

CA Final Audit

Audit Highlights

November 2022 Exams



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Audit Committee & Corporate Governance (SEBI (LODR) Regulations, 2015)

1.	Composition of Audit Committee	<ul style="list-style-type: none"> At least two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
2.	Mandatory Areas of Review by Audit Committee/ Review of Information by Audit Committee	<ul style="list-style-type: none"> Management discussion & analysis of financial condition & results of operations; Statement of significant related party transactions (as defined by the Audit Committee), submitted by management; Management letters/letters of internal control weaknesses issued by the statutory auditors; Internal audit reports relating to internal control weaknesses; & The appointment, removal & terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee. Statement of deviations: <ul style="list-style-type: none"> (a) quarterly statement of deviations including report of monitoring agency if applicable & (b) annual statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice.
3.	Composition of Board of Directors	<ul style="list-style-type: none"> The auditor shall ensure that the Chairperson of the board of top 500 listed entities is— <ul style="list-style-type: none"> (a) a non-executive director; (b) not be related to the Managing Director or the CEO as per the definition of the term “relative” defined under the Companies Act, 2013. It may be noted that this provision shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges. It may also be noted that the top 500 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
4.	Verification regarding Composition of Board	<ul style="list-style-type: none"> The listed entity shall ensure that approval of shareholders for appointment of a person on the Board of Directors or as a manager is taken at the next general meeting or within a time period of 3 months from the date of appointment, whichever is earlier. Provided that the appointment or a re-appointment of a person, including as a managing director or a whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be done only with the prior approval of the shareholders. Provided further that the notice to the shareholders, for considering the appointment or re-appointment of such a person earlier rejected by the shareholders shall contain a detailed explanation & justification by the Nomination & Remuneration Committee & the Board of directors for recommending such a person for appointment or re-appointment.

<p>5. Meaning of Independent Director</p>	<p>Independent director" means a non-executive director, other than a nominee director of the listed entity:</p> <ul style="list-style-type: none"> (i) who, in the opinion of the board of directors, is a person of integrity & possesses relevant expertise & experience; (ii) who is or was not a promoter of the listed entity or its holding, subsidiary or associate company [or member of the promoter group of the listed entity]; (iii) who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company; (iv) who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the 3 immediately preceding F.Ys. or during the current F.Y.; (v) none of whose relatives— <ul style="list-style-type: none"> (A) is holding securities of or interest in the listed entity, its holding, subsidiary or associate company during the 3 immediately preceding F.Ys. or during the current F.Y. of face value in excess of ₹ 50 Lakhs or 2% of the paid-up capital of the listed entity, its holding, subsidiary or associate company, respectively, or such higher sum as may be specified; (B) is indebted to the listed entity, its holding, subsidiary or associate company or their promoters or directors, in excess of such amount as may be specified during the 3 immediately preceding F.Ys. or during the current F.Y.; (C) has given a guarantee or provided any security in connection with the indebtedness of any third person to the listed entity, its holding, subsidiary or associate company or their promoters or directors, for such amount as may be specified during the 3 immediately preceding F.Ys. or during the current F.Y.; or (D) has any other pecuniary transaction or relationship with the listed entity, its holding, subsidiary or associate company amounting to 2% or more of its gross turnover or total income: [Provided that the pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company or their promoters, or directors in relation to points (A) to (D) above shall not exceed 2% of its gross turnover or total income or ₹ 50 lakhs or such higher amount as may be specified from time to time, whichever is lower.] (vi) who, neither himself /herself, nor whose relative(s) — <ul style="list-style-type: none"> (A) holds or has held the position of a KMP or is or has been an employee of the listed entity or its holding, subsidiary or associate company or any company belonging to the promoter group of the listed entity, in any of the 3 F.Ys. immediately preceding the F.Y. in which he is proposed to be appointed: Provided that in case of a relative, who is an employee other than KMP, the restriction under this clause shall not apply for his / her employment. (B) is or has been an employee or proprietor or a partner, in any of the 3 F.Ys. immediately preceding the F.Y. in which he is proposed to be appointed, of — <ul style="list-style-type: none"> (1) a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or (2) any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to
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		<p>10% or more of the gross turnover of such firm;</p> <p>(C) holds together with his relatives 2% or more of the total voting power of the listed entity; or</p> <p>(D) is a chief executive or director, by whatever name called, of any nonprofit organisation that receives 25% or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds 2% or more of the total voting power of the listed entity;</p> <p>(E) is a material supplier, service provider or customer or a lessor or lessee of the listed entity;</p> <p>(vii) who is not less than 21 years of age.</p> <p>(viii) who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.</p>
6.	Obligations With respect to employees including Senior management, key managerial persons, directors & promoters	<p>✦ An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent director at the earliest but not later than 3 months from the date of such vacancy.</p>
7.	Constitution of Nomination & Remuneration Committee	<p>✦ The Board of Directors of every listed public company shall constitute the Nomination & Remuneration Committee which shall comprise of at least 3 directors, all of whom shall be non-executive directors & at least 2/3 (half) shall be independent directors.</p> <p>✦ However, in case of a listed entity having outstanding SR equity shares, two thirds of the committee shall comprise of independent directors.</p>
8.	Role of the Nomination & Remuneration Committee	<p>(1) Formulation of the criteria for determining qualifications, positive attributes & independence of a director & recommend to the BoD a policy, relating to the remuneration of the directors, KMP & other employees.</p> <p>(1A) For every appointment of an independent director, the Nomination & Remuneration Committee shall evaluate the balance of skills, knowledge & experience on the Board & on the basis of such evaluation, prepare a description of the role & capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:</p> <p>a. use the services of an external agencies, if required;</p> <p>b. consider candidates from a wide range of backgrounds, having due regard to diversity; &</p> <p>c. consider the time commitments of the candidates.</p> <p>(2) Formulation of criteria for evaluation of performance of independent directors & the BoD.</p> <p>(3) Devising a policy on Board diversity.</p> <p>(4) Identifying persons who are qualified to become directors & who may be appointed in senior management in accordance with the criteria laid down, & recommend to the Board their appointment & removal.</p> <p>(5) Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.</p> <p>(6) Recommend to the board, all remuneration, in whatever form, payable to senior management.</p>

