Bank Balances' (*Para 5.2 read with Para 8.8.4 of Guidance Note on Division I – Non Ind AS Schedule III to the Companies Act, 2013*).
- Incorrectly including margin money under cash & cash equivalents (*Para 5.2 and Para 6 of AS 3 read with Para 6.4 of Guidance Note on Division I of Schedule III to the Companies Act, 2013*).
- Wrongly disclosing the repayment of vehicle loan under investing activities instead of financing activities in cash flow statement (*Para 5.6 read with Para 17(c) of AS 3*).
- Incorrect presentation of 'deferred tax liability' under the head 'cash flows from financing activities' (*Para 5.6 read with Para 17*).
- Disclosing cash flows from short-term borrowing under "Cash flow from Operating Activity" as 'working capital changes' instead of 'Cash Flows from Financing Activities' (*Para 5.6 read with Para 17*).
- Disclosing short-term loans and advances under cash flow from operating activities instead of cash flow from investing activities in the cash flow statement (*Para 15(e)*).
- Incorrectly reporting long-term loans & advances under 'Cash Flows from Operating Activities' instead of reporting under 'Cash Flows from Investing Activities' (*Para 15(e) and (f)*).
- Not adjusting bad debts while calculating the net cash flow from operating activities (*Para 20(b) of AS 3*).
- Not providing disclosure of impact of exchange rate changes on foreign currency-denominated cash and cash equivalents (EEFC Accounts) in cash flow statement (*Para 27*).
- Not disclosing interest income and rental income received as part of Investment Activities (*Para 30*).
- Not disclosing the components of cash and cash equivalents along with reconciliation to the corresponding amounts presented in the balance sheet (*Para 42*).
- Not disclosing policy w.r.t determination of the composition of cash and cash equivalents in notes to the financial statements (*Para 43*).
- Not disclosing together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use (*Para 48*).
- Incorrectly presenting proceeds from the sale of Property, Plant and Equipment as "Proceeds from sale of Investments" within Investing Activities.
- Reporting incorrect amount of cash inflow and outflow from interest income.

Key Takeaways

- ❖ Incorrect adjustment of cash flow items
- ❖ Incorrect classification and presentation of cash flows under operating, investing and financing activities
- ❖ Not disclosing policy relating to cash flow statements

AS 4 - Contingencies and Events Occurring After the Balance Sheet Date

- Not creating the provision for disputed recoverable that has been outstanding for 2–3 years (*Para 5 and 10*).

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

- Directly adjusting certain items through reserves instead of being routed through the statement of profit and loss (*Para 5*).
- Not disclosing the prior period item (taxation adjustment) separately in the statement of profit and loss resulting in understatement of losses of the company (*Para 15*).

AS 9 – Revenue Recognition

- Not disclosing the key criterion for determining the timing of revenue recognition from the sale of goods in policy for revenue recognition given under significant accounting policies (*Para 6*).
- Omitting to mention in the accounting policy for revenue recognition that while recognising revenue the existence of significant uncertainty regarding the amount of the consideration that will be received from the sale of the goods is also considered (*Para 11*).
- Not disclosing the accounting policy w.r.t recognition of income from interest and dividend (*Para 13*).

AS 10 - Property, Plant and Equipment

- Presenting a non-business asset in the notes to the financial statements under property, plant & equipment whereas the same does not meet the definition of property, plant & equipment (*Para 6*).
- Omitting to mention in the accounting policy for property, plant and equipment that cost of an item of property, plant and equipment shall be recognized as an asset if, and only if, the cost of the item can be measured reliably (*Para 7(b)*).
- Mentioning that cost comprises of all costs incurred to bring the assets to their location and working condition up to the date assets are put to use instead of ready for intended use in notes to the financial statements (*Para 17(b)*).
- Using the term, “assets not put to use, HT connection – electrification” instead of assets not ready to use while giving details of assets on which no depreciation is charged during the year, under notes to the financial statements (*Para 57*).
- Mentioning “depreciation has been provided on pro-rata basis from the date of put to use” under notes to the financial statements instead of the date when it is available for use, i.e., when asset is in the location and condition necessary for it to be capable of operating in the manner intended by management (*Para 57*).
- Not separately disclosing land and building in the notes to the financial statements and incorrectly depreciating land along with the building premises which has resulted in excess depreciation being recorded (*Para 60 read with Para 6(i)(iii) of the General Instructions for the Preparation of the Balance Sheet under Schedule III of the Companies Act, 2013*).

Key Takeaways

- ❖ Non-disclosure of accounting policy.
- ❖ Incorrect depreciation policies.
- ❖ Non-disclosure of previous year figures.
- ❖ Incorrect recognition and classification of items under Property, Plant and Equipment.

- Not mentioning in the accounting policy about retirement of property, plant, and equipment although there has been disposal of property, plant, and equipment (*Para 73*).
- Not disclosing the reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, deletion, depreciation and any other change (*Para 81(e)*).

AS 11 - The Effects of Changes in Foreign Exchange Rates

- Not recording forex transactions at the rate prevailing on the date of transactions (*Para 9*).
- Not reporting foreign currency monetary items i.e, export receivables and payables, using the closing rates and not recognizing the exchange difference as income / expense in the statement of profit & loss (*Para 11(a) read with Para 13 of AS 11*).
- Not disclosing the accounting policy w.r.t foreign exchange transactions (*Para 11 read with Para 24 of AS 1*).

AS 12 - Accounting for Government Grants

- Not disclosing the accounting policy adopted for government grant including methods of presentation in the financial statements (*Para 23(i)*).

AS 13 - Accounting for Investments

- Not disclosing the accounting policy for determination of carrying amount of investments under the significant accounting policies in the financial statements (*Para 25*).
- Not disclosing in the accounting policy, the measurement criteria for valuation of current investments (*Para 31*).
- Not recognizing the provision for diminution in the value of long-term investments (*Para 32*).
- Omitting to specify in the accounting policy (w.r.t non-current Investments) that provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments (*Para 32*).
- Stating under the investment policy that “diminution in value has not been considered as the investments are strategic & long term”, which is not in line with the requirement that provision for diminution other than temporary in nature should be recognised (*Para 32*).

AS 15 - Employee Benefits

- Not creating the provision of gratuity which is required irrespective of the fact as to whether the employees have completed five years of service or not (*Objective of AS 15 read with Para 70 of AS 15 and Section 4(1) of Payment of Gratuity Act, 1972*).
- Not recognizing gratuity liability in accordance with the requirements and instead accounting policy stated that

Key Takeaways

- ❖ Non-recognition of employee benefit liabilities.
- ❖ Non-disclosure of accounting policies, actuarial assumptions and reconciliation.

such benefits are accounted for on the basis of “Crystallization of Liability” (*Para 45-46 of AS 15 read with Para 51-52 of AS 15*).

- Not disclosing the amount recognized as an expense for defined contribution plan (*Para 47*).
- Not disclosing the nature of the gratuity plan as a defined benefit plan, the accounting policy for recognizing actuarial gains and losses, actuarial and balance sheet reconciliations reflecting changes in obligations and plan assets, detailed breakdown of expense components recognized in the profit and loss account, information on plan assets, key actuarial assumptions, and the use of any enterprise-owned assets, disclosure of experience adjustments for the current and previous four financial years and the best estimate of contributions expected for the upcoming financial year (*Para 119 and Para 120*).
- Not disclosing principal actuarial assumptions used as at the balance sheet date in the financial statements (*Para 120(l)*).
- Not disclosing in the financial statements (a) a general description of the type of plan, (b) a reconciliation of opening and closing balances of the present value of the defined benefit obligation, (c) the expense recognised in the Statement of Profit and Loss for current service cost, interest cost etc., and (d) the amounts for the current annual period and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan and the experience adjustments arising on the plan liabilities (*Para 120(b), Para 120(c), Para 120(g) and Para 120(n)*).
- Not disclosing the enterprise’s accounting policy for recognising actuarial gains and losses and general description of the type of plan (*Para 120(a) and (b)*).

AS 16 - Borrowing Costs

- Not stating in the accounting policy w.r.t borrowing cost regarding when the capitalization of borrowing cost ceases (*Para 19*).

AS 17 - Segment Reporting

- Not disclosing the fact that there is only one business segment in notes to the financial statements (*Para 38*).

AS 18 - Related Party Disclosures

- Incorrect classification of entities as “Associate Entities” despite absence of equity investment or significant influence criteria (*Para 10.5*).
- Incorrect disclosure of the nature of relationship in respect of HUFs under the heading relatives of Director / KMP in the notes to the financial statements (*Para 21*).
- Not disclosing the transaction with its foreign subsidiary under related party disclosures (*Para 23*).

Key Takeaways

- ❖ Incorrect classification of entities as related parties.
- ❖ Non-disclosure of related party relationships and transactions.

- Not disclosing names of related parties with the description of their relationship under the notes to the financial statements (*Para 23(i) and Para 23(ii)*).
- Not disclosing the following related party transactions under the notes to the financial statements (a) receiving back of loan from wholly owned subsidiary company and (b) loan received from directors (*Para 23(iv) and Para 20 of AS 18*).
- Not disclosing outstanding balances pertaining to all the related parties as at the balance sheet date under related party transactions disclosure (*Para 23(vi) of AS 18*).
- Not disclosing the nature of the relationship with one of the related party (*Para 8.7.5(i) of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013 read with Para 6(K)(i) of General Instructions for Preparation of Balance Sheet*).

AS 19 - Leases

- Not disclosing required information related to operating leases i.e. (a) the future minimum lease payments under non-cancellable leases segmented by maturity, (b) a general description of significant leasing arrangements (*Para 25*).

AS 20 - Earnings Per Share

- Not disclosing the basic and diluted EPS on the face of the profit and loss account (*Para 8*).
- Not disclosing (a) the amounts used as the numerators in calculating basic and diluted EPS, along with a reconciliation to the net profit or loss for the period; (b) the weighted average number of equity shares used as the denominator for basic and diluted EPS, with a reconciliation of these denominators to each other; and (c) the nominal value of shares along with the EPS figures (*Para 48(ii)*).

AS 21 - Consolidated Financial Statements

- Not disclosing list of subsidiaries including the name, country of incorporation or residence, proportion of ownership interest in the consolidated financial statements (*Para 29(a)*).

AS 22 - Accounting for Taxes on Income

- Not recognizing DTA/DTL on the timing difference between taxable income and accounting income in the financial statements (*Para 9*).
- Not recognizing the deferred tax impacts on certain timing differences arising from: (i) differences between depreciation as per the Income Tax Act and the Companies Act, (ii) accounting for gratuity and leave encashment, and (iii) treatment of preliminary expenses (amortized over five years instead of being written off immediately) (*Para 13 read with Para 4.6 and Para 7 of AS 22*).
- Not measuring the deferred tax using the enacted or substantively enacted tax rates prevailing on the balance sheet date (*Para 21*).
- Incorrect adjustment of “Provision for Income Tax” with “Advance Tax” pertaining to different years in the notes to the financial statements (*Para 27 and Para 28*).

- Not disclosing the break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances under the notes to the financial statements (*Para 31*).

AS 26 - Intangible Assets

- Stating incorrect accounting policy which prescribes amortization of miscellaneous expenditure over a period of time instead of recognizing it as an expense when incurred (*Para 55*).
- Inappropriate accounting and presentation of amortized expenses (to the extent written off) under current assets as expenditure on preliminary projects or start-up activities, training, advertising, or promotional activities should be recognized as an expense when incurred (*Para 56(a)*).
- Not disclosing the useful lives or amortization rate and method used for amortization of Intangible Assets in notes to the financial statements (*Para 90(a) and Para 90(b)*).
- Not providing justification for having a useful life of more than 10 years for software (*Para 94(a)*).

AS 29 - Provisions, Contingent Liabilities and Contingent Assets

- Not making provision for the unspent amount of CSR expenses (*Para 14*).
- Not disclosing contingent liability with respect to matter pending with excise department (*Para 67 read with Para 10.4 of AS 29*).
- Not disclosing disputed statutory dues as contingent liabilities in the notes to the financial statements, despite reporting of such dues under Clause vii(b) of Annexure A to the Independent Auditor's Report (CARO) (*Para 68 read with Para 6(T) of the General Instructions for Preparation of Balance Sheet*).

Division I, Schedule III of Companies Act, 2013 & Guidance Note on Division I – Non Ind AS Schedule III of Companies Act, 2013

General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss of a Company

- Not providing cross reference between deferred tax liability in the balance sheet and the corresponding notes pertaining to deferred tax liability in the notes to the financial statements (*Para 3(ii)*).
- Not providing cross-reference of EPS disclosed on the face of the statement of profit and loss (*Para 3(ii)*).
- Not giving details in a separate note regarding the line item “Non-current Investments – Wholly Owned Subsidiary” appearing on the face of the balance sheet (*Para 3(ii)*).
- Not giving details in a separate note regarding the line item “Capital Work in Progress” appearing on the face of the balance sheet (*Para 3(ii)*).
- Not making a cross-reference of the note relating to calculation of EPS on the face of the statement of profit and loss (*Para 3(ii)*).
- Referring to an incorrect note while cross-referencing deferred tax in the statement of profit and loss (*Para 3(ii)*).
- Presenting figures in the financial statements in absolute values instead of rounding them off on the basis of total income (*Para 4(i) of General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss read with Para 6.15 of Guidance Note on Division I – Schedule III*).
- Not reporting the corresponding amounts (comparatives) for the immediately preceding reporting period with respect to addition, deletion, depreciation, etc. for fixed assets in the notes to the financial statements (*Para 5*).
- Not disclosing comparative figures for corporate social responsibility in the notes to the financial statements (*Para 5*).
- Not disclosing previous year’s figures (comparative figures) in the note relating to transactions with related parties under additional information and disclosures (*Para 5*).
- Not disclosing comparative figures for the previous year in respect of “Depreciation during the year” in the notes to the financial statements (*Para 5*).
- Not disclosing the following additional information in the consolidated financial statements: (i) Net assets as a percentage of consolidated net assets; and (ii) Share in profit or loss as a percentage of consolidated profit or loss (*Note 2 of General Instructions for Preparation of Consolidated Financial Statements*).

Key Takeaways

- ❖ Inadequate cross-referencing between the financial statements and the corresponding notes.
- ❖ Incomplete disclosures for line items.
- ❖ Non-disclosure of comparative information and previous year's figures.
- ❖ Deviations from the prescribed presentation and disclosure requirements relating to rounding-off of figures.

- Inconsistency in the note referred for PPE, other intangible assets and capital work-in-progress on the face of balance sheet, as the ageing schedule for CWIP is numbered as a note while the related details for PPE and Intangible Assets are provided in a separate annexure without note numbering.
- Providing incorrect reference in the notes to the financial statements under Revenue from Operations for "Sale of Goods".

Part – I – Balance Sheet

- Not showing bifurcation of trade payables into (a) total outstanding dues of micro enterprises and small enterprises and (b) total outstanding dues of creditors other than micro enterprises and small enterprises, on the face of the balance sheet (*Part I - Balance Sheet*).
- Using the nomenclature "Fixed Assets" on the face of the Balance Sheet instead of the prescribed term "Property, Plant and Equipment" (*Part I – Balance Sheet*).
- Not disclosing the details regarding the rights, preferences, and restrictions attached to each class of shares, including restrictions on the distribution of dividends and repayment of capital (*Note No. 6(A)(e)*).
- Not disclosing the number of shares held by each shareholder owning more than 5% of the shares (*Note No. 6(A)(g)*).
- Not disclosing change in the percentage of shareholding of promoters in the notes to the financial statements (*Note No. 6A(m)*).
- Not disclosing the shareholding of promoters/directors as part of the notes to the financial statements and instead presenting it as an annexure not referred to in the financial statements (*Note No. 6(A)(m) of General Instructions for Preparation of Balance Sheet read with Para 8.1.1.17 of Guidance Note on Division I Schedule III*).
- Not providing adequate disclosures relating to long-term borrowings, including: (i) classification of borrowings as secured or unsecured (ii) terms of repayment of the loans (iii) period of maturity as on the Balance Sheet date (iv) number and amount of instalments due (v) rate of interest applicable and (vi) other significant terms and conditions relevant to the borrowings (*Note No. 6(C) of General Instructions for Preparation of Balance Sheet read with Paras 8.3.1.18 and 8.3.1.19 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013*).

Key Takeaways

- ❖ Incorrect classification and presentation of line items.
- ❖ Deficiencies in share capital disclosures, including promoter shareholding, shareholders holding more than 5%, and rights, preferences and restrictions attached.
- ❖ Deficiencies in trade receivable and trade payable disclosures, including MSME disclosures, ageing schedules and related classifications.
- ❖ Non-disclosures relating to borrowings, including security, repayment terms, maturity profile, interest rates and other significant borrowing conditions.
- ❖ Incorrect classification and disclosures relating to loans and advances, deposits, investments and other assets.

