

**CA FINAL AUDIT  
PARAM BATCH  
EXTRA NOTES**

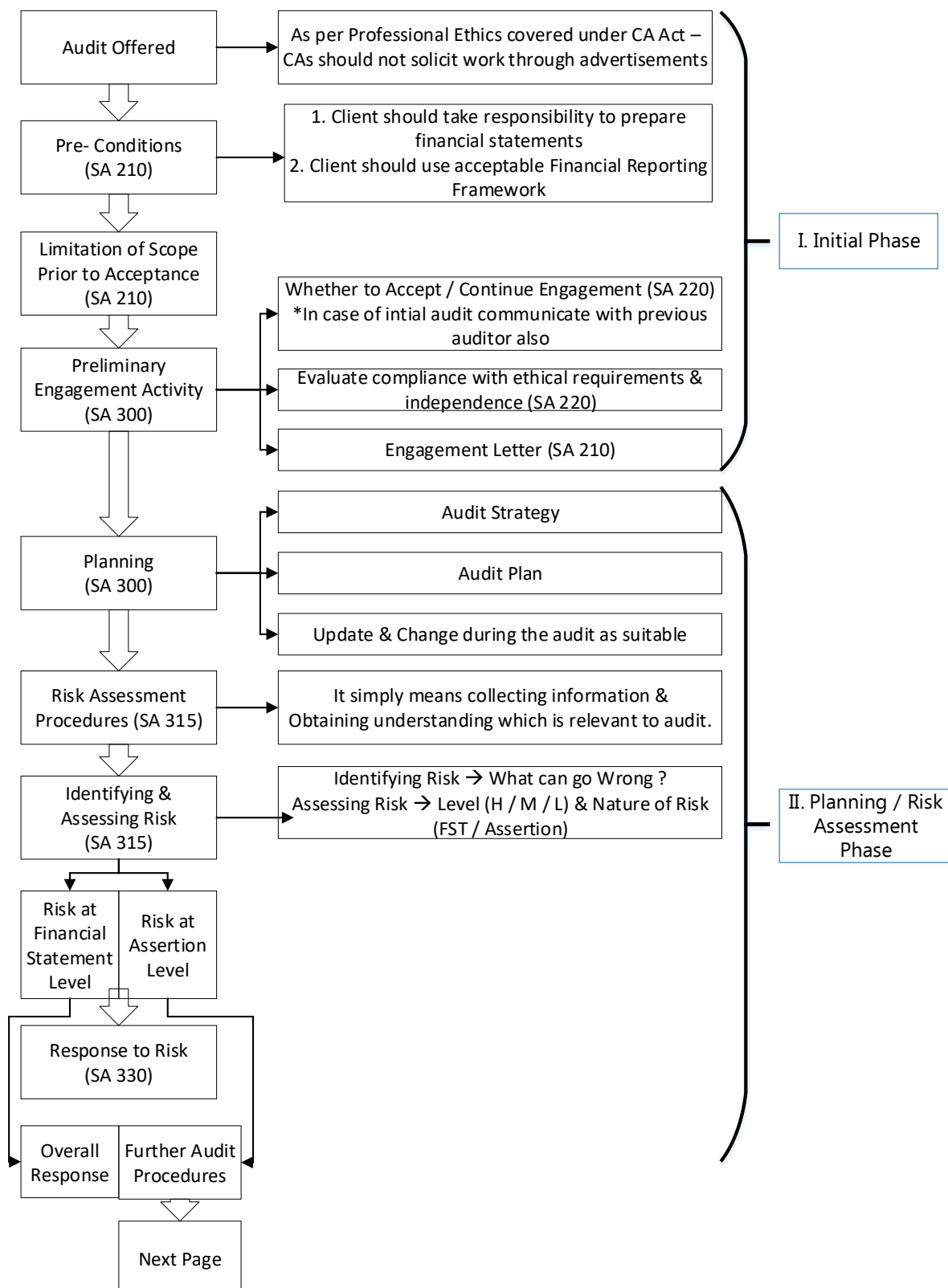
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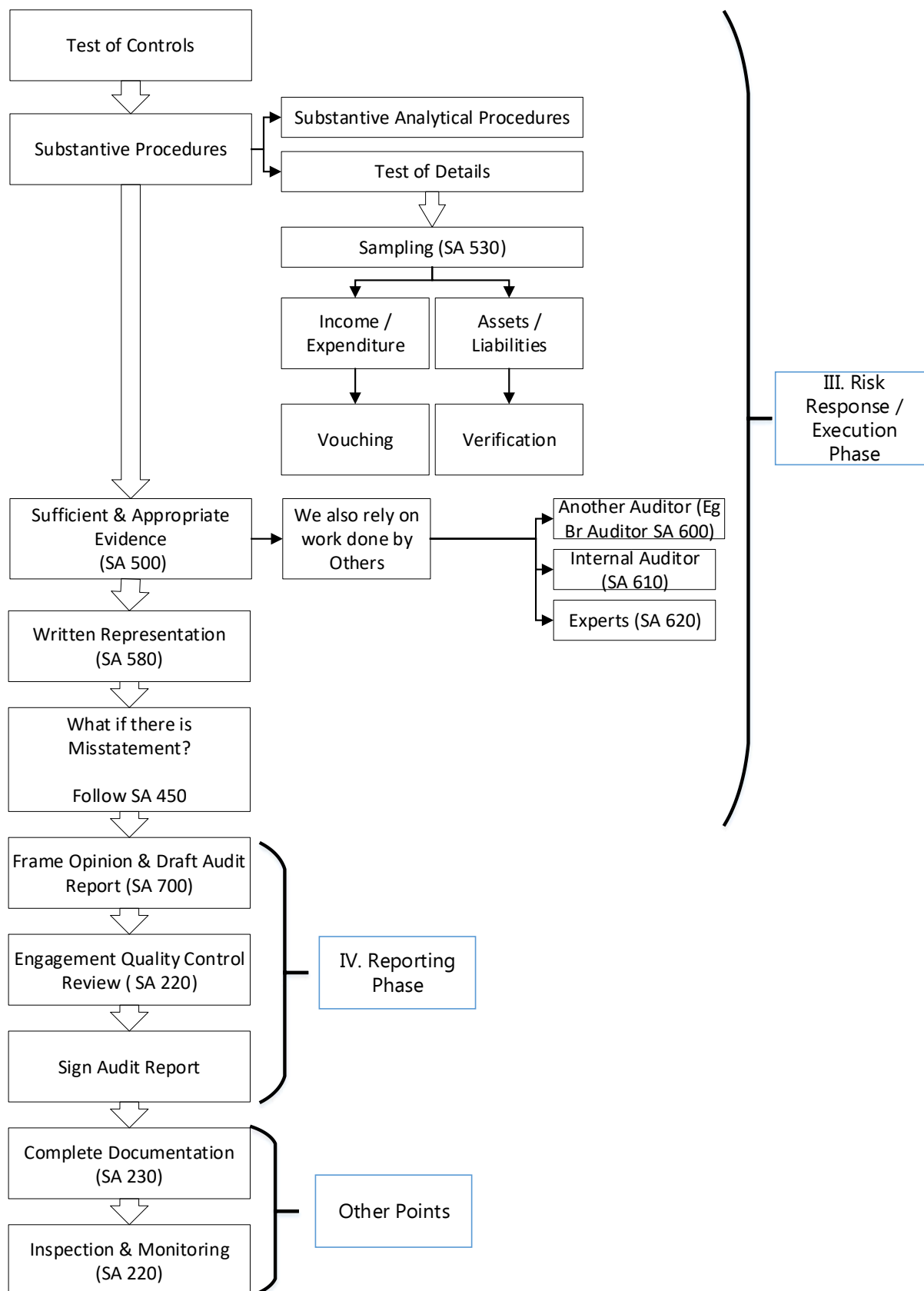
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## 1

# ENGAGEMENT STANDARDS AND QUALITY CONTROL

## CORE AUDIT PROCESS



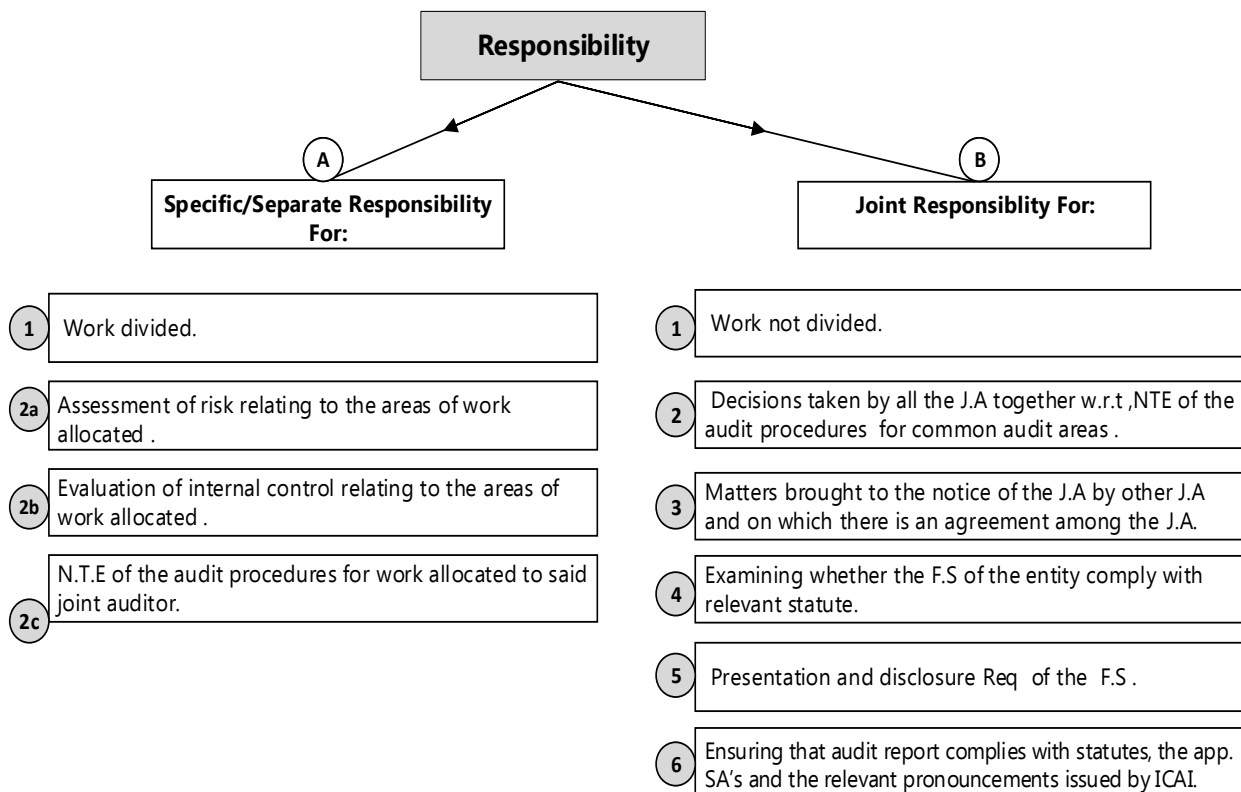


**[SA 260] COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE (TCWG)**

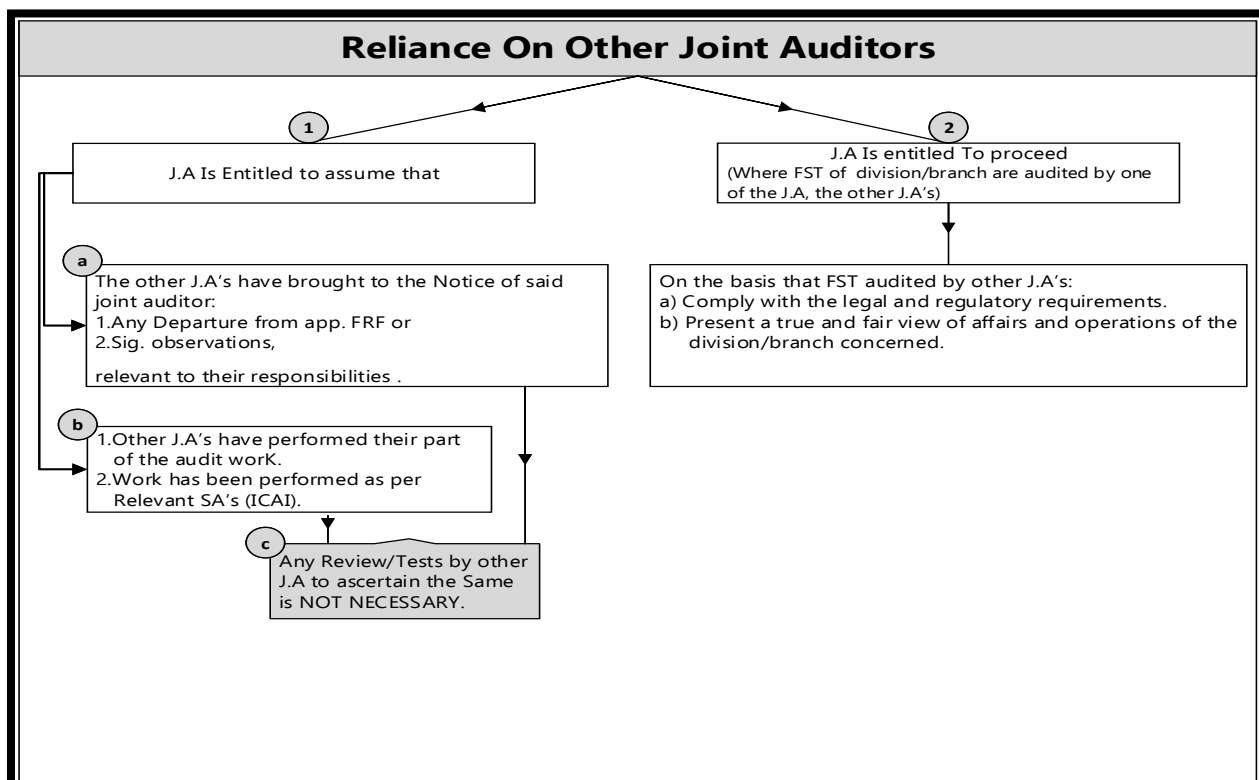
<b>CNO 24.10 -- COMMUNICATION RELATED TO KEY AUDIT MATTERS</b>	
➤ <b>Requirement of SA 260</b>	SA 260 (Revised) requires the auditor to <b>communicate with those charged with governance on a timely basis</b> . The appropriate <b>timing for communications about key audit matters</b> will vary with the circumstances of the engagement.
➤ <b>Preliminary Views Communication</b>	<p>However, the auditor may communicate <b>preliminary views</b> about key audit matters when discussing the <b>planned scope and timing</b> of the audit and may further discuss such matters when communicating <b>about audit findings</b>.</p> <ul style="list-style-type: none"> <li>▼ <b>Robust Communication</b> Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.</li> <li>▼ <b>Opportunity to TCWG</b> Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report and provides them with an opportunity to obtain further clarification where necessary.</li> </ul>
➤ <b>Draft of Auditor's Report</b>	The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion.
➤ <b>Benefits to TCWG</b>	Communication with those charged with governance recognizes their important role in overseeing the financial reporting process and provides the opportunity for those charged with governance to <b>understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report</b> . It also enables those charged with governance to consider whether <b>new or enhanced disclosures may be useful</b> in light of the fact that these matters will be communicated in the auditor's report.

## [SA 299] RESPONSIBILITY OF JOINT AUDITORS

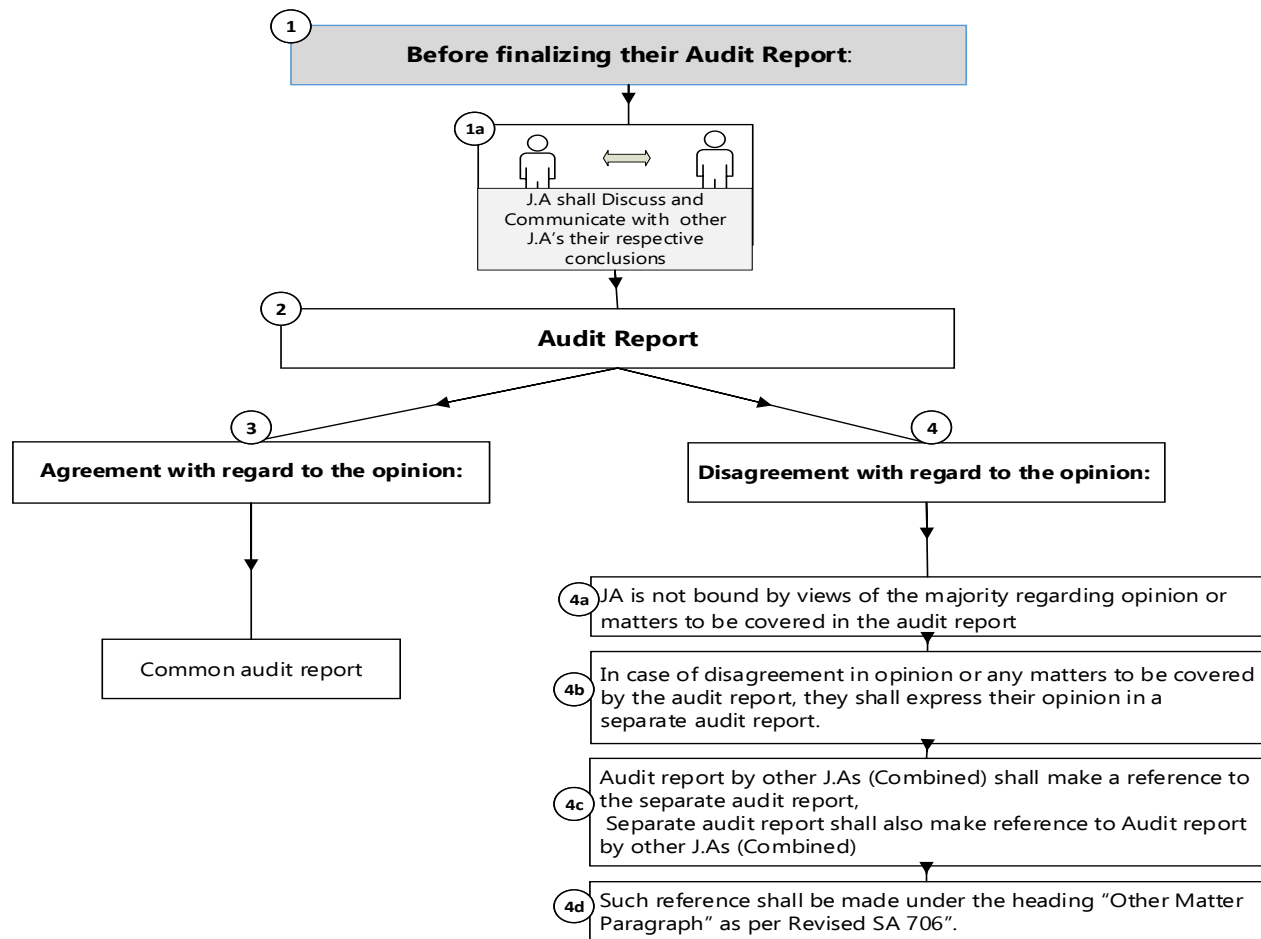
### CNO 28.20 --- RESPONSIBILITY OF JOINT AUDITORS



### RELIANCE ON OTHER JOINT AUDITORS



## AUDIT CONCLUSION AND REPORTING



## [SA 300] PLANNING AN AUDIT OF FINANCIAL STATEMENTS

### CNO 30.32 --- ADVANTAGES OF PLANNING

Appropriate **Selection & Assignment** of work --- **Responsibility & Accountability** of work delegated improves --- Clear set of instructions to juniors **makes it easier to work** --- Systematic plan with proper **emphasis on important areas** --  
 - Less chances of **overlooking** e.g. EPS checking omitted --- Identify & resolve **potential problems** e.g. need of expert in inventory determination & valuation --- Helps in **co-ordination with other auditors** --- helps in **controlling** --- **supervising** audit work --- serves as **guide in succeeding years** --- serves as evidence in case of **charge against negligence**

## [SA 600] USING THE WORK OF ANOTHER AUDITOR

### CNO 100.50 ---Responsibilities of Parent & Branch Auditor

#### ▼ Requirement of Company's Act

- **Relevant Section**

Sub-section (8) of Section 143 of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.

