

CA FINAL PAPER 3 ADVANCED AUDITING & PROFESSIONAL ETHICS

UPDATES FOR MAY 2021 via ICAI Study Material for May 2021

Compiled by CA Sanidhya Saraf

KEY TOPICS UPDATED FOR MAY 2021

- CARO ,2020
- CODE OF ETHICS 2020 (OVERVIEW) & Professional Ethics Additions
- PEER REVIEW
- QUALITY REVIEW (New Syllabus Only)
- MISCELLANEOUS Topics (Companies Amendment Act,2020,NBFCs ,GST Audit, Tax Audit)

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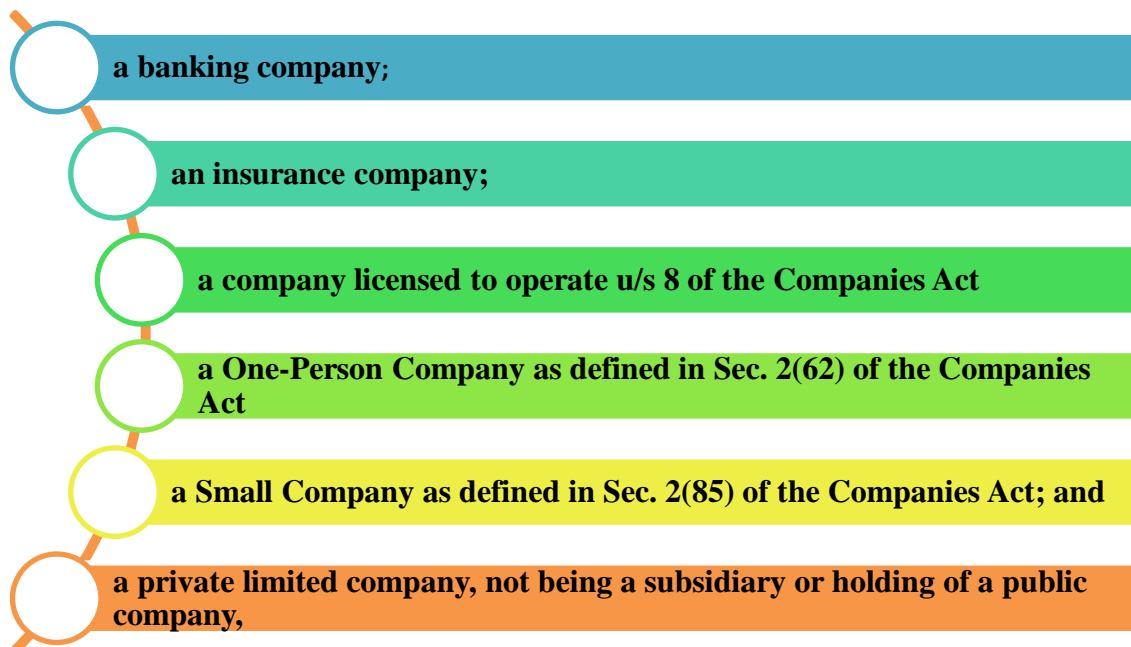
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1. Reporting Under CARO, 2020

In exercise of the powers conferred by section 143(11) of the Companies Act, 2013, the Central Government, after consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013, has issued the Companies (Auditor's Report) Order, 2020, (CARO, 20) dated 25th February 2020. Its applicability is from **FY 2020-21 onwards**.

1. Applicability of Companies (Auditor Report) Order, 2020

The CARO, 2020 is an additional reporting requirement. **The order applies to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013.** However, the Order specifically **exempts the following classes of companies:**



- having a Paid-up capital & Reserves & Surplus **not more than ₹1 Cr. as on the balance sheet date, and**
- which does not have total borrowings **exceeding ₹1 Cr.** from any bank or financial institution **at any point of time during the financial year, and**
- which does not have a **total revenue** as disclosed in Schedule III to the Companies Act, 2013 (including revenue from discontinuing operations) **exceeding ₹10 Cr. during the financial year** as per the financial statements.

Important points to be remembered while studying applicability of CARO 2016

1. This order is an order on the auditor's of the company.
2. CARO is not applicable to Audit Report of Consolidated Financial Statement.
3. CARO is applicable to Branch Auditor's.
4. NBFC's are not exempted from applicability of CARO.
5. Private Limited Companies are also not exempted from the purview of CARO.
6. While computing Paid up Share Capital for the applicability of CARO, the following points must be kept in mind:
 - To be exempt from applicability of CARO, a Private Limited Company should have Paid up Capital and Reserves & Surplus not more than 1 crore as on Balance Sheet Date.
 - Paid up share capital includes Equity Share Capital and Preference Share Capital.
 - Share application money is not considered part of capital.
 - While calculating Paid up Capital, amount of calls unpaid should be deducted therefrom, and amount originally Paid-up on Forfeited Shares should be added to the figure of Paid-Up Capital.

Definitions of PSC:

- a) **Sec.2(64): "Paid –Up Capital"** means aggregate amount of money credited as paid-up is equivalent to the amount received as paid up in respect of Shares issued. It also includes any amount credited as paid up in respect of shares of the Company.
 - b) **ICAI Guidance Note:** Paid –Up Share Capital means that part of the Subscribed Share Capital for which consideration in Cash or otherwise has been received. This includes Bonus Shares allotted by the Corporate Enterprises.
7. While computing **Borrowings** for the applicability of CARO , the following points must be kept in mind:
 - To be exempt from applicability of CARO, a Private Limited Company should have Borrowings not more than 1 crore at any point of time during the Financial Year.
 - All types of Borrowings from Banks and Financial Institution are to be considered . (**Short Term, Long Term ,Overdraft facility, Cash Credit, Dues in respect of credit card etc.**)
 - The term "Banks" includes Private Banks and Foreign Banks also as per Banking Regulations Act, 1949.
 - The term "Financial Institution" used in CARO includes a Scheduled Bank and NBFC's.

8. While computing Total Revenue for the applicability of CARO , the following points must be kept in mind:

- To be exempt from applicability of CARO, a Private Limited Company should

have Revenue as per Schedule 3 not more than 10 crores at any time during the Financial Year.

- The term “Revenue” shall include not only Sale of goods and services but also include other incomes like sale of scrap, interest on investment etc.
- All sales returns are to be deducted from Sales for the purpose of CARO and Tax Audit.
- Indirect Taxes are to be included in Revenue as Sales if inclusive method of accounting are to be followed and not to be included if exclusive method of accounting is followed. {If question is silent, assume that exclusive method of accounting is followed.}

2. Auditor's report to contain matters specified in paragraphs 3 and 4 -

Every report made by the auditor u/s 143 of the Companies Act, 2013 on the accounts of every company examined by him to which this Order applies for the financial years commencing on or after 1st April 2020, shall contain the matters specified in paragraphs 3 and 4, as may be applicable.

The Order shall not apply to the auditor’s report on consolidated financial statements except Para 3(xxi).

3. Matters to be included in the auditor's report

The auditor's report on the accounts of a company to which this Order applies shall include a statement on the following matters, namely:-

Sr.no.	Details	
[Para 3(i) Property, Plant and Equipment]	Adequacy of Records	(a) (A) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. (B) whether the company is maintaining proper records showing full particulars of intangible assets;
	Physical verification	(b) whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals ; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;
	Title Deeds	(c) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held - indicate range, where appropriate	Reason for not being held in name of company*
-	-	-	-	-	*also indicate if in dispute

	Revaluation of Property, Plant and Equipment	(d) whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;
	Proceedings, if any against the company for holding Benami Property	(e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;
[Para 3(ii)] Inventories	Physical Verification	(a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.
	Working Capital Limit	(b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹5 crore, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such

		banks or financial institutions are in agreement with the books of account of the Company, if not, give details.
[Para 3(iii)] Investments, Guarantee / Security, Loans or Advances		(iii)whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured , to companies, firms, Limited Liability Partnerships or any other parties, if so,-
		(a)whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate- (A) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates; (B)the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;
		(b) Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
		(c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
		(d) if the amount is overdue, state the total amount overdue for more than ninety days , and whether reasonable steps have been taken by the company for recovery of the principal and interest.
		(e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the

		same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];
		(f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013.
Para 3(iv) Compliance of provisions of Sec. 185 & 186		(iv) in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof.
[Para 3(v)] Public Deposits		(v) in respect of deposits accepted by the company or amounts which are deemed to be deposits , whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;
[Para 3(vi)] Cost Records		Whether maintenance of cost records has been specified by the CG u/s 148(1) of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.
[Para 3(vii)] Statutory Dues		(a) Whether the company is regular in depositing undisputed statutory dues including Goods and Service Tax , provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and

		<p>any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than 6 months from the date they became payable, shall be indicated.</p> <p>(b) Where statutory dues referred above have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.</p> <p>(A mere representation to the concerned Department shall not be treated as a dispute).</p>				
Para 3(viii) Unrecorded Income		<p>(viii) whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;</p>				
Para 3(ix) Repayment of Dues.		<p>(ix) (a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-</p>				
<i>Nature of borrowing, including debt securities</i>	<i>Name of lender*</i>	<i>Amount not paid on due date</i>	<i>Whether principal or interest</i>	<i>No. of days delay or unpaid</i>	<i>Remarks, if any</i>	
	<i>*lender-wise details to be provided in case of defaults to banks, financial institutions and Government.</i>					
		<p>(b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;</p> <p>(c) whether term loans were applied for the purpose</p>				

		<p>for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;</p> <p>(d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;</p> <p>(e) whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;</p> <p>(f) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;</p>
Para 3(x) Application of Money raised by public issue and preferential allotment	Application of Money raised by public issue	(x)(a) whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
	Preferential allotment	(b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially, or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance.
[Para 3(xi)] Fraud		<p>(xi)(a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.</p> <p>(b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by</p>