- | | Key Takeaways |
|---|---|
| ➤ Not classifying long-term borrowings from related parties as secured and unsecured and not disclosing the nature of security, terms of repayment and rate of interest (<i>Note No. 6(C)</i>). | ❖ Incorrect classification and presentation of current and non-current assets and liabilities in accordance with Schedule III. |
| ➤ Not disclosing the terms of repayment of 'other loans' (<i>Note No. 6(C)(vi) of General Instructions for Preparation of Balance Sheet read with Para 8.3.1 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013</i>). | ❖ Deficiencies in cash and bank balance disclosures, including classification of fixed deposits, margin money and other bank balances. |
| ➤ Not disclosing the terms of repayment, including rate of interest and period of maturity, of borrowings, including borrowings from related parties (<i>Note No. 6(C)(vi) of General Instructions for Preparation of Balance Sheet read with Para 8.3.1.18 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013</i>). | ❖ Non-disclosures relating to ratio analysis and other additional regulatory disclosures. |
| ➤ Not disclosing the terms of repayment of loans under short-term borrowings in the notes to the financial statements (<i>Note No. 6(F) of Division I – Non-Ind AS Schedule III to the Companies Act, 2013 read with Para 8.6.1.2 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013</i>). | ❖ Incomplete disclosures relating to related party balances and transactions. |
| ➤ Incorrectly classifying Flexi Loans from directors as secured loans instead of unsecured loans and not providing bifurcation into loans repayable on demand and other loans (<i>Note No. 6(F)</i>). | ❖ Deviations from the prescribed presentation, terminology and disclosure requirements under Schedule III (Division I) and the related Guidance Note. |
| ➤ Not separately disclosing principal and interest relating to MSME dues in the notes to the financial statements (<i>Note No. 6(FA)</i>). | |
| ➤ Incorrectly classifying non-MSME disputed trade payables as MSME disputed in the trade payables ageing schedule (<i>Note No. 6(FB)</i>). | |
| ➤ Not providing the ageing schedule of trade payables due for payment in the notes to the financial statements (<i>Note No. 6(FB)</i>). | |
| ➤ Not disclosing the nature of other payables in the notes to the financial statements (<i>Note No. 6(G)(j)</i>). | |
| ➤ Incorrectly classifying Audit Fees Payable, Bonus Payable, EPF Payable, and ESI Payable under 'Short-Term Provisions' instead of 'Other Current Liabilities' (<i>Note No. 6(H)</i>). | |
| ➤ Incorrectly classifying provision for income tax under other current liabilities instead of others under short-term provisions (<i>Note No. 6(H)(b) of General Instructions for Preparation of Balance Sheet read with Para 8.6.4 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013</i>). | |
| ➤ Not classifying non-current investments as trade investments or other investments (<i>Note No. 6(K)(i) of General Instructions for Preparation of Balance Sheet read with Para 8.7.5.1 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013</i>). | |
| ➤ Disclosing advances for purchase of investment property under short-term loans and advances instead of non-current assets (<i>Note No. 6(L) of General Instructions for Preparation of Balance Sheet</i> | |

read with Para 8.7.6 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013).

- Not sub-classifying long-term loans and advances into (a) Secured, considered good; (b) Unsecured, considered good; and (c) Doubtful (Note No. 6(L)(ii)).
- Incorrectly classifying the security deposit as 'Non-current Investments' (Note No. 6(M)).
- Not disclosing goods-in-transit under the relevant sub-head of inventories (Note No. 6O(ii)).
- Not specifying the mode of valuation of inventory in the notes to the financial statements (Note No. 6(O)(iii)).
- Not disclosing Trade Receivables outstanding for a period exceeding six months from the date they are due for payment (Note No. 6(P)(i)).
- Not sub-classifying Trade Receivables as (a) Secured, considered good; (b) Unsecured, considered good; and (c) Doubtful (Note No. 6(P)(ii)).
- Incorrectly classifying investment in fixed deposits with tenure of six months under Cash and Cash Equivalents instead of Other Bank Balances (Note No. 6(Q)(i) of General Instructions for Preparation of Balance Sheet read with Para 3.1 of AS 13 and Para 6 of AS 3).
- Disclosing bank deposit and margin money as a part of balance with banks under cash and cash equivalents instead of disclosing the same as other bank balances in the notes to the financial statements (Note No. 6Q(iii) and 6Q(v) of General Instructions for Preparation of Balance Sheet read with Para 6.4 of Guidance Note on Schedule III to the Companies Act, 2013).
- Incorrectly classifying Loans and Advances under 'Other Current Assets' instead of separate line item as 'Short-term Loans and Advances' (Note No. 6(R)).
- Not disclosing separately the details or terms related to loans and advances to related parties (Note No. 6(R)).
- Incorrectly classifying advance taxes (TDS, GST, etc.) as 'Other Current Assets' instead of 'Other Loans and Advances' (Note No. 6(R) of Division I, Schedule III read with Para 8.7.6 of Guidance Note on Schedule III).
- Not disclosing the nature of other loans and advances under short-term loans and advances in notes to the financial statements (Note No. 6(R)(i)).
- Not disclosing the nature of items included under "Others" under Short-term Loans and Advances in the notes to the financial statements (Note No. 6(R)(i)(b)).
- Not disclosing the nature of items included under "Others" in Other Current Assets in the financial statements (Note No. 6(S)).
- Incorrectly classifying GST, duty drawback receivables and income tax receivables under trade receivables instead of other current assets (Note No. 6(S) of General Instructions for Preparation of Balance Sheet read with Para 8.7.7 of Guidance Note on Schedule III, Division I).
- Not disclosing the Capital Work-in-Progress ageing schedule or completion schedule (Note No. 6(Y)(iv) of General Instructions for Preparation of Balance Sheet read with Para 8.9.4 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013).

- Not disclosing whether the quarterly returns or statements of current assets filed with banks or financial institutions are in agreement with the books of account and, where differences exist, the summary of reconciliation and reasons for material discrepancies (*Note No. 6(Y)(vii)(a)*).
- Disclosing incorrect percentage of change in ratios in the notes to the financial statements (*Note No. 6(Y)(xii)*).
- Providing an incorrect note under the head "Ratio Analysis and its Elements" by stating "this being first year of operations, changes in comparative ratios are not explainable", whereas it was not the first year of operations (*Note No. 6(Y)(xii)*).
- Not disclosing the return on capital employed in the financial statements (*Note No. 6(Y)(xii)*).
- Using an incorrect methodology for calculating percentage change in ratios and not providing explanations for changes exceeding 25% (*Note No. 6(Y)(xii)*).
- Not disclosing the ratios required in the financial statements (*Note No. 6(Y)(xii)*).
- Not disclosing the debt service coverage ratio in the financial statements (*Note No. 6(Y)(xii)(c) of General Instructions for Preparation of Balance Sheet read with Para 8.9.12 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013*).
- Stating "Accumulated Depreciation as at 31.03.2022" incorrectly as "Accumulated Depreciation as at 31.03.2021" in the notes forming part of financial statements.
- Using the incorrect heading 'Cash and Cash Equivalents' instead of 'Cash & Bank Balances' in the notes to the financial statements (*Para 6.4 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).
- Incorrectly classifying short-term borrowings as long-term borrowings (*Para 8.6.1.2 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013 read with Para 3(c) of General Instructions for Preparation of Balance Sheet*).
- Disclosing interest-free deposits from suppliers as statutory liability, although such deposits are not in the nature of statutory liability (*Para 8.6.3*).
- Disclosing advances made to suppliers for capital goods under Short-term Loans and Advances instead of Long-term Loans and Advances (*Para 8.7.6 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).
- Incorrectly classifying advance to suppliers under 'Short-term Loans and Advances' instead of Trade Receivables (*Para 8.7.7 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).
- Not calculating certain ratios correctly in notes to the financial statements:
 - (i) Debt Service Coverage Ratio (DSCR): Principal repayments were not included in the denominator while computing debt service.
 - (ii) Return on Equity (ROE): Denominator taken as closing equity instead of average total equity.
 - (iii) Trade Receivables Turnover Ratio: Actual trade receivables (excluding unbilled revenue) were taken instead of average trade receivables.
 - (iv) Trade Payables Turnover Ratio: Actual trade payables were taken instead of average trade payables.

- Incorrectly disclosing percentage of variance of certain ratios (Return on Equity, Net Profit Ratio, and Return on Capital Employed) as negative whereas these ratios have improved significantly compared to previous years and should be shown positive.

Part – II – Statement of Profit and Loss

- Not using the term ‘amortization’ along with ‘depreciation’ in the statement of profit and loss, despite the company having intangible assets, resulting in incorrect description of the decline in the carrying value of intangible assets (*Part II – Statement of Profit and Loss*).
- Disclosing other income under the head revenue from operations on the face of the statement of profit and loss (*Part II – Statement of Profit and Loss*).
- Disclosing captive consumption under the head revenue from operations in the notes to the financial statements (*Part II – Statement of Profit and Loss*).
- Using the nomenclature “Total Revenue” instead of the prescribed term “Total Income” on the face of the Statement of Profit and Loss (*Part II – Statement of Profit and Loss*).
- Using incorrect terminology to disclose “changes in inventories of finished goods, work-in-progress and stock-in-trade” in the statement of profit and loss (*Part II – Statement of Profit and Loss*).
- Incorrectly disclosing other interest under “Interest Expenses” instead of separately disclosing it under “Other Borrowing Costs” (*Note No. 3*).
- Including duty drawback, net foreign exchange gain, government subsidy and export incentives under revenue from operations instead of reporting them as other Income (*Note No. 4 of General Instructions for Preparation of Statement of Profit and Loss read with Paras 9.1.8, 9.1.10 and 9.2.1 of Guidance Note on Division I – Non-Ind AS Schedule III to the Companies Act, 2013*).
- Not disclosing dividend income as a separate line item under other Income (*Note No. 4(b)*).
- Using the nomenclature “Establishment Expenses” instead of separately disclosing employee benefits expenses (*Note No. 5(i)(a)*).
- Disclosing remuneration paid to key managerial personnel (KMP) under other expenses instead of employee benefits (*Note No. 5(i)(a) of General Instructions for Preparation of Statement of Profit and Loss read with Para 9.5.4.1 of Guidance Note on Division I – Non-Ind AS Schedule III*).
- Not disclosing net loss on foreign currency transaction and translation (other than considered as finance cost) in the notes to the financial statements (*Note No. 5(i)(i)*).
- Not providing sub-classifications of foreign exchange earnings into royalty, know-how, professional and consultation fees, interest and dividend, or other income (*Note No. 5(viii)(e)*).

Key Takeaways

- ❖ Incorrect terminology of line items.
- ❖ Incorrect classification of revenue, other income, finance costs, employee benefits and other expense items in accordance with Schedule III.
- ❖ Deficiencies in the presentation and disclosure of various items including employee benefits and key managerial personnel remuneration.
- ❖ Non-disclosures relating to Corporate Social Responsibility (CSR) expenditure.
- ❖ Non-disclosures relating to foreign exchange earnings and other income as prescribed under Schedule III.

- Not disclosing the information relating to Corporate Social Responsibility (CSR) expenditure, including the amount required to be spent during the year, shortfall at the end of the year, reasons for shortfall, nature of CSR activities undertaken, related party transactions, and movement in provisions relating to contractual obligations (*Note No. 5(x)*).
- Incorrectly netting the bank charges from interest income on fixed deposit and accordingly there was understatement of finance cost and interest income.
- Stating basic and diluted earnings per share without mentioning that it was in rupees.
- Not disclosing the inventory of bagasse as raw material consumed in the power division for generating electricity (*Para 9.5.1.2 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).
- Incorrectly including purchase of consumable goods in purchases of traded goods instead of cost of raw materials consumed (*Para 9.5.2 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013 read with Part II – Statement of Profit and Loss*).
- Not classifying inventories as finished goods, work-in-progress, and stock-in-trade (*Para 9.5.3*).
- Disclosing interest on trade deposits under finance cost (*Para 9.5.5 read with Para 8.6.3 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).
- Not disclosing the break-up of Corporate Social Responsibility (CSR) expenditure, including the gross amount required to be spent, the amount spent during the year on construction or acquisition of assets, and the amount spent otherwise (*Para 10.13 of Guidance Note on Division I Non-Ind AS Schedule III to the Companies Act, 2013*).

Other Relevant Laws and Regulations

The following major observations in respect of Other Relevant Laws and Regulations were noticed in the Audit files reviewed in respect of reviews finalized during the year:

Companies Act, 2013

- Not mentioning the CIN on the financial statements (*Section 12(3)(c)*).
- Adjusting amount in excess from the securities premium account resulting in incorrect adjustment from share premium reserve account (*Section 55*).
- Incorrectly mentioning ICAI as the body prescribing the accounting standards in the notes to the financial statements. However, as per Section 133 of Companies Act, 2013 it is the Central Government who prescribes the Accounting Standards in consultation with National Financial Reporting Authority (NFRA) (*Section 133 of the Companies Act, 2013*).
- Incorrect disclosure regarding non applicability of CSR provisions (*Section 135 of the Companies Act, 2013*).
- Not reporting on the adequacy and operating effectiveness of the internal financial control in the Independent Auditor's Report on consolidated financial statements (*Section 143(3)(i) of the Companies Act, 2013*).
- Not reporting whether the report on the accounts of any branch office of the company, which may have been audited by a person other than the company's statutory auditor under subsection (8), was received by the firm, and the manner in which such report was considered (*Section 143(3)(c)*).
- Not mentioning the Director Identification Number (DIN) of the directors who signed the financial statements along with their signatures in financial statements (*Section 158*).
- Not disclosing the purpose for which the loan provided to foreign subsidiary has been proposed to be utilized (*Section 186(4)*).
- Not disclosing details of investments made, guarantees issued, or securities provided, along with the purpose of such transactions and how the recipient intends to use the funds under the notes to the financial statements relating to loans (*Section 186(4)*).

Key Takeaways

- ❖ Deficiencies in statutory disclosures in financial statements, including Corporate Identity Number (CIN) and Director Identification Number (DIN).
- ❖ Inadequate reporting under the Independent Auditor's Report relating to internal financial controls, branch audits, legal and regulatory requirements and other matters prescribed under the Companies Act, 2013.
- ❖ Deficiencies in reporting as per the Companies (Audit and Auditors) Rules, 2014, including reporting relating to pending litigations, utilisation of funds, transactions covered under Rule 11(e), and dividend declarations.
- ❖ Non-disclosures relating to purpose of utilisation and details of transactions under Section 186 of the Companies Act, 2013.

- Not specifying that the useful lives of PPE are based on the lives specified under Schedule II rates (*Schedule II Part C Note 2 read with Para 8 of Application Guide on the Provisions of Schedule II to The Companies Act, 2013*).
- Not providing adequate technical justification for adopting useful lives of property, plant and equipment in the notes to the financial statements other than those prescribed in Part C of Schedule II of The Companies Act, 2013 (*Para 3(i) of Part A of Schedule II of The Companies Act, 2013*).
- Stating under the notes to the financial statements, the additional information pursuant to the provisions of erstwhile paragraph 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956, instead of giving disclosures as per Companies Act, 2013.
- Incorrect reporting on pending litigations stating no litigations exist despite disclosures in financial statements to the contrary (*Rule 11(a) of Companies (Audit & Auditors) Rules 2014 read with Illustration of SA 700*).
- Not providing reference to relevant notes for pending litigation disclosures (*Rule 11(a) read with SA 700 format*).
- Incomplete reporting under Para 13(h)(iv) of the "Report on Other Legal and Regulatory Requirements" given under the audit report on the Consolidated Financial Statements. Although auditor has reported that "nothing has come to our notice that causes us to believe that the above representations under subclause (i) and (ii) of Rule 11(e) as provided under (a) and (b) above, contain any misstatement", however, no reporting has been made under subclause (i) and (ii) of Rule 11(e) (*Rule 11(e) of the Companies (Audit and Auditors) Rules, 2014*).
- Omitting to report on "whether, based on audit procedures deemed reasonable and appropriate under the circumstances, there is any indication that the representations made under subclauses (i) and (ii) contain any material misstatements" (*Rule 11(e)(iii) of the Companies (Audit and Auditors) Rules, 2014*).
- Incorrectly mentioning that 'In our opinion and based on the information and explanation provided to us, no dividend has been declared or paid during the year by the company' under report on other legal and regulatory requirements in the Independent Auditor's Report (*Rule 11(f) of the Companies (Audit and Auditors) Rules, 2014*).

Key Takeaways

- ❖ Incorrect application and disclosure relating to depreciation and useful lives of Property, Plant and Equipment, including compliance with Schedule II requirements.
- ❖ Deficiencies in accounting and presentation relating to reserves and surplus, including utilisation of securities premium account.
- ❖ Inappropriate references relating to accounting standards rules, and regulatory authorities under Section 133 of the Companies Act, 2013.
- ❖ Including outdated references to erstwhile Companies Act, 1956 provisions.
- ❖ Deviations from prescribed reporting requirements and disclosure requirements under the Companies Act, 2013.