- **Who can do branch audit?**

- **Domestic Branch**

Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under Companies Act, 2013 or by any other person qualified for appointment as an auditor of the company under Companies Act, 2013 and appointed as such under section 139, or

- **Foreign Branch**

where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

#### ▼ SA 600

- **Clear understanding & rapport between principal auditor & branch auditor is required**

When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another Auditor".

#### ▼ Responsibility of Principal Auditor

- **Sufficient & Appropriate Evidence – Work of other auditor is sufficient**

The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

- **Mandatory Procedures**

**arrangement for co-ordination / use of work of other auditor / areas requiring special consideration / intercomponent transactions / timetable --- advise & obtain representation as to compliance to accounting, auditing and reporting requirements.**



When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

- advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for coordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of intercomponent transactions that may require disclosure and the time-table for completion of audit; and
- advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

- **Discretionary Procedures**

- **Discussion / Summary / Check List / Visit**

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor.

- **Need not apply above 4 procedures – S&A evidence that acceptable quality**

The principal auditor may conclude that it is not necessary to apply procedures such as those described in above paragraph because sufficient appropriate audit evidence previously obtained that acceptable quality control policies and procedures are complied with in the conduct of other auditor's practice.

- **NTE – Circumstances / Principal Auditor's Knowledge & Professional Competence of Other Auditor**

The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

- **Right to Visit**

**Visit – law may give right to visit & examine books of account / principal auditor would normally be entitled to rely upon the work of other auditor unless there are special circumstances requiring visit & examination of books**

In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.

▼ **Responsibility of Branch Auditor**

- **Submit Report to Principal Auditor & Also Fraud Reporting**

The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

Further as per Rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

## 2

## CARO 2016

## SLIDE 1 (After Passing CA)



Flipkart to buy professional accessories  
CI 1 Fixed Assets



Indian Airlines to book flight tickets  
CI 2 Inventory



LinkedIn to search contacts for job application  
CI 3 Loans given to Sec 189 Parties



Live.com to send emails for jobs  
CI 4 Loans given under Sec 185 186  
(Directors & Others)



Dropbox  
Dropbox to get soft copy of his documents  
CI 5 Deposits Taken



CNN to get updated about current affairs  
CI 6 Cost Records

## SLIDE 2 (Job Interviews)



SBI biggest bank of India  
CI 7 Statutory Dues



LIC biggest insurance company of India  
CI 8 Loan Repayment



Infosys India's Biggest Software Company  
CI 9 Application of funds from IPO / FPO



Finolex biggest cable company of India  
CI 10 Fraud



Micromax India's biggest Mobile Company  
CI 11 Managerial Remuneration



India's biggest network, Network 18  
CI 12 Nidhi Company

Slide 3 (Fruits between interviews)



Raisin  
CI 13 Related Party Transactions



Pineapple  
CI 14 Private Placement



Nuts  
CI 15 Non Cash Transaction



Carrot  
CI 16 Certificate of Registrations by RBI




## 3





## AUDIT COMMITTEE AND CORPORATE GOVERNANCE

MANAGEMENT DISCUSSION AND ANALYSIS	
➤ <b>Addition to BOD Report</b>	As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
➤ <b>Matters to be Covered</b>	<p><b>SO<sup>2</sup>FT</b> Discussion with <b>RISHI<sup>2</sup></b> in Management Discussion &amp; Analysis</p> <ul style="list-style-type: none"> <li>▼ <b>Segment-wise or product-wise</b> performance</li> <li>▼ <b>Outlook</b> (<i>Future of economy &amp; industry</i>)</li> <li>▼ Discussion on <b>Financial performance with respect to operational performance</b></li> <li>▼ Opportunities and <b>Threats</b> (<i>At Macro Level</i>)</li> <li>▼ <b>Risks</b> and concerns (<i>At Micro Level</i>)</li> <li>▼ <b>Industry</b> structure and developments (<i>Past Year</i>)</li> <li>▼ details of <b>Significant changes</b> (i.e change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including: <ul style="list-style-type: none"> <li>• Details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof</li> <li>• Current Ratio</li> <li>• Debtors Turnover</li> <li>• Inventory Turnover</li> <li>• Debt Equity Ratio</li> <li>• Operating Profit Margin (%)</li> <li>• Net Profit Margin (%) or sector-specific equivalent ratios, as applicable.</li> </ul> </li> <li>▼ Material developments in <b>Human Resources / Industrial Relations</b> front, including number of people employed. (<i>HR Function in company</i>)</li> <li>▼ <b>Internal control systems</b> and their adequacy (<i>ICS in Company</i>)</li> <li>▼ <b>Interest</b> Coverage Ratio</li> </ul>
➤ <b>Disclosure of Accounting Treatment:</b>	Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the <b>fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.</b>
➤ <b>Don't verify just check compliance, Useful for understanding Entity</b>	The above information presented by the management is likely to include non-financial information, which may be outside the auditor's area of expertise. In such situations, the auditor may keep in mind SA 315 relating to "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment" and the <b>fact that he is only required to review the compliance with disclosure requirements and not verify the particular facts as disclosed by the management.</b>
➤ <b>Consistent with reporting in Financial Statements</b>	The auditor should ascertain that the segment-wise or product-wise performance (sub-clause (c) as stated above) is <b>consistent with what is reported in financial statements</b> complying with AS 17 (Segment Reporting)/ Indian Accounting Standard 108 (Operating Segments) and also as per provisions of Section 133, 134 and 143 of the Companies Act, 2013.

## 4

## BANK AUDIT

SLR REQUIREMENTS	
<p>➤ <b>Statutory Liquidity Ratio (SLR) Requirements</b></p>	<p>The Reserve Bank of India requires statutory central auditors of banks to verify the compliance with SLR requirements of <b>12 odd dates in different months of a financial year not being Fridays. The resultant report is to be sent to the top management of the bank and to the Reserve Bank.</b></p> <p>The report of the statutory auditors in relation to compliance with SLR requirements has to cover two aspects:</p> <ul style="list-style-type: none"> <li>▼ <b>Correctness of the compilation of DTL (Demand and Time Liabilities) position; and</b></li> <li>▼ <b>Maintenance of liquid assets.</b></li> </ul>
<p>➤ <b>Audit approach and procedure</b></p>	<ul style="list-style-type: none"> <li>▼ <b>RBI Requirements</b> Obtain an understanding of the relevant circumstances (<i>Requirements</i>) of the RBI, particularly regarding <b>composition of items of DTL.</b></li> <li>▼ <b>Role of Branch Auditors</b> Require the <b>branch auditors to send their weekly trial balance</b> as on Friday and these are consolidated at the head office. Based on this consolidation, the DTL position is determined for every reporting Friday. The statutory central auditor should request the branch auditors to verify the correctness of the trial balances <b>relevant to the dates selected by him.</b> The branch auditors should also be specifically requested to examine the cash balance at the branch on the selected dates.</li> <li>▼ <b>Unaudited Branches</b> Review the relevant <b>returns received from un-audited branches</b> to identify any obvious errors or omissions or inconsistencies.</li> <li>▼ <b>Examine Consolidation on Test Basis</b> <ul style="list-style-type: none"> <li>• Examine whether the consolidations prepared by the bank include the relevant information in respect of <b>all the branches.</b></li> <li>• Examine, on a test basis, the consolidations regarding DTL position prepared by the bank with reference to the related <b>returns</b> received from branches.</li> <li>• The auditor at the central level should apply the audit procedures listed to the overall consolidation prepared for the bank as a whole. Where such procedure is followed, the central auditor should adequately describe the same in the <b>report.</b></li> </ul> </li> <li>▼ <b>Exclusions</b> While examining the computation of DTL, specifically examine that the following items have been <b>excluded from liabilities-</b></li> </ul> <p> <b>Shortcut:</b> - RIL-Mobile lead to exclusion of companies from industry</p> <ul style="list-style-type: none"> <li>• Part amounts of <b>Recoveries</b> from the borrowers in respect of debts considered bad and doubtful of recovery.  (<i>Recovery of Bad Debts is not a liability</i>)</li> <li>• Amounts received in Indian currency against import bills and held in sundry deposits pending receipts of final rates.  (<i>Such money is not in nature of returnable deposit</i>)</li> </ul>

	<ul style="list-style-type: none"> <li>Un-adjusted deposits/balances lying in Link branches for agency business like dividend warrants, interest warrants, refund of application money, etc., in respect of shares/debentures to the extent of payment made by other branches but not adjusted by the link branches.   (Link branch of bank deals with RBI and other Banks, if money is received by such branches but not yet used or adjusted)</li> <li>Margins held and kept in sundry deposits for funded facilities.   (Money deposited in bank before giving loan)</li> </ul> <p>▼ <b>Inclusions</b>  Shortcut: - New CBI<sup>2</sup> order included many items. </p> <p>Similarly, specifically examine that the following items have been <b>included in liabilities</b></p> <ul style="list-style-type: none"> <li>The reconciliation of <b>Nostro</b> accounts (with Nostro Mirror Accounts) needs to be scrutinized carefully to analyze and ascertain if any inwards remittances are received on behalf of the customers / constituents of the bank and have remained unaccounted and / or any other debit (inward) entries have remained unaccounted and are pertaining to any liabilities for the bank.</li> <li><b>Net Credit balance in branch adjustment accounts</b> including those relating to foreign branches.</li> <li><b>Borrowings</b> from abroad by banks in India needs to be considered as 'liabilities to other' and thus, needs to be considered at gross level unlike 'liabilities towards banking system in India', which are permitted to be netted off against 'assets towards banking system in India'. Thus, the adverse balances in Nostro Mirror Account needs to be considered as 'Liabilities to other'</li> <li><b>Interest on deposit as at the end of the half year</b> reversed in the beginning of the next half-year.</li> <li>It may be noted that, even though <b>Interest</b> accrues daily, it is recorded in the books only at periodic intervals. Thus, examine whether such interest accrued but not accounted for in books is included in the computation of DTL.</li> </ul> <p>▼ <b>Valuation of Securities</b>  The auditor should examine whether the valuation of securities done by the bank is in accordance with the guidelines prescribed by the RBI.</p> <p>▼ <b>Reporting</b></p> <ul style="list-style-type: none"> <li><b>Unaudited Branches</b>  While reporting on compliance with SLR requirements, the auditor should specify the number of unaudited branches and state that he/she has relied on the returns received from the unaudited branches in forming an opinion</li> <li><b>Automated Data Flow</b>  Recently, there has been introduction of Automated Data Flow (ADF) for CRR &amp; SLR reporting and the auditors should develop necessary audit procedures around this.</li> </ul>
<b>ADVANCES</b>	
<b>NON-PERFORMING ASSETS</b>	
<p>An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.</p> <p>The following criteria are to be applied for determining the status of various types of credit facilities:  Shortcut: - <b>T-C<sup>2</sup>ABS</b> loan account is NPA </p>	

- (a) **Term Loans:** A term loan is treated as a non-performing asset (NPA) if interest and/or instalment of principal remain **overdue for a period of more than 90 days**.
- (b) **Cash Credits and Overdrafts:** A cash credit or overdraft account is treated as NPA if it remains out of order.  
An account should be treated as 'out of order' if the **outstanding balance remains continuously in excess of the sanctioned limit/drawing power**. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but **there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'**.
- (c) **Credit Card Accounts:** Credit card account will be treated as non-performing asset if the **minimum amount due**, as mentioned in the statement, is not paid fully within **90 days from the next statement date**. The **gap between two statements should not be more than a month**. It is further suggested by RBI that banks should follow this uniform method of determining over-due status for credit card accounts while reporting

Statement for HDFC Bank Credit Card		
Statement Date: 07/11/2016	Card No: 5522 74XX XXXX 5541	
Payment Due Date	Total Dues	Minimum Amount Due
27/11/2016	593.16	200.00
Credit Limit	Available Credit Limit	Available Cash Limit
24,000	23,407	0.00

to credit information companies and for the purpose of levying of penal charges, viz., late payment charges, etc., if any.

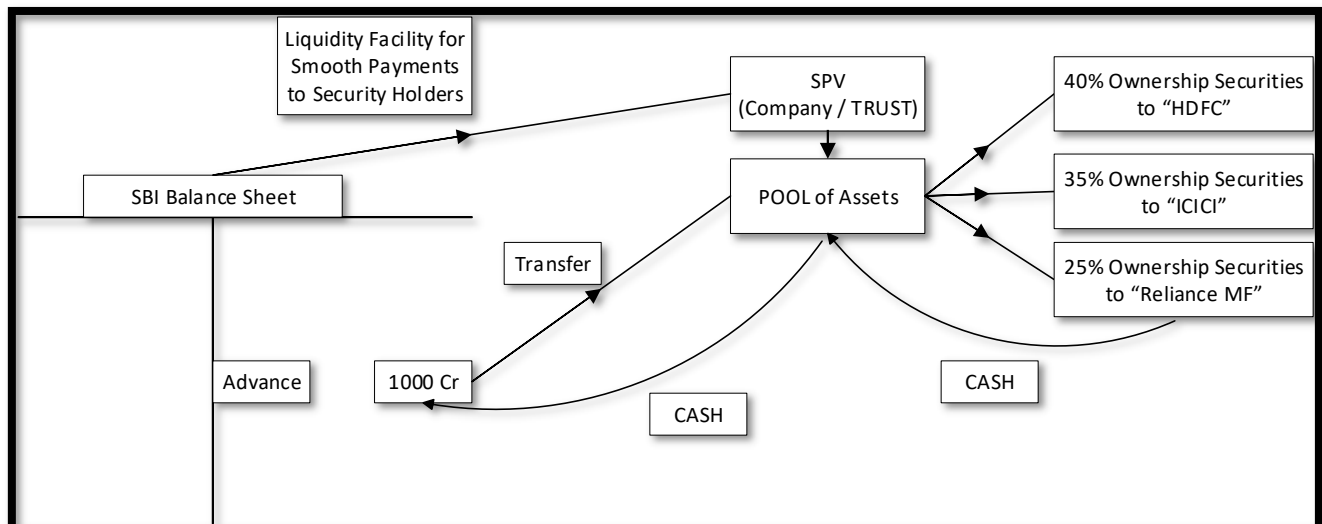
- (d) **Agricultural Advances:** A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons and, a loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

As per the guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops would be treated as "short duration" crops. The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers Committee in each State. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him.

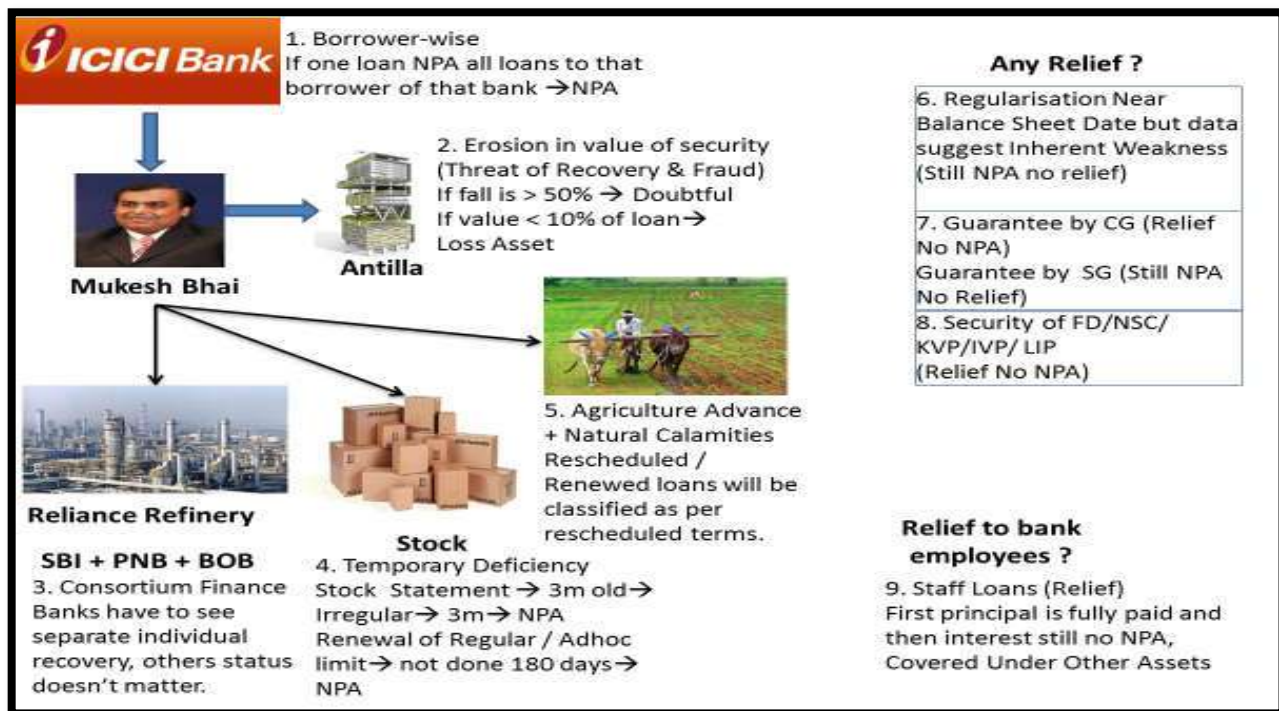
- (e) **Bills Purchased and Discounted:** Bills purchased and discounted are treated as NPA if they **remain overdue and unpaid for a period of more than 90 days**.
- (f) **Securitisation:** The asset is to be treated as NPA if the **amount of liquidity facility remains outstanding for more than 90 days**, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.



## Securitisation



## EXCEPTIONS &amp; CLARIFICATIONS OF NPAs



## INCOME RECOGNITION ON ADVANCES GRANTED

Audit of Revenue Items is **RATTLING-CM**

▼ **Re-Negotiated / Re-Scheduled Loans**

**Fees and commissions earned by the banks as a result of re-negotiations or rescheduling** of outstanding debts should be recognized on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit. Test checks the Interest earned by the banks for sample items.