		<p>the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government.</p> <p>(c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.</p>
Para 3(xii) Nidhi Companies		<p>(xii)(a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability.</p> <p>(b) whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.</p> <p>(c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.</p>
Para 3(xiii) Transactions with related Parties		<p>(xiii) whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;</p>
Para 3(xiv) Internal Audit System		<p>(xiv) (a) whether the company has an internal audit system commensurate with the size and nature of its business.</p> <p>(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;</p>
Para 3(xv) Non cash transactions with directors		<p>(xv) whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.</p>
Para 3(xvi) Registration. with RBI		<p>(xvi) (a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained.</p> <p>(b) whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934.</p>

		<p>(c) whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.</p> <p>(d) whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group.</p>
Para 3(xvii) Cash Losses		(xvii) whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;
Para 3(xviii) Considerations of issues raised by outgoing auditor		(xviii) whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;
Para 3(xix) Existence of Material uncertainty as to company ability to meet its liabilities		(xix) on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;
Para 3(xx) Transfer of unspent CSR amount		<p>(xx) (a) whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act.</p> <p>(b) whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act.</p>

<p>Para 3(xxi) Qualifications or adverse remarks in CARO Reports of group companies</p>	<p>(xxi) whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.</p>
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4. Reasons to be stated for unfavourable or qualified answers-

- (a) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is **unfavourable or qualified**, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.
- (b) Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

Questions on CARO 2020

1. Physical verification of only 30% (in value) of items of inventory has been conducted by the company. The balance 70% will be conducted in next year due to lack of time and resources.

Reporting for Physical Verification of Inventory: clause (ii) of Para 3 of CARO, 2020 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate. What constitutes "reasonable intervals" depends on circumstances of each case. The periodicity of the physical verification of inventories depends upon the nature of inventories, their location and the feasibility of conducting a physical verification. The management of a company normally determines the periodicity of the physical verification of inventories considering these factors. Normally, wherever practicable, all the items of inventories should be verified by the management of the company at least once in a year. The auditor in order to satisfy himself about verification at reasonable intervals and about coverage and procedures applied, should examine the adequacy of evidence and records of verification.

In the given case, the management conducted the physical verification of inventory only upon 30% (in value) of the total inventory for the reason of lack of time and resources. The above requirement of CARO, 2020 has not been fulfilled as such and the auditor should point out the specific areas where he believes the procedures of inventory verification are inadequate and unreasonable. He may also consider the impact on financial statements and report accordingly.

2. K Ltd. took a term loan from a nationalized bank in 2015 for ₹ 200 lakhs repayable in five equal instalments of ₹ 40 lakhs from 31st March 2016 onwards. It repaid the loans due in 2016 & 2017, but defaulted in 2018, 2019 & 2020. As the auditor of K Ltd, what is your responsibility assuming that company has sought reschedulement of loan?

Reporting for Default in Repayment of Dues: As per clause (ix) of Para 3 of CARO, 2020, the auditor of a company has to report whether the Company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, and if yes, the nature of borrowing, name of lender, period and amount of default to be reported. The Auditor is also required to report whether the company is a declared wilful defaulter by any bank or financial institution or other lender. **In this case**, K Ltd. has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position. Hence, the auditor shall report in his CARO report that the Company has defaulted in its repayment of dues to the bank to the extent of ₹ 120 lakhs and evaluate its consequential impact on the audit report as well.

3. LM Ltd. had obtained a term loan of ₹ 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits.

Term loan invested in short term deposits: As per clause (ix) of Para 3 of CARO, 2020, an auditor needs to state in his report that whether the term loans were applied for the purpose for which the loans were obtained.

In the present case, the proceeds of the term loan obtained by LM Ltd. have not been put to use for construction activities and have been temporarily invested in short term deposit.

Here, the auditor should report the fact in his report that pending utilization of the term loan for construction of a factory, the funds were temporarily used for the purpose other than the purpose for which the loan was sanctioned, as per clause (ix) of Para 3 of CARO, 2020.

4. For the purpose of assessing applicability of CARO, what kind of loans need to be considered?

Borrowings from banks or financial institutions can be long term or short term and are normally in the form of term loans, demand loans, export credits, cash credits, overdraft facilities, bills purchased or discounted. Outstanding balances of such borrowings should be considered as borrowing outstanding for the purpose of computing the limit of rupees one crore. Non-fund based credit facilities, to the extent such facilities have devolved and have been converted into fund-based credit facilities, should also be considered as outstanding borrowings. The figures of outstanding borrowing would also include the amount of bank guarantees issued by the company where such guarantee(s) has (have) been invoked and encashed or where, say, a letter of credit has been devolved on the company. In case of term loans, interest accrued and due is considered as a borrowing whereas interest accrued but not due is not considered as a borrowing. Further, in case the company enjoys a facility, say, a cash credit facility, whose balance is fluctuating in nature, the Order would apply to the company in case on any day during the financial year concerned, the amount outstanding in the cash credit facility exceeds Rs. one crore as per books of the company along with other borrowings. The aggregate borrowings disclosed in the financial statements would need to be considered based on applicable generally accepted accounting principles in India (Ind AS/ AS).

5. Whether CARO is Applicable to the auditor of consolidated financial statement?

Order shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3.

6. What documents constitute title deed?

Following documents mainly constitute title deeds of the immovable property:-

- (i) Registered sale deed / transfer deed / conveyance deed, etc. of land, land & building together, etc. purchased, allotted, transferred by any person including any government, government authority / body / agency/ corporation, etc. to the company.
- (ii) In case of leasehold land and land & buildings together, covered under the head property, plant and equipment (fixed assets), the lease agreement duly registered with the appropriate authority.

7. Should the auditor examine the cost record in detail while reporting under CARO?

CARO does not require a detailed examination of Cost Records. The Auditor should, therefore, conduct a general review of Cost Records to ensure that the records as prescribed are made and maintained. The word "made" applies in respect of Cost Accounts, and the word "maintained" applies in respect of Cost Records relating to Materials, Labour, Overheads, etc.

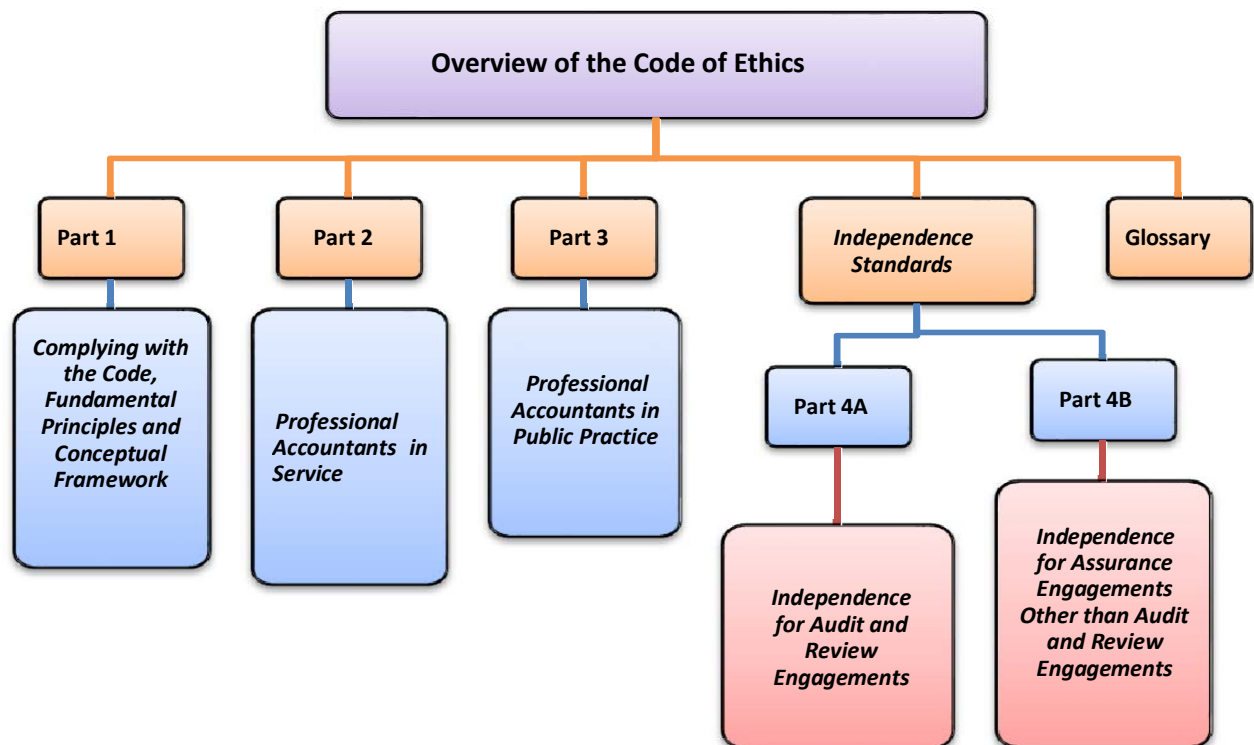
2. OVERVIEW OF THE CODE OF ETHICS

The revised Code of Ethics contains the following material:

- **Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework**, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
- **Part 2 – Professional Accountants in Service**, which sets out additional material that applies to professional accountants in service when performing professional activities. Professional accountants in service include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
 - o Commerce, industry or service.
 - o The public sector.
 - o Education.
 - o The not-for-profit sector.
 - o Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm as an employee.