Companies Auditor's Report Order (CARO), 2016 and 2020/ Guidance Note on CARO, 2016 and 2020

Companies Auditor's Report Order (CARO), 2020

- Not appropriately reporting under clause 3(i)(a)(A) of CARO 2020 that the company has maintained the detailed records as prescribed, including absence of Gross/Net Block schedules in respect of Property, Plant & Equipment and Intangible Assets disclosed in the notes to the financial statements, lack of clear identification and tagging of individual assets, and non-availability of quantitative and location-specific particulars required to demonstrate compliance with the prescribed disclosure norms (*Clause 3(i)(a)(A) of CARO 2020 read with Para 41(b) of the Guidance Note on CARO 2020*).
- Disclosing incorrect facts by reporting that the Company maintained proper records of intangible assets although the Company did not have any intangible assets (*Clause 3(i)(b)*).
- Using the phrase "as explained to us" while reporting under Clause 3(i)(b), implying reliance solely on management's explanation without appropriate audit procedures (*Clause 3(i)(b) of CARO, 2020 read with Para 92 of Guidance Note on CARO, 2020*).
- Not reporting whether the title deeds of all immovable properties disclosed in the financial statements were held in the name of the company (*Clause 3(i)(c) of CARO, 2020 read with Para 43 of Guidance Note on CARO, 2020*).
- Not commenting on leasehold property while reporting under clause 3(i)(c) of Companies (Auditor's Report) Order, 2020 (*Clause 3(i)(c)*).
- Ambiguous reporting made with respect to title deeds of immovable properties by stating that title deeds of immovable properties were held in the name of the Company except the following, while providing nil details of such properties (*Clause 3(i)(c)*).
- Not reporting whether the Company had revalued its property, plant and equipment (including Right-of-Use assets) or intangible assets during the year (*Clause 3(i)(d)*).
- Omitting to report about the proceedings initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder,

Key Takeaways

- ❖ Not reporting on certain clauses / some parts of certain clauses.
- ❖ Ambiguous reporting for certain clauses.
- ❖ Reporting gaps relating to Property, Plant and Equipment and Intangible Assets, including maintenance of records, identification of assets, title deeds, revaluation and benami property reporting.
- ❖ Weaknesses in reporting relating to inventory verification, including physical verification procedures, discrepancies noticed, verification intervals and reporting of inventory statements submitted to banks.
- ❖ Inadequate/ Non-reporting relating to working capital arrangements, including reconciliation of quarterly statements filed with banks/financial institutions with books of account.

and if so, whether the company has appropriately disclosed the details in its financial statements (Clause 3(i)(e)).

- Using the phrase “as explained to us” while reporting on physical verification of inventory (Clause 3(ii)(a) of CARO, 2020 read with Para 92 of Guidance Note on CARO, 2020).
- Using the term “discrepancies noticed on physical verification of inventories were not material” instead of reporting whether discrepancies of 10% or more in the aggregate for each class of inventory were noticed (Clause 3(ii)(a) of CARO 2020 read with Para 47 of the Guidance Note on CARO 2020).
- Using the term “discrepancies noticed on such verification has been properly dealt with in the books of accounts” instead of specifying whether discrepancies of 10% or more in the aggregate for each class of inventory were noticed under clause 3(ii)(a) of CARO reporting (Clause 3(ii)(a) of CARO 2020 read with Para 47 of Guidance Note on CARO 2020).
- Not reporting whether physical verification of inventory has been conducted at “reasonable intervals” (Clause 3(ii)(a)).
- Incorrectly reporting that the quarterly returns/statements filed by the Company were not in agreement with the books of account despite there being no underlying discrepancies (Clause 3(ii)(b)).
- Incorrectly stating that the quarterly statements of inventory filed with banks were in agreement with inventory records although the working capital facility was secured by current assets and not inventory alone (Clause 3(ii)(b)).
- Not reporting the details of disagreement between the quarterly returns filed by the company with the banks or financial institutions and the books of accounts with respect to the sanctioned working capital limits in excess of five crore rupees (Clause 3(ii)(b) of CARO 2020 read with Para 47(e) of Guidance Note on CARO 2020).
- Not reporting whether the company was sanctioned working capital limits exceeding ₹5 crore from banks or financial institutions against current assets and whether the quarterly returns or statements submitted to them agreed with the books of account, despite verification having been performed. (Clause 3(ii)(b)).
- Incorrectly reporting the previous year's figure of guarantees instead of the current year's figure while giving details of the

Key Takeaways

- ❖ Insufficient reporting relating to loans, advances, guarantees and securities, including terms of loans, renewals/extensions, loans repayable on demand and transactions involving subsidiaries, associates and joint ventures.
- ❖ Deficiencies in reporting relating to statutory dues, including classification of disputed and undisputed dues, pending disputes, period of disputes, amounts involved and in the manner required.
- ❖ Incomplete reporting relating to borrowings and repayment obligations, including defaults in repayment of loans, interest obligations, term loans, borrowings from related parties and utilisation of borrowed funds.
- ❖ Incorrect reporting relating to public issues, further public offers, private placements and issue of securities.
- ❖ Omissions in reporting relating to utilisation of funds raised.

outstanding balance of guarantees and aggregate amount of guarantees provided during the year (*Clause 3(iii)(a)*).

- Using the incorrect nomenclature "Associate" instead of "Joint Venture" in respect of loans granted and guarantees provided by the company, which is inconsistent with the disclosures made in the notes to the financial statements (*Clause 3(iii)(a)*).
- Ambiguously stating that no loan or advance in the nature of loan has been renewed or extended except the following, while providing nil details (*Clause 3(iii)(e)*).
- Incorrectly reporting under clause 3(iii)(f) by stating that the clause was not applicable instead of providing the disclosures required for loans repayable on demand or without specified terms (*Clause 3(iii)(f)*).
- Not reporting whether the company made investments in, or provided guarantees or securities to, companies, firms, Limited Liability Partnerships or other parties, and not commenting on loans granted to limited liability partnerships (*Clause 3(iii)*).
- Wrongly reporting compliance with Sections 185 and 186 of the Companies Act, 2013 in respect of loans, investments, guarantees and securities, although the provisions were not applicable (*Clause 3(iv)*).
- Reporting only on compliance with Section 73 of the Companies Act, 2013 instead of Sections 73 to 76 (*Clause 3(v)*).
- Wrongly reporting that maintenance of cost records had been specified by the Central Government although the requirement was not applicable (*Clause 3(vi)*).
- Incorrectly reporting regarding deposit of undisputed dues of provident fund (*Clause 3(vii)(a)*).
- Mentioning the term other 'material' statutory dues instead of any other statutory dues while reporting under CARO (*Clause 3(vii)(a) read with Para 57(b) of Guidance Note on CARO, 2020*).
- Not reporting the disputed tax matter with respect to entry tax (*Clause 3(vii)(b)*).
- Incorrectly reporting that "as there are no disputed statutory dues pending in exceeding 6 months, details are not applicable". However, the stated clause requires reporting with respect to forum of dispute, amounts involved etc. (*Clause 3(vii)(b) of CARO 2020 read with Para 60 of Guidance Note on CARO 2020*).
- Incorrectly classifying disputed statutory dues as undisputed in the audit report (*Clause 3(vii)(b)*).
- Incorrectly including wealth tax while commenting on disputed dues (*Clause 3(vii)(b)*).

Key Takeaways

- ❖ Ambiguous reporting relating to fraud, including reporting of frauds noticed or reported during the year and fraud committed by or against the company.
- ❖ Deficiencies in reporting relating to internal audit, including consideration of internal audit reports by the statutory auditor.
- ❖ Incorrect reporting relating to resignation of statutory auditors and consideration of issues raised by outgoing auditors.
- ❖ Incorrect use of terminology, incorrect clause references, incomplete statements and ambiguous wording in the CARO report.
- ❖ Deviations from the prescribed format, reporting requirements and disclosure guidance provided under CARO 2020 and the Guidance Note on CARO 2020.

- Omitting to report on default in the payment of interest while reporting on defaults in repayment of loans or other borrowings (*Clause 3(ix)(a) of CARO, 2020 read with Para 60 of Guidance Note on CARO, 2020*).
- Not reporting on default on repayment of all the loans/borrowings (including borrowings from related parties) taken by the company and interest thereon, instead reporting only on the dues from banks, financial institutions, debenture holders and Government (*Clause 3(ix)(a)*).
- Stating that the company has utilized the money obtained by way of term loans for the purposes for which they were obtained except for the following, while providing no such details, thereby creating ambiguity (*Clause 3(ix)(c)*).
- Not reporting whether the Company had taken funds from any entity or person to meet the obligations of its subsidiaries, associates or joint ventures (*Clause 3(ix)(e)*).
- Omitting the term “associates” while reporting whether the company had taken funds from any entity or person to meet the obligations of its subsidiaries, associates or joint ventures (*Clause 3(ix)(e) of CARO, 2020 read with Para 64 of Guidance Note on CARO, 2020*).
- Incorrectly stating that the company had neither taken funds from any party to meet the obligations of subsidiaries, associates or joint ventures nor raised loans secured by securities of such entities, although the company did not have any subsidiaries, associates or joint ventures during the year (*Clauses 3(ix)(e) and 3(ix)(f)*).
- Not reporting whether the Company had raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies (*Clause 3(ix)(f)*).
- Incorrectly stating that the company had no borrowings, including debt securities, during the year despite borrowings being disclosed in the financial statements (*Clause 3(ix)(f)*).
- Not disclosing the term further public offer (including debt instruments) while reporting under clause 3(x)(a) (*Clause 3(x)(a) of CARO 2020 read with Para 68 of Guidance Note on CARO 2020*).
- Incorrectly referring to clause 3(ix) while reporting under clause 3(x)(a) of CARO, 2020.
- Not disclosing the term private placement of shares or convertible debentures (fully, partially or optionally convertible) while reporting under clause 3(x)(b) (*Clause 3(x)(b) of CARO 2020 read with Para 69 of Guidance Note on CARO 2020*).
- Not reporting whether any fraud on the company had been noticed or reported during the year and reporting only on fraud by the company (*Clause 3(xi)(a)*).
- Incorrectly stating that all related party transactions were in compliance with section 177 of the Companies Act, 2013 although the provision was not applicable (*Clause 3(xiii)*).
- Not disclosing that Section 177 of the Companies Act, 2013 was not applicable to the company while reporting under Clause 3(xiii) (*Clause 3(xiii) of CARO, 2020 read with Para 72 of Guidance Note on CARO, 2020*).
- Not stating whether the reports of the internal auditors for the period under audit were considered by the statutory auditor (*Clause 3(xiv)(b)*).
- Not reporting appropriately regarding applicability of Section 45-IA of the Reserve Bank of India Act, 1934 (*Clauses 3(xvi)(a) and 3(xvi)(b)*).

- Not reporting whether the company had conducted any non-banking financial or housing finance activities without a valid certificate of registration from the Reserve Bank of India (*Clause 3(xvi)(b) of CARO 2020 read with Para 79 of the Guidance Note on CARO 2020*).
- Wrongly reporting that there was resignation of the statutory auditor during the year (*Clause 3(xviii)*).
- Mentioning an incorrect note reference while reporting on unspent Corporate Social Responsibility (CSR) amount relating to ongoing projects (*Clause 3(xx)(b)*).
- Incorrectly reporting that unspent amount was transferred to CSR fund specified in schedule VII to the Companies Act, 2013 (*Clause 3(xx)*).

Companies Auditor's Report Order (CARO), 2016

- Not reporting whether any material discrepancy was noticed during the physical verification of fixed assets and whether the same was properly dealt with in the books of account (*Clause 3(i)(b)*).
- Incorrectly reporting under clause 3(ii) of CARO 2016 as per CARO 2015 instead of CARO 2016 (*Clause 3(ii)*).
- Not conducting a general review of the cost records to ensure that the prescribed cost records were made and maintained and relying on the management's assertions regarding maintenance of the cost records (*Clause 3(vi) of CARO 2016 read with Paras 41(e) and 41(f) of the Guidance Note on CARO 2016*).
- Not reporting whether there have been any arrears of statutory dues as on the last day of the financial year for a period of more than six months from the date they became payable (*Clause 3(vii)(a)*).
- Not reporting the disputed dues with respect to Income Tax (*Clause 3(vii)(b)*).
- Not reporting under clause 3(viii) in the manner suggested in the Guidance Note (*Clause 3(viii) of CARO 2016 read with Para 44(l) of the Guidance Note on CARO 2016*).
- Not reporting on clauses 3(xi) to 3(xv) under CARO 2016.
- Reporting under clauses 3(i), 3(ii) and 3(iii) using the structure and requirements of CARO 2015 instead of CARO 2016.

Guidance Note on CARO

- Not reporting the deposit under protest with respect to Income Tax and VAT (*Para 43(g) of the Guidance Note on CARO 2016*).
- Using the phrase "as informed" while reporting, implying reliance solely on management's representation without appropriate audit procedures (*Para 47 read with Para 93 of Guidance Note on CARO, 2020*).
- Not disclosing that the disputed income tax demand had been deposited under protest (*Para 58(i) of Guidance Note on CARO, 2020 read with Clause 3(vii)(b) of CARO, 2020*).
- Using the phrases "as explained to us" and "as per information & explanations provided to us", thereby making the reporting a statement of facts instead of expressing an audit opinion (*Para 93 of Guidance Note on CARO, 2020*).

Others including other relevant Guidance

- Disclosing the same amount of interest under the notes to the financial statements for “Amount of interest accrued and remaining unpaid at the end of the accounting year” and “Amount of further interest remaining due and payable even in succeeding years” (*Section 22 of MSMED Act, 2006*).
- Not maintaining documentation of the work performed on internal financial controls over financial reporting such that it provides evidence that the audit was planned and performed in accordance with this guidance, applicable Standards on Auditing and applicable legal and regulatory requirements (*Para 165 of Guidance Note on Audit of Internal Financial Controls Over Financial Reporting*).
- Using the term financial statements instead of “standalone financial statements” while reporting that we have audited the internal financial controls over financial reporting (*Example 1 of Guidance Note on Audit of Internal Financial Controls Over Financial Reporting*).
- Not giving the report on Internal Financial Controls Over Financial Reporting as per the format prescribed in the Guidance Note (*Example 1 of Appendix III read with Illustrative Reports on Internal Financial Controls Over Financial Reporting*).
- Including the phrase “Inventories are as taken, valued and certified by the Management” in the notes to the financial statements, providing impression to the reader of the financial statements that inventory valuation is solely the responsibility of management which undermines the auditor’s role in verifying inventories through audit procedures (*Para 33 of Guidance Note on Audit of Inventories issued by the Institute of Chartered Accountants of India (ICAI)*).
- Not informing the TCWG that audit fee from the company was more than 15% for two consecutive years and not getting the pre-issuance review and post-issuance review done (*Rule 410.4(a), (b)(i) and (ii) of Code of Ethics*).
- Not reporting separately the total amount on which tax was required to be deducted and total amount on which tax was deducted in respect of professional fees under Clause 34(a) of Tax Audit Report (*Clause 34(a) of Form 3CD read with Section 44AB of Income Tax Act, 1961*).
- Not complying with the proviso to Section 15 of MSME Act which states that the period agreed upon between supplier and buyer cannot exceed 45 days from the day of acceptance whereas in the footnote to the notes to the financial statements, it is stated that ‘The company has appropriate policy in place to ensure that dues are generally paid within the credit terms agreed with the parties and no provision is made for interest payable since no interest is generally charged by the suppliers.’
- Using the phrase “as valued and certified by the management” in inventory disclosures. Such phrases may mislead users into believing auditor relied solely on management certification and therefore should not be included in the financial statements.

Key Takeaways

- ❖ Deficiencies in disclosures relating to MSME requirements, including interest disclosures, payment terms and compliance with prescribed timelines under the MSMED Act, 2006.
- ❖ Inadequate documentation relating to Internal Financial Controls over Financial Reporting, including audit evidence, prescribed reporting formats and compliance with applicable guidance.

Review Findings w.r.t Urban Co-operative Banks (UCBs) including Summary of Observations

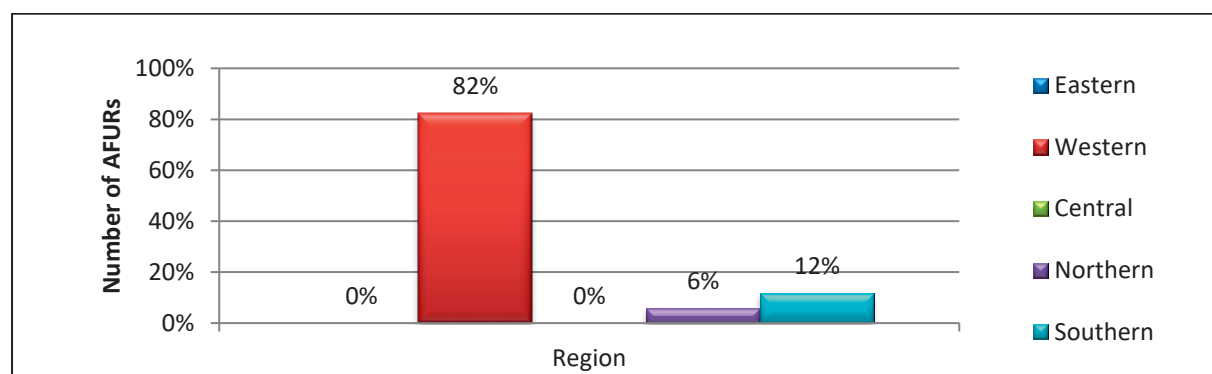
Highlights given hereunder are with respect to the audit quality reviews completed by the Quality Review Board w.r.t Urban Co-operative Banks during the financial year 2025-26 as per following data:

Total Numbers included in the report				
Total Number of Audit Engagements				
18				
Total Number of AFURs				
17				
Region wise break up of AFURs:				
Western	Southern	Eastern	Central	Northern
14	02	0	0	01
Total Number of Urban Co-operative Banks for audit of FY 2020-21				16

❖ Profile of Selected AFURs during the year – Region wise break-up w.r.t Urban Co-operative Banks

The following charts represent the break-up of selected AFURs w.r.t Urban Co-operative Banks in terms of the region of the firms. Out of 17 AFURs w.r.t Urban Co-operative Banks, 83% AFURs are from the Western Region, 6% AFURs are from the Northern Region and 11% AFURs from the Southern Region.