9.	Applicability of Risk Management Committee	<ul style="list-style-type: none"> ✦ The provisions of this regulation shall be applicable to: <ul style="list-style-type: none"> (i) the top 1000 listed entities, determined on the basis of market capitalization as at the end of the immediate preceding F.Y.; & (ii) a 'high value debt listed entity'.
10.	Role of Risk Management Committee	<p>The role of the Risk Management Committee shall, inter alia, include the following:</p> <ul style="list-style-type: none"> ✦ To formulate a detailed risk management policy which shall include: <ul style="list-style-type: none"> (a) A framework for identification of internal & external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee. (b) Measures for risk mitigation including systems & processes for internal control of identified risks. (c) Business continuity plan. ✦ To ensure that appropriate methodology, processes & systems are in place to monitor & evaluate risks associated with the business of the Company; ✦ To monitor & oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems; ✦ To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics & evolving complexity; ✦ To keep the board of directors informed about the nature & content of its discussions, recommendations & actions to be taken; ✦ The appointment, removal & terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee. <p>The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.]</p>
11.	Information to Shareholders	<ul style="list-style-type: none"> ✦ The listed entity shall send the annual report in the following manner to the shareholders: <ul style="list-style-type: none"> (a) Soft copies of full annual report to all those shareholder(s) who have registered their email address(es) either with the listed entity or with any depository; (b) Hard copy of statement containing the salient features of all the documents, as prescribed in Section 136 of Companies Act, 2013 or rules made thereunder to those shareholder(s) who have not so registered; (c) Hard copies of full annual reports to those shareholders, who request for the same. ✦ The listed entity shall send annual report referred to in sub-regulation (1), to the holders of securities, not less than 21 days before the annual general meeting. ✦ In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information: <ul style="list-style-type: none"> (a) a brief resume of the director; (b) nature of expertise in specific functional areas; (c) disclosure of relationships between directors inter-se; (d) names of listed entities in which the person also holds the directorship

		<p>& the membership of Committees of the board along with listed entities from which the person has resigned in the past three years; &</p> <p>(e) shareholding of non-executive directors in the listed entity, including shareholding as a beneficial owner;</p> <p>(f) In case of independent directors, the skills & capabilities required for the role & the manner in which the proposed person meets such requirements.</p> <p>✦ The auditor should ascertain from the communications sent, whether in the case of appointment of a new director or re appointment of a director, the shareholders have been provided with the information stipulated above.</p>						
12.	Related Party Disclosures	<p>✦ The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 21 days from the end of each quarter.</p> <p>✦ The listed entity is also required to formulate a policy on materiality of related party transactions & on dealing with related party transactions. This policy should also include clear threshold limits duly approved by the board of directors. Further, such policy shall be reviewed by the board of directors at least once every three years & updated accordingly. A related party transaction shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a F.Y., exceeds ₹ 1000 crores or 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.</p> <p>✦ All related party transactions & subsequent material modifications shall require prior approval of the independent directors in audit committee of the listed entity.</p> <p>✦ Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject certain conditions.</p> <p>✦ The listed entity shall submit to the stock exchanges disclosures of related party transactions in the format as specified by the Board from time to time, & publish the same on its website.</p> <p>✦ Provided that a 'high value debt listed entity' shall submit such disclosures along with its standalone financial results for the half year.</p> <p>✦ Provided further that the listed entity shall make such disclosures every 6 months within 15 days from the date of publication of its standalone & consolidated financial results.</p> <p>✦ Provided further that the listed entity shall make such disclosures every 6 months on the date of publication of its standalone & consolidated financial results w.e.f. April 1, 2023.</p>						
13.	Related Party Disclosures in Annual Report	<p>As per Schedule V - Annual Report, the annual report shall contain the following additional disclosures relating to Related Party:</p> <p>✦ The listed entity which has listed its non-convertible securities shall make disclosures in compliance with the Accounting Standard on "Related Party Disclosures".</p> <p>✦ The disclosure requirements shall be as follows:</p> <table border="1"> <thead> <tr> <th>Sr. No.</th><th>In the accounts of</th><th>Disclosures of amounts at the year end & the maximum amount of loans/ advances/ Investments outstanding during the year.</th></tr> </thead> <tbody> <tr> <td></td><td></td><td></td></tr> </tbody> </table>	Sr. No.	In the accounts of	Disclosures of amounts at the year end & the maximum amount of loans/ advances/ Investments outstanding during the year.			
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1.	Holding Company	<ul style="list-style-type: none"> Loans & advances in the nature of loans to subsidiaries by name & amount. Loans & advances in the nature of loans to associates by name & amount. Loans & advances in the nature of loans to firms/companies in which directors are interested by name & amount.
	Subsidiary	<ul style="list-style-type: none"> Same disclosures as applicable to the parent company in the accounts of subsidiary company.
	Holding Company	<ul style="list-style-type: none"> Investments by the loanee in the shares of parent company & subsidiary company, when the company has made a loan or advance in the nature of loan.
<ul style="list-style-type: none"> For the purpose of above disclosures directors' interest shall have the same meaning as given in Section 184 of Companies Act, 2013. Disclosures of transactions of the listed entity with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity, in the format prescribed in the relevant AS for annual results. The above disclosures shall not be applicable to listed banks. 		