▼ **Discount Allocation in Bills Purchased**

In the case of bills purchased outstanding at the close of the year the discount received thereon should be **properly apportioned between the two years**. [The Unexpired discount / rebate on bills discounted i.e., where part of receipt comprising discount charges on bills purchased relate to the period beyond the year-end, should be recorded as "Other Liabilities"]. **Interest (discount) component paid by Bank/Branch on rediscount of bills from other financial institutions, is not to be netted off from the discount earned on bills discounted.**

▼ **On Take-out Finance:**

In the case of take-out finance, if based on record of recovery, the account is classified by the lending bank



as NPA, it should not recognize income unless realized from the borrower/taking-over institution (if the arrangement so provides).

#### ▼ **Test Check**

**Test check** the Fees and commissions earned by the banks made for commission on Bills for collection; Letters of credit; Bank Guarantees.

#### ▼ **On Leased Assets:**

The finance charge component of finance income (as defined in AS 19 – Leases) on the leased asset which has accrued and was credited to income account before the asset became non-performing, and remaining unrealized, should be reversed or provided for in the current accounting period.

#### ▼ **Income from Investments**

- **Interest Income on Investments:** This includes all income derived from Government securities, bonds and debentures of corporates and other investments by way of interest and dividend, except income earned by way of dividends, etc., from subsidiaries and joint ventures abroad/in India. Broken period interest paid on securities purchased and amortisation of premium on SLR investments is net off from the interest income on investments.
- **Profit on Sale of Investments:** Investments are dealt in the course of banking activity and hence the net profit or loss on sale of investments is taken to profit and loss account.
- **Profit/Loss on Revaluation of Investments:** In terms of guidelines issued by RBI, investments are to be valued at periodical intervals and depreciation or appreciation in valuation should be recognized and taken to profit and loss account.

#### ▼ **NPA Related Matters**

*(Reversal of Interest Income for First Time NPAs / Effect on Other Incomes / Ways of Accounting to give Effect of Reversal)*

If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, the entire interest accrued and credited to income account in the past periods, **should be reversed or provided for if the same is not realized. This will apply to Government guaranteed accounts also.**

In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require **that banks should not recognize income on non-performing assets until it is actually realized.** When a credit facility is classified as non-performing for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. **This will apply to Government guaranteed accounts also.**

**Memorandum Account:** On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest. However, banks may continue to record such accrued Interest in a Memorandum account in their books for control purposes. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

In respect of NPAs, **fees, commission and similar income** that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

Further, in case of banks which have **wrongly recognized income in the past should reverse the interest if it was recognized as income during the current year or make a provision for an equivalent amount if it was recognized as income in the previous year(s).**

Furthermore, the auditor should enquire if there are any **large debits in the Interest Income account that have not been explained.** It should be enquired is there are any communications from **borrowers pointing out differences in Interest charge, and whether action as justified has been taken in this regard.**

**Interest on advances** against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies **may be taken to income account on the due date, provided adequate margin is available in the accounts.**

#### **On Partial Recoveries in NPAs:**

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), banks are **required to exercise the right of**

**appropriation of recoveries in a uniform and consistent manner and adopt an accounting policy as per appropriations.** The appropriate policy to be followed is to recognize income as per AS 9 when certainty attaches to realization and accordingly amount reversed/derecognized (earlier) or not recognized (after NPA) in the past should be accounted.

Interest partly/fully realized in NPAs can be taken to income. However, it should be ensured that the credits towards interest in the relevant accounts are **not out of fresh / additional credit facilities sanctioned to the borrowers concerned.**

▼ **General Points – No Unrecorded Income / Recorded in Proper Amount / Allocated to Proper Period / Only Current Period Transactions**

In carrying out an audit of income, the auditor is primarily concerned with obtaining reasonable assurance that the recorded income arose from transactions, which took place **during the relevant period and pertain to the bank**, that there is **no unrecorded income**, and that income **is recorded in proper amounts and is allocated to the proper period.**

▼ **Bills for Collection – Recovery Basis**

**In the case of bills for collection**, the auditor should also examine the procedure for crediting the party on whose behalf the bill has been collected. **The procedure is usually such that the customer's account is credited only after the bill has actually been collected from the drawee either by the bank itself or through its agents, etc.** This procedure is in consonance with the nature of obligations of the bank in respect of bills for collection. The commission of the branch becomes due only when the bill has been collected.

▼ **Materiality for Accrual Basis / Ultimate Collection**

RBI has advised that in respect of any income which **exceeds one percent of the total income of the bank if the income is reckoned on a gross basis or one percent of the net profit before taxes if the income is reckoned net of costs**, should be considered on accrual as per AS-9.

If any item of income is not considered to be material as per the above norms, it may be **recognized when received and the auditors need not qualify the statements** in that situation.

Banks recognize income (such as interest, fees and commission) on accrual basis, i.e., as it is earned. **It is an essential condition for accrual of income that it should not be unreasonable to expect its ultimate collection.** In modern day banking, the entries for interest income on advances are automatically generated through a batch process in the CBS system.

### SOLUTION FOR NPAs

#### SALE/ PURCHASE OF NPAS

In case of a sale/ purchase of NPAs by the bank, the auditor should examine the policy laid down by the Board of Directors in this regard relating to procedures, valuation and delegation of powers.

▼ **Sale**

In case of sale of an NPA, the auditor should also ensure that:

- only such NPA has been sold which has remained NPA in the books of the bank for **at least 2 years.**
- the NPA has been sold at **cash basis only.**
- the assets have been sold/ purchased **"without recourse"** only.
- subsequent to the sale of the NPA, the bank **does not assume any legal, operational or any other type of risk** relating to the sold NPAs.
- on the sale of the NPA, the same has been **removed from the books** of the account.
- the **short fall in the net book value** has been charged to the profit and loss account.
- where the **sale is for a value higher than the NBV**, no profit is recognised, and the excess provision has not been reversed but retained to meet the shortfall/ loss on account of sale of other non-performing financial assets.

▼ **Purchase**

Similarly, in case of purchase of NPAs, the auditor should verify that:

- the bank has not purchased an NPA which it had **originally sold**
- the NPA purchased has been subjected to the **provisioning requirements** appropriate to the classification status in the books of the purchasing bank.
- any **recovery** in respect of an NPA purchased from other banks is first adjusted against its acquisition cost and only the recovered amount in excess of the acquisition cost has been recognised as profit.

- for the purpose of capital adequacy, banks have assigned **100% risk weights** to the NPAs purchased from other banks.

## FOREIGN EXCHANGE

### FOREIGN EXCHANGE TRANSACTIONS

**Shortcut to Remember: - F<sup>3</sup>AN of Foreign Exchange Trading**



#### ▼ FCNR Facility Rules

Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.

#### ▼ Forward Contracts Extension or Cancellation

Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorised, and necessary charges have been recovered.

#### ▼ Foreign Bill Negotiation

Check foreign bills negotiated under letters of credit. *(Exporter come to bank with all documents of export & letter of credit issued by foreign customer, on the basis of these documents exporter gets advance receipt, this is called foreign bill negotiation)*

#### ▼ Accounting of Remittances

Check whether inward/outward remittance have been properly accounted for.

#### ▼ Nostro Account

- **Balance within Limits**

Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the RBI.

- **Reconciliation**

Ensure verification/reconciliation of Nostro and Vostro account transactions/balances.

#### ▼ Foreign Exchange Trading

- **Dealing Room Operations**

Ensure adherence to the guidelines issued by RBI/HO of the bank about dealing room operations.

- **Reasonable Position**

Ensure that the overbought/oversold position maintained in different currencies is reasonable taking into account the foreign exchange operations.

## 5

## GENERAL INSURANCE

## VERIFICATION OF RE-INSURANCE OUTWARD

The following steps may be taken by the auditor in the verification of re-insurance outward:

▼ **In the flow of reinsurance outward process**

- **Parameters and Guidelines applicable**

The auditor should check whether the pattern of re-insurance underwriting for outward cessions fits within the **parameters and guidelines applicable** to the relevant year. The auditor should also check whether the cessions have been made as per the stipulation applicable to various categories of risk.

- **Agreements**

The auditor should verify whether the **cessions** have been made as per the **agreements** entered into with various companies.

- **Foreign Exchange Payment to Foreign Reinsurers**

It should also be seen whether the outward remittances to foreign re-insurers have been done as per the foreign exchange regulations.

- **Commission Receivable**

- It should also be seen whether the **commission** on cession has been calculated as per the terms of the agreement with the re-insurers.
- The auditor should verify the computation of **profit commission** for various automatic treaty arrangements in the light of the periodical accounts rendered and in relation to outstanding loss pertaining to the treaty.

- **Losses Confirmed by Re-insurers**

He should see whether provisioning for **outstanding losses** recoverable on cessions have been confirmed by the re-insurers and in the case of major claims, documentary support should be insisted and verified.

- **Cash Loss Recoveries (Immediate Payment if loss amount exceeds pre decided limit)**

The auditor should examine whether the **cash loss recoveries** have been claimed and accounted on a regular basis.

▼ **Records & Accounting**

- **Underwriting Returns**

The auditor should verify that re-insurance **underwriting returns** received from the operating units regarding premium, claims paid, outstanding claims tally with the audited figures of premium, claims paid and outstanding claims.

- **Accounting**

**Accounting aspects** of the re-insurance cession premium, commission receivable, paid claims recovered, and outstanding losses recoverable on cessions have to be checked.

- **Sub Ledger**

The auditor should also check that the **re-insurers balance** on cessions and whether the sub ledger balances tallies with the general ledger balances.

- **Opening Outstanding Claims Receivable**

He should verify whether **opening outstanding claims** not received during the year find place in the closing outstanding claims vis-a-vis the reinsurance inwards outstanding losses payable on cessions appears in both opening and closing list. If not, the reason for the same should be analysed.

- **Closing Claims Received Shown as Outstanding**  
The auditor should also verify whether the Claims Received item appears in **Outstanding Claims list** by error. This can be verified at least in respect of major claims.
- **Confirmation**  
He should verify whether the balances with re-insurers are supported by necessary **confirmation** obtained from them.
- **Provisioning**  
The auditor should review the **individual accounts** to find out whether any balance requires provisioning / write off or write back.
- **Subsequent Events**  
Any **major event after the Balance Sheet** date which might have wider impact with reference to subsequent changes regarding the claim recovery both paid and outstanding and also re - insurance balances will need to be brought out suitably.
- **Percentage Pattern (Analytical Procedures)**  
The auditor should check **percentage pattern** of gross to net premium, claims paid and outstanding claims to ensure comparative justification.

#### AUDIT OF PREMIUM

- **Most Important Basic Rule -- No Risk Assumption without Premium**  
No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until the premium payable is received or is guaranteed to be paid by such person in such manner and within such time, as may be prescribed, or unless and until deposit of such amount, as may be prescribed, is made in advance in the prescribed manner. The premium receipt of insurance companies carrying on general insurance business normally arise out of three sources, viz., premium received from direct business, premium received from reinsurance business and the share of co - insurance premium.  
  
**Verification of Premiums -Verification of premium is of utmost importance to an auditor. The auditor should apply, inter alia, the following procedures for verification of premium –**
- **Internal Control System & Compliance**  
Before commencing verification of premium income, the auditor should look into the **internal controls and compliance** thereof as laid down for collection and recording of the premiums. The auditor should broadly review the **systems** used by the company to collect money, underwrite and issue the policy.
- **Premium Collection**
  - ▼ **Periodical Premium**  
Where policies have been issued with a provision to **collect premium periodically** (i.e., under instalment clause, special declaration policy or periodical declaration under open policies in marine insurance), the auditor should check whether premium are collected as and when they become due.
  - ▼ **Collection by Agents**  
The auditor should also check that money **collected by the agents** from the policyholders have been received by the company as quickly as possible.
  - ▼ **Outstanding Premiums**  
The auditor should verify whether instalments falling due on or before the balance sheet date, whether received or not, have been accounted for as premium income as for the year under audit. Also examine whether instalments of premium falling due in the subsequent year have not been recognised in the accounts as **outstanding premium**.
  - ▼ **Advance**  
The auditor should verify the year end transactions to check that amounts received during the year in respect of risks commencing/ instalments falling due on or after the first day of next financial year are not credited to premium account but credited to **Premium Received in Advance Account**.

➤ **Premium Register**

The auditor should check whether **Premium Registers** have been maintained chronologically, for each underwriting department, giving full particulars including service tax charged as per acceptance advice on a day-to-day basis. The auditor should verify whether the figures of premium mentioned in the register tally with those in General Ledger.

➤ **Cover Notes**

The auditor should ascertain that all the **cover notes** relating to the risks assumed have been serially numbered for each class of business. The auditor should also verify that there is an adequate internal check on the issue of stationery comprising of cover notes, policy documents, stamps, etc. The auditor may apply sampling techniques for verification of larger volume of transactions.

➤ **Policy Documents**

The auditor should verify that **policy documents have not been issued**, in case:

- ▼ premium had **not been collected** at all;
- ▼ premium had been collected but the relevant **cheques have been dishonoured**; (refer Cheque Dishonoured Book);
- ▼ premium had not immediately been collected due to furnishing of a bank guarantee or cash deposit but either the **deposit or guarantee had fallen short or has expired or the premium had been collected beyond the stipulated time limit** (i.e., there is a shortfall in bank guarantee account or cash deposit account of the insured);
- ▼ premium had not been collected due to **risk cover being increased or where stipulated limits have been exhausted** in respect of open declaration policies (i.e., where premium has accrued but has not been received); and
- ▼ instalments of premium **have not been collected** in time in respect of certain categories of policies, e.g., marine-cum-erection policies where facility has been granted for premium being paid in **instalments** (such facility is normally available subject to certain conditions, e.g., that the first equated instalment is more by 5 per cent of the total premium payable by instalments).

➤ **GST**

The auditor should verify whether **GST** has been charged from the insured, at the rates in force, on the total premium for all classes of business other than those exempted under service tax laws. Check whether GST so collected is disclosed under 'Current Liabilities' to the extent not deposited in Government's Account.

In the case of co-insurance business, the auditor should verify whether **GST** at the rates in force, based on the place of business and place of delivery on the whole premium has been charged or collected from the insured by the company in case it is the leader. Check that GST/service tax so collected on premium charged from the insured by the company have been regularly deposited in the Government's Account.

➤ **Accounting**

▼ **Risk Inception**

The auditor should ensure that premium in respect of **risks incepting** during the **relevant accounting year** has been accounted as premium income of that year on the basis of premium revenue recognition. The auditor, as part of his audit procedures, should make an assessment of the reasonability of the risk pattern established by the management. The auditor should also see whether the premium received during the year but pertaining to risk commencing in the following year has been accounted for under the head 'Premium Received in Advance' and has been disclosed separately. Normally, such instances relate to the issue of cover notes and certificates at the end of the accounting year relating to risks commencing in the next accounting period. Generally, there is a column in the Premium Register called "Commencement of Risk", indicating the date and time from which the risk under the policy issued has commenced.

▼ **Cut Off Date**

The auditor should verify the collections **remitted by agents** immediately after the **cut -off date** to verify the risk assumed during the year under audit on those collections.

▼ **After Balance Sheet Date**

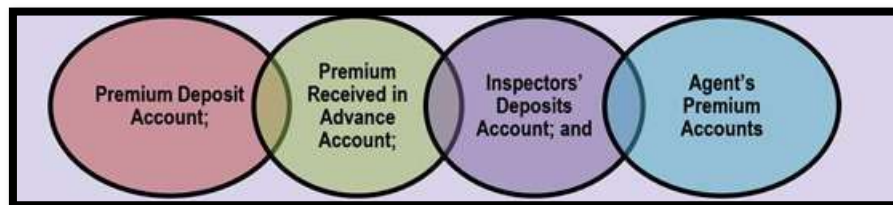
The auditor should verify the collections lodged by **agents after the balance sheet date** to see whether any collection pertains to risk commencing for the year under audit. The auditor should also

check that the premium has been recorded originally at the gross figure, i.e., without providing for unexpired risks and reinsurances.

➤ **Special Points**

▼ **Reinsurance**

The auditor should examine whether the **reinsurance company** is **not under a risk** in respect of amount lying at credit and outstanding as at the year-end in the following accounts:



▼ **Co-Insurance**

In case of **co-insurance business**, where the company is not the leader, because of the non-availability of the relevant information in many cases the premium is not booked even though the risk has commenced during the relevant accounting year. The auditor should see that the company's share of the premium has been accounted for on the basis of the available information on nature of risk and the provisional premium charged by the leading insurer. The auditor should examine the communications issued to the company by the leading insurers advising them of the company's share of premium income. Such communications should be seen even in respect of the post-audit period. Where the company is the leader, the auditor should obtain a reasonable assurance that only the company's own share of premium has been shown as income and accounts of the other companies have been credited with their share of the premium collected.

▼ **Cancellation & Refund**

• **Cancellation**

The auditor should also check that in case of **cancellation** of policies/cover notes issued, no risk has been assumed between the date of issue and subsequent cancellation thereof.

• **Refund**

Where premium originally received has been **refunded**, the auditor should verify whether the agency commission paid on such premium has been

## AUDIT OF COMMISSION

➤ **Commission:**

▼ **Definition of Commission & Its 2 types**

The commission is the consideration payable for getting the insurance business. The term 'commission' is used for the payment of consideration to get Direct business. Commission received on amount of premium paid to a re-insurer is termed 'Commission on reinsurance accepted' and is reduced from the amount of commission expenditure.

▼ **Internal Control Over Commission**

The internal control with regard to commission is aimed at ensuring that commission is paid in accordance with the rules and regulations of the company and in accordance with the agreement with the agent, commission is paid to the agent who brought the business and the legal compliances, for example, tax deduction at sources, GST on reverse charge mechanism and provisions of the Insurance Act, 1938 have been complied with.

➤ **Role of Auditor:**

The auditor should, *inter alia*, do the following for verification of commission:

- ▼ Ensure that the agent is **not blacklisted by IRDAI** and is not terminated for fraud etc.
- ▼ Ensure that commission is paid to the **agent/broker who has solicited** the business
- ▼ Ensure that commission is **paid as per rates** with the agent and rates filed with IRDAI
- ▼ Test check **correctness of amounts** of commission allowed.
- ▼ Check whether the **vouchers are authorized by the officers-in-charge** as per rules in force and income tax is deducted at source, as applicable.
- ▼ Ensure that commission is **not paid in excess** of the limits specified by IRDAI

- ▼ **Vouch disbursement entries** with reference to the disbursement vouchers with copies of commission bills and commission statements.
- ▼ Check whether commission outgo for the period under audit been **duly accounted**.
- ▼ Scrutinize **agents' ledger and the balances**, examine accounts having debit balances, if any, and obtain information on the same. Necessary rectification of accounts and other remedial actions have to be considered.