Chart 17 : Region wise Break-up of Selected AFURs w.r.t Urban Co-operative Banks

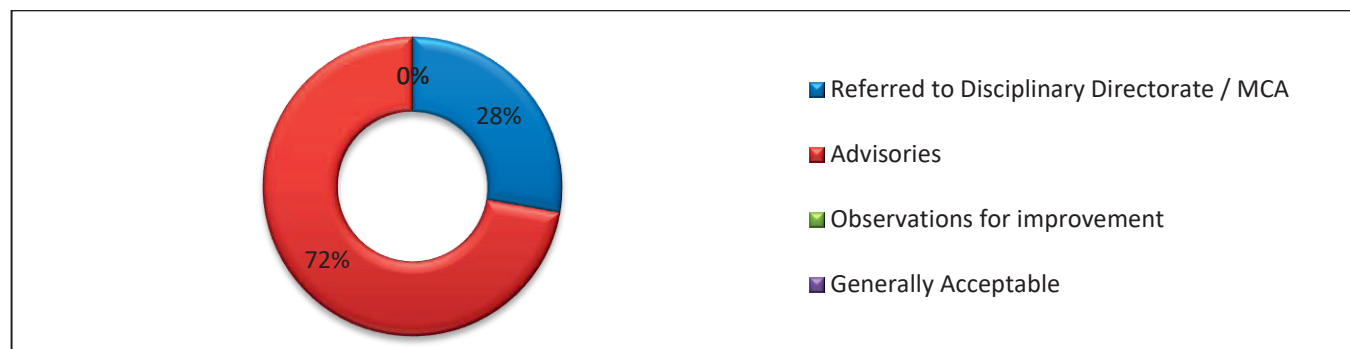


a) Findings of Audit Engagements Reviewed w.r.t Urban Co-operative Banks

The following chart represents the decisions taken based on the findings of the Audit Quality reviews carried out in respect of 18 audit engagements w.r.t Urban Co-operative Banks during the year. In all the audits reviewed, QRB has initiated action, while 72% cases required improvement where QRB issued

advisories to the concerned AFURs to ensure improvement in the quality of their services in future. 28% cases were forwarded to the Disciplinary Directorate (DD) of the ICAI for its examination.

Chart 18 : Findings of Audit Engagements Reviewed w.r.t Urban Co-operative Banks



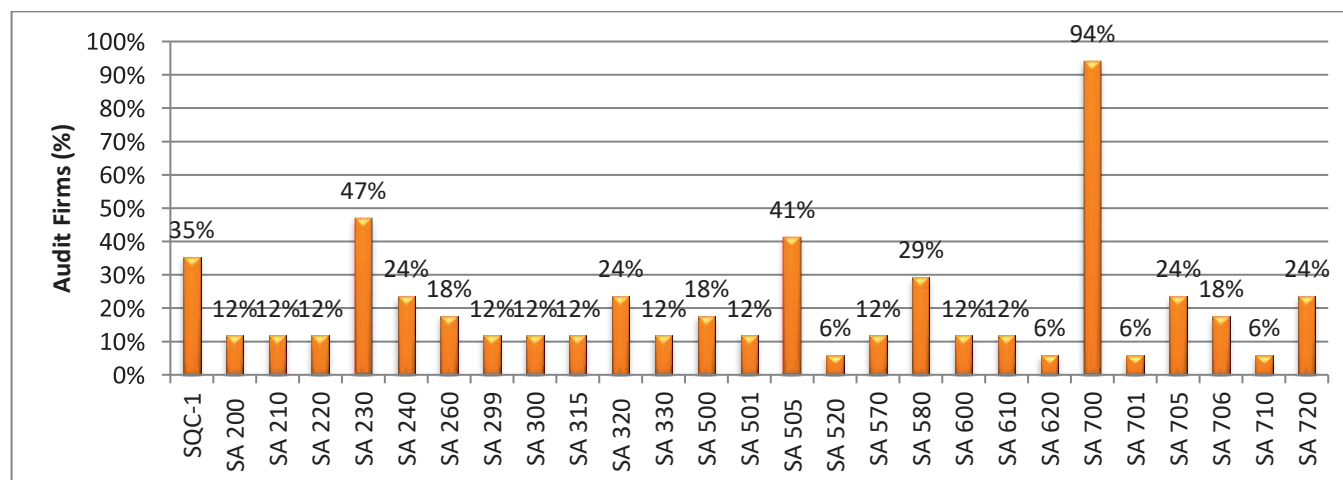
b) Analysis of Reviewed Audit Files w.r.t Urban Co-operative Banks

The following charts represent the analysis of reviewed AFURs in respect of audits of aforesaid Urban Co-operative Banks under different categories:

❖ Percentage of reviewed AFURs having observations on various Standards on Auditing (SA)

The following chart represents the percentages of reviewed AFURs having observations under various Standards on Auditing as noted during audit quality reviews. It can be seen that maximum AFURs had observations on SA 700 Forming an Opinion and Reporting on Financial Statements (94 percent) followed by SA 230 Audit Documentation (47 percent), SA 505 External confirmations (41 percent), Standards on Quality Control (SQC-1) (35%) and so on.

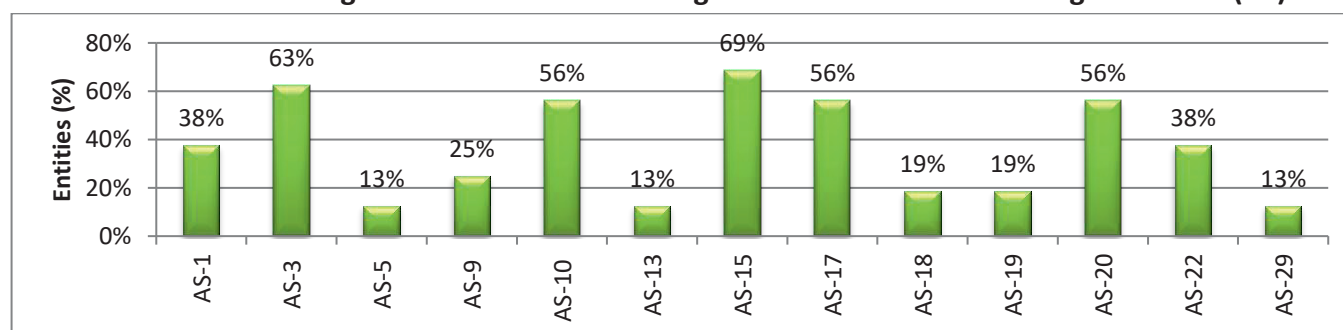
Chart 19 : Percentage of Reviewed AFURs having observations on Standards on Auditing (SA)



❖ Percentage of reviewed Urban co-operative Banks having observations on Accounting Standards (AS)

Out of 16 Urban Co-operative Banks, 14 banks had observations on Accounting Standards. Chart No. 20 represents the percentages of reviewed urban co-operative banks having observations under various AS as noted during audit quality reviews. It can be seen that maximum UCBs had observations on AS 15 Employee Benefits (69 percent) followed by AS 3 Cash Flow Statements (63 percent), AS 10 Property, Plant, and Equipment (56 percent), AS 17 Segment reporting (56 percent), AS 20 Earning Per Share (56 Percent) and so on.

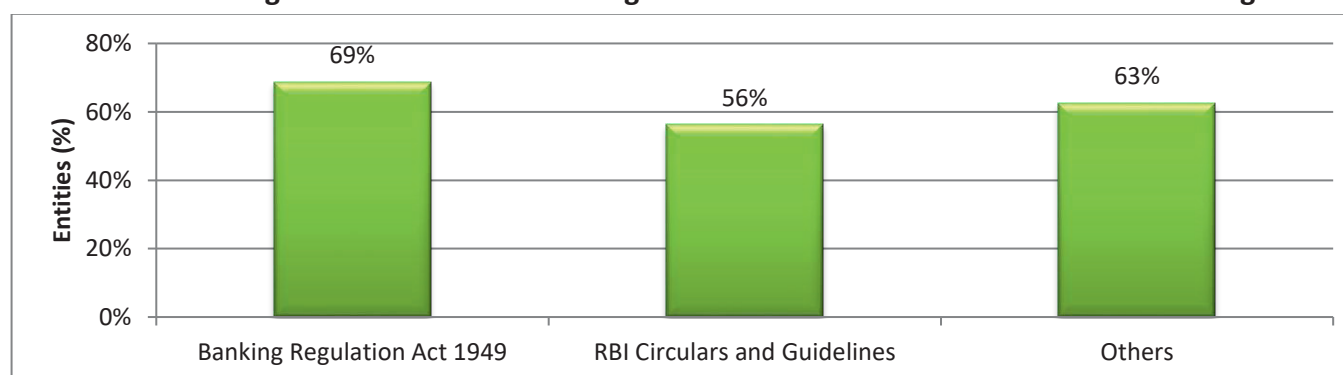
Chart 20 : Percentage of reviewed UCBs having observations on Accounting Standards (AS)



❖ Percentage of reviewed Urban Co-operative Banks having observations on Other Relevant Laws and Regulations

The following chart represents the percentages of reviewed urban co-operative banks having observations under Other Relevant Laws and Regulations as noted during audit quality reviews. It can be seen that maximum Entities had observations on Schedule III of the Banking Regulation Act, 1949 (69 percent) followed by RBI Circulars and Guidelines (56 percent), and Others (Framework for the Preparation and Presentation of Financial Statements, ICAI's UDIN Guidelines, Incorrect terminologies) (63 percent).

Chart 21 : Percentage of Reviewed UCBs having observations on Other Relevant Laws and Regulations



Summary of Observations w.r.t Urban Co-operative Banks

Standard on Quality Control (SQC) - 1

The following major observations in respect of **Standard on Quality Control (SQC) – 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements** were noticed during the course of Quality Reviews finalized during the year:

Introduction & Elements of a System of Quality Control

- Not documenting the policies and procedures relating to key elements of the system of quality control, specifically relating to leadership responsibilities, acceptance and continuance of client relationships, engagement performance, and monitoring (*Para 3 read with Para 7*).
- Not having a separate firm-specific documented quality control policy (*Para 3 read with Para 8*).

Leadership Responsibilities for Quality within the Firm

- Not documenting formal policies and procedures that reinforce an internal culture emphasizing the importance of quality in all engagements and not formally assigning a senior individual with ultimate responsibility for the firm's system of quality control (*Para 9*).

Independence

- Not preparing documentation w.r.t compliance with Independence requirements (*Para 18 read with Para 106*).

Acceptance and Continuance of Client Relationships and Specific Engagements

- Not documenting formal policies and procedures governing the acceptance and continuance of client relationships and specific engagements which include a structured framework to consistently assess client integrity, engagement risk, and compliance with ethical requirements prior to accepting or continuing engagements (*Para 28*).

Human Resources

- Not maintaining documentation w.r.t on-site and office training provided to the staff at regular intervals (*Paras 38 and 39 read with Para 106*).

Engagement Performance

- Not documenting policies, procedures, and supporting tools to ensure that audit engagements are executed and reviewed in line with applicable professional standards, regulatory, and legal requirements, which may include standardized documentation formats, comprehensive audit programs, and defined supervisory and review procedures (*Para 46 and 47*).

Consultation

- Not documenting policies and procedures governing the consultation process on difficult or contentious matters which may include the defined protocols for initiating, conducting, and recording such consultations (*Para 51*).

Differences of Opinion

- Not establishing and documenting formal policies and procedures to address and resolve differences of opinion within the engagement team and with those consulted including a structured and documented resolution process (*Para 57*).

Engagement Quality Control Review

- Not establishing the policies and procedures that set out the criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements are to be evaluated, in order to determine whether an engagement quality control review (EQCR) should be performed (*Para 60(b)*).

Engagement Documentation

- Not establishing and documenting formal policies and procedures relating to: (i) the timely completion and assembly of final engagement files after the audit report is issued (ii) safeguarding the confidentiality, integrity, accessibility, and safe custody of engagement documentation and (iii) the retention of audit documentation for a period adequate to meet the firm's needs or as prescribed by applicable laws or regulations (*Para 74, 77 and 82*).

Monitoring

- Not documenting and implementing policies and procedures to monitor the firm's quality control system, including the absence of a structured process for periodic inspection of completed engagements and assessment of whether the quality control policies remain relevant, adequate, and are effectively applied in practice (*Para 86*).

Complaints and Allegations

- Not establishing and documenting formal policies and procedures to address complaints and allegations concerning non-compliance with professional standards or breaches of the firm's system of quality control (*Para 101*).

Documentation

- Not maintaining documentation that evidences the functioning of all the elements of the firm's system of quality control (*Para 106*).
- Not maintaining quality control manual or other simpler and informal methods such as manual notes, checklist and other forms of documentation as may be applicable to smaller firms (*Para 107 read with illustrative checklist given under "Annexure VI Illustrative Firm Quality Control Inspection Checklist" of Implementation Guide of SQC-1 issued by AASB*).

Standards on Auditing

The following major observations in respect of Standards on Auditing (SA) were noticed in the Audit files reviewed in respect of audits of reviews finalized during the year:

General Principles and Responsibilities (SA 200, 210, 220, 230, 240, 260, 299)

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- Not obtaining sufficient and appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion (*Para 17 and 18*).

SA 210 - Agreeing the Terms of Audit Engagements

- Not ensuring the signature of the appropriate level of management in the engagement letter, as acknowledgement of their responsibilities (*Para 6(b) read with Illustration No. 1 Examples of Audit Engagement Letter given under Appendix-I of SA 210 and FAQ 17 given under Chapter 2 of Implementation Guide on SA 210*).
- Not including the agreed terms of the audit engagement with respect to the responsibilities of the auditor in the audit engagement letter (*Para 10(b) read with Para A22 and A23*).
- Not mentioning audit fees and not giving details on which basis the fees will be computed and any billing arrangements in the engagement letter (*Para A23 read with Illustration No. 1 Examples of Audit Engagement Letter given under Appendix-I of SA 210*).

SA 220 - Quality Control for an Audit of Financial Statements

- Not identifying apparent discrepancies with respect to presentation and classification of items in the financial statements while performing engagement quality control review. (*Para 20*).
- Not considering the results of the firm's monitoring process, including any deficiencies identified, and assessing their possible impact on the audit engagement and not documenting the key matters such as compliance with ethical and independence requirements, conclusions on acceptance and continuance of engagements, and results of significant consultations (*Para 23 and 24*).
- Not maintaining documentation regarding audit engagement reviewed (*Para 25*).

SA 230 - Audit Documentation

- Not adequately documenting evidence of the auditor's basis for conclusions reached and evidence that the audit was planned and performed in accordance with the Standards on Auditing and applicable legal and regulatory requirements (*Para 2*).
- Not maintaining the documents towards audit of taxes and deferred taxes (*Para 7 and 8*).
- Not adequately documenting the audit procedures undertaken in relation to:

- Balance with bank which remains pending for reconciliation;
- Clearing Adjustments disclosed under the head “Other Assets” in the bank’s financial statements;
- Sundries Accounts disclosed under the head “Other Liabilities” in the financial statements;
- Verification of interest income, PPE, Bank Balance (*Para 8*).
- Not maintaining documentation:
 - Sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of audit procedures performed, the results of such procedures and audit evidence obtained, as well as significant matters arising, the conclusions reached thereon, and the professional judgments made.
 - For reconciliation of the amounts reported under “SPL bad & doubtful reserve” and “bad & doubtful debt reserve” under the heading “Reserve & Surplus” under financial statements.
 - Regarding checklist for applicability of accounting standards (*Para 8*).
- Not documenting audit sampling methodology, including the characteristics of the population considered keeping in view the requirements relating to audit sampling, the rationale for sample size and selection, and evaluation of results of audit procedures performed (*Para 8 and 9 read with Para 6, 7, 8 and 15 of SA 530*).
- Not documenting the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions with respect to creation and subsequent write back of provision for covid-19 moratorium (*Para 8(c) read with Para A9*).
- Not maintaining documentation w.r.t 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 discussions took place (*Para 10*).
- Not keeping the documentation of minutes of meetings with the management and various committees of the auditee bank including findings and how they were addressed (*Para 10 read with Para A14*).
- Not documenting the alternative audit procedures performed, in case where there has been departure from the relevant requirement of any SA (*Para 12*).

Key Takeaways

- ❖ Documentation not maintained w.r.t
 - Audit procedures, audit evidence, conclusions and professional judgments.
 - Audit areas such as bank balances, PPE, and other significant balances.
 - Audit sampling methodology, sample selection and evaluation of results under SA 530.
 - Discussions of significant matters with Management/TCWG and conclusions reached during the audit.