- **Part 3 – Professional Accountants in Public Practice**, which sets out additional material that applies to professional accountants in public practice when providing professional services.
- **Independence Standards**, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
 - o **Part 4A – Independence for Audit and Review Engagements**, which applies when performing audit or review engagements.
 - o **Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements**, which applies when performing assurance engagements that are not audit or review engagements.
- **Glossary**, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “audit engagement” applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.



The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics.

Each section of the Code is structured, where appropriate, as follows:

- ▯ **Introduction** – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- ▯ **Requirements** – establish general and specific obligations with respect to the subject matter addressed.
- ▯ **Application material** – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

2.1 Fundamental Principles

In order to achieve the objectives of the Accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles. The fundamental principles as discussed in Code of Ethics of ICAI, to be complied, are given below:



(a) Integrity – Subsection 111

1. A professional accountant shall comply with the principle of integrity, **which requires an accountant to be straightforward and honest** in all professional and business relationships. Integrity implies fair dealing and truthfulness.

2. A professional accountant shall not knowingly be **associated with** reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement.
- (b) Contains statements or information provided negligently; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

However, a professional accountant will not be considered to be in breach of matters mentioned above in paragraph 2 if the professional accountant provides a modified report in respect of such above mentioned matter.

3. When a professional accountant becomes aware of having been associated with information described in paragraph 2, **the accountant shall take steps to be disassociated from that information.**

(b) Objectivity- Subsection 112

A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

(c) Professional Competence and Due Care – Subsection 113

1. A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) act diligently in accordance with applicable technical and professional standards.

2. **Serving** clients and employing organizations **with professional competence** requires **the exercise of sound judgment** in applying **professional knowledge** and **skill** when undertaking professional activities.
3. **Maintaining professional competence** requires a **continuing awareness** and an **understanding** of relevant **technical, professional and business developments**.
4. **Continuing professional development** enables a professional accountant to **develop** and **maintain** the **capabilities** to perform competently within the professional environment.
5. **Diligence** encompasses the **responsibility to act** in accordance **with the requirements** of an assignment, **carefully, thoroughly** and on a **timely** basis.
6. In **complying** with the **principle of professional competence and due care**, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

(d) Confidentiality- Subsection 114

1. A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. An accountant shall:

Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

Maintain confidentiality of information within the firm or employing organization;

Maintain confidentiality of information disclosed by a prospective client or employing organization;

Not disclose confidential information acquired as a result of professional and employment relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;

Not use confidential information acquired as a result of professional and employment relationships for the personal advantage of the accountant or for the advantage of a third party;

Not use or disclose any confidential information, either acquired or received as a result of a professional or employment relationship, after that relationship has ended; and

Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

2. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:
- (a) **Disclosure is required by law, Example :**
- Production of documents or other provision of evidence in the course of legal proceedings.
 - Disclosure to the appropriate public authorities of infringements of the law that come to light
- (b) Disclosure is **permitted by law and is authorized by the client** or the employing organization;
- (c) There is a **professional duty or right to disclose**, when not prohibited by law:
- (i) To comply with the requirements of Peer Review or Quality Review of the Institute;
 - (ii) To **respond** to an inquiry or investigation by a professional or regulatory body;
 - (iii) To **protect** the professional interests of a professional accountant in legal proceedings; or
 - (iv) To **comply with technical and professional standards**, including ethics requirements.
3. **In deciding whether to disclose confidential information, professional accountants should consider the following points:**

a) Whether the interests of any party, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant;
--

b) Whether all the relevant information is known and substantiated, to the extent it is practicable; and
--

c) The proposed type of communication, and to whom it is addressed;

- d) Whether the parties to whom the communication is addressed are appropriate recipients.

4. **A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or employment relationship.**

(e) Professional Behaviour- Subsection 115

1. A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any **conduct** that accountant knows or should know might discredit the profession.

Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

A professional accountant shall not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

2. When promoting himself and his work, a professional accountant shall not bring the profession into disrepute. A professional Accountant is required to conduct his affairs in a manner that he remains outside the boundaries of professional and other misconduct. A professional accountant shall be honest and truthful and should not make:

(a) Exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

(c) **Any direct or indirect measures to advertise any professional/other facts which are in violation of Advertisement Guidelines issued by the Council of the Institute from time to time.**

The professional accountant should ensure that the contents of an advertisement are true to the best of his knowledge and belief, and are in conformity with the Advertisement Guidelines, and be aware that the Institute does not own any responsibility, whatsoever, for such contents or claims by him. **However, if a professional accountant is in doubt about whether a form of proposed advertising is appropriate, the accountant is encouraged to consult with the Ethical Standards Board of ICAI.**

A professional accountant shall comply with each of the fundamental principles.

The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant.

The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles.

A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, with:

- **Others within the firm or employing organization**
- **Those charged with Governance(TCWG)**
- **The Institute**
- **Legal Counsel**

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

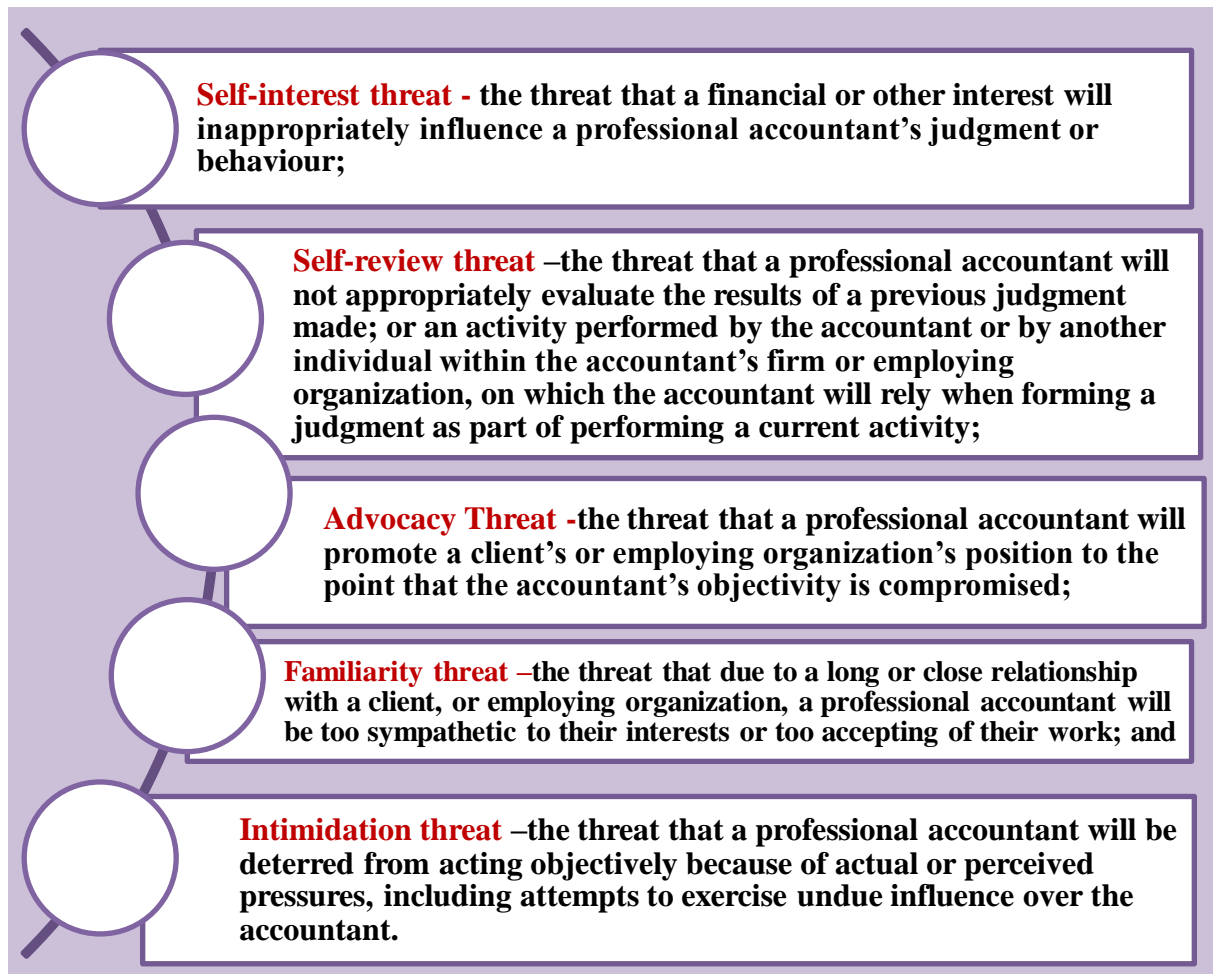
2.2 Threats, Evaluation of Threats and Safeguards

The conceptual framework specifies an approach for a professional accountant to:

- (i) Identify threats to compliance with the fundamental principles;**
- (ii) Evaluate the threats identified; and**
- (iii) Address the threats by eliminating or reducing them to an acceptable level.**

A. Threats

Threats to compliance with the fundamental principles fall into one or more of the following categories:



Circumstances that may create self-interest threats

- Having a direct **financial interest** in a client
- **Undue dependence** on total fees from a client.
- Having a **close business relationship** with a client.
- Concern about the **possibility of losing** a client.
- **Potential employment** with a client.
- Having access to confidential information of the client that **might be used for personal gain.**

Examples of Circumstances that may create Self Review Threat

- A loan to or from an assurance client or any of its directors or officers
- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.

- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

Examples of circumstances that may create advocacy threats:

- Promoting shares in an **entity** when that entity is a financial statement audit client.
- Acting as an advocate on behalf of an assurance client in **litigation or disputes** with third parties.
- Lobbying in favor of legislation on behalf of a client.

Examples of circumstances that may create familiarity threats

1. A member of the engagement team having **a close or immediate family relationship** with a director or officer of the client.
2. A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
3. A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
4. Long association of an audit team member with the audit client.