## AUDIT OF CLAIM

### ➤ Claims Provisions –

#### ▼ Verification

The auditor should satisfy himself that **the estimated liability provided** for by the management is adequate with reference to the relevant claim files/dockets, keeping in view the following:

- that **intimation of loss** is received within a reasonable time and reasons for undue delay in intimation are looked into.
- that due provision has been made in respect of **claims lodged at any office** of the company other than the one from where the policy was taken, e.g., a vehicle insured at Mumbai having met with an accident at Chennai necessitating claim intimation at one of the offices of the company at Chennai.
- that provision has been made for only such claims for which the company is **legally liable**, considering particularly, (a) that the risk was covered by the policy, if in force, and the claims arose during the currency of the policy; and (b) that claim did not arise during the period the company was not supposed to cover the risk, e.g., where the premium was not paid or where cheques covering premium have been dishonored (refer section 64VB of the Insurance Act, 1938) or where a total loss under a policy has already been met/settled.
- Insurance companies normally have an 'initial provision' or '**default provision**' based on a pre-determined formula or on a primary assessment of the damage by a surveyor. The auditor would need to review the pre-determined formula to ensure that initial reserving made is adequate

In certain circumstances, the claims are incurred by the insurance company but are not reported at the balance sheet date by the insured. Such claims are known as claims **incurred but not reported (IBNR)**. The auditor should check the records for subsequent periods to ascertain that adequate provision has been created for such claims also.

- that in determining the amount of provision, the '**average clause**' has been applied in case of under-insurance by parties.
- that the provision made **is net of payments** made 'on account' to the parties wherever such payments have been booked to claims.
- that the claims are provided for net of **estimated salvage**, wherever applicable
- that in case of **co-insurance** arrangements, the company has made provisions only in respect of its own share of anticipated liability (11) that provision has been made for all unsettled claims as at the year-end on the basis of claims lodged/communicated by the parties against the company. The date of loss (and not the date of communication thereof) is important for recording/ recognizing the claim as attributable to a particular year.
- that the provision made is normally not in excess of the amount insured except in some categories of claims where matters may be sub-judices in legal proceedings which will determine the quantum of claim, **the amount of provision should also include survey fee and other direct expenses**.

#### (Year End)

- that provision has been made for **all unsettled claims** as at the yearend on the basis of claims lodged/communicated by the parties against the company. The date of loss (and not the date of communication thereof) is important for recording/ recognizing the claim as attributable to a particular year.



- that **the claims status reports** recommended to be prepared by the Divisional Manager on large claims outstanding at the year-end have been reviewed with the contents of relevant files or dockets for determining excess/short provisions. The said report should be complete as to material facts to enable the auditor to take a fair view of the provision made.
- that wherever **legal advice** has been sought or the claim is under litigation, the provision is made according to the legal advisor's view and differences, if any, are explained.
- that provisions have been retained as at the year-end in respect of **guarantees** given by company to various Courts for claims under litigation.
- that in the case of amounts purely in the **nature of deposits with courts** or other authorities, adequate provision is made, and deposits are stated separately as assets and provisions are not made net of such deposits.
- that in determining the amount of provision, **events after the balance sheet date** have been considered, e.g., (a) claims settled for a materially higher/lower amount in the post -audit period; (b) claims paid by other insurance companies during the year under audit and communicated to company after the balance sheet date where other companies are the leaders in co-insurance arrangements; and (c) further reports by surveyors or assessors & (d), re-insurance cover available is considered.
- that wherever an **unduly long time has elapsed** after the filing of the claim and there has been no further communication and no litigation or arbitration dispute is involved, the reasons for carrying the provision have been ascertained.
- that **no contingent liability** is carried in respect of any claim intimated in respect of policies issued.

**(Special Points)**

▼ **Consolidated Figures**

The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Thereafter, based on the total consolidated figure for all the divisions/branches, the Head Office considers a further provision in respect of outstanding claims

▼ **Obtain information and Sampling**

The auditor should obtain from the divisions/branches, the information for **each class of business**, categorizing the claims **value-wise** before commencing verification of the claim's provisions, so that appropriate statistical sampling techniques may be applied, to ensure that representative volume of claims is verified for each class of business. The auditor should determine the total number of documents to be checked giving due importance to claim provisions of higher value.

▼ **Material Differences**

In cases of **material differences** in the liability estimated by the management and that which ought to be provided in the opinion of the auditor, the same must be brought out in the auditor's report after obtaining further information or explanation from the management. For determining the adequacy of the provisions in respect of any category of business, the auditor may resort to the method of testing the actual payments, wherever made, with the provisions made earlier for that category of business. Whether such liability has been estimated in the past on a fair and realistic basis can, thus, be examined by looking into current year's payments against provisions of the earlier year.

➤ **Claims Paid**

The auditor may determine the extent of checking of claims paid on the same line as suggested for outstanding claims. Other aspects in respect of claims paid to be examined by the auditors are as follows:

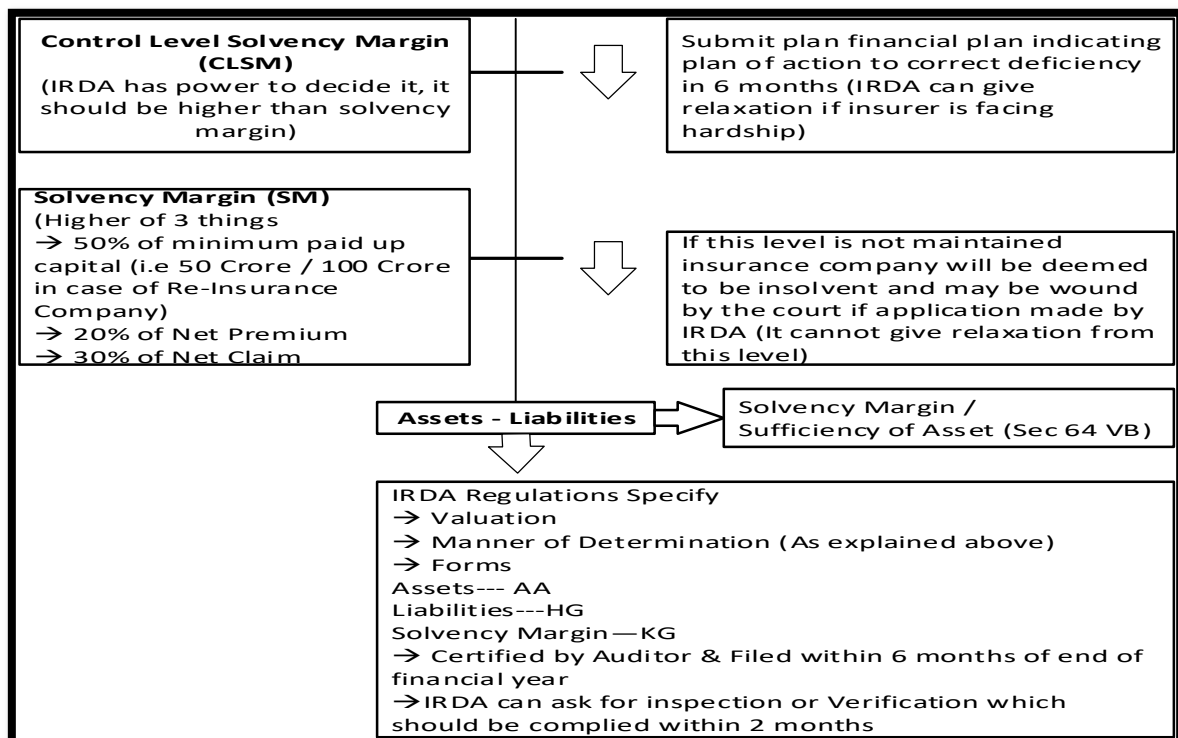
- ▼ that the claims payments have been duly **sanctioned** by the authority concerned and the payments of the amounts are duly acknowledged by the claimants;
- ▼ that payment made against claims **partially settled** have been duly vouched. In such cases, the sanctioning authority should be the same as the one which has powers in respect of the total claimed amount;

- ▼ that in case of final settlement of claims, the claimant has given an **unqualified discharge note**, not involving the company in any further liability in respect of the claim; and
- ▼ that payments have been made within 30 days of the receipt of the last document received. In case, there are delays, **interest on such delays** have to be paid as per IRDAI regulation
- ▼ that the **salvage** recovered has been duly accounted for in accordance with the procedure applicable to the company and a **letter of subrogation** has been obtained in accordance with the laid down procedure;

#### Special Points

- ▼ that in case of **co-insurance** arrangements, claims paid have been booked only in respect of company's share and the balance has been debited to other insurance companies;
- ▼ that the figures of claims, wherever communicated for the year by the Division to the Head Office for purposes of **reinsurance claims**, have been reconciled with the trial balance-figure.
- ▼ that in case of claims paid on the basis of **advices** from other insurance companies (where the company is not the leader in co-insurance arrangements), whether share of premium was also received by the company. Such claims which have been communicated after the yearend for losses which occurred prior to the year-end must be accounted for in the year of audit; that the amounts of the nature of **pure advances/deposits** with Courts, etc., in matters under litigation/arbitration have not been treated as claims paid but are held as assets till final disposal of such claims. In such cases, full provision should be made for outstanding claims;

### SOLVENCY MARGIN (Sufficiency of assets)

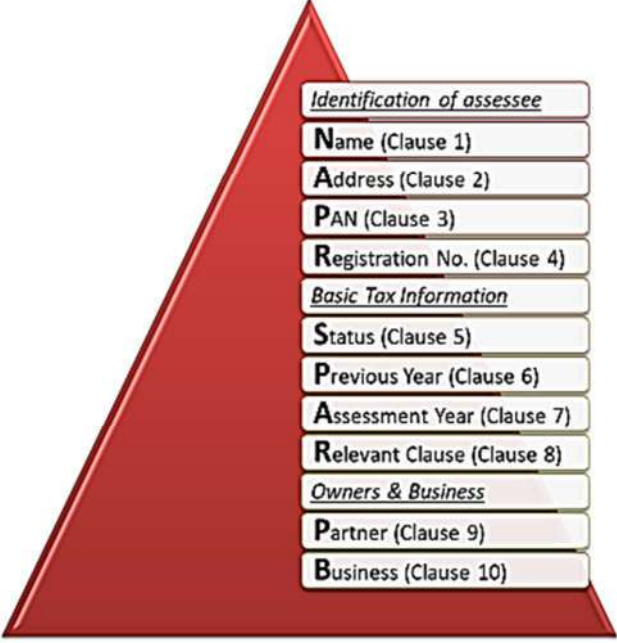


## TAX AUDIT

<p>➤ <b>Inclusions / Exclusions from Turnover</b></p>	<p>▼ <b>Advance Received</b> The amount received by way of advance for which goods or services are yet to be rendered will not form part of the receipts, as such advances are the liabilities of the assessee and cannot be treated as his receipts till the goods or services are rendered.</p> <p>But if advance is forfeited and there is no liability to return it then it will be included in turnover.</p> <p>▼ <b>Discount</b> Discount "Appearing in Sales Invoice", it is given at the time of sale, so from start we know it will never be received so it is not counted in turnover. It can be name of bulk discount / turnover discount / loyalty discount / referral discount etc. It should be reduced from turnover.</p> <p>▼ <b>Reimbursement of expenses</b> If the assessee is merely <b>reimbursed for certain actual expenses incurred</b>, the same will not form part of his gross receipts. But in the case of charges recovered, which are not by way of reimbursement of the actual expenses incurred, they will form part of his gross receipts.</p> <p>Reimbursement of expenses incurred (e.g. packing, forwarding, freight, insurance, travelling etc.) and if the <b>same is credited to a separate account in the books</b>, only the <b>net surplus</b> on this account should be added to the turnover for the purposes of Section 44AB; C&amp;B A/c Dr 120 To Sale A/c 100 Transport Charges Payable A/c 20</p> <p>Similarly, Reimbursement of customs duty and other charges collected by a clearing agent will be excluded.</p> <p>▼ <b>Indirect Taxes</b></p> <ul style="list-style-type: none"> <li>• <b>Inclusive Method of Accounting</b> If indirect taxes are not separately accounted and included in sales account, latter they are segregated and tax paid then it will be counted in turnover.</li> </ul> <p><b>Sale Entry</b> C&amp;B A/c Dr 112 To Sales 112</p> <p style="padding-left: 40px;">Tax Payable Entry Sales Dr 12 To IDT Payable 12</p> <ul style="list-style-type: none"> <li>• <b>Exclusive Method of Accounting</b> If Indirect Taxes are accounted separately at the time of sale. Then IDT won't be counted.</li> </ul> <p><b>Sales Entry</b> C&amp;B A/c Dr 112 To Sales A/c 100 IDT Payable A/c 12</p> <p>▼ <b>Insurance Claim</b> Insurance claims - except for fixed assets will be included</p> <p>▼ <b>Scrap Sale</b> – Included even if shown under miscellaneous income</p>
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	<p>▼ <b>Post Sales Receipts</b></p> <ul style="list-style-type: none"> <li>• <b>Cash Assistance</b> Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India will be included</li> <li>• <b>Exchange Rate Difference</b> The net exchange rate difference on export sales will be included</li> <li>• <b>Sale of Import License</b> Profits on sale of a licence granted (import) will be included.</li> </ul> <p>▼ <b>Different Business</b></p> <ul style="list-style-type: none"> <li>• <b>Speculative Business</b> <b>Q</b> Mr. A trader in share market to take benefit of price movements (Speculation). He bought shares for 30 lakhs and sold them for 50 lakhs. Then he purchased shares for 80 lakhs and sold them for 20 lakhs. How his turnover will be computed?  <b>Answer: -</b> We should compute profits or losses in the speculative transactions. Add these profits &amp; losses to determine total turnover. 1st Trade <math>50 - 30 = 20</math> lakhs profit 2nd Trade <math>20 - 80 = (60)</math> lakhs loss. Turnover = <math>20 + 60 = 80</math> lakhs</li> <li>• <b>Commission Agents (Agency Business)</b> Only commission will be counted in turnover</li> <li>• <b>Travel Agents</b> In the case of a travelling agent, the amount received from the clients for payment to the airlines, railways etc. where such amounts are received by way of <b>reimbursement of expenses incurred on behalf of the client</b> will be excluded. If, however, the travel agent is conducting a <b>package tour and charges a consolidated sum</b> for transportation, boarding and lodging and other facilities, then the amount received from the members of group tour should form part of gross receipts</li> <li>• <b>Advertising Agents</b> In the case of an advertising agent, the amount of advertising charges recovered by him from his clients provided these are by way of <b>reimbursement should be excluded</b>. But if the advertising agent books the advertisement <b>space in bulk and recovers the charges</b> from different clients, the amount received by him from the clients will not be the same as the charges paid by him and in such a case the amount recovered by him will form part of his gross receipts</li> <li>• <b>Share Market Brokers</b> <ul style="list-style-type: none"> <li>○ Similarly, in case of brokers only brokerage will be counted</li> <li>○ In case of personal sale of Broker "Sale value" will be counted in turnover</li> </ul> </li> </ul> <p>▼ <b>Hire Purchase</b> Hire charges and instalments received in the course of hire purchase will be included.</p> <p>▼ <b>Exclusions</b> Following shall not be included because this is not regular business income</p> <ul style="list-style-type: none"> <li>• Sale Proceeds of Fixed Assets / Investment Property (It is not business)</li> <li>• Profit / Loss on sale of investments (Include sale value if it is a business)</li> <li>• Interest / Dividend / Rent if it is not business</li> <li>• <b>Tax Already Paid</b> Share of profit of a partner of a firm in the total income of the firm excluded from his total income under section 10(2A) of the Income Tax Act, 1961.</li> </ul>
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## AUDIT REPORT UNDER TAX AUDIT

**BASIC INFORMATION**

<i>Identification of assessee</i>
<b>Name</b> (Clause 1)
<b>Address</b> (Clause 2)
<b>PAN</b> (Clause 3)
<b>Registration No.</b> (Clause 4)
<i>Basic Tax Information</i>
<b>Status</b> (Clause 5)
<b>Previous Year</b> (Clause 6)
<b>Assessment Year</b> (Clause 7)
<b>Relevant Clause</b> (Clause 8)
<i>Owners &amp; Business</i>
<b>Partner</b> (Clause 9)
<b>Business</b> (Clause 10)



**BAHUBALI**  
Books of Accounts



**PARMANU**  
Presumptive Income



**MARY KOM**  
Method of Accounting



**VICKY DONOR**  
Valuation of CI Stock



**CHENNAI EXPRESS**  
Capital Asset Conversion



**POKEMON**  
P&L Not Credited



**TOM N JERRY**  
Transfer of Property



**DOREAMON**  
Depreciation



**ALLADIN**  
Admissible Amount



**BHEEM**  
Bonus & Commission



**DEAD POOL**  
Debited But Not Allowed



**IRON MAN**  
Interest Under MSMED



**PREDATOR**  
Payment to Relatives



**DR STRANGE**  
Deemed Income



**CAPTAIN AMERICA**  
Chargeable Sec 41





**PARRIKAR**  
Payments Basis (Sec43B)



**CHIDAMBARAM**  
Cenvat Credit



**Smriti Irani**  
Shares Received



**Sonia Gandhi (2)**  
Shares Issued



**Hilary Clinton (3)**  
Hundi



**LION**  
Loans & Deposit



**LEOPARD**  
Losses



**DOG**  
Deductions



**TORTOISE**  
TDS



**GOAT**  
Goods Quantity



**DOLLAR (1)**  
Dividend Distribution Tax



**CANADIAN DOLLAR**  
Cost Audit Report



**PREDATOR**  
Excise Audit Report



**SHILLING**  
Service Tax Audit Report



**RUPEE**  
Ratio



DEUTSCHE BANK  
Demands & Refunds



SYNDICATE BANK  
Statement in 61/61A



RBL BANK  
Report U/s 286



BANDHAN BANK  
Breakup of Expenditure

### FORM 3CD 50 CLAUSES

Statement of particulars required to be furnished under Section 44AB of the Income Tax Act, 1961.

#### PART 'A'

#### ➤ Clause 13

#### ▼ Text –

- Method of accounting employed in the previous year.
- Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.
- If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss

Serial number	Particulars	Increase in profit (₹)	Decrease in profit (₹)

- Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)

- If answer to (d) above is in the affirmative, give details of such adjustments:

		Increase in profit (₹)	Decrease in profit (₹)	Net effect (₹)
ICDS I	Accounting Policies			
ICDS II	Valuation of Inventories			
ICDS III	Construction Contracts			
ICDS IV	Revenue Recognition			
ICDS V	Tangible Fixed Assets			
ICDS VI	Changes in Foreign Exchange Rates			
ICDS VII	Governments Grants			
ICDS VIII	Securities			
ICDS IX	Borrowing Costs			
ICDS X	Provisions, Contingent Liabilities and Contingent Assets			
	<b>Total</b>			

#### Shortcut to Remember ICDS

Ajay devgan Van leke **Construction site** pe pahuch tha hai. Waha ke logo se puch tha hai kitna **Revenue** kama te ho. Fir bolta hai jinke paas **Fixed Assets** aur **Foreign Exchange** nahi hai unki list banao. List lejaata hai for **Government grant**, jab tak government grant nahi deti khudka ghar as **Security** jama karata hai, **Borrowing cost** aur **Provisions** khud bear karta hai.