SA 240 - The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

- Not documenting the procedures adopted for assessing the risk of material misstatement due to fraud, the significant discussions held among the engagement team regarding such susceptibility in the financial statements, and the identified and assessed risks of material misstatement at both the financial statement level and the assertion level (*Para 44*).

- Not maintaining documentation w.r.t. identification and assessment of the risks of material misstatement due to fraud at the financial statement level and at the assertion level (*Para 44 and 45*).
- Not documenting matter related to fraud on bank by customer as reported under Part II-B (vii) of Long Form Audit Report (LFAR) which was noticed by bank. This is fraud risk factor as stated in Para A6 and Para 44 and 45 require auditor to document the identified fraud risks that could lead to material misstatement, decisions made during team discussions, the planned audit responses (including procedures to address management override), and the results of those procedures—clearly linking risks to actions and outcomes (*Para A6, 44 and 45*).
- Not documenting the inquiries made with the management w.r.t its assessment of risk of material misstatement due to fraud, process for identifying and responding to fraud risk, communication with TCWG and employees, knowledge of any actual, suspected or alleged fraud affecting the entity (*Para 45 and 46*).

SA 260 - Communication with Those Charged with Governance

- Not maintaining documentation of discussions of significant matters with Management / Those Charged With Governance (TCWG) of the bank, about the planned scope and timing of audit and significant findings from the audit (*Para 15 and 16 read with Para 23*).
- Not documenting communications required under Para 9 and 16, which, inter alia, includes the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit, observations arising from the audit that are significant, auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures, written representations the auditor is requesting, etc. (*Para 23*).

SA 299 - Joint Audit of Financial Statements

- Not preparing and maintaining documentation regarding the involvement of engagement partners and key team members in audit planning (*Para 6 of SA 299 (Revised) read with Para 8 of SA 230*).
- Not preparing and maintaining documentation regarding the assessment and communication of risks of material misstatement (*Para 9 of SA 299 (Revised) read with Para 8 of SA 230*).
- Not preparing and maintaining documentation regarding common engagement letter (*Para 11 of SA 299 (Revised) read with Para 8 of SA 230*).
- Not preparing and maintaining documentation regarding the allocation of work among joint auditors (*Para 12 read with Para A2 of SA 299 (Revised) read with Para 8 of SA 230*).
- Not preparing and maintaining documentation regarding the individual and joint responsibilities of the joint auditors (*Para 13 and 14 of SA 299 (Revised) read with Para 8 of SA 230*).
- Not preparing and maintaining documentation of coordination and communication of relevant matters among joint auditors (*Para 15 of SA 299 (Revised) read with Para 8 of SA 230*).

- Not preparing and maintaining documentation regarding the determination of audit procedures, internal control evaluation, and risk assessment for allocated areas (*Para 16 of SA 299 (Revised) read with Para 8 of SA 230*).

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

SA 300 - Planning an Audit of Financial Statements

- Not documenting the overall audit strategy, audit plan, or material changes thereto (*Para 6 and 11 read with Para A17–A19 of SA 300*).
- Not documenting the audit plan for the bank as a whole (*Para 11*).

SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- Not maintaining adequate documentation evidencing the identification and assessment of risks of material misstatement at the financial statement and assertion levels (*Para 32 of SA 315 read with Para 8 of SA 230*).
- Not documenting the key elements as required under Para 11 of SA 315 including a structured summary of the auditor's understanding of the entity's industry environment, operations, ownership and governance, accounting policies, business objectives and strategies, and performance measurement systems. Additionally, the documentation did not include a formal record of the auditor's understanding of internal control components relevant to the audit as required by Para 12 of SA 315 (*Para 32 read with Para A143–A146 of SA 315*).

SA 320 - Materiality in Planning and Performing an Audit

- Not documenting the factors considered in determination of materiality level (*Para 14 read with Para A2 of SA 320*).

SA 330 - The Auditor's Responses to Assessed Risks

- Not maintaining adequate documentation w.r.t. the design and implementation of audit responses to assessed risks of material misstatement including the nature, timing, and extent of further audit procedures (*Para 5 and 28(a) of SA 330 read with Para 8 of SA 230*).

Audit Evidence (SA 500, 501, 505, 520, 570 and 580)

SA 500 - Audit Evidence

- Not keeping appropriate audit evidence w.r.t. audit of income taxes, bank reconciliation, and mutual funds (*Para 5(b) and 6*).
- Not maintaining documentation w.r.t. evaluation of the appropriateness of management expert's work as audit evidence for the relevant assertion (*Para 8 of SA 500 read with Para 8 of SA 230*).

SA 501 - Audit Evidence – Specific Considerations for Selected Items

- Not maintaining audit documentation for verification of litigation and claims (*Para 9 read with Para A17-A25 of SA 501*).
- Not obtaining sufficient and appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework (*Para 13*).

SA 505 - External Confirmations

- Not obtaining external confirmation directly from confirming parties (*Para 2*).
- Not obtaining bank balance confirmations directly from the bankers of the auditee (*Para 2 of SA 505 read with Para A31 of SA 500*).
- Not performing external confirmation procedures to:
 - Obtain directly, relevant and reliable audit evidence w.r.t. borrowers & creditors (*Para 2, 5 and 7*).
 - Obtain relevant and reliable audit evidence w.r.t. various bank balances and investments (*Para 7 of SA 505 read with Para A31 of SA 500*).
- Not obtaining and documenting external confirmations for key balances such as loans / advances and deposits, which constitute a material portion of the Balance Sheet (*Para 7*).
- Not carrying out the procedures to obtain external confirmations (*Para 7 to 16*).

SA 520 - Analytical Procedures

- Not maintaining documentation w.r.t the analysis, judgments and conclusions derived from analytical procedures performed to assist in forming an overall conclusion about the financial statements' consistency with the auditor's understanding of the entity (*Para 6 of SA 520 read with Para 8 of SA 230*).

SA 570 - Going Concern

- Not obtaining adequate evidence regarding management's assessment of going concern assumption and lack of documentation of alternative procedures (*Para 6 of SA 570 read with Para 8(c) of SA 230*).
- Not giving a modified opinion w.r.t use of going concern assumption despite existence of material uncertainty due to high NPAs, multiple frauds, RBI regulatory actions, and operational restrictions, and that the financial statements did not adequately disclose this matter (*Para 23*).

SA 580 - Written Representations

- Not obtaining the management representation letter in respect of audit of branches and taking the MRL for the audit of Head Office only (*Para 5(a), 8 and 12*).
- Not obtaining written representations from management regarding access to relevant information and the recording of all transactions as well as the reflection of the same in financial statements (*Para 10*).
- Not obtaining written representations from management and, where applicable, those charged with governance wherever required (*Para 39*).
- Not having management representation letter on the letter head of Bank (*Appendix to SA 580*).

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

SA 600 – Using the Work of Another Auditor

- Not specifying the number/details of branches audited while mentioning reliance on branch auditors' work under "Other Matter" in the audit report (*Para 25 of SA 600 read with Para 39(c) of SA 700*).
- Not including information regarding division of responsibility by indicating the extent to which the financial information of components are audited by the other auditors by way of other matter paragraph in the audit report (*Para 25 of SA 600 read with Illustration 3 of SA 700*).

SA 610 - Using the Work of Internal Auditor

- Not reporting appropriately under the auditor's report with respect to the returns of branches being audited by internal / concurrent auditors of the respective branches that have been consolidated in the financial statements, as the external auditor has sole responsibility for the audit opinion expressed, and such responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement (*Para 11*).
- Not appropriately stating under the qualified opinion paragraph in the independent auditor's report that the returns of branches and extension counter audited by concurrent/internal auditor of the respective branches are incorporated in financial statements (*Para 11*).

SA 620 - Using the Work of an Auditor's Expert

- Not evaluating the adequacy of the auditor's expert's work w.r.t leave encashment (*Para 12*).

Audit Conclusions and Reporting (SA 700, 701, 705, 706, 710 and 720)

SA 700 - Forming an Opinion and Reporting on Financial Statements

- Not mentioning the title indicating that the report is the report of an independent auditor (*Para 21 read with Para A15 of SA 700*).
- Not addressing the auditor's report to the members of the bank / General Body, being the appointing authority, and instead addressing it to the Managing Director (*Para 22 read with Para A16 of SA 700*).
- Not placing the opinion section as the first section of the auditor's report and not placing the "Basis for Opinion" section immediately thereafter (*Para 23 and 28 read with the Illustrative Format given in the Appendix to SA 700*).
- Incorrectly including the cash flow statement in the opinion paragraph of the Independent Auditor's Report even though

Key Takeaways

- ❖ Deficiencies in the presentation and format of the Independent Auditor's Report, including title, addressee, headings and prescribed structure.
- ❖ Inadequate reporting under the "Opinion" section, including incorrect references to financial statements, cash flow statements, applicable clauses and basis of opinion requirements.

the cash flow statement was not prepared by the bank (*Para 24(c)*).

- Incorrectly mentioning clause 7(b) and 7(c) in the opinion paragraph of the auditor's report, although no such clauses exist (*Para 24(d)*).
- Not including management's assessment relating to the entity's ability to continue as a going concern under the "Management's Responsibilities" section of the auditor's report (*Para 34*).
- Not mentioning management's responsibility regarding oversight of the financial reporting process (*Para 34(b) and 35 read with the Illustrative Format given in the Appendix to SA 700*).
- Not giving the heading "Auditor's Responsibilities for the Audit of the Financial Statements" and not including the matters required under the Auditor's Responsibilities section (*Para 37 and Para 38–40 read with the Illustrative Format given in the Appendix to SA 700*).
- Not mentioning the auditor's objective of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issuing an auditor's report that includes the auditor's opinion (*Para 38(a)*).
- Not describing, under the "Auditor's Responsibilities for the Audit of the Financial Statements" section, that reasonable assurance is a high level of assurance but not a guarantee, nor explaining materiality or the nature of misstatements arising from fraud or error (*Para 38(b) and (c)*).
- Not mentioning events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (*Para 39(b)(iv)*).
- Not appropriately describing the audit and the auditor's responsibilities in the auditor's report (*Para 39(b)*).
- Not stating the auditor's responsibility for obtaining an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, under the section "Auditor's Responsibilities for the Audit of the Financial Statements" in the independent auditor's report (*Para 39(b)(ii)*).
- Not including under the "Auditor's Responsibilities" section the matters relating to risk assessment, internal control, accounting policies, going concern, fair presentation and communication with those charged with governance (*Para 39 and 40*).

Key Takeaways

- ❖ Deficiencies in reporting of management responsibilities.
- ❖ Incomplete description of auditor's responsibilities, including audit objectives, reasonable assurance, materiality, fraud and error risks, internal control considerations and professional judgment.
- ❖ Inadequate reporting of communication with Those Charged With Governance, including audit scope, significant findings, independence requirements and other matters.
- ❖ Deficiencies in reporting relating to going concern assessment, including risks and conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- ❖ Incorrect presentation and disclosure of Key Audit Matters, including inappropriate inclusion or reference to KAM requirements.

- Not describing, under the “Auditor’s Responsibilities for the Audit of the Financial Statements” section, that the auditor communicates with those charged with governance regarding
 - the planned scope and timing of the audit, significant audit findings and significant deficiencies in internal control identified during the audit (*Para 40*).
 - compliance with relevant ethical requirements relating to independence and communicates all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, including related safeguards where applicable (*Para 40(a) and (b)*).
- Giving a reference to Key Audit Matters (KAM) under the section “Auditor’s Responsibilities for the Audit of the Financial Statements” in the independent auditor’s report although no Key Audit Matters paragraph was included in the auditor’s report (*Para 40(c) of SA 700 read with Para 11 of SA 701*).
- Not including reference to the relevant states’ Co-operative Societies Act, while stating that the financial statements are drawn up in accordance with the requirements of Section 29 of the Banking Regulation Act, 1949 under the report on Other Legal and Regulatory Requirements (*Para 45 read with Para A55 of SA 700*).
- Giving an unmodified opinion using the phrase “Subject to remarks in clause 7(a), (b) and (c)”, thereby using language suggestive of a conditional or modified opinion (*Para A20*).
- Reporting the matter relating to alternative procedures performed due to COVID-19 under the opinion paragraph instead of the “Emphasis of Matter” paragraph (*Auditor’s Reporting Key Audit Consideration amid COVID-19 issued by AASB of ICAI*).
- Using the designation “Proprietor” instead of “Partner” for the signing partner, though the audit firm is a partnership firm.

Key Takeaways

- ❖ Deficiencies in reporting relating to additional legal and regulatory requirements, including applicable banking laws and regulatory frameworks.
- ❖ Incorrect placement of matters requiring separate reporting sections.
- ❖ Inconsistencies between the auditor’s report and published financial statements, including references to components not forming part of the issued financial statements.
- ❖ Inadequate reporting of matters arising due to exceptional circumstances, including alternative audit procedures and COVID-19 related considerations.

SA 701 - Communicating Key Audit Matters in the Independent Auditor’s Report

- Not providing description on the identified Key Audit Matter (KAM) relating to:
 - Disruptions arising from the COVID-19 pandemic;
 - CBS-related system deficiencies in generation of reports for application of prudential norms for income recognition, asset classification and provisioning pertaining to advances; and
 - Non-acquisition of the necessary software modules pertaining to share capital, dead stock and fixed assets were addressed during the audit, including the aspects of the auditor’s response or approach that were most relevant to the identified risks or specific to the assessed risk of

material misstatement, a brief overview of the audit procedures performed, indications of the outcome of those procedures, and key observations made with respect to the matter (*Para 13(b) read with Para A46*).

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

- Stating under "Other Laws & Regulatory Requirements" that "material instances were noted" without disclosing such matters in the auditor's report or modifying the opinion accordingly (*Para 6 of SA 705 read with Para 8 and 10 of SA 706*).
- Not giving the heading "Qualified Opinion" in the independent auditor's report while expressing a qualified opinion and instead using the heading "Opinion" (*Para 16*).
- Not describing the matter giving rise to the qualified opinion in the "Basis for Qualified Opinion" section of the auditor's report and instead referring to an audit memorandum that was not attached with the audit report (*Para 17 read with Para 24*).
- Not including a "Basis for Qualified Opinion" paragraph immediately following the opinion section describing the matters giving rise to the qualified opinion (*Para 20*).
- Not providing a description and quantification of the financial effect of the misstatement arising from violation of the RBI Master Circular on Interest Rates on Rupee Deposits – Primary (Urban) Co-operative Banks or, where not practicable, not stating that fact in the "Basis for Qualified Opinion" section (*Para 21*).
- Not including under the "Basis for Qualified opinion" the matter relating to upgradation of non-performing accounts by the bank, where arrears were received after the Balance Sheet date, resulting in incorrect classification of accounts and under-provisioning (*Para 21*).

SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- Including information relating to revision of service charges resulting in increase in other receipts in the Emphasis of Matter paragraph in the audit report (*Para 7*).
- Incorrectly including information relating to modified audit procedures due to COVID-19 in the Emphasis of Matter paragraph instead of the Other Matter paragraph in the audit report (*Para 7(b), 10 and 11 of SA 706*).
- Including an Other Matter paragraph that does not pertain to the users' understanding of the audit, the auditor's responsibilities, or the auditor's report, and referring to matters already disclosed in the financial statements or that may constitute a material misstatement requiring modification under SA 705 (*Para 7(b) and 10 of SA 706*).
- Giving Emphasis of Matter paragraph for a situation (modified audit procedures due to COVID-19) which did not have direct impact on financial statements of company, thereby diminishing the effectiveness of the auditor's communication (*Para 8, A5 and A6 of SA 706 read with Auditor's Reporting Key Audit Considerations amid COVID-19 issued by AASB of ICAI*).
- Not providing a clear reference to the matter being emphasized, i.e. increase in share capital, and to where relevant disclosures that fully describe the matter can be found in the financial statements in

the Independent Auditor's Report. Further, the matter was not something for which Emphasis of Matter paragraph should have been given (*Para 8, A5 and A6 of SA 706*).

- Including an Emphasis of Matter paragraph that does not meet the criteria of being fundamental to the users' understanding of the financial statements and not providing a clear reference to the relevant disclosures in the financial statements (*Para 9(b) read with Para A5 and A6 of SA 706 and Questions 5 and 6 of the Implementation Guide on Reporting Standards*).
- Not referring to related disclosures in the financial statements and not stating that the opinion was not modified in the auditor's "Emphasis of Matter" on RBI restrictions (*Para 9(b) and (c) of SA 706*).

SA 710 - Comparative Information – Corresponding Figures and Comparative Financial Statements

- Not including in Other Matter paragraph in the auditor's report the fact that (a) the financial statements of the prior period were audited by the predecessor auditor; (b) the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and (c) the date of that report (*Para 17*).

SA 720 - The Auditor's Responsibilities Relating to Other Information

- Not documenting the discussions with management to determine which documents constituted the annual report, nor including the required reporting under "Other Information" paragraph in the auditor's report (*Para 13*).
- Not including section "Information other than financial statements" in the auditor's report of the bank (*Para 21 read with Para 12(c) and 21(b)*).
- Not keeping the documentation regarding verification of other information in the financial statements and annual report (*Para 25*).