Examples of circumstances that may create intimidation threats

- Being threatened with dismissal or replacement in relation to a client engagement because of a disagreement about a professional matter.
- Being feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- Being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.

Specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats cannot be categorized. In either professional or business relationships, a professional accountant in public practice should always be on the alert for such circumstances and threats.

B. Evaluation of Threats:

The conditions, policies and procedures described above might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

- (i) **Acceptable level** : An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
- (ii) **Reasonable and Informed Third Party** : The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

C. Addressing Threats

If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (i) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (ii) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (iii) Declining or ending the specific professional activity.

Actions to Eliminate Threats : Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

D. Safeguards : Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level. Safeguards vary depending on the facts and circumstances. **Examples of actions that in certain circumstances might be safeguards to address threats include:**

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a **self-interest threat**.
- Having an appropriate reviewer, who was not a member of the team, review the work performed or advise as necessary might address a **self-review threat**.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address **self-review, advocacy or familiarity threats**.
- Involving another firm to perform or re-perform part of the engagement might address **self-interest, self-review, advocacy, familiarity or intimidation threats**.
- Separating teams when dealing with matters of a confidential nature might address a **self-interest threat**.

Professional Ethics Additions

1. Members - deemed to be in Practice Section 2(2)(iv)

“Management Consultancy and other Services” shall include the following :

(xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition. **Acting as Registered Valuer under the Companies Act, 2013 read with The Companies (Registered Valuers and Valuation) Rules, 2017.**(incorporated pursuant to decision of Council at its 388th Meeting)

(xxvii) **Acting as Insolvency Professional in terms of Insolvency and Bankruptcy Code, 2016** (incorporated pursuant to decision of Council at its 362nd Meeting).

(xxviii) **Administrative Services. (incorporated pursuant to decision of Council at its 388th Meeting)** Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit client of those dates.

For example, the functions of a GST practitioner as specified under Rule 83(8) of Central Goods and Services Tax Rules, 2017:-

- ✓ furnish the details of outward and inward supplies;
- ✓ furnish monthly, quarterly, annual or final return;
- ✓ make deposit for credit into the electronic cash ledger;
- ✓ file a claim for refund;
- ✓ file an application for amendment or cancellation of registration;
- ✓ furnish information for generation of e-way bill;
- ✓ furnish details of challan in form GST ITC-04;
- ✓ file an application for amendment or cancellation of enrolment under rule 58; and
- ✓ file an intimation to pay tax under the composition scheme or withdraw from the said scheme.

2. Member in Practice Prohibited from using a Designation Other Than Chartered Accountant Section 7

Members to act as a Merchant Banker / Advisor to an issue:

The members may apply for and obtain registration as **category IV Merchant Banker under the SEBI's** rules and regulations and act as Advisor or Consultant to an issue. In client Companies' offer documents and advertisements regarding capital issue, name and address of the Chartered Accountant or firm of Chartered Accountants acting as Advisor or Consultant to the Issue could be indicated under the caption "Advisor/Consultant to the Issue". **However, the name and address of such Chartered Accountant/firm of Chartered Accountants should not appear prominently.**

3. Clause 6 Solicitation of Clients or Professional work

Some forms of soliciting work which the Council has prohibited are discussed below:

- 1) **Advertisement for Silver, Golden, Platinum or Centenary celebrations** : It is not permitted to advertise the events organized by a Firm of Chartered Accountants. However, considering the need of interpersonal socialization/relationship of the members ,it **may be published** in newspaper or newsletter.
- 2) **Sponsoring Activities**
 - (a) A member in practice or a Firm of Chartered Accountants is **not permitted to sponsor an event**. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
 - (b) Members sponsoring activities relating to **Corporate Social Responsibility** may mention their individual name with the prefix "CA". **However, the mention of Firm name or CA Logo is not permitted.**
- 3) **Advertisement of Teaching/Coaching activities by members** : The members engaged in teaching /coaching activities, while advertising such teaching /coaching activities, shall comply with the Regulation 190A of the Chartered Accountants Regulations, 1988(discussed in the Chapter in Clause 11).

Keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, **an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation**, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule.

Such members are advised to **abstain from advertising** their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action.

Such members **may put**, outside their Coaching/ teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

- 4) **Educational Videos**: While the videos of educational nature may be uploaded

on the internet by members, **no reference should be made to the Chartered Accountants Firm** wherein the member is a partner/ proprietor. Further, **it should not contain any contact details or website address.**

4. Clause 9 Accepting appointment without compliance of Section 139,140 of the Companies Act,2013

The following guidelines have been issued for the Board for looking into the cases of Removal of Auditors:

A. Where an auditor resigns his appointment as an auditor of a Company or does not offer himself for reappointment as auditor of such Company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefor, if he considers that there are professional reasons connected with his resignation or not offering himself for re-appointment which, in his opinion, **should be brought to the notice of the Board of Directors**, and shall send a copy of such communication to the Institute.

It shall be obligatory on the incoming auditor, before accepting appointment, to obtain a copy of such communication from the Board of Directors and consider the same before accepting the appointment.

B. Where an auditor, though willing for re-appointment has not been reappointed, **he shall file with the Institute a copy of the statement which he may have sent to the management of the Company for circulation among the shareholders.** It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the Company and consider it, before accepting the appointment.

C. **The Ethical Standards Board**, on a review of the communications referred to in paras (A) and (B), may call for such further information as it may require from the incoming auditor, the outgoing auditor and the Company and make a report to the Council in cases where it considers necessary.

D. **The above procedure is also followed in the case of removal of auditors by the government and other statutory authorities.**

5.Clause 10 Charging fees on % basis

Regulation 192 -Restriction on fees (addition of Point h) whereby a member can charge fees on % basis

h) any other service or audit as may be decided by the Council. [Following activities have been decided by the Council under “h” above :-(i) Acting as Insolvency Professional;(ii) Non-Assurance Services to Non-Audit Clients]

6.Clause (11) Engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage

General Permission of Council

Member in practice in a HUF doing business: “A member of the Institute can acquire interest in family business in any of the following manner:

- (i) as a proprietary firm
- (ii) as a partnership firm
- (iii) in the name and style of Hindu Undivided Family as its Karta or a member.

It would be necessary for the members to provide evidence that interest in the family business concern devolved on him **as a result of inheritance/succession/partition of the family business**. It is also necessary for the member to show that he was not actively engaged in carrying on the said business and that the family business concern in question was not created by himself.

To establish his case, the member should furnish a declaration in the prescribed format and the documents evidencing above for consideration to the concerned Decentralized Office.”

COUNCIL GUIDELINES

Chapter X Appointment of an auditor when he is indebted to a concern

A member of the Institute in practice or a partner of a firm in practice or a firm **or a relative of such member or partner** shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, **for limits fixed in the statute and in other cases for amount exceeding ₹ 100,000/-**

Chapter XIII Guidelines on Tenders

A member of the Institute in practice **shall not respond** to any tender issued by an organization or user of professional services in areas of services **which are exclusively reserved for chartered accountants**, such as audit and attestation services.

However, **such restriction shall not be applicable where minimum fee of the assignment is prescribed** in the tender document itself or **where the areas are open to other professionals along with the Chartered Accountants**.

Chapter XIV Unique Document Identification Number (UDIN) Guidelines

Whereas, to curb the malpractice of false certification/attestation by the unauthorized persons & to eradicate the practice of bogus certificates and to save various regulators, banks, stakeholders etc. from being misled, the Council of the Institute decided to implement an innovative concept to **generate Unique Document Identification Number (UDIN) mandatorily for all kinds of the certificates/GST and Tax Audit Reports and other attest function in phased manner**, for which members of the ICAI were notified.

A member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him which made mandatory from the following dates through announcements published on the website of the ICAI www.icai.org at the relevant time: -

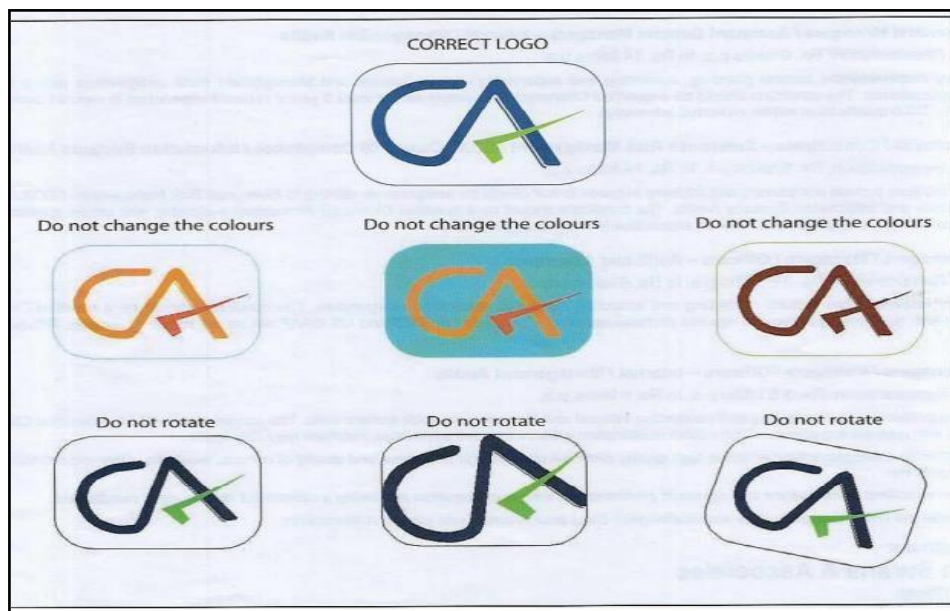
- For all Certificates w.e.f. 1st February, 2019.
- For all GST and Tax Audit Reports w.e.f. 1st April, 2019.
- For all other Audit, Assurance and Attestation functions w.e.f. 1st July, 2019.