Ajay devgan white colour ki (Accounting Policy)

Van leke (Valuation of Inventory)

**Construction site** pe pahuch tha hai. Waha ke logo se puch tha hai kitna (Construction Contracts)

Revenue kama te ho. Fir bolta hai jinke paas (Revenue Recognition)

Fixed Assets nahi hai aur (Tangible Fixed Assets)

Foreign exchange nahi unki list banao. List lejaata hai aur (Changes in Foreign Exchange Rate)



Government grant mangta hai, jab tak government grant nahi deti khudka ghar as (Government Grants)  
 Security jama karata hai (Securities),  
 Borrowing cost aur (Borrowing Cost)  
 Provisions khud bear karta hai. (Provisions, Contingent Liabilities and Contingent Assets)

(f) Disclosure as per ICDS: (2 ICDS not included Foreign Exchange & Securities)

(i)	<b>ICDS I-Accounting Policies</b>
(ii)	<b>ICDS II-Valuation of Inventories</b>
(iii)	<b>ICDS III-Construction Contracts</b>
(iv)	<b>ICDS IV-Revenue Recognition</b>
(v)	<b>ICDS V-Tangible Fixed Assets</b>
(vi)	<b>ICDS VII-Governments Grants</b>
(vii)	<b>ICDS IX Borrowing Costs</b>
(viii)	<b>ICDS X-Provisions, Contingent Liabilities and Contingent Assets".</b>

▼ Notes –

**ICDS:** - Income Computation and Disclosure Standards (ICDS):

Section 145 of the Income Tax Act, 1961 deals with the method of accounting.

- Under section **145(1)**, income chargeable under the heads "Profits and gains of business or profession" or "Income from other sources" shall be computed in accordance with **either the cash or mercantile system of accounting** regularly employed by the assessee.
- Section **145(2)** empowers the Central Government to notify in the Official Gazette from time to time, income computation and disclosure standards to be followed by any class of assessee or in respect of any class of income.
- Accordingly, the Central Government has, in exercise of the powers conferred under section 145(2), notified ten income computation and disclosure standards (ICDSs) to be followed by **all assessee (other than an individual or a HUF who is not required to get his accounts of one previous year audited in accordance with the provisions of section 44(AB))**, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profit and gains of business or profession" or "Income from other sources". from the A.Y. 2017-18.
- All the notified ICDSs are applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.
- In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent.

➤ Clause 16

▼ Text –

**Amounts not credited to the profit and loss account, being, -**

- the items falling within the scope of section 28;**
- the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;**
- escalation claims accepted during the previous year**
- any other item of income;**
- capital receipt, if any**

▼ Notes –

- **Profit on sale of fixed assets/investments** to the extent not credited to the profit and loss account.
- **Government grant** in relation to a specific fixed asset where such grant is shown as a deduction from the gross value of the asset by the concern in arriving at its book value.
- **No compete fees** directly credited to reserves for sub clause
- **Interest incomes** received treated as liability

	<ul style="list-style-type: none"><li>Where such amounts have not been credited in the profit and loss account but <b>netted against the relevant expenditure/income heads</b>, such fact should be clearly brought out.</li><li>The tax auditor may obtain a <b>management representation</b> in writing from the assessee in respect of all items falling under this clause.</li></ul>						
➤ <b>Clause 17</b>	<p>▼ <b>Text –</b> Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in Section 43CA or 50C, please furnish: -</p> <table><tr><th>Details of Property</th><th>Consideration received or accrued</th><th>Value adopted or assessed or assessable</th></tr><tr><td></td><td></td><td></td></tr></table> <p>▼ <b>Notes –</b></p> <ul style="list-style-type: none"><li><b>43CA &amp; 50C taxes</b>, difference between sale proceeds &amp; value considered for stamp duty as Capital Gain on Land &amp; Building (43CA – Other than Capital Asset / 50C – Capital Asset)</li><li>Difference will be taxed only if stamp act value exceed is 105% of consideration. E.g. if Consideration is 100 and Stamp Act value is 103 then difference will not be taxable.</li><li>But clause 17 is not yet amended so in this clause information has to be given even if difference is less than 5%</li><li>Auditor would have to apply professional judgment as to what constitutes land or building for e.g. whether leasehold right / development rights / TDR / FSI etc would fall under these provisions or not, would require to be evaluated based on facts &amp; circumstances of transactions.</li></ul>	Details of Property	Consideration received or accrued	Value adopted or assessed or assessable			
Details of Property	Consideration received or accrued	Value adopted or assessed or assessable					
➤ <b>Clause 21</b>	<p>▼ <b>Text –</b></p> <ul style="list-style-type: none"><li>(a) Please furnish details of amount debited to the profit and loss account, being in nature of capital, personal expenditure, advertisement expenditure in documents of political party etc.</li><li>(b) Amounts inadmissible under section 40(a); (TDS not deducted, 30% Disallowed)</li><li>(c) Amounts debited to Profit and Loss Account being interest, salary, bonus, commission or remuneration inadmissible under section 40(b) / 40 (ba) and computation thereof. (Limit on remuneration to partners)</li><li>(d) Disallowance/deemed income under section 40A(3). (Cash Payment Exceeding 10,000 / Plying &amp; Hiring then 35,000)</li><li>(e) Provision for payment of gratuity not allowable under sec.40A(7).(Provision for gratuity not allowed)</li><li>(f) any sum paid by the assessee as an employer not allowable under section 40A (9);(Payment to unregistered gratuity / PF)</li><li>(g) Particulars of any liability of a contingent nature. (AS 29, CL should be in notes to account)</li><li>(h) Amount of deduction inadmissible in terms of sec. 14A in respect of the expenditure incurred in relation to income which does not form part of the total income; (Expenditure on exempted income)</li><li>(i) Amount inadmissible under the proviso to sec. 36(1)(iii) (Interest on loan for CAPEX till it is put to use)</li></ul> <p>▼ <b>Notes –</b></p> <ul style="list-style-type: none"><li><b>Obtain List:</b> - For the purpose of furnishing the above particulars, the tax auditor should obtain a list of all cash payments in respect of expenditure exceeding Rs 10,000/- (Rs 35000/- in case of plying, hiring or leasing goods carriages) made by the assessee during the relevant year which should include the list of payments exempted in terms of Rule 6DD with reasons.</li><li><b>Test Checks:</b> - In case of voluminous nature of the information, the tax auditor can apply materiality principles, tests check and compliance tests for verifying the information required to be provided under this clause</li><li><b>Verify with Books:</b> - This list should be verified by the tax auditor with the books of account in order to ascertain whether the conditions for specific exemption</li></ul>						

	<p>granted under clauses (a) to (l) of Rule 6DD are satisfied. Details of payments which do not satisfy the above conditions should be stated under this clause.</p> <ul style="list-style-type: none"> <li>• <b>Online Payments:</b> - The tax auditor has to take into account the technological advancements in the field of banking and information technology where payments have been taken other than through an account payee cheque or bank draft.</li> </ul> <p>▼ <b>Shortcut to Remember in Sequence Sch III Expense Headings</b></p> <ul style="list-style-type: none"> <li>• <b>Cost of Material Consumed</b></li> <li>• <b>Purchases</b> <ul style="list-style-type: none"> <li>○ Capital Expenditure</li> <li>○ Personal Expenditure</li> </ul> </li> <li>• <b>Change in Inventory</b></li> <li>• <b>Employee Benefit Costs</b> <ul style="list-style-type: none"> <li>○ Remuneration to Partners Not Admissible Under Sec 40(b) / 40(ba)</li> <li>○ Provision for gratuity not allowed Sec 40A(7)</li> <li>○ Payment to unregistered gratuity / PF 40A(9)</li> <li>○ Expenditure by employees at club</li> </ul> </li> <li>• <b>Finance Cost</b> <ul style="list-style-type: none"> <li>○ Interest on loan for CAPEX till it is put to use Sec 36(1)(iii)</li> </ul> </li> <li>• <b>Depreciation</b></li> <li>• <b>Other Expenses</b> <ul style="list-style-type: none"> <li>○ Advertisement Expenditure in documents of political party</li> <li>○ Contingent Liability</li> <li>○ Expenditure by way of penalty under any law</li> </ul> </li> <li>• <b>Any Heading</b> <ul style="list-style-type: none"> <li>○ Cash Payment Exceeding 10,000 / Plying &amp; Hiring then 35,000 Sec 40A(3)</li> <li>○ TDS not deducted, 30% Disallowed Sec 40(a)</li> <li>○ Expenditure on Exempted Income</li> </ul> </li> </ul>															
➤ <b>Clause 31</b>	▼ <b>Text &amp; Notes</b>															
(a)*	<table border="1"> <tr> <th data-bbox="199 1272 1145 1361">Particulars of each loan or deposit in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year: -</th><th data-bbox="1145 1272 1477 2072" rowspan="7">--All loans or deposits taken or accepted in aggregate from single party exceed 20,000</th></tr> <tr> <td data-bbox="199 1361 1145 1435">(i) name, address and permanent account number (if available with the assessee) of the lender or depositor;</td></tr> <tr> <td data-bbox="199 1435 1145 1473">(ii) amount of loan or deposit taken or accepted;</td></tr> <tr> <td data-bbox="199 1473 1145 1512">(iii) whether the loan or deposit was squared up during the previous year;</td></tr> <tr> <td data-bbox="199 1512 1145 1592">(iv) maximum amount outstanding in the account at any time during the previous year;</td></tr> <tr> <td data-bbox="199 1592 1145 1664">(v) whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account</td></tr> <tr> <td data-bbox="199 1664 1145 1771">(vi) in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft</td></tr> <tr> <td data-bbox="116 1809 199 2072">(b)</td><td data-bbox="199 1809 1477 2072"> <table border="1"> <tr> <th data-bbox="199 1809 1145 1883">Particulars of each specified sum in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year: -</th><th data-bbox="1145 1809 1477 2072" rowspan="4">--All sums taken or accepted with respect to immovable property in aggregate from single party exceed 20,000</th></tr> <tr> <td data-bbox="199 1883 1145 1955">(i) name, address and Permanent Account Number (if available with the assessee) of the person from whom specified sum is received;</td></tr> <tr> <td data-bbox="199 1955 1145 1993">(ii) amount of specified sum taken or accepted;</td></tr> <tr> <td data-bbox="199 1993 1145 2072">(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;</td></tr> </table> </td></tr> </table>	Particulars of each loan or deposit in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year: -	--All loans or deposits taken or accepted in aggregate from single party exceed 20,000	(i) name, address and permanent account number (if available with the assessee) of the lender or depositor;	(ii) amount of loan or deposit taken or accepted;	(iii) whether the loan or deposit was squared up during the previous year;	(iv) maximum amount outstanding in the account at any time during the previous year;	(v) whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account	(vi) in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft	(b)	<table border="1"> <tr> <th data-bbox="199 1809 1145 1883">Particulars of each specified sum in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year: -</th><th data-bbox="1145 1809 1477 2072" rowspan="4">--All sums taken or accepted with respect to immovable property in aggregate from single party exceed 20,000</th></tr> <tr> <td data-bbox="199 1883 1145 1955">(i) name, address and Permanent Account Number (if available with the assessee) of the person from whom specified sum is received;</td></tr> <tr> <td data-bbox="199 1955 1145 1993">(ii) amount of specified sum taken or accepted;</td></tr> <tr> <td data-bbox="199 1993 1145 2072">(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;</td></tr> </table>	Particulars of each specified sum in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year: -	--All sums taken or accepted with respect to immovable property in aggregate from single party exceed 20,000	(i) name, address and Permanent Account Number (if available with the assessee) of the person from whom specified sum is received;	(ii) amount of specified sum taken or accepted;	(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
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(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;																

	(iv) maximum amount outstanding in the account at any time during the previous year;	
	(v) in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft	
	(Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by the Central, State or Provincial Act.)	
(ba)	Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account:	--Receipt not in prescribed mode Rs. 2,00,000 or more
	(i) Name, address and Permanent Account Number (if available with the assessee) of the payer;	a) in aggregate from a person in a day; or
	(ii) Nature of transaction;	b) in respect of a single transaction; or
	(iii) Amount of receipt (in Rs.);	
	(iv) Date of receipt;	c) in respect of transactions relating to one event or occasion from a person
(bb)	Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, received by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year: —	--Receipt by cheque or DD which is not account payee Rs. 2,00,000 or more
	(i) Name, address and Permanent Account Number (if available with the assessee) of the payer;	a) in aggregate from a person in a day; or
	(ii) Amount of receipt (in Rs.);	b) in respect of a single transaction; or
		c) in respect of transactions relating to one event or occasion from a person
(bc)	Particulars of each payment made in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.	--Payment not in prescribed mode Rs. 2,00,000 or more
	(i) Name, address and Permanent Account Number (if available with the assessee) of the payee	a) in aggregate from a person in a day; or
	(ii) Nature of transaction;	b) in respect of a single transaction; or
	(iii) Amount of payment (in Rs.);	c) in respect of transactions relating to one event or occasion from a person
	(iv) Date of payment;	

(bd)	Particulars of each payment in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, made by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year:	--Payment by cheque or DD which is not account payee Rs. 2,00,000 or more
	(i) Name, address and Permanent Account Number (if available with the assessee) of the payee	<b>a)</b> in aggregate from a person in a day; or
	(ii) Amount of payment (in Rs.)	<b>b)</b> in respect of a single transaction; or  <b>c)</b> in respect of transactions relating to one event or occasion from a person
	Particulars at (ba), (bb), (bc) and (bd) need not be given in the case of receipt by or payment to a Government company, a banking Company, a post office savings bank, a cooperative bank or in the case of transactions referred to in section 269SS or in the case of persons referred to abcaus.in in Notification No. S.O. 2065(E) dated 3rd July, 2017”;	
(c)	Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year: —	--All loans or deposits repaid in aggregate to single party exceed 20,000
	(i) name, address and Permanent Account Number (if available with the assessee) of the payee;	
	(ii) amount of the repayment;	--All sums repaid with respect to immovable property in aggregate from single party exceed 20,000
	(iii) maximum amount outstanding in the account at any time during the previous year;	
	(iv) whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;	
	(v) in case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft.	
(d)	Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year: —	(Only Defaults) All loans or deposits repaid in aggregate to single party exceed 20,000
	(i) name, address and Permanent Account Number (if available with the assessee) of the payer;	(Only Defaults) All sums repaid with respect to immovable property in aggregate from single party exceed 20,000.
	(ii) repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.	
(e)	Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year: —	

	(i) name, address and Permanent Account Number (if available with the assessee) of the payer;	Same as above but only is Cheques or DD are not account payee cheque
	(ii) repayment of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee cheque or account payee bank draft during the previous year.	

## PART B -- GST AUDIT

### AUDIT OF ACCOUNTS [SECTION 35(5) READ ALONG WITH SECTION 44(2) AND RULE 80]

➤	<p>▼ <b>Audit under Sec 35</b> As per sub-section 5 of section 35 read along with section 44(2) and rule 80 of the CGST Rules, 2017 stipulates as follows:</p> <p>▼ <b>Applicability of Audit &amp; Qualifications</b></p> <ul style="list-style-type: none"> <li>• Every registered person must get his accounts audited by a Chartered Accountant or a Cost Accountant if his aggregate turnover during a FY exceeds Rs 2 crores.</li> <li>• It must be noted that the word turnover has not been defined whereas the expression <b>aggregate turnover has been defined</b>. One may note that the expression turnover in State or turnover in the Union territory is defined. In this backdrop the following understanding is relevant:             <ul style="list-style-type: none"> <li>○ <b>Aggregate turnover is PAN based</b> while turnover in a State/UT, though similarly worded, is limited to turnover in a State / UT, which is limited to a State;</li> <li>○ It is therefore, <b>reasonable to interpret</b> that the word turnover used in Section 35(5) ought to be understood as aggregate turnover.</li> <li>○ For the <b>financial year 2017-18, the GST period consists of 9 months</b> whereas the relevant Section 35(5) uses the expression financial year; Therefore, in the <b>absence of clarification</b> from the government, and to avoid any cases of default, it is reasonable to understand that to reckon the turnover limits prescribed for audit i.e., Rs 2 crores one has to reckon the turnovers for the <b>whole of the financial year which would also include the first quarter of the financial year 2017-18</b>. Please consider that travelling to a period (prior to introduction of GST) is <b>only to identify the 'trigger'</b> for applicability or inapplicability of this audit requirement and does not do any great offence to sanctity of limiting GST audit to transactions after 1 July 2017. After considering 12-months transactions, GST audit will however be limited to transactions attracting GST law, that is, 9-months of 2017-18.</li> <li>○ However, if taxpayer were to take a view that the threshold of 2 Crore ought to consider transactions 9 months since implementation of GST from 1 July, 2017, suitable disclosure or intimation to the jurisdictional officer in writing, would be merited.</li> </ul> </li> </ul> <p>▼ <b>Submission of Audited Annual Accounts &amp; Reconciliation</b> Such registered person is required to furnish electronically through the common portal along with Annual Return a copy of:</p> <ul style="list-style-type: none"> <li>• Audited annual accounts</li> <li>• A Reconciliation Statement, duly certified, in prescribed FORM GSTR-9C.</li> </ul> <p>▼ <b>Reconciliation Statement</b> Reconciliation Statement will reconcile the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars, as may be prescribed.</p>
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#### Illustration

1. Mr X, an articled trainee in JSA associates, is assigned on a GST Audit assignment of Flex Industries plant 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 annual turnover amounting to 8 crores (this turnover is spread across various cities). 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 Sec 35(5) read with Rule 80(3), the total turnover calculation for assessment of 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 2 crores, all business entities registered under GST for that PAN will be liable for GST audit for the financial year.

**2. Krishna Enterprises, a textile shop with registered GST premise in Delhi, is having turnover of 55 lakhs, 45 lakhs and 50 lakhs for the quarter 2, 3 and 4 respectively of the financial year 2017-18. He had good fortune turnover in quarter 1 of 2017-18 for 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 Sec 35(5) read with Rule 80(3), if the annual turnover of a registered taxpayer is more than 2 crores in a financial year, he is required to get his accounts audited by a Chartered Accountant or Cost Accountant every year.

A financial year covers the 12-month period beginning from April of a calendar year to March of the next calendar year. For the purpose of computing the turnover limit for financial year 2017-18, it includes the first quarter of 2017-2018 i.e. 1 April 2017 to 30 June 2017, period before GST was implemented. Hence GST audit is applicable to Krishna Enterprises.

**3. SSM & Co. is a leading electronics company having multiple branches registered under GST in different states. The total aggregate turnover of all such branches exceed 2 crores. However, the Delhi branch has a turnover of 75 lakhs per annum. Pankaj Gupta, Finance officer of Delhi branch, is contending that GST audit is not applicable on Delhi branch as the turnover for that branch does not surpass the threshold. Whether the contention of Mr Pankaj Gupta is correct or not. Substantiate.**

Solution: GST audit is applicable on Delhi branch. As per Sec 35(5) read with Rule 80(3), the total turnover calculation must be PAN-based, which means that once the turnover under the PAN is more than 2 crores, all business entities registered under GST for that PAN will be liable for GST audit for a financial year. Contention of Mr. Pankaj, Finance Officer, is incorrect.