Accounting Standards

The following major observations in respect of Accounting Standards (AS) were noticed in the Audit files reviewed in respect of reviews of UCBs finalized during the year:

AS 1 - Disclosure of Accounting Policies

- Not providing elaborate disclosure in the accounting policy regarding the specific provision for standard assets, including the applicable percentages, though provisions were made as per RBI guidelines (*Para 11*).
- Not disclosing the policy related to cash and cash equivalents under significant accounting policy (*Para 18 of AS 1 read with Para 43 of AS 3*).
- Not disclosing the accounting policy for income tax and deferred tax in the financial statements (*Para 18*).
- Not separately disclosing significant accounting policies and disclosures in the notes to the financial statements, as certain significant accounting policies are merged with notes to the financial statements and vice versa, resulting in lack of clear distinction between significant accounting policies and other disclosures (*Para 18 and 20 of AS 1 read with Para 21 of Framework for the Preparation and Presentation of Financial Statements*).
- Not disclosing the accounting policy in respect of “Long Term Subordinate Debts” as referenced in the notes to the financial statements (*Para 24 and 25*).
- Not mentioning in the accounting policy the treatment adopted for sale of NPAs or that the RBI circular was followed for this purpose, resulting in deficiency in the accounting policy of the bank (*Para 24 of AS 1 read with RBI Circular - RBI/2015-16/44 DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 Master Circular – Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs*).
- Not disclosing that certain expenses are recognised on a cash basis instead of the accrual basis, despite accrual being a fundamental accounting assumption and any deviation from the same requiring specific disclosure (*Para 27*).

Key Takeaways

- ❖ Incomplete disclosure of significant accounting policies.
- ❖ Lack of clear distinction between significant accounting policies and other financial statement disclosures.
- ❖ Non-disclosure of deviations from fundamental accounting assumptions

AS 3 - Cash Flow Statements

- Not preparing the Cash Flow Statement (*Para 1*).
- Including fixed deposits having an original maturity period of more than three months at the time of acquisition as part of cash and cash equivalents in the cash flow statement (*Para 6*).
- Not adjusting the net loss for the effects of non-cash transactions in the cash flow statement (*Para 18(b)*).
- Failure to adjust net profit or loss for non-cash items and changes in working capital while determining cash flows from operating activities. (*Para 20*).

- Not disclosing separately, the impact of exchange rate fluctuation on cash and cash equivalents held in foreign currency within the reconciliation of changes in cash and cash equivalents (*Para 25*).
- Not disclosing separately cash flows arising from taxes on income (*Para 34*).
- Not providing a reconciliation between the components of cash and cash equivalents disclosed in the cash flow statement and the corresponding figures presented in the balance sheet and the relevant schedules (*Para 42*).
- Not disclosing, together with a commentary by management, the amount of significant cash and cash equivalent balances that are not available for use by the entity (*Para 45*).
- Wrongly stating in the notes to the financial statements that the Cash Flow Statement has been prepared using the direct method instead of the indirect method.

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

- Not disclosing separately, the nature and amount of prior period items, in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived (*Para 15*).

AS 9 – Revenue Recognition

- Not mentioning in the accounting policy that interest income is recognised on time proportion basis and instead stating that interest income is recognised on accrual basis in the financial statements (*Para 13(i) of AS 9*).
- Not recognising dividend income when the owner's right to receive payment is established and instead recognising the same on cash basis (*Para 13(ii) and 13(iii) of AS 9*).

AS 10 - Property, Plant and Equipment

- Stating in the significant accounting policy that fixed assets are stated at historical cost instead of at cost less depreciation (*Para 33*).
- Stating in the significant accounting policy that depreciation on the revalued portion of assets is reversed from revaluation reserve and credited to the statement of profit and loss, instead of transferring the revaluation surplus directly to revenue reserves within equity (*Para 44*).
- Not recognizing depreciation expense in the statement of profit and loss and instead recognizing it in the revaluation reserve (*Para 50*).
- Stating in accounting policy that depreciation is not charged on assets sold during the year, instead of charging depreciation till the asset is retired from active use and held for disposal or derecognized (*Para 57*).
- Not providing disclosures relating to property, plant and equipment, including useful lives or depreciation rates, gross carrying value, accumulated depreciation, and reconciliation of movements in the notes to the financial statements (*Para 81*).

Key Takeaways

- ❖ Inadequate disclosure of PPE accounting policies, including depreciation methods and useful lives.
- ❖ Incomplete disclosures relating to PPE balances, movements and reconciliation.
- ❖ Incorrect references to applicable accounting standards

- Not providing details of the depreciation method used and useful lives of assets in the significant accounting policies (*Para 81*).
- Not providing the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment in the notes to the financial statements (*Para 81(e)*).
- Not disclosing the valuation methods and key assumptions used in estimating fair values, and the extent to which such fair values were based on observable market data or alternative valuation techniques (*Para 85(c) and 85(d)*).
- Providing reference to AS 6 instead of AS 10 with respect to revaluation reserve in the notes to the financial statements.

AS 13 - Accounting for Investments

- Incorrectly classifying profit from redemption of mutual funds, including Overnight Mutual Funds, as “Dividend on Mutual Funds” instead of “Profit on Sale/Redemption of Mutual Funds” in the statement of profit and loss (*Para 21 of AS 13*).
- Not disclosing the accounting policy for determination of the carrying amount of investments classified as “Available for Sale” (*Para 35(a) of AS 13*).

AS 15 - Employee Benefits

- Recognising leave encashment on a cash basis (*Para 11 read with Para 13*).
- Treating the Group Gratuity (Cash Accumulation) Policy with the insurance company despite retaining an obligation as a defined contribution plan instead of a defined benefit plan (*Para 42 read with Para 7.14 of AS 15*).
- Not separately disclosing the amount recognised as an expense under the defined contribution plan (*Para 47*).
- Not following actuarial techniques for calculating the obligation of defined benefit plans, namely gratuity and leave encashment (*Para 51 read with Para 65–67 of AS 15*).
- Not recognizing gratuity liability, which is a defined benefit plan, on a net basis (*Para 55*).
- Not disclosing the nature of the gratuity plan as a defined benefit plan (*Para 119 read with Para 120 of AS 15*).
- Not disclosing the accounting policy for recognising actuarial gains and losses (*Para 119 read with Para 120 of AS 15*).
- Not providing actuarial and balance sheet reconciliations reflecting changes in defined benefit obligations and plan assets (*Para 119 read with Para 120 of AS 15*).
- Not providing a detailed breakdown of expense components recognised in the Statement of Profit and Loss relating to defined benefit plans (*Para 119 read with Para 120 of AS 15*).
- Not disclosing information relating to plan assets, key actuarial assumptions, and the use of enterprise-owned assets (*Para 119 read with Para 120 of AS 15*).

Key Takeaways

- ❖ Incorrect recognition and measurement of employee benefit obligations
- ❖ Not disclosing the accounting policy for recognising actuarial gains and losses
- ❖ Incomplete disclosures relating to gratuity

- Not disclosing the best estimate of contributions expected to be paid during the next financial year (*Para 119 read with Para 120 of AS 15*).
- Not disclosing the enterprise's accounting policy for recognising actuarial gains and losses and a general description of the type of plan in the financial statements. (*Para 120(a) and (b)*).
- Not describing in the accounting policy the contribution made to the Pension Scheme, 1995. (*Para 120(b)*).

AS 17 - Segment Reporting

- Not disclosing information for corporate banking and retail banking as reportable segments, despite the segment revenue, segment results, and segment assets of such segments exceeding the prescribed thresholds (*Para 27*).
- Not identifying and disclosing information for each reportable segment, including revenue (external and inter-segment), results, assets, liabilities, capital expenditure, depreciation/amortisation, and other significant non-cash expenses. Further, the accounting policy for segment reporting has not been disclosed in the significant accounting policies adopted by the Bank (*Para 27 read with Para 40 and Para 5.10 read with Para 18 of AS 17*).
- Not disclosing in the notes to the financial statements that there is no reportable segment of the entity (*Para 38*).
- Not disclosing the fact that there is only one 'business segment' and 'geographical segment' by way of a note in the financial statements (*Para 38*).
- Stating in the significant accounting policy that "the bank could not adopt the Accounting Standard 17 due to lack of clarity for identifying the business segments and geographical segments as also due to the absence of uniform disclosure format relevant to the bank", which is not in line with the requirements of AS 17. The Standard mandates that unless the bank has only one reportable business and geographical segment, the relevant disclosures must be made (*Para 38*).
- Not providing segment information despite the applicability of AS 17 to the entity (*Para 39 and 40*).
- Not disclosing segment revenue classified into sales to external customers, inter-segment sales, and transfers; and depreciation, amortisation, and other significant non-cash expenses in the segment information presented in the notes to the financial statements (*Para 40*).
- Not separately disclosing depreciation, amortisation, other non-cash expenses, and reconciliation of segment assets and liabilities while disclosing segment information (*Para 40(f), 40(g), and 46*).

Key Takeaways

- ❖ Non-identification and disclosure of applicable reportable segments
- ❖ Non-disclosure of segment accounting policies
- ❖ Inadequate disclosure of segment information and reconciliation with financial statements

AS 18 - Related Party Disclosures

- Not providing disclosures of related party transactions and outstanding balances for Key Managerial Personnel (KMP) and their relatives (*Para 21–23 read with Para 14 of AS 18*).
- Not disclosing certain related party transactions with respect to non-funded advances (*Para 23 and Para 24*).

AS 19 - Leases

- Not providing the disclosures for operating leases (*Para 25*).
- Not disclosing the following:
 - Details of future minimum lease payments under non-cancellable operating leases, segregated into the periods: not later than one year, later than one year and not later than five years, and later than five years.
 - Lease payments recognised in the statement of profit and loss, nor providing a general description of the significant leasing arrangements (*Para 25(a), 25(c) and 25(e)*).
- Not including in the accounting policy for leases a general description of the lessee's significant leasing arrangements, including the existence and terms of renewal or purchase options and escalation clauses (*Para 25(e)(ii)*).

AS 20 - Earnings Per Share

- Not disclosing basic and diluted earnings per share on the face of the Statement of Profit and Loss for each class of equity shares having different rights to share in the net profit for the period (*Para 8*).
- Not providing reference in the statement of profit and loss to the relevant note containing the earnings per share disclosure (*Para 8*).
- Not using the weighted average number of equity shares as the denominator in calculating basic and diluted earnings per share (*Para 10 read with Para 48(ii)(b)*).
- Not considering time-weighted factors for equity shares issued during the year while calculating earnings per share (*Para 10 read with Para 48(ii)(b)*).
- Not considering the requirements for conversion of equity shares of different nominal values having the same dividend rights into equivalent number of shares while calculating earnings per share (*Para 20*).
- Not disclosing the numerators and denominators used for calculating basic and diluted earnings per share, together with reconciliations to net profit or loss and to each other (*Para 48(ii)(a) and (b)*).

AS 22 - Accounting for Taxes on Income

- Not making provision for capital gains tax liability on profit from redemption of mutual funds, which was incorrectly classified as dividend income (*Para 9 and 10*).
- Not creating deferred tax and not including the same in the determination of net profit or loss, further recognising income tax expense on cash basis (*Para 9, 14 and 15 of AS 22 read with Para 10(c) of AS 1*).
- Not offsetting advance income tax against the provision for taxation despite having a legally enforceable right to offset the amounts and both amounts relating to the same tax authority (*Para 27 and 28*).
- Not disclosing Deferred Tax Asset / Deferred Tax Liability under a separate heading in the balance sheet and instead clubbing the same under "Other Assets" in the notes to the financial statements (*Para 30*).

- Not disclosing the break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances in the notes to the financial statements (*Para 31*).
- Not disclosing the nature of evidence supporting the recognition of deferred tax assets despite the existence of unabsorbed depreciation and carried forward of losses under tax laws (*Para 32*).

AS 29 - Provisions, Contingent Liabilities and Contingent Assets

- Not disclosing a brief description for each class of contingent liability in the notes to the financial statements (*Para 68*).
- Not disclosing the various legal cases pending in different legal forums under contingent liabilities (*Para 68*).

Other Relevant Laws and Regulations

The following major observations in respect of Other Relevant Laws and Regulations were noticed in the Audit files reviewed in respect of reviews of UCBs finalized during the year:

Banking Regulation Act, 1949

- Not preparing the Balance Sheet and the Statement of Profit and Loss in the format prescribed for co-operative banks (*Section 56(s) of the Banking Regulation Act, 1949*).
- Not obtaining the signatures of the chief executive officer, chairman and directors on the statement of accounting policies (*Section 56(s) of the Banking Regulation Act, 1949*).
- Not crediting amounts remaining unclaimed for more than ten years to the Depositor Education and Awareness Fund (*Section 26A(2) of the Banking Regulation Act, 1949*).

The Third Schedule of Banking Regulation Act 1949

- Not providing sub-classification of interest receivables into "overdue" and "bad/doubtful" and instead classifying the same as "on loans and advances" and "on investments" (*Form A*).
- Using the nomenclature "Cash and Bank Balances" instead of "Cash" on the face of the Balance Sheet (*Form A*).
- Not disclosing fixed assets under separate line items, namely "Premises less depreciation", "Furniture less depreciation" and "Other Assets (to be specified)" on the face of the Balance Sheet and instead clubbing them under "Fixed Assets" (*Form A*).
- Not disclosing the face value and market value of investments in Central and State Government securities (*Form A*).
- Not disclosing details of advances, amount due from individuals, under each category, namely short-term, medium-term and long-term advances (*Form A*).
- Not disclosing deposits as per the format prescribed under the Third Schedule of the Banking Regulation Act, 1949 (*Form A*).
- Not disclosing Investments as per the format prescribed under the Third Schedule of the Banking Regulation Act, 1949 (*Form A*).

Key Takeaways

- ❖ Incorrect presentation and classification of balance sheet items, including cash, bank balances, investments, borrowings, deposits, fixed assets and non-banking assets as per the prescribed banking format.
- ❖ Inadequate disclosures relating to investments, including face value, market value, classification and prescribed investment schedules under the Banking Regulation Act, 1949.
- ❖ Deficiencies in classification and disclosure of advances, including sub-classification of advances, overdue and doubtful advances, and amounts due from different categories of borrowers.
- ❖ Incomplete disclosures relating to deposits and borrowings, including source-wise, security-wise classification and prescribed disclosures under the Third Schedule of the Banking Regulation Act, 1949.

- Not providing sub-classification of borrowings by classifying them as borrowings from RBI, SBI, State Government and loans from other sources, along with source and security details (*Form A*).
- Not disclosing source-wise and security-wise classification of borrowings (*Form A read with Section 29 of the Banking Regulation Act, 1949*).
- Incorrectly classifying personal sureties as "Secured" on the face of the Balance Sheet and as "Unsecured" in the respective schedule (*Form A*).
- Not disclosing the mode of valuation for non-banking assets acquired in satisfaction of claims (*Form A read with Section 29 of the Banking Regulation Act, 1949*).
- Not disclosing the amount due from individuals for each class of advances, namely short-term, medium-term and long-term advances (*Form A*).
- Incorrectly classifying fixed deposits under "Cash" instead of under "Balances with Other Banks". (*Form A of the Third Schedule read with Section 29 of the Banking Regulation Act, 1949*).
- Using the nomenclature "Improvements to Premises" for expenditure relating to fixtures and fittings in leasehold premises (*Form A of the Third Schedule read with Section 29 of the Banking Regulation Act, 1949*).
- Not disclosing the market value of investments on the face of the Balance Sheet and disclosing only the book value (*Form A*).
- Not disclosing the sub-classification of advances on the face of the Balance Sheet or in the notes to the financial statements (*Form A*).
- Not presenting the brought forward profit, appropriations and current year's profit in the prescribed format (*Form A*).
- Presenting a negative overdraft balance under borrowings instead of classifying it under cash and bank balances or balances with other banks, as applicable (*Form A*).
- Disclosing contingent assets as contra items to contingent liabilities on the face of the Balance Sheet (*Form A*).
- Presenting overdue interest reserve under "Reserves and Funds" instead of as a separate line item (*Form A*).
- Not disclosing the correct classification of deposits (*Form A*).
- Presenting fixed deposits under investments instead of under balances with other banks (*Form A*).

Key Takeaways

- ❖ Deficiencies in disclosure and presentation of interest-related balances, including interest receivable, interest payable, overdue interest and doubtful interest amounts.
- ❖ Incomplete disclosures relating to share capital, including authorised and subscribed capital, number of shares and denomination of shares.
- ❖ Deficiencies in presentation and disclosure of contingent liabilities, contingent assets and contra items in the financial statements.
- ❖ Inappropriate presentation of fixed assets and non-banking assets, including classification and nomenclature.
- ❖ Non-adherence to prescribed formats under the Third Schedule of the Banking Regulation Act, 1949.
- ❖ Incomplete disclosures relating to profit and loss appropriation, reserves and transfers from previous years' profits.