Chapter XV Guidelines for Networking

Note : This concept is already covered in main concept book.

Chapter XVI Logo Guidelines

- ✓ The logo consists of letter 'CA' with a tick mark inside a rounded rectangle with **white background**.
- ✓ The letters CA have been put in **blue, the corporate colour** which not only stands out on the background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability and depth.
- ✓ The upside-down tick mark typically used by Chartered Accountants, has been used to symbolize **the wisdom and value of the professional**.
- ✓ The **green color** in the tick mark signifies growth, prosperity, harmony and freshness.
- ✓ Members are encouraged to use the new logo, as published here as it is. **Do not change the design and colours, including the white background. Refrain from rotating or tilting the logo. The correct and incorrect usage of the logo is explained as under:**



Chapter XVII Guidelines for Corporate Form of Practice

- ❑ The Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act provided that **the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949.**
- ❑ The members can retain **full time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such Management Consultancy Company.**
- ❑ There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such Company. Such members shall be regarded as being in **full- time practice** and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

- ❑ **On abundant caution, it may be clarified that no audit practice can be done in Corporate Form.** The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in **Corporate Form also.**

Ethical Compliance: (i) Once the **Management Consultancy Company** is Registered with the Institute as per the Guidelines, it will be necessary for such a Company to comply with the following requirements: -

(a) If the individual practitioner/sole-proprietorship firm/partnership firm is the statutory auditor of an entity then the Management Consultancy Company should not accept the internal audit or book-keeping or such other professional assignments, which are prohibited for the statutory auditor firm.

(b) Ceiling on Non-audit fees is applicable in relation to a Management Consultancy Company.

(c) The Management Consultancy Company shall comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.

Object of Management Consultancy Company: The Management Consultancy Company shall give an undertaking that it shall render only Management Consultancy & Other Services prescribed by the Council pursuant to powers under **section 2 (2)(iv) of the Chartered Accountants Act, 1949.**

COUNCIL GUIDELINES FOR ADVERTISEMENT, 2008

1. Online Third-Party Platforms

A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have **set up their own Websites providing advisory services on taxation and other areas** where **Chartered Accountants are rendering professional service.** Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites.

No other service, besides consultancy and advice can be rendered through such websites, This would be permitted subject to the condition that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.

2. Publication of Name or Firm Name by Chartered Accountants in the Telephone or other Directories published by Telephone Authorities or Private Bodies

The Chartered Accountants and Chartered Accountants Firms may have entries made in a Telephone Directory (in printed and electronic form) either **by making a special request or by means of an additional payment** subject to the following additional restrictions :-

- (i) **Category only under 'Chartered Accountants'.**
- (ii) **Member/firm should belong to same town/city as of directory.**
- (iii) **The order of the entries must be alphabetical.**

(iv) The entry should not be made giving the impression **of publicity/advertisement**.

(v) Entries open to all CAs in a particular city/town.

(vi) The members can also include their names in **trade/ social directories**.

3. Application based Service provider Aggregators

It is not permissible for members to list themselves with **online Application based service provider Aggregators**, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

4. Specialised Directories for limited circulation

The name, description and address of member (or firm) may appear in any directory or list of members of a particular body in which the names are listed alphabetically. For a specialized directory or a publication such as a **“Who’s Who”** (including those compiled on purely local basis),

a member should use his discretion in supplying information, bearing in mind the nature and purpose of the publications. In addition to his name, description and address and those of his firm, a member may give where appropriate, **directorships held and reasonable personal details and may state his outside interests. He should not, however, give the names of any of his clients.**

5. Exemptions

1. A special exemption has been made as regards publication of the name and address of a member or that of his firm, **in an advertisement appearing in the press in the following circumstances**, provided that the advertisement is not displayed more prominently than is usual for such advertisements or the name of the member or that of his firm with the designation Chartered Accountant(s) appears in type not bolder than the substance of the advertisement:-

- (a) Advertisement for **recruiting staff** in the member’s own office.
- (b) Advertisement inserted **on behalf of clients requiring staff** or wishing to acquire or dispose of business or property.
- (c) Advertisement for the **sale of a business or property by a member acting in a professional capacity as trustee, liquidator or receiver.**

2. When advertising for staff, it is desirable that members should avoid the expression such as **“a well-known firm”**, since this would savour of advertisement. Similar considerations apply to advertisements for articled assistants. The advertisements should not contain any promotional element nor should there be any suggestion that the services offered by the Chartered Accountant or his firm are **superior to those offered by other accountants.**

3. PEER REVIEW

Key points of Peer Review updated for May,2021

- **"Peer Review"** means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the **Technical, Professional and Ethical Standards** as applicable including other regulatory requirements thereto and whether the same were consistently applied during the period under review."
- **"Reviewer"** means a member duly approved and empaneled by the Board on fulfilling the qualifications prescribed for a Reviewer.
- **"Practice Unit"** means a firm of Chartered Accountants or a member in Practice, practicing whether in an individual name or a trade name or such other entity as recognized by the Institute of Chartered Accountants of India from time to time.
- **Peer Review Board** means the Board constituted by the Council in terms of this Statement from time to time. The expression "Peer Review Board" is hereinafter referred to as "Board". **The Peer Review Board (the Board) was established in March 2002 and the Statement on Peer Review has been revised in April'2020.**

The Statement on Peer Review shall be deemed to be a guideline of the Council under **clause (1) of Part II of Second Schedule** to the Act and it is obligatory for the Practice Unit to comply with the provisions contained in this Statement.

PEER REVIEW OF AUDITORS

Peer review of attest function has a special significance.

- First of all, the nature of work is such that it can be easily subjected to peer review. It is possible to review the work subsequent to its completion; which means that one does not get disturbed while doing the work because of the peer review.
- Secondly, the business environment is changing so fast that it is necessary for an auditor to keep improving his audit techniques and seek a stamp of approval about his competence.
- And thirdly, the question of whether an auditor has performed his function satisfactorily or not is arising more frequently now. There is a considerable gap between what the society as a whole expects the auditors to do and what the auditors are actually required perform; by law and as per the terms of their engagement. Therefore, if the work of any auditor is questioned, the auditor's **first line of defense** would be that the work has happened as per auditing practices which have been peer reviewed.

It is important to note that in spite of the advantages of peer review, not many professional bodies have implemented the concept effectively. In this background, **it is very creditable that ICAI has, over a period, made peer review compulsory for all auditors.**

SCOPE OF PEER REVIEW (IMP)

The Statement of Peer Review aims to confine the scope of review **to preceding three years** since this would establish the consistency or deviations, if any, in respect of procedures followed by the practice unit.

Revised Scope of Technical, Professional and Ethical Standards

As per the Statement, **Technical, Professional and Ethical Standards** – means

- (i) Accounting Standards issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013;
- (ii) Accounting Standards prescribed under **section 133** of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from time to time;
- (iii) Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time;
- (iv) Standards :

Standards issued by the Institute of Chartered Accountants of India including-

- | | |
|--------------------------|---|
| (a) Engagement standards | (d) Standards on Internal Audit. |
| (b) Statements | (e) <i>Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees.</i> |
| (c) Guidance notes | |

- (v) Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;
- (vi) Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions

issued by regulatory bodies as covered in the scope of assurance engagements.

APPLICABILITY OF PEER REVIEW (IMP)

Practice Units subject to Review

1. Every Practice Unit including its branches, based on their category as determined below will be subject to Peer Review in accordance with this Statement.

Level I: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review **shall be treated a Level I entity:**

- (i) Central Statutory Audit of Public Sector Banks, Private Sector Banks, Foreign Banks, Cooperative Banks and Public Financial Institutions;
- (ii) Central Statutory Audit of Central or State Public Sector Undertakings and Central Cooperative Societies based on criteria such as turnover or paid-up capital etc. as may be decided by the Board;
- (iii) Central Statutory Audit of Insurance Companies;
- (iv) Statutory Audit of asset management companies or mutual funds;
- (v) Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad;
- (vi) Statutory audit of any body corporate including trusts which are covered under public interest entities.**
- (vii) Statutory Audit of Entities which have raised funds from public or banks or financial institutions of over **Rupees Fifty Crores** during the period under Review;
- (viii) Statutory Audit of Entities which have **raised donations and / or contributions over Rupees Fifty Crores during the period** under Review;
- (ix) Statutory Audit of entities having net worth of more than two Hundred and Fifty Crores rupees (>₹250 CR) at any time during the period under Review.**
- (x) Statutory Audit of entities which have been funded by Central and / or State Government(s) schemes of over Rupees Fifty Cores during the period under Review.
- (xi) Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.**
- (xii) Central Statutory Audit of Regional Rural Banks.**
- (xiii) Statutory Audit of parent, subsidiary, associate, and joint venture of the above entities.**

Level II: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review **shall be treated as Level II entity:**

- (i) Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of -
 - (a) **Public Sector undertaking**
 - (b) Public Sector or Private Sector and / or Foreign Banks
 - (c) Insurance Companies
 - (d). Co-operative Banks
 - (e). **Regional Rural Banks**
 - (ii) **Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.**
 - (iii) Statutory Audit of entities having Net Worth of over **Five Crores rupees** or an annual turnover of more than **Fifty Crores rupees** during the period under Review.
 - (iv) **UDIN's generated by the Practice Units more than the specified number determined by the Board from time to time.**
 - (v) **Statutory Audit of entities which have raised funds from public or banks or financial institutions of more than Twenty-Five Crores rupees but less than Fifty Crores rupees during the period under review.**
 - (vi) **Any other Practice Unit providing assurance or other services not covered under (i) (ii), (iii), (iv) and (v) hereinabove.**
- 2 **Special case review : The Board, based on specific information received from Secretary, ICAI or any other Committee of the Institute including Disciplinary directorate or any other Regulator , which in the opinion of the Board requires a special review of the Practice Unit, may conduct a special review of the Practice Unit.**
 - 3 Any Practice Unit not selected for Peer Review, may suo moto apply to the Board for the conduct of its Peer Review. The Board shall act upon the same **within 30 days** from the date of receipt of such request.
 - 4 An auditee (Client) may request the Board for the conduct of Peer Review of its auditor (Practice Unit). The Board shall act upon the same within 30 days from the date of receipt of such request.
 - 5 **The Board may, with the approval of the Council, modify any of the above criteria.**

Periodicity of Peer Review

The Periodicity of Peer Review will be:

- (a) Level - I Practice Units – Once in 3 years.
- (b) Level - II Practice Units – Once in 4 years

However, if the Board so decides or otherwise at the request of the Practice Unit, the Peer Review for a Practice Unit can be conducted at shorter intervals.