**Mr Anuj, a Chartered Accountant by profession, has been appointed as GST auditor for TPSL Ltd. The management has asked Mr Anuj for GST audit along with July and August 2019 month GSTR 3 B filing compliances and filing of annual return Form 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.**

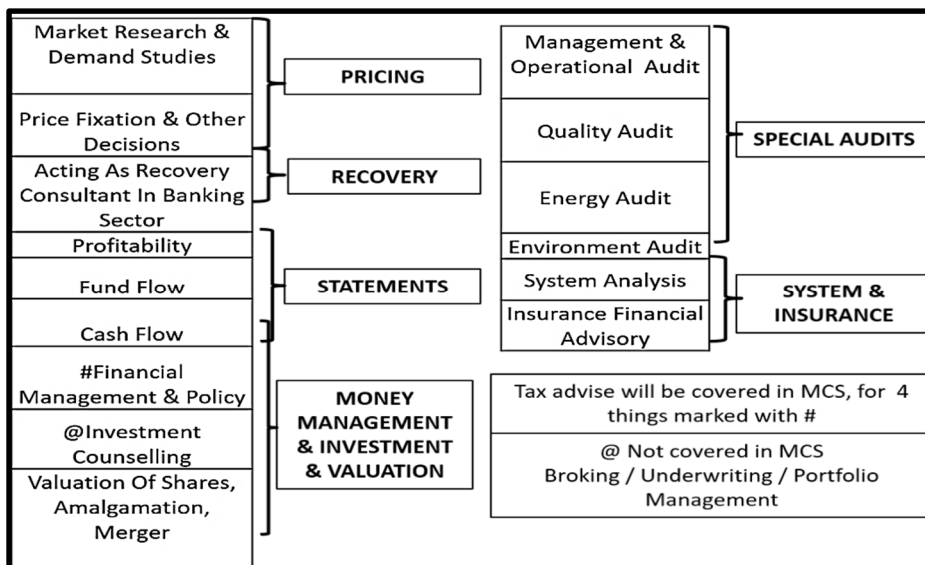
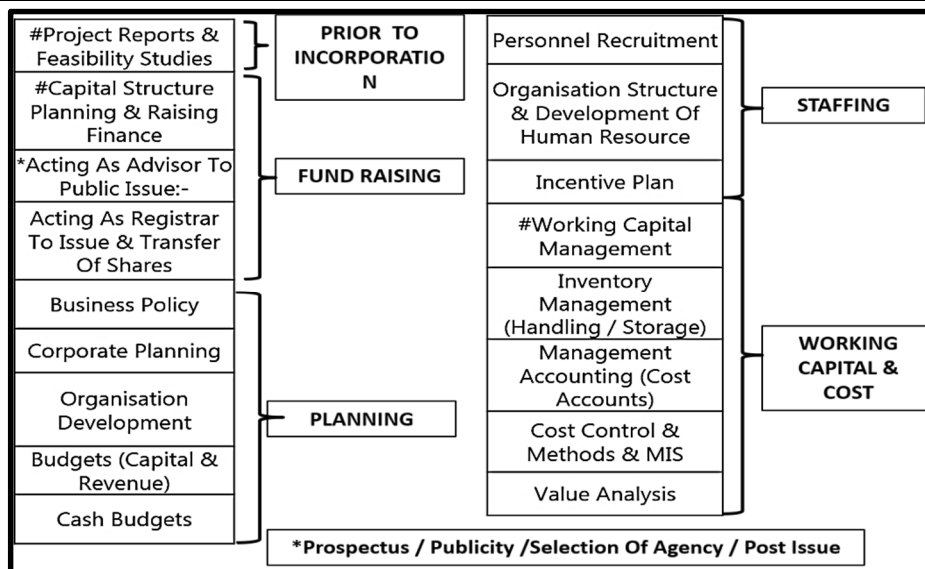
Solution: Management contention is not correct as return filing and preparation of annual returns and their filing was the responsibility of management. Auditor clearly states that the above are his scope limitation, their scope of work under this assignment will not involve any management functions. As per above case study, 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 and the GST auditor is not responsible for preparation of any such statements, uploading GST periodic returns for the relevant audit period.



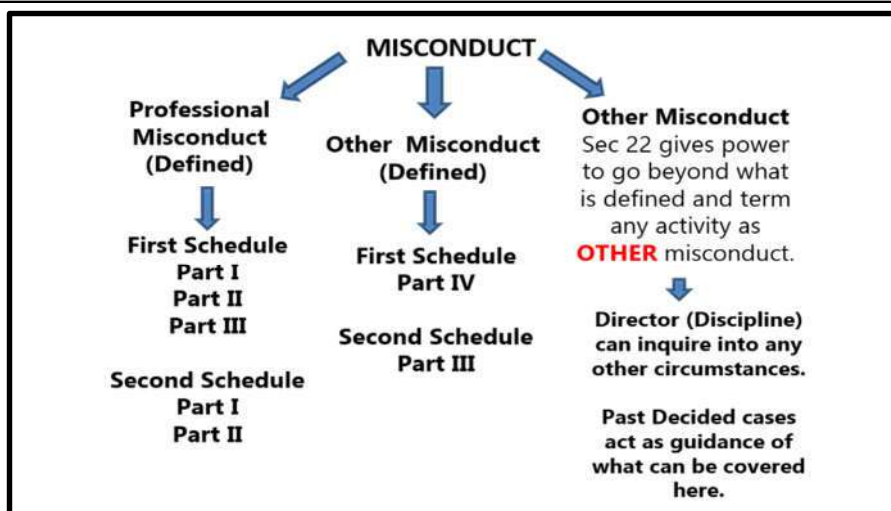
# CHAPTER 7

## PROFESSIONAL ETHICS

### MCS, JUST REMEMBER SIMPLE LIFE CYCLE OF COMPANY



## CHAPTER V SECTION 21-22G

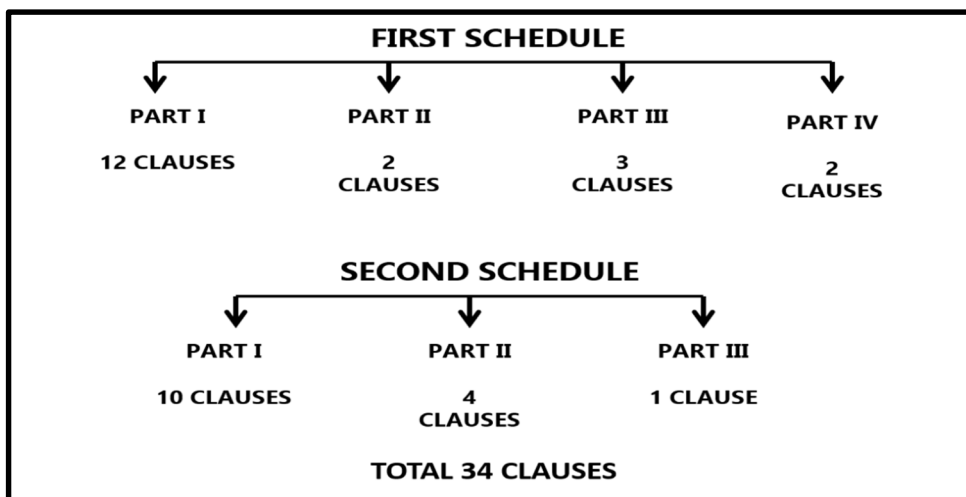


➤ **Other Misconduct as per past decided cases**

A	Anger	Objectionable / Derogatory / Abusive language / Insane Comments
	Anger	Publishing advertisement with malafied intention to malign any person
	Article	Used service of article for running other occupation or business (Eg Agriculture)
B	Bank	Submission of bogus bills & receipts to claim expenses during bank audit
C	Client	Where a chartered accountant had adopted coercive methods on a bank for having a loan sanctioned to him.
	Client	Coercion for payment of fees
	Client	Retained books & failed to return without reasonable clause. Further as ESB announcement :- A chartered accountant cannot exercise lien over the client documents/records for non-payment of his fees.

D	Deceive	Manipulating minute book of Company
	Deceive	Giving fake documents to client, calming that they are issued by ROC
	Deceive	Issue of fake experience certificate to other person
	Deceive	Forged will of relative
E	Employer	Fake experience while applying for job
	Employer	Gross negligent as employee
F	Fraud	Misappropriation of ICAI funds for personal purpose
	Fraud	Cheques given by NBFC bounced because of lack of funds, where CA was managing director
G	Govt	Not replying to authorities (Export Authorities)
	Govt	Unauthorised possession of government records
	Govt	Authored book on tax for secret income (black money)
	Govt	CA filed 2 returns of income to evade tax
	Govt	Fabricated challans of advance tax of client, encashed it by opening fake account of client








**STRUCTURAL OVERVIEW OF  
ZONE-3 – FIRST SCHEDULE & ZONE-4- SECOND SCHEDULE**









**ZONE-3 :- FIRST SCHEDULE**

**IMAGE RECOGNITION MEMORY TECHNIQUE OF FIRST SCHEDULE**

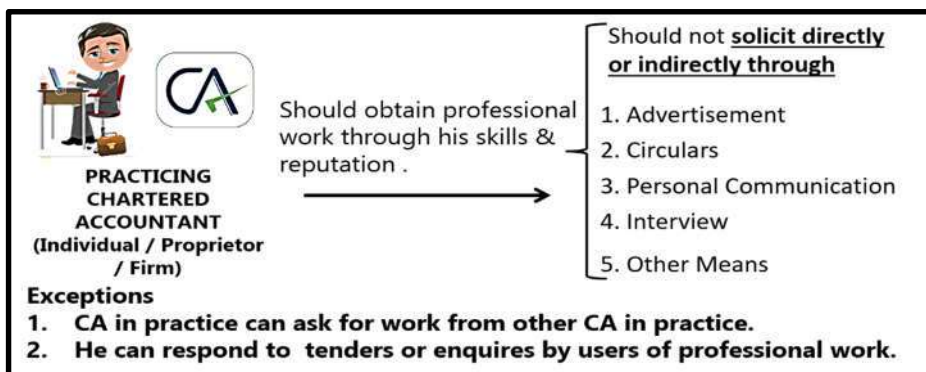
**FIRST SCHEDULE  
PART I**

			
<b>NARGIS FAKHRI</b>	<b>PARESH RAWAL</b>	<b>ALIA BHATT</b>	<b>PRABHUDEVA</b>
<b>NAME of CA in Practice Clause 1</b>	<b>PAYING Share Clause 2</b>	<b>ACCEPTING SHARE Clause 3</b>	<b>PARTNERSHIP Clause 4</b>
			
<b>SCORPIO</b>	<b>AUDI</b>	<b>DUSTER</b>	<b>TOYOTA CAMRY</b>
<b>SECURE WORK Clause 5</b>	<b>ADVERTISES Clause 6</b>	<b>DESIGNATION Clause 7</b>	<b>COMMUNICATION WITH PREVIOUS AUDITOR Clause 8</b>

			
<b>RANCHI</b>	<b>FIROZABAD</b>	<b>BOMBAY</b>	<b>SHIRDI</b>
<b>REQUIREMENT OF CO ACT</b> Clause 9	<b>FEEES</b> Clause 10	<b>BUSINESS</b> Clause 11	<b>SIGN</b> Clause 12
<b>FIRST SCHEDULE PART II</b>			
			
<b>Ek tha Tiger</b>	<b>ASHIQUI 2</b>		
<b>EMOLUMENTS</b> Clause 1	<b>ACCEPTS</b> Clause 2		

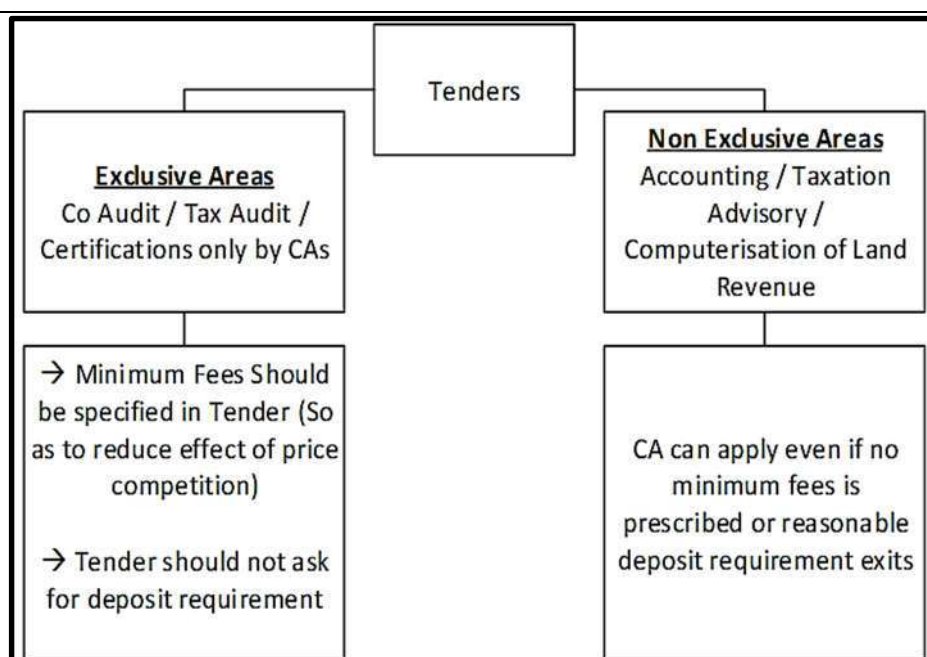
<b>FIRST SCHEDULE PART III</b>		
		
<b>FAFDA</b>	<b>RASGULLA</b>	<b>TEA</b>
<b>FELLOW</b> Clause 1	<b>REPLY</b> Clause 2	<b>TENDER</b> Clause 3
<b>FIRST SCHEDULE PART IV (Other Misconduct)</b>		
		
<b>Imprisonment</b> Clause 1	<b>SHAME ON YOU</b> Disrepute Clause 2	

### CLAUSE 6 (Soliciting work through ADVERTISEMENT ?)



Such a restraint must be practised so that members may maintain their independence of judgement and may be able to command the respect of their prospective clients. A public advertisement is likely to lead to an impression that the professional person is over-anxious to win confidence which however will have the opposite effect. The satisfaction of clients would be the best advertisement. Unabashed advertisement would affect the public esteem in which the profession is held and would act to the disadvantage of its members.

➤ (Clarification on applying to tenders)



➤ Clarifications issued by ICAI regarding solicitation of Work ?

▼ Advertisement	<ul style="list-style-type: none"> <li>• Press Advertisement</li> <li>• BOX Numbers</li> <li>• Articles &amp; Books</li> </ul>
▼ Circulars	<ul style="list-style-type: none"> <li>• Roving inquiry circular</li> <li>• Circulation of Representation by auditor</li> <li>• Hand Bills</li> </ul>
▼ Personal Communication	<ul style="list-style-type: none"> <li>• Greeting Cards &amp; Invitations.</li> <li>• Seeking work from professional colleague</li> </ul>
▼ Interview	<ul style="list-style-type: none"> <li>• Public Interview</li> </ul>
▼ Other Means	<ul style="list-style-type: none"> <li>• Telephone Directory</li> <li>• Acceptance of work emanating from client introduced by other members</li> <li>• Applying for empanelment circular</li> </ul>

### ▼ Advertisement & Related Points

#### Advertisement

##### 1. Press Advertisement

Following are allowed

1. Changes in partnership firm / address / telephone number
2. Classified ad in journal / newsletter of the ICAI for sharing professional work or seeking professional work (Only name of accountant) no firm name.

##### 1. Press Advertisement

##### 2. BOX Numbers

##### 3. Articles & Books

##### 2. BOX Numbers

Cannot use box numbers

##### 3. Articles & Books

A member is not permitted to indicate in a book or an article, published by him, the association with any firm of Chartered Accountants.

### ▼ Circular & Related Points

#### 2. Circulars

##### 1. Roving inquiry circular

##### 2. Circulation of Representation by auditor

##### 3. Hand Bills

##### 1. Roving Inquiry Circular

It is not permissible for a member to address letters or circulars to persons who are likely to require services of a Chartered Accountant since it would tantamount to advertisement.

##### 2. Circulation of representation letter

Auditor can make representation against his removal U/s 140 of Company Act 2013, which is circulated amongst shareholders but it should not be used for need publicity, direct or indirect solicitation or defaming company.

##### 3. Hand Bills

He can distribute hand bills containing their name to his clients (For Eg.- Budget highlights).

### ▼ Personal Communication

#### 1. GREETING CARDS / INVITATIONS

→ Cannot use "Chartered Accountant" designation, free to use prefix CA (General Rule)

##### → Exceptions (Allowed)

1. Greeting Cards
2. Invitation to Religious Ceremony / Opening of office / Marriages (CA's) / Intimation of change in office, premises or telephone number

**PROVIDED it should be sent to CLIENTS / RELATIVES / FRIENDS**

#### 2. Seeking work from professional colleague.

CA can apply, request, invite work from CA in Practice but he cannot put advertisement (news paper etc) or issue circular asking for work from CAs. (It should be personal)

#### 4. Interview - 1. Public Interview

While giving any interview or otherwise **furnishing details about themselves or their firms in public interviews or to the press or at any forum is allowed** but the members should ensure that it should not result in publicity. Due care should be taken to ensure that such interviews or details about the members or their firms are not given in a manner highlighting their professional attainments.