- Not presenting non-banking assets acquired in satisfaction of claims as a separate line item and not disclosing the mode of valuation thereof (*Form A*).
- Not disclosing the number of shares and denomination of share capital (*Form A*).
- Not disclosing the sub-classification of advances relating to advances considered bad and doubtful on the face of the Balance Sheet (*Form A*).
- Not providing class-wise disclosure of authorized and subscribed share capital in the financial statements (*Form A*).
- Not disclosing interest payable and bills for collection separately under capital and liabilities in the Balance Sheet (*Form A*).
- Not disclosing interest receivable separately under property and assets in the Balance Sheet (*Form A*).
- Not disclosing money at call and short notice separately under property and assets in the Balance Sheet (*Form A*).
- Presenting Overdue Interest Reserve under provisions instead of as a separate line item and not disclosing Interest Receivable relating to overdue and considered doubtful separately (*Form A*).
- Incorrectly disclosing share application money under Schedule 5 of the financial statements, though the nature of the amount was not ascertained (*Third Schedule of the Banking Regulation Act, 1949*).
- Preparing two Balance Sheets, one as per the format prescribed under the Third Schedule and another for internal purposes, which reflect different totals of assets and liabilities. (*Third Schedule of the Banking Regulation Act, 1949*).
- Grouping the debit balance of the statement of profit and loss under reserves and surplus on the liabilities side instead of presenting it separately on the assets side (*Third Schedule of the Banking Regulation Act, 1949*).
- Presenting overdue interest reserve as a contra item of interest receivable and bills for collection as a contra item to bills for collection (*Third Schedule of the Banking Regulation Act, 1949*).
- Using the nomenclature "Profit/Loss on Sale of Assets" instead of "Profit/Loss from sale of or dealing with non-banking assets" (*Form B of the Third Schedule read with Section 29 of the Banking Regulation Act, 1949*).
- Not disclosing details of appropriations made to various reserves from previous year's profits in the Profit and Loss Account. (*Form B*).
- Reporting different figures under "Other Assets" on the face of the Balance Sheet and in the corresponding schedule.
- Showing a debit balance under "Inter Branch Adjustments" as part of "Other Liabilities" in the Balance Sheet.
- Incorrectly disclosing reversal of interest on non-performing assets as "Overdue Interest Reserve on Performing Assets".
- Using the term "General Reserve" to denote provision for frauds.
- Mentioning the amount of amortisation in the deletion column instead of the depreciation/amortisation column in the fixed assets schedule.

- Mentioning the words "Checked & found correct subject to our report of even date" in the signatory portion of the Balance Sheet and the Statement of Profit and Loss.
- Incorrectly stating in the Balance Sheet that non-banking assets acquired in satisfaction of claims are valued below purchase price instead of at cost.
- Disclosing different amounts of non-performing assets in different parts of the financial statements.

RBI Circulars and Guidelines

- Not disclosing the payment of DICGC Insurance Premium (*Para (xiv) of the Annexure to RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014*).
- Not disclosing the following information in notes to the financial statements:
 - Gross NPAs
 - Net NPAs
 - Movement in NPAs i.e., Gross and Net NPAs as on Balance Sheet date for the current year vis-a-vis previous year. Net NPAs should be arrived at after deducting provisions held, interest suspense account etc. in the notes to the financial statements (*RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014*).
- Not disclosing movement in NPAs, details of issuer composition of non-SLR investments, non-performing non-SLR investments and details of investments in the notes to the financial statements (*RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014*).
- Not disclosing the movement in provision for depreciation of investments (*RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014*).
- Not disclosing provision made towards standard assets in notes to the financial statements under significant accounting policies. While the circular does not explicitly specify whether the disclosure should reflect cumulative or current year balances, other parts of the circular require disclosure of movement in provisions comparing the current and previous year, which indicate that disclosures should pertain to the current year. Hence, presenting cumulative balances instead of the current year's provision is not in line with the intended

Key Takeaways

- ❖ Incorrect presentation of financial statements as per the prescribed formats under the Banking Regulation Act, 1949 and applicable RBI guidelines.
- ❖ Incorrect classification, valuation and disclosure of advances, non-performing assets (NPAs), investments, deposits and borrowings resulting in inaccurate financial reporting.
- ❖ Not complying with RBI prudential norms relating to income recognition, asset classification, provisioning requirements and capital adequacy.
- ❖ Insufficient disclosures relating to NPAs, provisioning, investments, regulatory reserves, DEAF balances and other prescribed RBI disclosure requirements.
- ❖ Weaknesses in compliance monitoring, documentation and internal controls relating to regulatory reporting and financial statement preparation.

format (Para (ix) of RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014).

- Not disclosing the movement in Net NPA (Para (ix) of the Annexure to RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Cir. No.52/12.05.001/2013-14 dated March 25, 2014).
- Not disclosing details such as opening balance, amounts transferred during the year, amounts reimbursed by DEAF, and the closing balance with regards to unclaimed liabilities transferred to the Depositor Education and Awareness Fund (DEAF) as “Contingent Liability – Others” in the financial statements (Para 8 of RBI guideline RBI/2013-14/614 DBOD.No.DEAF Cell.BC.114/30.01.002/2013-14 dated May 27, 2014).
- Not including the matter relating to upgradation of non-performing accounts by the bank, where arrears were received after the Balance Sheet date, under the Basis for Qualified Opinion paragraph, resulting in incorrect classification of accounts and under-provisioning (Para 21 of SA 705 read with Para 4.2.5, Para 4.2.6 and Para 5.4 of IRAC Norms issued vide RBI Circular No. RBI/2014-15/74 DBOD.No.BP.BC.9/21.04.047/2014-15 dated July 1, 2014).
- Not disclosing the prescribed information in the notes to the financial statements as mandated for Urban Co-operative Banks having deposits of ₹100 crore or more (RBI Circular No. RBI/2013-14/531 UBD CO BPD (PCB) Circular No.52/12.05.001/2013-14).
- Not reporting in the auditor’s report that the CRAR of the bank is below the minimum requirement prescribed by RBI (Section 27(3) of the Multi-State Cooperative Societies Rules, 2002 read with RBI Circular No. RBI/2015-16/9 DCBR.BPD.(PCB) MC.No.10/09.18.201/2015-16 dated July 1, 2015).
- Not disclosing investments in accordance with the prescribed classification under the significant accounting policy (Para 16.6 of RBI Circular No. RBI/2015-16/43 DCBR.BPD.(PCB).MC.No.4/16.20.000/2015-16 dated July 1, 2015).
- Not clearly specifying the classification of PSU bonds as SLR or non-SLR investments valued on Yield to Maturity (YTM) basis (Para 17.2.3(i) of RBI Circular No. RBI/2015-16/43 DCBR.BPD.(PCB).MC.No.4/16.20.000/2015-16 dated July 1, 2015).
- Not crediting long-outstanding amounts under the One-Time Settlement (OTS) Scheme to the respective non-performing asset accounts and failing to book interest on such amounts, resulting in incorrect asset classification and income recognition (Para 2.2.1 and Para 4.2 of RBI Master Circular No. RBI/2015-16/44 DCBR.BPD.(PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015).
- Not maintaining a documented policy on appropriation of recoveries in non-performing asset accounts, resulting in inconsistency in accounting practices and non-compliance with the requirement for a uniform and consistent appropriation principle (Para 24 of AS 1 read with Annexure 4, Clause 6 of RBI Master Circular No. RBI/2015-16/44 DCBR.BPD.(PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015).
- Not factoring amounts received under the One-Time Settlement (OTS) Scheme into non-performing asset provisioning, despite non-settlement of accounts within the stipulated period, resulting in understatement of provisions and misrepresentation of the financial position (Para 5.1 of RBI Master Circular No. RBI/2015-16/44 DCBR.BPD.(PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015).

- Incorrectly including expired bank guarantees in risk-weighted assets and not risk-weighting differences in the Depositor Education and Awareness Fund account while calculating CRAR, resulting in incorrect Capital to Risk-Weighted Assets Ratio (*RBI Master Circular No. RBI/2015-16/9 DCBR.BPD.(PCB) MC.No.10/09.18.201/2015-16 dated July 1, 2015*).
- Not complying with the requirements relating to Income Recognition and Asset Classification for upgradation of non-performing accounts by bank whose arrears were received after balance sheet date and such accounts were closed after recovery on or before the date of signing audit report, thereby resulting in incorrect classification of accounts as well as under provisioning on such accounts (*Para 4.2.5 and 4.2.6 of RBI guidelines RBI/2015-16/44 DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015*).
- Not complying with the requirement of uniform NPA classification across all member banks unless recovery evidence exists, as the bank's policy stated under advances in accounting policy and notes to the financial statements had classified consortium advances based only on its own recovery record (*Point No. 5 of Annexure – 4 relating to “Clarification on certain Frequently Asked Questions” of RBI Circular No. RBI/2015-16/44 DCBR.BPD (PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015*).
- Not mentioning that debentures are determined on the basis of Yield to Maturity (YTM) in accordance with RBI guidelines (*Para 17.2.3(i) of RBI Circular No. RBI/2015-16/43 DCBR.BPD.(PCB).MC.No.4/16.20.000/2015-16 dated July 1, 2015*).
- Not specifying the nature of investments, i.e., Government Securities, in the accounting policy relating to investments, which states that investments are valued as per RBI directives and methodology suggested by FBIL (*Para 3 of RBI Circular No. RBI/2017-18/146 FMRD.DIRD.7/14.03.025/2017-18 dated March 31, 2018*).
- Incorrectly mentioning under significant accounting policy that profits on sale of Held Till Maturity (HTM) are appropriated to the “Investment Fluctuation Reserve” instead of mentioning that these profits are transferred to “Capital Reserves” (*Para 2 of RBI Circular RBI/2018-19/205 dated June 10, 2019*).
- Not disclosing the required information relating to amounts under moratorium/asset classification benefit, provisions made during the specified periods, and provisions utilized/remaining thereafter (*Para 10(i) to (iv) of RBI Circular No. RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020*).

Other Relevant Act / Rules / Regulations

Co-operative Societies Act and Rules

- Not appropriating the prescribed percentage of net profits towards co-operative research fund and co-operative education fund (*Section 72(1) of the Tamil Nadu Cooperative Societies Act, 1983*).
- Not appropriating the prescribed percentage of net profit towards statutory reserve (*Section 72(2) of the Tamil Nadu Cooperative Societies Act, 1983*).

- Not appropriating the prescribed percentage of net profit towards common good fund (*Section 72(2) of the Tamil Nadu Cooperative Societies Act, 1983 read with Rule 98 of the Tamil Nadu Cooperative Societies Rules, 1988*).
- Incorrectly stating in the auditor's report that branch audit reports of branch audits conducted by other auditors were received and appropriately considered, though all branches were audited by the same auditor (*Section 73(4)(d) of the Multi-State Cooperative Societies Act, 2002*).
- Not including a schedule disclosing information regarding loans granted by the multi-state cooperative society to its board members under the other Reporting Responsibility paragraph of the audit report (*Section 23(3)(d) of the Multi-State Cooperative Societies Rules, 2002 read with Para 43 of SA 700*).
- Not reporting the matters specified under sub-rules (a), (d) and (f) of Rule 27(3) of the Multi-State Cooperative Societies Rules, 2002 under the Report on Other Legal and Regulatory Requirements section of the audit report (*Rule 27(3)(a), (d) and (f) of the Multi-State Cooperative Societies Rules, 2002 read with Para 43 of SA 700*).
- Not including the requisite schedules in the audit report containing relevant particulars and auditor's comments thereon (*Rule 27(3) of the Multi-State Cooperative Societies Rules, 2002*).
- Not reporting the matters required under other report and regulatory requirements section of the audit report (*Rule 69(6) of Maharashtra Cooperative Societies Rules, 1961*).

Others

- Not documenting the calculations of liability towards gratuity and leave encashment, in audit file (*Para 29 of Guidance Note on Audit of Expenses read with SA 230*).
- Not using a consistent unit of measurement throughout the financial statements (*Para 39 of the Framework for the Preparation and Presentation of Financial Statements*).
- Not disclosing comparative figures in certain notes to the financial statements (*Para 39 and Para 42 of the Framework for the Preparation and Presentation of Financial Statements*).
- Not generating a Unique Document Identification Number (UDIN) for the financial statements (*ICAI UDIN Guidelines dated 1 July 2019 read with Clause I of Part II of the Second Schedule to the Chartered Accountants Act, 1949*).
- Not generating a separate Unique Document Identification Number (UDIN) for each branch audit report issued by the auditor (*Council Guidelines on UDIN published vide Notification No. 1-CA(7)/192/2019 dated 2 August 2019*).
- Not disclosing the information relating to Micro, Small and Medium Enterprises in the financial statements (*Section 22 of the MSME Act, 2006*).

Key Takeaways

- ❖ Non-disclosures w.r.t MSME dues, comparative information, unit of measurement and other applicable financial reporting requirements.
- ❖ Non-adherence to regulatory requirements, including generation of UDIN, signing requirements and compliance with professional guidelines.

Matters of General Guidance for Audit Firms

1. Standards on Auditing		
a.	Standard on Quality Control (SQC)-1	While reviewing and updating the audit firm's policies and procedures, reference to the Implementation guide to SQC-1 issued by ICAI may be referred at: https://resource.cdn.icai.org/20913frpubcd_aasb1.pdf
b.	Planning, Risk Assessment and Response to Assessed Risks	Checklist on Standards on Auditing issued by ICAI may be referred at: https://resource.cdn.icai.org/74466aasb60406.pdf
c.	Audit Documentation	- Audit Working Paper Templates issued by ICAI may be referred at: https://resource.cdn.icai.org/75000aasb60542a.pdf - Implementation Guide to Standard on Auditing (SA) 230, Audit Documentation issued by ICAI may be referred at: https://resource.cdn.icai.org/72414aasb58321.pdf - Checklist on Standards on Auditing issued by ICAI may be referred at: https://resource.cdn.icai.org/74466aasb60406.pdf
d.	Audit Evidence	Checklist on Standards on Auditing issued by ICAI may be referred at: https://resource.cdn.icai.org/74466aasb60406.pdf
e.	Audit Conclusions and Reporting	- Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and Revised SA 706) issued by ICAI may be referred at: https://resource.cdn.icai.org/50035aasb39630.pdf - Checklist on Standards on Auditing issued by ICAI may be referred at: https://resource.cdn.icai.org/74466aasb60406.pdf
2. Accounting Standards/Ind ASs		
a.	Accounting Standards/ Ind ASs	Various disclosure requirements of the applicable accounting framework viz. AS/ Ind AS, should be appropriately complied with. Ind AS disclosure checklist issued by ICAI may be referred at: https://www.icai.org/post/technical-guides-and-other-materials

3. Other Relevant Laws & Regulations

a.	CARO	Guidance Note on the Companies (Auditor's Report) Order, 2020 (Revised 2022 Edition) issued by ICAI may be referred at: https://resource.cdn.icai.org/70956aasb56965.pdf
b.	Schedule III of the Companies Act, 2013	- Guidance Note on Division I - Non Ind AS Schedule III to the Companies Act 2013/ Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013 issued by ICAI may be referred at: https://resource.cdn.icai.org/68981clcg55147-gnd1.pdf https://resource.cdn.icai.org/68982clcg55147-gnd2.pdf - Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities issued by ICAI may be referred at: https://resource.cdn.icai.org/38254asb27888csr.pdf

Annex A

Number of observations and percentage of AFURs having observations on Engagement and Quality control standards in reviews conducted w.r.t Private Limited Companies:

Engagement and Quality control standards	Number of Observations	Number of AFURs having Observations	Percentage of AFURs to Total AFURs (Total AFURs =37)
SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	72	21	57%
SA-200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	1	1	3%
SA-220 Quality Control for an Audit of Financial Statements	5	4	11%
SA-230 Audit Documentation	37	17	46%
SA-240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	4	2	5%
SA-260 Communication with Those Charged with Governance	5	5	14%
SA-300 Planning an Audit of Financial Statements	10	3	8%
SA-315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment	10	3	8%
SA-320 Materiality in Planning and Performing an Audit	8	8	22%

SA-330 The Auditor's Responses to Assessed Risks	4	4	11%
SA-450 Evaluation of Misstatements Identified During the Audit	2	1	3%
SA-500 Audit Evidence	3	3	8%
SA-501 Audit Evidence – Specific Considerations for Selected Items	5	4	11%
SA-505 External Confirmations	17	15	41%
SA-510 Initial Audit Engagements – Opening Balances	1	1	3%
SA-520 Analytical Procedures	1	1	3%
SA-530 Audit Sampling	5	5	14%
SA-540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	3	2	5%
SA-550 Related Parties	5	5	14%
SA-560 Subsequent Events	1	1	3%
SA-570 Going Concern	2	2	5%
SA-580 Written Representations	1	1	3%
SA-610 Using the Work of Internal Auditors	9	7	19%
SA-620 Using the Work of an Auditor's Expert	1	1	3%
SA-700 Forming an Opinion and Reporting on Financial Statements	36	14	38%
SA-701 Communicating Key Audit Matters in the Independent Auditor's Report	6	6	16%
SA-705 Modifications to the Opinion in the Independent Auditor's Report	1	1	3%
SA-706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	2	2	5%