PEER REVIEW BOARD (IMP)

The Board shall be constituted by the Council. The Board shall consist of a maximum of **twelve members** to be appointed by the Council, of whom not less than 50% shall be from amongst the members of the Council as defined in Section 9 of the Chartered Accountants Act, 1949.

- 1) **Term of the members** - The term of **two third members** shall be for **three years or end of the term of the member in the Council whichever is earlier**, or such other period as may be prescribed by the Council from time to time. The Chairman and the Vice-Chairman of the Board may be **rotated every year** by the Council of the Institute.
- 2) Casual vacancies on the Board shall be filled by the Council. A Member of the Disciplinary Committee or the Disciplinary Board of the Institute of Chartered Accountants of India shall not be a member of the Board.
- 3) **Meeting (Quorum) Requirement** : No business shall be transacted at any meeting of the Board unless there are present **at least one third members of the Board** but not **less than three members**, including the Chairman or, in his absence, the Vice-Chairman. In the absence of quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman or, in this absence, the Vice-Chairman. The Board shall meet as and when required for transaction of the business before it. However, **at least one meeting shall be held in every three months**.
- 4) **Reporting**: The Board shall submit a report to the Council prior to the date of every meeting of the Council.

ELIGIBILITY TO BE A REVIEWER (IMP)

A Peer Reviewer shall: -

- (a) Shall be a member in practice with at least 10 years of experience for Level I entities and 7 years of experience for Level II entities.
- (b) In case a member has moved from industry to practice and is currently in practice he should have at least 15 years of experience in industry and at least 5 years' experience in practice for Level I entities and an experience of at least 10 years in industry and at least 3 years' experience in practice, for Level II entities.
- (c) Should have undergone the requisite training and cleared the requisite test for Peer Review as prescribed by the Board.
- (d) Should have conducted audit of Level I Entities for at least 7 years or got his entity audited for at least 7 years which should be a Level I entity to be eligible for conducting Peer Review of Level I Entities.

2 A member on being appointed as a Reviewer shall be required to -

- (a) furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.
- (b) sign a Declaration of Confidentiality as per Annexure A to this Statement .

3 A member shall not be eligible for being appointed as a Reviewer, if -

- (i) any disciplinary action / proceeding is pending against him
- (ii) he has been found guilty of professional or other misconduct by the Council or the Board of Discipline or the Disciplinary Committee at any time
- (iii) he has been convicted by a competent court whether within or outside India, of an offence involving moral turpitude and punishable with imprisonment
- (iv) he or his partners or personnel has any obligation or conflict of interest in the Practice Unit.

4. A Reviewer shall not accept any professional assignment from the Practice Unit for a period **two years from the date of appointment.** Further, he should not have accepted any professional assignment from the Practice Unit **for a period of two years before the date of appointment as reviewer** of that Practice Unit.

OBLIGATIONS OF THE PRACTICE UNIT

Any Practice Unit, in addition to the prescribed information to be furnished including the questionnaire, statements and such other particulars as the Board may deem fit, shall comply with the following.

- (i) Produce to the Reviewer or allow access to, any record, document or prescribed register maintained by the Practice Unit .
- (ii) Provide to the Reviewer such explanation or further particulars/ information if asked.
- (iii) Provide to the Reviewer all assistance in connection with Peer Review;

- (iv) Where any information or matter relevant to a Practice Unit is recorded otherwise than in a legible form, the Practice Unit shall provide and present to the Reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a translation in English or Hindi, if the matter is in any other language, and if such translation is requested for by the Reviewer. The Practice Unit shall be responsible and accountable for the accuracy and truthfulness of the translation so provided.

Obligations of the Peer Reviewer

- (i) The Reviewer shall not take any extracts of the Practice Units clients' file or records examined by him while conducting Peer Review, as a part of his working papers.
- (ii) The Reviewer shall complete the Review within the prescribed time frame.

Certain additional changes in Peer Review

- **Selection of Practice Unit & appointment of Reviewer**-A declaration in the form approved by the Board shall be submitted by the Practice Unit within **seven days** from the date the Practice Unit (PU) has been notified by the Board so that Reviewer to be allotted from the Panel of three reviewers can be identified by the Board as per Level submitted by Practice Unit, in the declaration form.
- **Peer Review Visits**: Peer Review visits will be conducted at the Practice Unit's head office or /and branch(es) or any other locations. This on-site Review should **not extend beyond seven to fifteen working days** based on the size of the Practice Unit.
- **Illustrative Qualifications in Reporting by the Reviewer (2 examples added)**
 - 1) It was observed during examination of engagement files that **the staff deployed lacked industry expertise and was, in general, inexperienced**. The PU does not have a system of supporting and encouraging its resources to undergo relevant professional education necessary to execute audits of entities in specialised industries. Moreover, there was no evidence in the working papers prepared by articled assistants of any review performed by a senior resource.
 - 2) No evaluation of the control environment of the entities audited was seen to have been done to identify risks due to deficiencies or weaknesses in the audited entities internal control in accordance with SA 315, Identifying and Assessing the Risk of Material Misstatement through Understanding of the Entity and its Environment.
Moreover, **no attempt was made to test internal control over financial reporting** in order to determine if the controls are implemented and operating effectively in accordance with SA 330, The Auditor's Response to Assessed Risks.
- **Peer Review Certificate**
On receipt of the Peer Review Report, the Board shall **within three months**:
 - (a) Issue a Peer Review Certificate to the Practice Unit mentioning the next due date for Review.

(b) Inform the Practice Unit that a Peer Review certificate cannot be issued along with the reasons therefor as well inform the Practice Unit about the due date for conducting a **follow- on review**.

➤ **Validity of Peer Review Certificate**

A Practice Unit cannot continue with the existing certificate, whose validity has expired. **All documents signed by the Practice Unit during the intervening period (i.e., expiry of previous certificate and issuance of new certificate) will be invalid.** Therefore, it is the responsibility of the Practice Unit to complete the Peer Review of the firm and submit all necessary documents **at least one month before the date of expiry of the previous certificate.**

DIFFERENCE BETWEEN PEER REVIEW AND QUALITY REVIEW

Peer review is a review of the systems and procedures of an audit firm. Although sample audit files are inspected by the peer reviewer, **it is done for the purpose of testing the effectiveness of the systems and procedures. The intention is to not to find faults but to help the firm develop effective systems.** It is a kind of mentoring process. Peer review is a part of the activities of ICAI aimed at improving the quality of service.

In contrast, a **quality review is supposed to act as a deterrent. Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI.** As per Section 28A of the Chartered Accountant's Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out **supervisory and disciplinary functions.** A quality review normally **pertains to one particular audit conducted by an audit firm.** The main objective quality review is to find errors or inadequacies, if any, committed by the auditor while conducting the audit. Serious errors detected in quality review led to disciplinary action against the member.

4. QUALITY REVIEW

1. INTRODUCTION

'Quality means doing it right when no one is looking.' Henry Ford

The quality control policies and procedures should be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives. In addition, the firm recognizes the importance of **obtaining feedback on its quality control system from its personnel.**

Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters. (Para 8 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).

EXAMPLES ARE IMPORTANT

Example of important areas as per Quality Review Report 2018-19 in accordance with Standard on Quality Control -1 are

- 1) Whether the audit firm **establishes and implements policies** and procedure on all the element of system of quality control
- 2) Whether the **engagement quality control reviewer review at an appropriate time** for the planning of an audit, significant audit judgement, and expressions of an audit opinion.
- 3) Whether the audit firm assigns as the person responsible for the monitoring of the system of quality control a person with **appropriate experience** for the role, vest the assigned person with sufficient and appropriate authority.
- 4) Whether the audit firm obtain, **at least annually, a confirmation letter** concerning compliance with policies and procedure for the maintenance of independence .
- 5) Whether the audit firm perform the **independence confirmation procedure** set forth in its internal rules before acceptance and continuance of an audit engagement, and when issuing the auditor's report appropriately confirms that there was no change in the status of independence.
- 6) Whether the audit firm **develop and provides education/ training program** that fully take into account the knowledge, experience, competence and capabilities of the professional staff.

2. Constitution and Composition of Quality Review Board

- ✓ The Board comprises of a Chairperson and 10 other members.
- ✓ Central Government nominates the Chairperson and 5 members.
- ✓ Remaining 5 members are nominated by the **Council of the ICAI**.
- ✓ 6 out of 11 Members of the Board, including Chairperson, are nominated by the Central Government.
- ✓ Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy.