	<p>▼ <b>Other Means</b></p> <div style="border: 1px solid black; padding: 5px;"> <p><b>5. Other Means</b></p> <div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p><b>1. Telephone Directory (Including Trade Directories)</b>            Name + CA designation or Firm name            → In city where it operates            → Nominal Fees            → No restrictions on entry for others            → Section "Chartered Accountants"            → Alphabetical            → Normal font (Not Bold)            → Listing with websites / CA Societies / Chamber of Commerce is also allowed with or without payment.            → May give where appropriate, directorship held and reasonable personal details and may state his outside interests. (hobbies)            → He should not, however, give the names of any of his clients or details of the service offered by his firm.</p> </div> <div style="width: 48%;"> <p><b>1. Telephone Directory</b>  <b>2. Acceptance of work emanating from client introduced by other members</b>  <b>3. Applying for empanelment</b></p> <div style="border: 1px solid black; padding: 5px;"> <p><b>2. Acceptance of work emanating from client introduced by other members</b></p> <p>CA Ramesh introduced his friend CA Suresh to principal of school, after few days Suresh got offer from principal for Audit, in this case Suresh should ask principal to contact Ramesh and come through him for any professional work. Point is Ramesh should be communicated and he should be aware.</p> </div> <div style="border: 1px solid black; padding: 5px;"> <p><b>3. Applying for empanelment</b>            → CA can apply if he has information regarding existence of panel.            → Mention fees (only if asked)            → No cyclostated (pre-printed) copies of fees</p> </div> </div> </div> </div>
<p>➤ <b>Website of Chartered Accountants in Practice</b></p>	<p>▼ <b>Approval</b>        Chartered Accountant are free have to there websites, <b>no prior approval is required.</b></p> <p>▼ <b>Intimation</b>        The website address of the member be obtained on <b>annual basis in the annual form</b> required to be filed by the member while paying fee and <b>the same be taken as entry on record &amp; the website address of the member be provided to members as part of the membership record.</b> If the member chose not to give his website address, it did not prevent the Institute to take suitable action against him in case his noncompliance with the guidelines. <b>(So practically no need for intimation)</b></p> <p>▼ <b>Name of Website</b>  <b>Name of the website can be different from firm name</b>, it should be as near as possible to members name / firm name / trade name in practice, it should not amount to soliciting clients or advertisement professional achievements. ( Only CA Logo is allowed, other logo are not allowed)</p> <p>▼ <b>Format</b>        There are <b>no restrictions</b> on Colour / Design / Format</p> <p>▼ <b>Images</b>        Images of non – personal items such as books etc. on the website of a CA Firm, are not violative of website guidelines. As regard the use of images of people (Only Passport Size), the images of the people who are not the members of the firm are not permissible.</p> <p>▼ <b>Firm Details</b>        Firm Name / Address / Phone Number /Email Id / <b>Nature of services (On pull request)</b> / Year of establishment <b>(On pull request this point is covered in clause 7)</b></p> <p>▼ <b>Partner Details</b>        Name / Photo (Passport Size) / Year of qualification / Other qualification / phone number / address / email id / <b>AREA OF EXPERIENCE (On pull request)</b></p> <p>▼ <b>Employee Details</b>        Name / Designation / <b>Area of experience (On pull request)</b>, Job Vacancies (Including articles)</p> <p>▼ <b>Article Details</b>  <b>Number of articulated clerks (on pull request)</b></p>

	<p>▼ <b>Assignments</b>          Nature of assignments handled <b>(to be displayable only on specific “pull” request)</b>.          Names of <b>clients and fee charged cannot be given</b>.          Disclosure of names of clients and/or fees charged, on the website is permissible <b>only where it is required by a regulator, whether or not constituted under a statute, in India or outside India</b>, provided that such disclosure is only to the extent of requirement of the regulator. Where such disclosure of names of clients and/or fees charged is made on the website, the member/ firm shall ensure that it is mentioned on the website [in italics], below such disclosure itself, that <b>“This disclosure is in terms of the requirement of [name of the regulator] having jurisdiction in [name of the country/area where such regulator has jurisdiction] vide [Rule/ Directive etc. under which the disclosure is required by the Regulator].”</b></p> <p><b>On pull request:- Year of Est / Area of Experience &amp; Nature of Assignment / Number Articles.</b></p> <p>▼ <b>Other Information</b></p> <ul style="list-style-type: none"> <li>• Articles / Professional Information / Updates</li> <li>• Bulletin Board</li> <li>• Chat Rooms (Maintain Confidentiality)</li> <li>• No unwanted information (Like live cricket score / Horoscope etc.)</li> <li>• Advertisement not allowed</li> <li>• Mandatory Information on LAST UPDATED</li> </ul> <p>▼ <b>Links of Other Websites</b>          Can provide link</p> <ul style="list-style-type: none"> <li>• ICAI / Regional Councils and Branches and also the</li> <li>• Website of Govt./Govt. Departments/Regulatory authorities</li> <li>• Other Professional Bodies, such as, American Institute of Certified Public Accountants (AICPA), the Institute of Chartered Accountants of England &amp; Wales (ICAEW) and The Canadian Institute of Chartered Accountants (CICA)</li> </ul> <p><b>Link to CA Association / Rotary / Lions Club / Chamber of Commerce is not allowed.</b></p> <p>▼ <b>Official Stationery</b>          Name can be mentioned on official stationery, but it should not lead direct or indirect solicitation. No Circulation or Advertisement to promote website.          www.cafirm.in → allowed          Visit www.cafirm.in → Not allowed (Solicitation)</p> <p>▼ <b>Pull Basis</b>          Name of firm should appear in search engines on “pull basis” and not “push basis”.          Listing on search engine allowed with tags “Chartered Accountant / CA / Indian CA / Indian CPA”</p> <p>▼ <b>Content Promotion</b>          The Chartered Accountants and/or Chartered Accountants’ Firms should ensure that none of the information contained in the Website be circulated on their own or through E-mail or by any other mode or technique except on a specific “pull” request.</p> <p>▼ <b>Database Listing</b>          A number of Chartered Accountants Societies or other bodies are creating databases of Chartered Accountants or Chartered Accountants’ Firms and are offering listing to Chartered Accountants. Such listing would be permitted with or without payment. In case a Chartered Accountant or Chartered Accountants’ Firm is a member of a professional body or association or Chamber of Commerce and they offer listing to the members or firm, the same would be permitted</p> <p>▼ <b>Services</b>          CAs can give online services on there website for free or on payment basis.</p>
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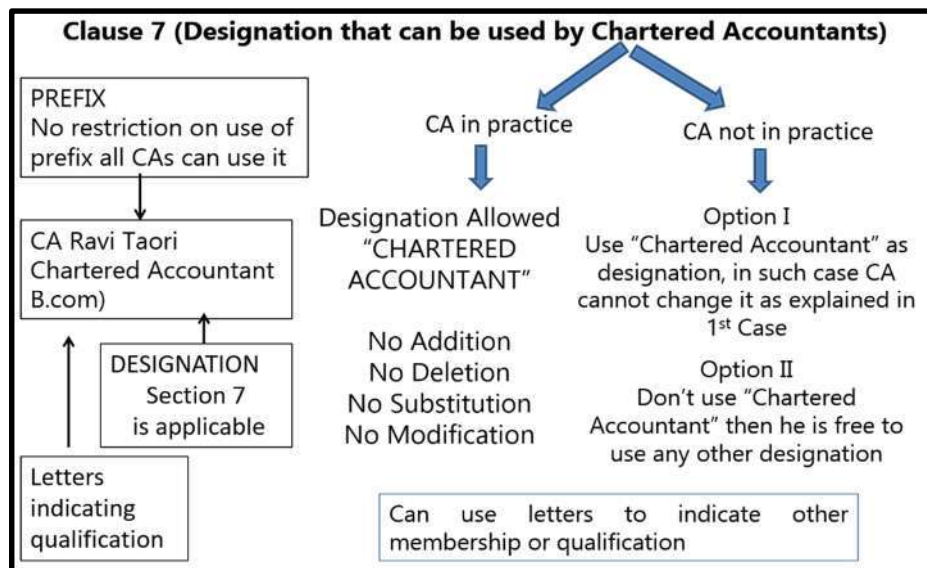
CA can provide services through websites of banks others etc provided address of CA, no advertisement of CA, The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.

▼ **Secrecy**

The Website should ensure adequate secrecy of the matters of the clients handled through Website.

### CLAUSE 7 - DESIGNATION & ADVERTISING PROFESSIONAL ATTAINMENTS

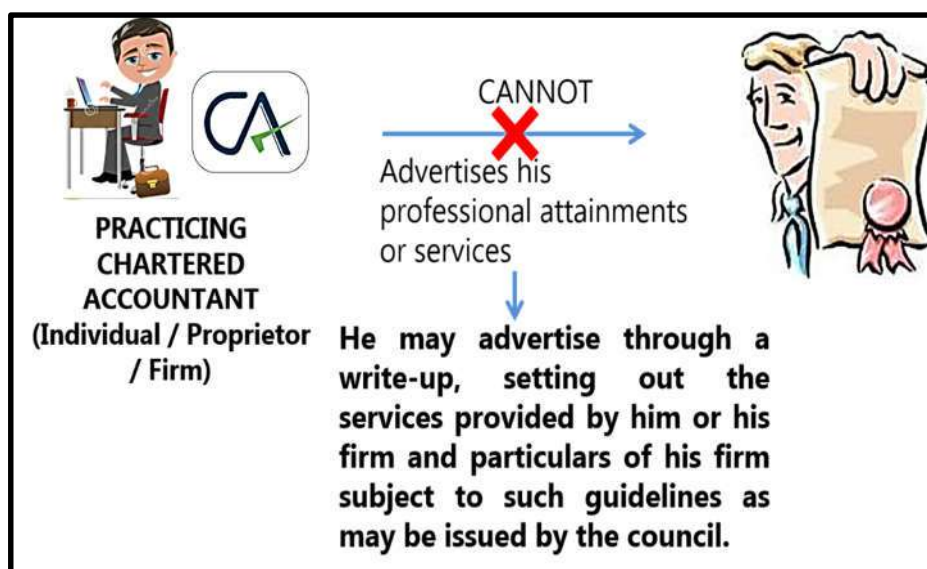
➤ **Designation**



▼ **Following are not allowed**

- Industrial Accountant / Corporate Accountant / CA (1st Attempt)
- CA or Firm can get registered as "Advisor to Issue" covered under MCS, details of firm can be given under caption "Advisor to Issue" (Not Merchant Banker) but it should not be prominent. So they can denote themselves as "Advisor to issue" in prospectus but it should not be written on their letter head or visiting card. (Such Registration is not allowed from Dec 1997)
- Incorporated Accountant, Registered accountant, industrial and Management Consultant, manager, Corporate Lawyer, Municipal Corporate.
- If he is member of parliament or any elected authority, Can't use member of parliament or any other such designation in addition to chartered accountant.
- The use of "Dr" with the Prefix "CA" may be left to discretion of member (i.e. whether use "CA" First or "Dr" First or use only "Dr" only)

➤ Advertising Professional Attainments



▼ **WRITE-UP**

"Write Up" means the/writing of particulars according to the information give in the Guidelines setting out services rendered by the Members or firms and any writing or display of the particulars of the Members) in Practice or of firm(s) issued, circulated or published by way of print or electronic mode or otherwise including in newspapers, journals, magazines and websites (in Push as well in Pull mode) in accordance with the Guidelines.

▼ **Details**

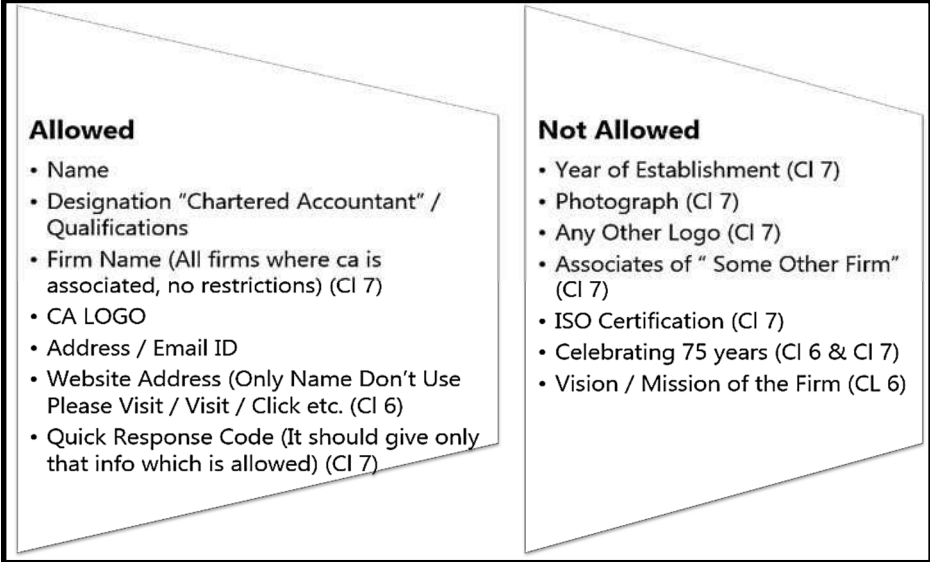
	For Member (Individual)	For Firm
<b>Logo (Only CA Logo)</b>	<b>Yes</b>	<b>Yes</b>
Name / Photo / Age or Year of Establishment / Registration Number	Yes, Membership Registration Number (Mandatory)	Yes, Firm Registration Number (Mandatory)
Date of becoming ACA / FCA / COP + Other Qualification + Languages Known	Yes, for member / employees	Yes, for partners / employees
Services Offered	Yes (No name of clients)	Yes (No name of clients)
<b>Details of Employees (Number)</b> <b>Partners / CAs / Articles / Other Prof / Other Employees</b>	<b>Yes</b>	<b>Yes</b>
Address / Working Hours / Telephone / Mobile / Fax / E-mail / Website	Yes	Yes
Signature / Date / Place	Yes	Yes

▼ **Shortcut:-** CA's should be **FANDOMS** about write up but take care of the following

- The write-up should not be of **font size** exceeding 14.  
The write-up should not violate the provisions of the 'Act', **Rules / Regulation** (**Example** -Portfolio Management)
- The write-up should not include the **names of the clients** (both past and present)

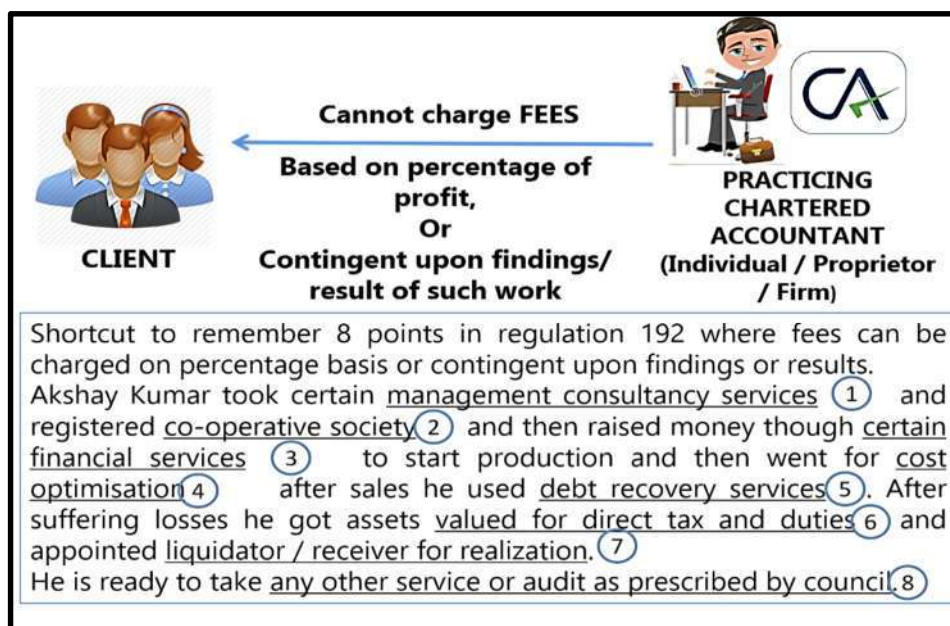
	<ul style="list-style-type: none"> <li>The write-up should not contain any other representation(s) that may like to cause a person to misunderstand and/or to be <b>deceived</b>. (<b>Example</b> - "Associate of Income Tax Department")</li> <li>The write-up should not contain any information <b>other</b> than prescribed herein. (<b>Example</b>- Caste)</li> <li>The write-up should not be <ul style="list-style-type: none"> <li>false or</li> <li><b>Misleading</b> (<b>Example</b> - 30 past &amp; present employees)</li> <li>disrepute profession (<b>Example</b> - Come to us no need to pay taxes)</li> <li>indecent nature. (<b>Example</b> - We know price tag of all authorities)</li> </ul> </li> <li>The write-up should not claim <b>superiority</b> over any other Member(s)/Firm(s) / testimonials or endorsements concerning Member(s). (<b>Example</b> - Padmbhushan Awardee)</li> </ul>																
➤ <b>Other Clarifications Under Clause 7</b>	<table border="1"> <tr> <td><b>Press (1)</b></td><td>Following ads are allowed :- <b>Recruitment</b> for own office &amp; client/ <b>Buy or Sell property</b> on behalf of client or in capacity of Trustee / Liquidator / Receiver Press Note, on <b>Success of candidate</b> → Name / Address / Principal / Firm no undesirable publicity of article / principal / firm Name of Firm Should <b>not be bolder</b> than substance of advertisement. <b>Avoid use of terms like "well known firm"</b></td></tr> <tr> <td><b>TV / Radio / Films (2)</b></td><td>Appear or Describe as CA but no name of firm or services/ Ensure that even Host do not refer to all these things (<b>if interview apply clause 6</b>)</td></tr> <tr> <td><b>Magazines (3)</b></td><td>Photograph &amp; Brief about CA:- <b>No payment / firm name / Professional attainments</b></td></tr> <tr> <td><b>Prospectus (4)</b></td><td>Name / Address as Director , <b>No name of firm, No expression like "Associates of....."</b> , <b>No ad of professional achievements</b></td></tr> <tr> <td><b>Position of National / Local (5) Importance</b></td><td><b>Publicity is permitted</b> for appointments to positions of local or national importance or for the views of members on matters of similar importance. <b>They may mention membership of ICAI. But no mention as to firm name.</b></td></tr> </table> <table border="1"> <tr> <td><b>Training &amp; Seminars (6)</b></td><td>Can invite other accountants &amp; staff but <b>no undue prominence</b> in booklet or document issued</td></tr> <tr> <td><b>Sign Board (7)</b></td><td><b>Can't use glow sign board or large sized sign boards.</b> At residence, name board of himself but not that of firm</td></tr> <tr> <td><b>Certificates (8)</b></td><td>The reports and certificates issued by a Chartered Accountant <b>brings him to the notice of the public in a greater or lesser degree.</b> It is therefore incumbent upon him to ensure that the extent and manner of <b>publications of certificates</b> are limited to <b>what is necessary</b> to enable the report or certificate to serve its proper purpose.</td></tr> </table>	<b>Press (1)</b>	Following ads are allowed :- <b>Recruitment</b> for own office & client/ <b>Buy or Sell property</b> on behalf of client or in capacity of Trustee / Liquidator / Receiver Press Note, on <b>Success of candidate</b> → Name / Address / Principal / Firm no undesirable publicity of article / principal / firm Name of Firm Should <b>not be bolder</b> than substance of advertisement. <b>Avoid use of terms like "well known firm"</b>	<b>TV / Radio / Films (2)</b>	Appear or Describe as CA but no name of firm or services/ Ensure that even Host do not refer to all these things ( <b>if interview apply clause 6</b> )	<b>Magazines (3)</b>	Photograph & Brief about CA:- <b>No payment / firm name / Professional attainments</b>	<b>Prospectus (4)</b>	Name / Address as Director , <b>No name of firm, No expression like "Associates of....."</b> , <b>No ad of professional achievements</b>	<b>Position of National / Local (5) Importance</b>	<b>Publicity is permitted</b> for appointments to positions of local or national importance or for the views of members on matters of similar importance. <b>They may mention membership of ICAI. But no mention as to firm name.</b>	<b>Training &amp; Seminars (6)</b>	Can invite other accountants & staff but <b>no undue prominence</b> in booklet or document issued	<b>Sign Board (7)</b>	<b>Can't use glow sign board or large sized sign boards.</b> At residence, name board of himself but not that of firm	<b>Certificates (8)</b>	The reports and certificates issued by a Chartered Accountant <b>brings him to the notice of the public in a greater or lesser degree.</b> It is therefore incumbent upon him to ensure that the extent and manner of <b>publications of certificates</b> are limited to <b>what is necessary</b> to enable the report or certificate to serve its proper purpose.
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<b>Training &amp; Seminars (6)</b>	Can invite other accountants & staff but <b>no undue prominence</b> in booklet or document issued																
<b>Sign Board (7)</b>	<b>Can't use glow sign board or large sized sign boards.</b> At residence, name board of himself but not that of firm																
<b>Certificates (8)</b>	The reports and certificates issued by a Chartered Accountant <b>brings him to the notice of the public in a greater or lesser degree.</b> It is therefore incumbent upon him to ensure that the extent and manner of <b>publications of certificates</b> are limited to <b>what is necessary</b> to enable the report or certificate to serve its proper purpose.																