SA-710 Comparative Information – Corresponding Figures and Comparative Financial Statements	1	1	3%
SA-720 The Auditor's Responsibilities in Relation to Other Information in Documents containing Audited Financial Statements	5	5	14%

Annex B

Number of observations and percentage of Entities having observations on Accounting Standards (AS) and Indian Accounting Standards (Ind AS) in reviews conducted w.r.t Private Limited Companies:

Accounting Standards	Number of Observations	Number of Entities Having Observations	Percentage of Entities to Total Entities (Total = 41)
AS-1 Disclosure of Accounting Policies	11	9	22%
AS-2 Valuation of Inventories	10	8	20%
AS-3 Cash Flow Statements	25	15	37%
AS-4 Contingencies and Events Occurring After the Balance Sheet Date	1	1	2%
AS-5 Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies	4	4	10%
AS-9 Revenue Recognition	8	6	15%
AS-10 Property, Plant and Equipment	10	9	22%
AS-11 The Effects of Changes in Foreign Exchange Rates	5	4	10%
AS-12 Accounting for Government Grants	3	3	7%
AS-13 Accounting for Investments	7	5	12%
AS-15 Employee Benefits	19	13	32%
AS-16 Borrowing Cost	1	1	2%
AS-17 Segment Reporting	4	4	10%
AS-18 Related Party Disclosures	8	6	15%

AS-19 Leases	1	1	2%
AS-20 Earnings Per Share	5	5	12%
AS-21 Consolidated Financial Statements	1	1	2%
AS-22 Accounting for Taxes on Income	12	10	24%
AS-26 Intangible Assets	8	6	15%
AS-29 Provision, Contingent Liabilities and Contingent Assets	3	3	7%

Indian Accounting Standards (Ind AS)	Number of Observations	Number of Entities Having Observations	Percentage of Entities to Total Entities (Total = 41)
Ind AS-1 Presentation of Financial Statements	13	9	22%
Ind AS-7 Statement of Cash Flows	11	10	24%
Ind AS-8 Accounting Policies, Changes in Accounting Estimates and Errors	2	2	5%
Ind AS-12 Income Taxes	8	2	5%
Ind AS-16 Property, Plant and Equipment	3	3	7%
Ind AS-19 Employee Benefits	6	3	7%
Ind AS-21 The Effects of Changes in Foreign Exchange Rates	1	1	2%
Ind AS-23 Borrowing Costs	2	2	5%
Ind AS-24 Related Party Disclosures	9	6	15%
Ind AS-33 Earnings per Share	1	1	2%
Ind AS-36 Impairment of Assets	1	1	2%

Ind AS-40 Investment Property	2	1	2%
Ind AS-101 First-time Adoption of Indian Accounting Standards	1	1	2%
Ind AS-107 Financial Instruments: Disclosures	15	4	10%
Ind AS-108 Operating Segments	3	3	7%
Ind AS-109 Financial Instruments	3	3	7%
Ind AS-110 Consolidated Financial Statements	1	1	2%
Ind AS-112 Disclosure of Interests in Other Entities	1	1	2%
Ind AS-113 Fair Value Measurement	3	3	7%
Ind AS-115 Revenue from Contracts with Customers	17	10	24%
Ind AS-116 Leases	3	1	2%

Annex C

Number of observations and percentage of Entities having observations on Other Relevant Laws and Regulations in reviews conducted w.r.t Private Limited Companies:

Other Relevant Laws and Regulations	Number of Observations	Number of Entities Having Observations	Percentage of Entities to Total Entities (Total = 41)
Companies Act, 2013	17	12	29%
Schedule III (Div. I & II) of the Companies Act, 2013	182	32	78%
CARO, 2016 / 2020	88	30	73%
Others	48	22	54%

Annex D

Number of observations and percentage of AFURs having observations on Engagement and Quality control standards in reviews conducted w.r.t Urban Co-operative Banks:

Engagement and Quality control standards	Number of Observations	Number of AFURs having Observations	Percentage of AFURs to Total AFURs (Total AFURs =17)
SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	17	6	35%
SA-200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	2	2	12%
SA-210 Agreeing the Terms of Audit Engagements	4	2	12%
SA-220 Quality Control for an Audit of Financial Statements	3	2	12%
SA-230 Audit Documentation	24	8	47%
SA-240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	4	4	24%
SA-260 Communication with Those Charged with Governance	3	3	18%
SA-299 Joint Audit of Financial Statements	8	2	12%
SA-300 Planning an Audit of Financial Statements	2	2	12%
SA-315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment	2	2	12%

SA-320 Materiality in Planning and Performing an Audit	4	4	24%
SA-330 The Auditor's Responses to Assessed Risks	2	2	12%
SA-500 Audit Evidence	3	3	18%
SA-501 Audit Evidence – Specific Considerations for Selected Items	2	2	12%
SA-505 External Confirmations	7	7	41%
SA-520 Analytical Procedures	1	1	6%
SA-570 Going Concern	3	2	12%
SA-580 Written Representations	5	5	29%
SA-600 Using the Work of Another Auditor	2	2	12%
SA-610 Using the Work of Internal Auditors	2	2	12%
SA-620 Using the Work of an Auditor's Expert	1	1	6%
SA-700 Forming an Opinion and Reporting on Financial Statements	53	16	94%
SA 701 Communicating Key Audit Matters in the Independent Auditor's Report	3	1	6%
SA-705 Modifications to the Opinion in the Independent Auditor's Report	8	4	24%
SA-706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	7	3	18%
SA-710 Comparative Information – Corresponding Figures and Comparative Financial Statements	1	1	6%
SA-720 The Auditor's Responsibilities in Relation to Other Information in Documents containing Audited Financial Statements	4	4	24%

Annex E

Number of observations and percentage of Entities having observations on Accounting Standards (AS) in reviews conducted w.r.t Urban Co-operative Banks:

Accounting Standards	Number of Observations	Number of Entities Having Observations	Percentage of Entities to Total Entities (Total = 16)
AS-1 Disclosure of Accounting Policies	8	6	38%
AS-3 Cash Flow Statements	15	10	63%
AS-5 Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies	2	2	13%
AS-9 Revenue Recognition	4	4	25%
AS-10 Property, Plant and Equipment	14	9	56%
AS-13 Accounting for Investments	2	2	13%
AS-15 Employee Benefits	13	11	69%
AS-17 Segment Reporting	10	9	56%
AS-18 Related Party Disclosures	4	3	19%
AS-19 Leases	3	3	19%
AS-20 Earnings Per Share	12	9	56%
AS-22 Accounting for Taxes on Income	10	6	38%
AS-29 Provision, Contingent Liabilities and Contingent Assets	2	2	13%

Annex F

Number of observations and percentage of Entities having observations on Other Relevant Laws and Regulations in reviews conducted w.r.t Urban Co-operative Banks:

Other Relevant Laws and Regulations	Number of Observations	Number of Entities Having Observations	Percentage of Entities to Total Entities (Total = 16)
Schedule III – Banking Regulation Act, 1949	51	11	69%
RBI Circulars and Guidelines	35	9	56%
Others	20	10	63%

Annex G

Meetings Organised during FY 2025-26

The details of meetings held during the financial year 2025-26 of the Quality Review Board, constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949, and various Groups/Sub-Committees constituted by the Board are as follows:

Quality Review Board

1. 80th meeting of the Quality Review Board held on 31st July, 2025 at premises of ICAI Bhawan, Indraprastha Marg, New Delhi and via video-conferencing.
2. 81st meeting of the Quality Review Board held on 15th October, 2025 at premises of ICAI Bhawan, Indraprastha Marg, New Delhi and via video-conferencing.
3. 82nd meeting of the Quality Review Board held on 22nd January, 2026 at premises of ICAI Bhawan, Sector-I, Noida and via video-conferencing.
4. 83rd meeting of the Quality Review Board held on 27th March, 2026 at premises of ICAI Bhawan, Indraprastha Marg, New Delhi and via video-conferencing.

Quality Review Group-I

5. 67th meeting of the Quality Review Group-I, constituted by the QRB, held on 28th August, 2025 via video-conferencing.
6. 68th meeting of the Quality Review Group-I, constituted by the QRB, held on 18th December, 2025 via video-conferencing.

Quality Review Group-II

7. 6th meeting of the Quality Review Group-II, constituted by the QRB, held on 25th June, 2025 via video-conferencing.
8. 7th meeting of the Quality Review Group-II, constituted by the QRB, held on 23rd September, 2025 via video-conferencing.
9. 8th meeting of the Quality Review Group-II, constituted by the QRB, held on 16th January, 2026 via video-conferencing.
10. 9th meeting of the Quality Review Group-II, constituted by the QRB, held on 18th March, 2026 via video-conferencing.

Sub-Committee-I

11. 29th meeting of the Sub-Committee-I, constituted by the QRB, held on 30th May, 2025 via video-conferencing.
12. 30th meeting of the Sub-Committee-I, constituted by the QRB, held on 8th January, 2026 via video-conferencing.

Expert Group

13. 3rd meeting of the Expert Group, constituted by the QRB held on 20th November, 2025 at premises of ICAI Bhawan, Indraprastha Marg, New Delhi and via video-conferencing.

Audit Committee of QRB

14. 14th meeting of Audit Committee of QRB held on 30th September, 2025 via video-conferencing.

Annexure I

Composition of the Board during the Year 2025 - 26

The composition of the Quality Review Board during the year 2025-26, established under the Chartered Accountants Act, 1949 consists of the following:

Nominees of the Central Government

1. Ms. Meenakshi Gupta, IAAS (Retd.), New Delhi - Chairperson (wef 30.06.2025)
2. Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam - Member (wef 30.06.2025)
3. Mr. Inder Deep Singh Dhariwal, Joint Secretary, Ministry of Corporate Affairs, Government of India, New Delhi – Member (wef 30.09.2022)
4. Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai - Member (wef 12.10.2023)
5. Mr. Deepak Kapoor, Director General (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Member (wef 29.11.2022)
6. Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi - Member (wef 30.06.2025)
7. Mr. Rajesh Kumar Bhoot, Joint Secretary (FT&TR)-II, CBDT, Ministry of Finance, Government of India, New Delhi - Member (wef 12.10.2023)

Nominees of the Council of the ICAI

8. CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member (w.e.f. 24.08.2023)
9. CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member (w.e.f. 24.08.2023)
10. CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member (w.e.f. 24.08.2023)
11. CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member (w.e.f. 24.08.2023)
12. CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member (w.e.f. 24.08.2023)

Special Invitees

- Mr. Chandra Wadhwa, New Delhi – Special invitee (nominated by the Central Government w.e.f. 10.06.2016)
- CA. (Dr.) Jai Kumar Batra, Secretary, ICAI – Special invitee

Secretary to the Board

- CA. Aakanksha Khanna Kapoor, Joint Director, ICAI

Annexure II

Composition of Sub-Committees/Groups of the Quality Review Board during the Year 2025 - 26

The composition along with terms of reference of various Sub-committees/Groups constituted by the Quality Review Board during the year 2025-26 is as follows:

A. Quality Review Group -I (QRG-I)

Terms of Reference:

QRG-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:

- Review the quality of audit services of audit firms, selected by the QRB, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

Composition:

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the C&AG, New Delhi – Convenor (wef 30.06.2025)
- Mr. Deepak Kapoor, Director General (Commercial-II), Office of the C&AG, New Delhi – Convenor (Upto 29.06.2025)
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- Secretary, QRB to provide necessary secretarial support.

B. Quality Review Group -II (QRG-II)

Terms of Reference:

- QRG-II may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:
- Review the quality of audit services of audit firms, selected by the QRB, in respect of the cases placed before QRG-II, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other

necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.

- Perform such other functions as may be requested by the QRB from time to time.

Composition:

- Mr. Rajesh Kumar Bhoot, Pr. Commissioner of Income Tax (FT&TR)-II, CBDT, Ministry of Finance, New Delhi – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam - Member
- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member
- CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member
- Secretary, QRB to provide necessary secretarial support.

C. Sub-Committee-I

Terms of Reference:

Sub-Committee-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board for its further consideration:

- Recommend selection of Audit firms for quality review of their audit services and allotment of quality review work to the Technical Reviewers.
- Recommend Technical Reviewer/s that may be empanelled with the Quality Review Board and suggest measures as may be considered appropriate to further broaden the panel and issues connected therewith.
- Recommend industry specific experts, if required, for associating with the Quality Review Board.
- Look into all the issues arising from time to time relating to eligibility of Technical Reviewers to perform Quality Review assignments and the Sub-Committee could take appropriate decisions which may later on be informed to the Board for noting.
- Perform such other functions as may be prescribed from time to time.

Composition:

- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam - Member
- CA. Abhay Chhajed, Central Council Member, ICAI, Bhopal – Member
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai– Member
- Secretary, QRB to provide necessary secretarial support.

D. Audit Committee of QRB

Terms of Reference:

- To consider audit report and financial statements of Quality Review Board (QRB) and recommend to QRB adoption of the financial statements.
- To recommend to QRB appointment /re-appointment of Auditors of the QRB and their audit fees.

Composition:

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the C&AG, New Delhi – Convenor (wef 30.06.2025)
- Mr. Deepak Kapoor, Director General (Commercial-II), Office of the C&AG, New Delhi – Convenor (upto 29.06.2025)
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- The Audit Committee is further authorized to invite Auditor of the QRB
- Secretary, QRB to provide necessary secretarial support.

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

Terms of Reference:

Group may perform, inter alia, the following functions and submit its recommendations for further consideration by the Quality Review Board:

- Keeping in view the experience gained during the process of reviews being carried out by the QRB, changes to the domestic regulatory framework for audit oversight as well as international practices and requirements for audit oversight, undertake holistic examination of the various aspects of reviews and make recommendations to the Quality Review Board, from time to time, for suggesting appropriate amendments, if required, to the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB.
- Update, from time to time, the Technical Guide on Conducting Quality Reviews for the guidance of Technical Reviewers.
- Perform such other functions as may be prescribed from time to time.

Composition:

- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Convenor
- CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member
- Mr. Rajesh Kumar Bhoot, Joint Secretary (FT&TR)-II, CBDT, Ministry of Finance, New Delhi – Member
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam - Member
- Secretary, QRB to provide necessary secretarial support.

Glossary

AFUR	Audit Firm Under Review
AGM	Annual General Meeting
AS	Accounting Standard
CA	Chartered Accountant
C&AG	Comptroller & Auditor General of India
CARO	Companies Auditor's Report Order
CCM	Central Council Member
CIF	Cost, Insurance and Freight
CSR	Corporate Social Responsibility
CS	Company Secretary
EOM	Emphasis of Matter
EPS	Earnings Per Share
EQCR	Engagement Quality Control Review
ESOP	Employees Stock Ownership Plan
FCNR	Foreign Currency Non-Resident
FMCG	Fast Moving Consumer Goods
FOB	Free On Board
FRRB	Financial Reporting Review Board
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GST	Goods and Services Tax
HR	Human Resources
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Company Secretaries of India
IEPF	Investor Education and Protection Fund
Ind AS	Indian Accounting Standards
IRS	Indian Revenue Services
IT	Information Technology
MAT	Minimum Alternate Tax
MSMED Act	Micro, Small and Medium Enterprises Development Act
NFRA	National Financial Reporting Authority
OCI	Other Comprehensive Income
PIE	Public Interest Entity
QRB	Quality Review Board

QRG	Quality Review Group
RBI	Reserve Bank of India
SA	Standard on Auditing
SEBI	Securities and Exchange Board of India
SOP	Standard Operating Procedure
SQC	Standard on Quality Control
TCWG	Those Charged With Governance
TR	Technical Reviewer
UCBs	Urban Cooperative Banks
UDIN	Unique Document Identification Number
W.e.f.	With effect from
W.r.t	With respect to

क्यूआरबी के बारे में

चार्टर्ड एकाउंटेंट्स अधिनियम, 1949 की धारा 28A के अंतर्गत प्रदत्त शक्तियों का प्रयोग करते हुए, भारत की केंद्र सरकार ने 28 जून, 2007 की अधिसूचना संख्या जीएसआर 448 (ई) द्वारा एक क्वालिटी रिव्यू बोर्ड (क्यूआरबी) का, देश में चार्टर्ड एकाउंटेंट्स द्वारा प्रदान की जाने वाली सेवाओं की गुणवत्ता की समीक्षा करने के लिए, एक स्वतंत्र निकाय के रूप में गठन किया। यह एक मजबूत व्यवस्था है जहाँ केंद्र सरकार अध्यक्ष और पाँच सदस्यों को नामित करती है। सदस्यों को कानून, अर्थशास्त्र, व्यवसाय, वित्त या लेखा के क्षेत्र में अनुभव रखने वाले प्रतिष्ठित व्यक्तियों में से नामित किया जाता है। आईसीएआई अन्य पाँच सदस्यों को नामित करता है। क्यूआरबी के अधिकांश सदस्य पेशे से स्वतंत्र हैं। वित्त वर्ष 2012-13 से, क्यूआरबी ने भारत में ऑडिट फर्मों की वैधानिक ऑडिट सेवाओं की स्वतंत्र समीक्षा की एक अलग और मजबूत प्रणाली को औपचारिक रूप दिया है। अधिक जानकारी के लिए, कृपया देखें www.qrbca.in

About QRB

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