3. QUALITY REVIEW IF REFERENCE MADE BY NFRA ONLY (IMP)

The Ministry of Corporate Affairs vide letter F.No.7/1/2019-CL-1 dated 30th January 2019, has clarified to **the Quality Review Board** that in view of Sec.132

(2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, **the issue of ORB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to ORB by NFRA, and not otherwise.**

Rule 3 (1) of NFRA Rules 2018, as notified by Central Government on 13 November 2018, inter alia, provides that the Authority (read NFRA) shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, namely:-

- (a) companies whose securities are **listed** on any stock exchange in India or outside India;
- (b) **unlisted public companies** having
 - ✓ **paid-up capital** of not less than **₹ 500 crores** or
 - ✓ **having annual turnover** of not less than **₹ 1000 crores** or
 - ✓ **having, in aggregate, outstanding loans, debentures and deposits** of not less than **₹ 500 crores** as on the 31st March of immediately preceding financial year;
- (c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;
- (d) anybody corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and
- (e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), **if the income or net-worth of such subsidiary or associate company exceeds twenty percent of the consolidated income or consolidated net-worth of such company or the body corporate**, as the case may be, referred to in clauses (a) to (d).

Rule 9(4) of NFRA Rules, 2018 provides that the Authority (read NFRA) may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate referred to in rule 3 to **the Quality Review Board constituted under the Chartered Accountants Act, 1949 (38 of 1949)** or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.

Accordingly, QRB would now be able to initiate reviews of quality of audit services provided by members of the Institute **only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018, namely,**

- ✓ private limited companies,
- ✓ unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and
- ✓ other entities not specified under Rule 3(1) of NFRA Rules, 2018; and
- ✓ **those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.**

However, in the meanwhile, QRB has also been completing its on-going reviews of top listed and other public interest entities which were in process.

4. Coverage of Services for Quality Review

The Quality Review would involve assessment of the **work of statutory auditors** while carrying out statutory audit so that the Board is able to assess:-

- (a) Quality of statutory audit and reporting by statutory auditors; and
- (b) Quality control framework adopted by the AFUR (Audit Firm under Review) in conducting statutory audit.

Exclusions: This Procedure would not extend to:

- (i) Review of **internal audit, tax audit, GST audit and other such special purpose audits** conducted by the members of the Institute which may be covered by the Board at a later stage or unless otherwise specified; and
- (ii) **Review of services provided by the members of the Institute in employment.**

5. SELECTION OF AUDIT FIRMS

The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be made on the basis of one or more of the following criteria:-

(a) Criteria based on Entities Audited:

- (i) The entities other than those specified under Rule 3(1) of NFRA Rules, 2018 may be selected on the basis of one or more of the following:-
 - ✓ **risk based selection** including regulatory concerns pointing towards stakeholder risks.
 - ✓ on account of being part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports.
 - ✓ reported **fraud** or likelihood of fraud.
 - ✓ **serious accounting irregularities** in the financial statements highlighted by the media and other reports.
 - ✓ **major non-compliances** under relevant statutes highlighted in past reviews.
- (ii) In case of joint audits, if required, **all joint auditors may be reviewed**, as may be decided by the Board on case-to-case basis.

- (iii) The Board may also review the quality of the statutory audit services of AFUR with a view to assessing the quality of statutory audit and reporting by the statutory auditors and their quality control framework on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, National Financial Reporting Authority (NFRA) under Rule 9(4) of NFRA Rules, 2018 etc.
- (iv) The Board shall not consider cases of complaints received from individuals, firms, companies, other entities and their partners, directors and other officers etc. which shall be continued to be dealt with in accordance with the mechanism available under the Chartered Accountants Act, 1949. Cases of complaints from only regulatory bodies and other media reports involving serious accounting irregularities shall be considered by the Board for the purpose of initiating the review.
- (v) The selection for suo moto quality reviews may, however, be done using methods such as random sampling, selection of particular class or classes of entities/audit firms, in the manner as specified at (i) above.
- (vi) The QRB secretariat should place the details of the entities and audit firms, which may be selected for quality review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a quality review by a TR and may refer the cases selected for quality review to the relevant TRs.

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

(b) Criteria based on Audit Firms:

Selection of audit firms should also be made for quality review of their statutory audit work **on random basis**, the volume of work handled by them represented by the number and nature of clients, sectors that may be identified as facing high risk, or on account of fraud or likelihood of fraud.

(c) Quality Review Cycle:

- (i) The following quality review cycle of Audit firms may be followed generally or as may be decided by the Board:
- Once in **3 years** for Audit firms having **20 or more Partners**
 - Once in **4 years** for Audit firms having **10 or more but less than 20 Partners**
 - Once in **5 years** for Audit firms having **less than 10 Partners**.
- (ii) Up to **3 audit engagements** of an AFUR may be selected by the Board, as may be considered appropriate, during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. However, **in the absence of any adverse finding in a past review, not more than**

one audit engagement of the same engagement partner/ proprietor of an AFUR may be selected for quality review by the Board during a particular quality review cycle

- (iii) 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.**

6. Composition of the Review Team

- ✓ It depends on the size of the AFUR/entity/(ies) under review.
- ✓ The composition of the team, mandatorily headed by a TR empaneled with the Quality Review Board, may also include up to 5 Assistants engaged by the TR, as may be fixed by the Board in each case on need basis.
- ✓ However, **no firm of Chartered Accountants may be included as a member of the review team.**

7. Independence of Assistant (Qualified Assistance)

4 additional points have been added to ensure assistant is independent.

- (f) He should not have been associated with the AFUR and the concerned entity, whose audit is being reviewed, during **last three financial years and/or thereafter.**
- (g) He should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him during **last three financial years and/or thereafter;**
- (h) He should not be a member of current QRB/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- (i) He should not himself be empanelled as a TR with the Quality Review Board.

The Board may also obtain services of relevant industry experts, if needed, on such criteria as may be specified by the Board.

5. MISCELLANEOUS TOPICS

I. Companies' Amendment Act, 2020

1. Dividend Note Added regarding AS 4/IND-AS 10

As per Accounting Standards (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, **if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.**

Audit Procedure to check compliance of AS 4 /IND-AS 10

If dividends are declared after the balance sheet date but before the financial statements are approved for issue, check that the dividends have not been recognized as a liability as per Accounting Standard (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, but **whether a disclosure of the same has been made in the notes.**

II. Audit of NBFCs

1. Compliance with CARO 2020

As per CARO 2020, the auditor is required to report that –

I. Loans , Advances, guarantee or security

(a) Whether during the year the company has made **investments in**, provided any **guarantee or security** or granted **any loans or advances** in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so,

(b) Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided **are not prejudicial to the company's interest**;

(c) in respect of loans and advances in the nature of loans, whether **the schedule of repayment of principal and payment of interest** has been stipulated and whether the repayments or receipts are regular;

(d) if the amount is overdue, state **the total amount overdue for more than ninety days**, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

(f) whether the company has granted any **loans or advances** in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted,

aggregate amount of loans **granted to Promoters, related parties** as defined in clause (76) of section 2 of the Companies Act, 2013; [Paragraph 3(iii)]

(II) Registration of NBFCs

(a) Whether the company is required to be registered under section 45 -IA of the Reserve Bank of India Act, 1934 and if so, whether the **registration** has been obtained.

(b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid **Certificate of Registration (CoR)** from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;

(c) Whether the company is a **Core Investment Company (CIC)** as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;

(d) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group; [Paragraph 3(xvi)]

III. GST Audit (IMP)

1. AUDIT BY THE TAX AUTHORITIES UNDER SECTION 65

Audit under section 65 is a routine audit by the tax office at the place of business of registered person or in tax office.

- Notice for audit by Tax Authorities:** The registered person shall be informed by way of a notice **not less than 15 working days** prior to the conduct of audit in such manner as may be prescribed. [Rule 101, FORM GST ADT-01]
- Completion period of audit:** The audit by tax authorities shall be completed **within a period of 3 months** from the date of commencement of the audit, and such period is further **extendable for a period of 6 months by Commissioner** for the reasons to be recorded in writing.

In this regard, “**commencement of audit**” shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit, **whichever is later**.

- Co-operation with Proper Office for Timely Completion of Audit:** During the course of audit, the authorised officer may require the registered person, to afford him the necessary facility to verify the books of account or other documents as he may require and to furnish such information and render assistance for timely completion of the audit.
- Findings to be Communicated to Registered Person:** On conclusion of audit, the proper officer shall, **within 30 days**, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings in such manner as may be prescribed. [Rule 101,

FORM GST ADT-02]**Illustration 1.**

M/s. Mehtab & Co. a registered person received notice of audit in FORM GST ADT-01 on 15-Nov- 2020, stating therein that the audit team from the department will visit their office on 21 -Nov-2020 to conduct audit. The RP is expected the specified documents must be kept ready for audit. As a consultant of M/s. Mehtab & Co. what advise you will give to your client?

Solution: As a consultant of M/s. Mehtab & Co. we will advise that notice for audit by tax authorities shall be given for **not less than 15 working days** prior to the conduct of audit in FORM GST ADT-01. Therefore, the RP must intimate to the tax authorities that he may be given appropriate time before the necessary books of accounts and other records may be kept ready for the purposes of audit.

2.SPECIAL AUDIT UNDER SECTION 66

Special audit wherein the registered person can be directed to get his records including books of account examined and audited by a chartered accountant or a cost accountant during any stage of scrutiny, inquiry, investigation or any other proceedings; depending upon the nature and complexity of the case [Section 66 read with rule 102] on order of Assistant Commissioner or above with prior approval of the Commissioner.

Illustration 2.

M/s. Ramaya Bhola (P) Ltd., a registered person is issued a notice in FORM GST ADT-03 for conduct of a special audit by M/s. Rohit & Associates, Chartered Accountants. The company claims that he is already subject to statutory audit by his regular CA under the Companies Act as well as tax audit under the Income Tax Act. Whether the special audit is still applicable on the company?