	<p style="text-align: center;"><b>DATE / YEAR OF ESTABLISHMENT (10)</b></p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p style="text-align: center;"><b>LOGO (9)</b> <b>Only CA logo, no any other logo</b></p> </div> <div style="width: 50%;"> <ol style="list-style-type: none"> <li><b>1. Letter Head / Visiting Card / Official Stationery --- Not Allowed</b></li> <li><b>2. Website – Allowed on Pull Basis</b></li> <li><b>3. Write Up– Allowed which can be promoted through push and pull both</b></li> </ol> </div> </div>	
<p>➤ <b>Some Recent Clarification (CAR-KI clarification)</b></p>	<ul style="list-style-type: none"> <li>▼ <b>CCM, RCM and Member of Managing Comm. of Branches</b> may print either their residential address, or office address including Tel. / Fax No. without mentioning the firm's name on the back of the visiting cards"</li> <li>▼ The Council has issued the following guidelines for use of expressions such as <b>'Associates of 'Correspondents of... etc.</b> on letter heads, visiting cards etc. of firms of Chartered Accountants:(Association etc) The use of expressions / words 'in Association with .... 'Associates of 'Correspondents of.... etc., on the stationery letter heads, visiting cards and professional documents etc. of firms of Chartered Accountants is not permissible in view of the provisions of clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949 irrespective of whether the connection bearing name sought to be used was the name of an Indian firm or a foreign firm. <b>The Council has not barred entering into such association and the restriction given under the above clause is to bar an advertisement appearing / derived from such associations."</b></li> <li>▼ Member who is in practice cannot use the designation of <b>'District Governor' in his rotary visiting card</b> along with the word 'Chartered Accountant' "</li> <li>▼ Permitting the use of firm name by client, mentioning the firm as a <b>"Knowledge Partner"</b> or in the "Thank You" advertisement, is not permissible, however mention of name of an individual member with prefix/suffix "CA" as a "knowledge partner " is permissible.</li> <li>▼ <b>Whether the office of a CA is permitted to go in for ISO 9001:2000 certification or other similar certifications?</b> Yes, there is no bar for a member to go in for ISO9001:2000 certification or other similar certifications.  However, the member cannot use the expression like "ISO Certified" on his professional documents, visiting cards, letterheads or sign boards etc."</li> </ul>	

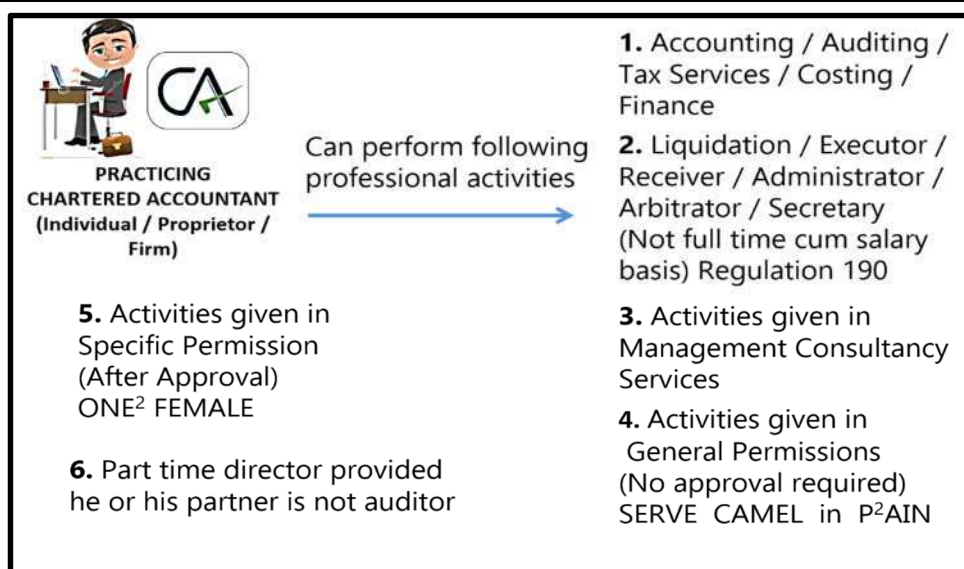
<p>➤ Visiting Card</p>	 <div> <div> <b>Allowed</b> <ul style="list-style-type: none"> <li>• Name</li> <li>• Designation "Chartered Accountant" / Qualifications</li> <li>• Firm Name (All firms where ca is associated, no restrictions) (CI 7)</li> <li>• CA LOGO</li> <li>• Address / Email ID</li> <li>• Website Address (Only Name Don't Use Please Visit / Visit / Click etc. (CI 6)</li> <li>• Quick Response Code (It should give only that info which is allowed) (CI 7)</li> </ul> </div> <div> <b>Not Allowed</b> <ul style="list-style-type: none"> <li>• Year of Establishment (CI 7)</li> <li>• Photograph (CI 7)</li> <li>• Any Other Logo (CI 7)</li> <li>• Associates of "Some Other Firm" (CI 7)</li> <li>• ISO Certification (CI 7)</li> <li>• Celebrating 75 years (CI 6 &amp; CI 7)</li> <li>• Vision / Mission of the Firm (CL 6)</li> </ul> </div> </div>						
<p>➤ Cases where both clause 6 &amp; clause 7 are applicable</p> <p>(FB &amp; CHROMA)</p>	<table border="1"> <tr> <td data-bbox="408 757 863 1485"> <p>1. The <b>offer document</b> of a listed company in which Mr. D, a practising Chartered Accountant is a director mentions the name of Mr. D as a director along with his various <b>professional attainments and spheres of specialisation</b>.</p> </td><td data-bbox="863 757 1461 1485"> <p>The Council of the ICAI has in a <b>communication to members</b> stated that if a public company, in which a chartered accountant in practice is a director, issues a prospectus or gives any announcement that gives descriptions about the Chartered Accountant's expertise, specialisation and knowledge in any particular field, it shall constitute a misconduct under Clauses (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949. The Council has further stated that in such cases the <b>member concerned has to take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients</b> for professional work by the members. Thus in the instant case, Mr. D would be held to be guilty of professional misconduct and liable for disciplinary action</p> </td></tr> <tr> <td data-bbox="408 1485 863 1765"> <p>2. A Chartered Accountants firm <b>issued circulars</b> to the non-clients that a Chartered Accountant who was the former partner in-charge of Taxation of <b>one of the largest accounting firms of the world</b>, had joined them as partner. Can they do it?</p> </td><td data-bbox="863 1485 1461 1765"> <p>Clause 6 - Circular</p> <p>Clause 7 - Professional Attainments</p> </td></tr> <tr> <td data-bbox="408 1765 863 2067"> <p>3. Mr. Nigal, a Chartered Accountant in practice, delivered a speech in the <b>national conference organized</b> by the Ministry of Textiles. While delivering the speech, he told to the audience that he is a <b>management expert</b> and his firm provides services of taxation and</p> </td><td data-bbox="863 1765 1461 2067"> <p>Solicitation under Clause (6) &amp; 'Management Expert' - Inappropriate Designation under Clause (7)</p> </td></tr> </table>	<p>1. The <b>offer document</b> of a listed company in which Mr. D, a practising Chartered Accountant is a director mentions the name of Mr. D as a director along with his various <b>professional attainments and spheres of specialisation</b>.</p>	<p>The Council of the ICAI has in a <b>communication to members</b> stated that if a public company, in which a chartered accountant in practice is a director, issues a prospectus or gives any announcement that gives descriptions about the Chartered Accountant's expertise, specialisation and knowledge in any particular field, it shall constitute a misconduct under Clauses (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949. The Council has further stated that in such cases the <b>member concerned has to take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients</b> for professional work by the members. Thus in the instant case, Mr. D would be held to be guilty of professional misconduct and liable for disciplinary action</p>	<p>2. A Chartered Accountants firm <b>issued circulars</b> to the non-clients that a Chartered Accountant who was the former partner in-charge of Taxation of <b>one of the largest accounting firms of the world</b>, had joined them as partner. Can they do it?</p>	<p>Clause 6 - Circular</p> <p>Clause 7 - Professional Attainments</p>	<p>3. Mr. Nigal, a Chartered Accountant in practice, delivered a speech in the <b>national conference organized</b> by the Ministry of Textiles. While delivering the speech, he told to the audience that he is a <b>management expert</b> and his firm provides services of taxation and</p>	<p>Solicitation under Clause (6) &amp; 'Management Expert' - Inappropriate Designation under Clause (7)</p>
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	<p>audit at reasonable rates. He also <b>requested the audience to approach his firm of chartered accountants for these services</b> and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience. Comment.</p>	
	<p>4. Can a Chartered Accountants firm give <b>advertisement in relation to Silver, Diamond, Platinum or Centenary celebration of the firm?</b> <i>(Clarification issued by ICAI)</i></p>	<p>The advertisement for Silver, Diamond, Platinum and Centenary celebrations of the firms has been permitted to be published in any newspaper or in the newsletters. <b>It has been allowed after considering both requirements of clause 6 &amp; 7</b></p>
	<p><b>5. Ranking</b> It has been brought to the notice of some members that certain entities are seeking details of the Chartered Accountants firms, for the purpose of making ranking of the various Firms through comparison of different parameters.</p> <p>In this regard, Members are hereby informed that sharing of details of their Chartered Accountants firms in the <b>aforesaid manner does not fall within the permitted categories</b>, and would therefore be violative of Clause 6 of Part-I of First Schedule to The Chartered Accountants Act, 1949.</p> <p>Further, as it is known beforehand that the information regarding firms would be used for ranking purposes, the sharing of such details would <b>tacitly result in claiming superiority of one firm over other</b>, which is prohibited in terms of the Advertisement Guidelines of the ICAI under Clause 7 of Part –I of First Schedule to The Chartered Accountants Act, 1949. Members are therefore advised to abstain from such sharing of details of their Chartered Accountants Firms.</p> <p><b>6. The use of banner</b> with name of CA firm is not permissible in terms of provisions of Items 6 and 7 of Part –I of First Schedule to The Chartered Accountants Act, 1949</p> <p><b>7. Where a Chartered Accountant had addressed a letter to the Managing Director</b> of a company offering his services as a practicing chartered accountant and <b>giving impression that the letter had been addressed to more than one organization</b> for the above purpose, it was held that the member had contravened the provisions of Clauses (6) &amp; (7). [Yogesh Gupta (1996)]</p> <p><b>8. Publishing a book by a firm containing its history</b> for the purpose of distributing to clients, associates, friends and well wishers <b>And printing of the words ‘Celebrating 75 years in the Profession’ on special letterheads and envelopes of the firm</b> will lead to solicitation of professional work, hence not permissible as per the provisions of Clauses (6) and (7) of Part I of the first Schedule to the C.A. Act, 1949.”</p>	

### CLAUSE 10 (Charging Fees? )



### CLAUSE 11 - BUSINESS OR OCCUPATION




#### ➤ Activities given in General Permissions (No approval required)

#### SERVE CAMEL in P<sup>2</sup>AIN



- ▼ Acting as Surveyor/Loss Assessor under Insurance Act
- ▼ Employment under C.A./C.A. firm,
- ▼ Recovery consultant (Banking Sector)
- ▼ Valuation of paper, paper setter, head-examiner or moderator for any exam.
- ▼ Editorship of professional journal. ,
- ▼ Attending Class and appearing in any exams, (ARTICLESHIP OF CS)
- ▼ Authorship of Books/Articles.
- ▼ Holding public elective office (M.P., M.L.A.)
- ▼ Honorary office of Charitable-Educational institute,
- ▼ Holding Life Insurance Agency licence (only for limited purpose of getting Renewal Commission.),
- ▼ Private tutorship.
- ▼ Part time tutorship under coaching organization of institute,
- ▼ Owning Agricultural land and carrying agricultural activity.
- ▼ Insurance brokerage.

	<p>▼ Notary public, Justice of peace, Special Executive Magistrate.</p>
<p>➤ Activities given in Specific Permissions (Approval Required)</p>	<p><b>ONE<sup>2</sup> FEMALE</b> </p> <p>▼ Any <b>Other</b> business or occupation for which the Executive Committee considers that permission may be granted.</p> <p>▼ Full-time or part-time employment in <b>Non-business</b> concern.</p> <p>▼ Full-time or part-time <b>Employment</b> in business concerns provided that the member and/or his relatives do not hold “substantial interest” in such concerns”.</p> <p>▼ Part-time or full-time tutorship under any <b>Educational</b> institution other than the coaching organization of the Institute.</p> <p>▼ Interest in <b>Family</b> business concerns or concerns in which interests has been acquired as a result of relationships and in the management of which no active part is taken.</p> <p>▼ Interest in an <b>Educational</b> institution.</p> <p>▼ Office of <b>Managing</b> director or a whole-time director o a body corporate within the meaning of the Companies Act, 2013.</p> <p>▼ Interest in <b>Agricultural</b> and allied activities carried on with the help, if required, of hired labour.</p> <p>▼ Part-time or full-time <b>Lectureship</b> for courses other than those relating to the Institute’s examinations conducted under the auspices of the Institute or the Regional councils or their branches.</p> <p>▼ Editorship of journals other than professional journals.</p>
<p>➤ Part Time Practice (I-SEL)</p>	<p>▼ <b>CA who are pursuing following activities are deemed to be in part time practice</b></p> <ul style="list-style-type: none"> <li>• Insurance brokerage.</li> <li>• Performing any activity apart from above under specific permission by ICAI except if permitted by executive committee.</li> <li>• Employment under C.A./C.A. firm,</li> <li>• Engagement as Lecturer in an University, affiliated college, educational institution, coaching organisation, private tutorship, provided the direct teaching hours devoted to such activities taken together exceed 25 hours a week.</li> </ul> <p>They cannot perform attest function &amp; train articles.</p>
<p>➤ Clarifications</p>	<p>▼ <b>Selling Agents</b></p> <ul style="list-style-type: none"> <li>• Cannot become <b>direct selling agent</b> , can become credit card credentials verifier” (General Permission)</li> <li>• CA in practice can establish <b>TIN-FC</b> on its own or under franchisee (General Permission)</li> <li>• A chartered accountants in practice cannot become Financial Advisors and receive <b>fees/commission from Financial Institutions</b> such as Mutual Funds, Insurance Companies, NBFCs etc.</li> <li>• It is not permissible for chartered accountants in practice to take <b>agencies of UTI, GIC or NSDL</b>.</li> <li>• A member in practice cannot hold <b>Customs Brokers Licence</b> under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics</li> </ul> <p>▼ <b>Settler of Trust</b></p> <ul style="list-style-type: none"> <li>• It is permissible for a member in practice to be a <b>settler of a trust</b>.</li> </ul> <p>▼ <b>Directorship</b></p> <ul style="list-style-type: none"> <li>• The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of <b>Director Simplificitor</b> (which is generally permitted as per ICAI norms), if he is <b>non –executive director</b>,</li> </ul>



required in the Board Meetings only , and not paid any remuneration except for attending such Board Meetings.

- As per Committee on Ethical Standards has decided **director of holding** should not become auditor in subsidiary company, though it is not prohibited by Company Act 2013.

#### ZONE-4:- SECOND SCHEDULE

#### PICTORIAL OVERVIEW OF FIRST SCHEDULE

##### SECOND SCHEDULE PART I



**CHRIS GAYLE**  
CONFIDENTIALITY  
CLAUSE 1



**ROHIT SHARMA**  
REPORT ON  
FINANCIAL  
STATEMENTS  
CLAUSE 2



**FLINTOFF**  
FUTURE ESTIMATE  
CLAUSE 3



**SACHIN TENDULKAR**  
SUBSTANTIAL INTEREST  
CLAUSE 4



**MAHENDRA SINGH  
DHONI**  
MATERIAL FACT  
CLAUSE 5



**MOTOR CAR RACING**  
MATERIAL  
MISSTATEMENT  
CLAUSE 6



**GOLF**  
GROSSLY  
NIGLIGENT  
CLAUSE 7



**SOCCER**  
SUFFICIENT  
INFORMATION  
CLAUSE 8




**ARCHERY**  
AUDIT  
PROCEDURE  
CLAUSE 9




**BASKETBALL**  
BANK ACCOUNT  
CLAUSE 10


**SECOND SCHEDULE PART II**



COMEDY NIGHTS  
CONTRAVENE ACT/  
REGULATION/  
GUIDELINES  
CLAUSE 1




CANDY CRUSH  
CONFIDENTIALITY BY  
EMPLOYEE  
CLAUSE 2




FACEBOOK  
FALSE INFORMATION  
CLAUSE 3

**SECOND SCHEDULE PART III**



MOBILE  
MONEY  
DEFALCATION  
CLAUSE 4



OVER  
OTHER MISCONDUCT  
CLAUSE 1

**Council General Guidelines, 2008.**

These guidelines shall be applicable to all the Members of the Institute whether in practice or not wherever the context so requires

**Shortcut :- INCUMBENTS<sup>2</sup>**

<b>I- Indebtedness</b>	CA will be disqualified to become auditor if he is Indebted or given guarantee / security to Entity for amount exceeding limit fixed in law and in other cases 10,000 Company Audit → 5,00,000 Tax Audit → Zero Vat Audit / Internal Audits and Other Audits → 10,000
<b>N- Number of Audits</b>	It still contains old limit of 30. So combined interpretation with company act → limit of 20 excluding 4 type of companies and limit of 30 including 4 type of companies. Use above interpretation if question specifies council guidelines else stick to 20. 4 type of companies → OPC / Small / Dormant / Private Companies having paid up capital less than 100 crores
<b>C- Cost Auditor</b>	Statutory Auditor should not accept post of Cost Auditor. This point is covered in Companies Act 2013
<b>U- Unjustified Removal of Auditor</b>	Follow directions given by council / committee / given to Incoming Auditor, to not to accept appointment if there is unjustified removal of earlier auditor.

<b>M-Minimum Audit Fees</b>	This section is repealed from 8 <sup>th</sup> June 2011. So there is no minimum or maximum audit fees. Recommendatory fees is generally given every year at the end in Guidance Note on Tax Audit.
<b>B- Books of Accounts</b>	CA in practice shall maintain proper book including CASH Book & Ledger.
<b>E- Employee</b>	CA who is employee shall apply due diligence and shall not be gross negligent in conduct of his duties.
<b>N-Non Payment of Undisputed Fees</b>	Dont accept assignment if undisputed audit fees of earlier statutory auditor is not paid. (Not Applicable in Case of Sick Unit) Audit fee in accounts signed by both auditee & auditor shall be considered as "undisputed" audit fee "sick unit" shall mean where the net worth is negative
<b>T-Tax Audit Limit</b>	--Tax Audit Limit is 60 --Limit of one partner can be used by another --Limit of Firm 60 X Number of Partners --Part Time – Full Time Employment Limit will be Zero --Part Time COP Limit will be Zero - - 2 or more branches of same entity will be counted as one --HO & branches will be counted as one --Tax audit where income is not charged on presumptive basis is not included

<b>S- Substantial Interest</b>	CA should not express opinion where one or more relatives are having substantial interest (20% or more) Clause 4 covers only percentage holding of partners, regarding relative is specified in council guidelines 2008.
<b>S-Statutory Auditor</b>	CA in practice shall not accept the appointment as statutory auditor of PSU/ Govt Com/ Listed Com and other Public Com having turnover of Rs. 50 cr or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company (ies) on a remuneration which in <u>total exceeds the fee payable for carrying out the statutory audit</u> of the same Undertaking/company. Calculation should be done for whole group and fees of associate concerns should also be included. Fees Should not include following (a) audit under any other statute; (i.e other than companies act) (b) certification work required to be done by the statutory auditors; and (c) any representation before an authority;