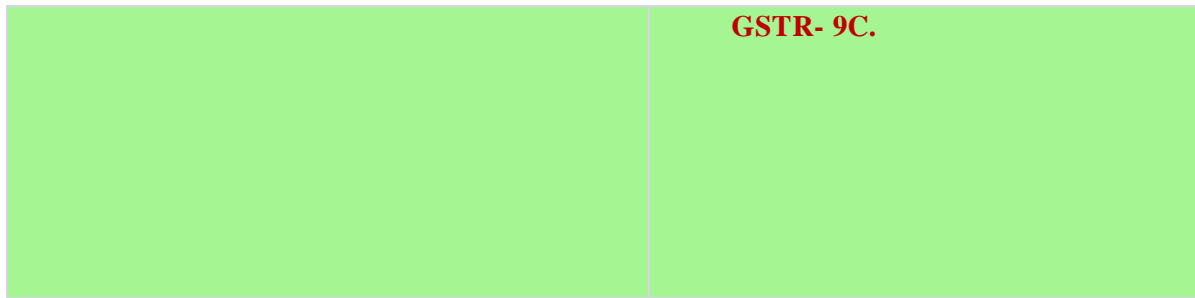
Solution: Considering the special nature of GST audit under section 66 the audit having been conducted under other proceedings or under other laws; do not preclude the proper officer from exercising option under section 66.

3.AUDIT OF ACCOUNTS [SECTION 35(5) READ WITH SECTION 44(2) AND RULE 80]**Who is liable to GST Audit?**

Every registered person must get his accounts audited by a chartered accountant or a cost accountant if his aggregate turnover during a FY exceeds **₹ 2 crores**. (For FY 2018-19 and FY 2019-20: **₹ 5 crores**)

Such registered person is required to furnish electronically through the common portal along with Annual Return a copy of:

- Audited annual accounts
- A reconciliation statement, duly certified, in prescribed **FORM**



Every registered person whose aggregate turnover during the financial years **2018 -2019 and 2019-20 exceeds five crore rupees** shall get his accounts audited as specified under sub- section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C for the financial years 2018-2019 and 2019-20, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

Financial Year (FY)	Aggregate Turnover (in ₹)
2017-18	2 crores
2018-19	5 crore (NN-16/2020)
2019-20	5 crore (NN-79/2020)

Note: Where a taxpayer has **multiple branches** registered under GST in different States/ Union Territories, **the total aggregate turnover of all such branches is considered while calculating the threshold limit.** So, if the cumulative turnover of all the branches exceed threshold limit, then the GST audit is applicable to each of these branches, **irrespective of whether the turnover of a particular branch is less than the threshold.**

In such cases, one can appoint either one dedicated auditor for all branches or separate auditor for each branch. Where multiple branches have different auditors, the Standard on Auditing: SA 299 —“Joint Audit of Financial Statements” may apply for the purpose of reporting GST audit observations & reporting.

Example : if the aggregate turnover (PAN based) is at ₹ 5.50 crores and the registered person is carrying on business in two different States having a turnover of ₹ 4.75 crores and 0.75 crores respectively, **the law mandates that audit is required to be carried out in both the States.**

Illustration 3.

Mr X, an articled trainee in JSA Associates, is assigned a GST Audit of Flex Industries, a branch in Delhi. He is confused with the applicability of GST audit on Flex Industries considering the definition of turnover in section 35(5). Flex Industries is a company with operations spread across India with aggregate turnover amounting to ₹ 8 crores (this turnover is spread across various cities) during the FY ended 31 March 2019. Will GST audit be applicable on Flex Industries? If yes, substantiate section 35(5) in context of rule 80(3).

Solution: GST Audit will be applicable on Flex Industries. As per section 35(5) read with rule 80(3), the total turnover calculation for the applicability of GST audit must be done on a PAN India basis, which means that once the turnover under the PAN India level is more than ₹ 5 crores, all business entities registered under GST for that PAN will be liable for GST audit for the FY.

Illustration 4.

Krishna Enterprises, a textile shop with registered GST premises in Delhi, is having turnover of ₹ 1.55 crores, ₹ 1.45 crores and ₹ 1.50 crores for the quarters 2, 3 and 4 respectively of the FY 2018-19. He did not have good fortune in quarter 1 of 2018-19 for which his turnover was ₹ 70 lakhs. Mr. Vasudev, a chartered accountant, is appointed as tax consultant of Krishna Enterprises. He is perplexed whether GST audit is applicable for his client. If so, substantiate with relevant section.

Solution: GST audit will be applicable to Krishna Enterprises. As per section 35(5) read with rule 80(3), if the annual turnover of a registered taxpayer is more than ₹ 5 crores during the year ended 31 March 2019, he is required to get his accounts audited by a chartered accountant or cost accountant. **In the given case, the aggregate turnover during the year ended 31 March 2019 was above ₹ 5 crores, hence, GST audit would be applicable to Krishna Enterprises.**

Illustration 5.

SSM & Co. is a leading electronics company having multiple branches registered under GST in different States. The aggregate turnover of all such branches exceeded ₹ 5 crores during the FY ended 31 March 2019. However, the Delhi branch had a turnover of ₹3.75 crores. Pankaj Gupta, Finance Officer of Delhi branch, contended that GST audit would not be applicable on Delhi branch as the turnover for that branch did not surpass the threshold. Whether the contention of Mr. Pankaj Gupta was correct or not. Substantiate.

Solution: GST audit would be applicable on Delhi branch. As per section 35(5) read with rule 80(3), the aggregate turnover calculation must be PAN based, which means that once the turnover under the PAN is more than ₹ 5 crores, all business entities registered under GST for that PAN will be liable for GST audit for that FY. **Contention of Mr. Pankaj, Finance Officer, was incorrect.**

Illustration 6.

Mr. Anuj, a Chartered Accountant by profession, has been appointed as GST auditor for ABC Ltd. The management has asked Mr. Anuj for GST audit and to file GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Mr. Anuj contended that he has been appointed only for GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the management. In context of above dispute, you have to suggest whether the contention of Mr. Anuj is correct or not. Justify.

Solution: GST auditor's prime responsibility on this engagement is limited to GST audit, audit of reconciliation statement between books of accounts vis-a-vis GST returns prepared by the Company. The GST auditor is, however, not responsible for any compliances like uploading GST periodic returns for the relevant audit period. Since, in the given situation, Management has asked the auditor Mr. Anuj to conduct besides GST Audit filing of GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Accordingly, Mr. Anuj has rightly refused that his scope is limited to GST Audit and the scope does not cover any of the management functions. In view of above, Contention of Management to Anuj is not tenable as preparation of annual returns and its filing was the responsibility of management.

Note on treatment of Branch Transfer : Under AS-9 Revenue Recognition, branch transfers are not recognized as revenue whereas under GST, it tantamount to supply as per Schedule I to CGST Act.

4.TAX AUDIT UNDER SECTION 44AB**1.Applicability –**

Every person -

- (a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business **exceeds one crore rupees** in any previous year.

Note has been added : With effect from assessment year **2020-21**, the threshold limit, for a person carrying on business, has been **increased from ₹ 1 crore to ₹ 5 crores** in case **when cash receipts and payments made during the year does not exceed 5% of total receipt or payment, as the case may be.** In other words, **95% or more of the business transactions should be done through banking channels.**

Applicability of Tax Audit Provisions

Example 1. DB Pvt. Ltd. has total turnover of ₹ 525 lacs for the FY 2020-21.

DB Pvt. Ltd has to conduct the Audit of Books of Accounts under section 44AB of the Act for the FY 2020-21 as the turnover exceeds ₹ 5 crores.

Example 2. ABC & Co. (a partnership firm) engaged in trading of electronic goods is expecting a turnover of ₹ 165 lacs for the FY 2020-21. (Assume the partnership firm would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment).

Section 44AD would be applicable to Partnership Firm. Thus, ABC & Co. can declare the minimum profit @ 8% of the turnover as its turnover during the PY 2020-21 is not expected to exceed ₹ 2 crores. If the firm do not opt for presumptive income scheme under section 44AD, it has to get books of accounts audited u/s 44AB of the Act.

Example 3. Mr. Anand Khater, a Commission Agent is expecting commission receipts of ₹ 137 lacs during the FY 2020-21 (Assume he would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment).

Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Anand earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2020-21 in respect of commission income is expected to exceed ₹ 1 crore, he would have to get his books of accounts audited u/s 44AB of the Act.

Example 4. Mr. Vishal Raka, owning an Agency of Samsung Mobile for the city of Pune and expects the turnover of ₹ 87 lacs during the FY 2020-21.

Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Vishal earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2020-21 in respect of commission income is not expected to exceed ₹ 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the Act.

2.Note : While issuing the tax audit report under section 44AB of the Income Tax Act 1961, the Auditor should generate appropriate UDIN (**Unique Document Identification Number**) and refer the same in its report.

3.Clause (8A), The new clause inserted in part A of the form 3CD requires the assessee to state whether the assessee has opted for taxation under any of the sections 115BA, 115BAA and 115BAB.

It may be noted that all the above sections i.e.115BA, 115BAA and 115BAB are applicable to the **company assesses only**.

4. Clause 18: Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:-

- (a) Description of asset/block of assets.
- (b) Rate of depreciation.
- (c) Actual cost or written down value, as the case may be.
- (ca) Adjustment made to the written down value under section 115BAA (for assessment year 2020-21 only)
- (cb) Adjusted written down value
- (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –
 - (i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
 - (ii) Change in rate of exchange of currency, and
 - (iii) Subsidy or grant or reimbursement, by whatever name called.
- (e) Depreciation allowable.