CA Final

Audit Highlights

May 2022 Exams

Professional Ethics

Guidelines for Formation of Multi-disciplinary Partnership as per the CA Act, 1949

The provisions of the CA Act, 1949 & the CA Regulations 1988, as amended, permit the members of the ICAI to form multi-disciplinary partnership firms with specified professionals (company secretary, cost accountant, advocate, actuary, architect, engineer). The purpose of these Guidelines is to enable the members of the Institute to form multi-disciplinary partnership firms. These Guidelines are as follows:

Right to Enter into Partnership	Section 2(2) of the Act prescribes as follows: “A member of the Institute shall be deemed “to be in practice”, when individually or in partnership with CA in practice, or in partnership with members of such other recognised professions as may be prescribed...”
Professionals Prescribed for Entering into Partnership	The members of following professional bodies have been permitted to become a partner under Regulation 53B of the Regulations as on date:
(a) Partnership with Company Secretary	Company Secretary, member, The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980; MDP CAs in Practice shall be permitted to enter into a partnership with a member of the Institute of Company Secretaries of India.
(b) Partnership with Cost Accountant	Cost Accountant, member, The Institute of Cost & Works Accountants of India established under the Cost & Works Accountants Act, 1959; MDP CAs in Practice shall be permitted to enter into a partnership with a

	member of the Institute of Cost Accountants of India.
(c) Partnership with Advocate	Advocate, member, Bar Council of India established under the Advocates Act, 1961; Unless the Bar Council of India Rules, 1975 are amended, MDP CAs in Practice shall not enter into partnership with an Advocate who is the member of the Bar Council of India.
(d) Partnership with Engineer	Engineer, member, The Institution of Engineers, or Engineering from a University established by law or an institution recognized by law; MDP CAs in Practice shall be permitted to enter into partnership with Engineer, who is a member of the Institution of Engineers, or Engineer from a University established by law or an institution recognized by law.
(e) Partnership with Architect	Architect, member, The Indian Institute of Architects established under the Architects Act, 1972; MDP CAs in Practice shall be permitted to enter into a partnership with a member of the Indian Institute of Architects.
(f) Partnership with Actuary	Actuary, member, The Institute of Actuaries of India, established under the Actuaries Act, 2006. MDP CAs in Practice shall be permitted to enter into a partnership with a member of the Institute of Actuaries of India who does not hold certificate of practice. However, MDP CAs in Practice shall not be permitted to enter into a partnership with a member of the Institute of Actuaries of India who holds certificate of practice.
Members of Other Professional Bodies	Members of any professional bodies or persons having prescribed qualification other than as specifically prescribed under Regulation 53B of the Regulations, shall not be admitted into partnership as on date. For example, members having post graduate qualification in management or approved valuer or approved insolvency professional or information technology professional shall not be admitted as a partner in MDP CAs in Practice.
Forms of Constitution	MDP CAs in practice can be constituted as a partnership firm as per the Indian Partnership Act, 1932 or as a limited liability partnership firm as per the Limited Liability Partnership Act, 2008.
Registration with the Institute	(a) Registration of MDP CAs in Practice with the Institute is mandatory. (b) Application Form: ★ MDP CAs in Practice, if it is a new firm to be constituted, then for the approval of its trade name or firm name shall apply to the Council in Form 117 as prescribed under Regulation 190 of the Regulations & the conditions for its name & all other conditions as prescribed under that Regulation shall apply. ★ MDP CAs in Practice, if it is a new firm to be constituted or an existing CA in practice or a CA firm is intending to admit any of the members of the professional bodies as prescribed under Regulation 53B of the Regulations, then it shall submit the details prescribed in Form 18 as prescribed under Regulation 190 of the Regulations.

	<ul style="list-style-type: none"> ★ MDP CAs in Practice shall have distinct name which shall be approved by the Institute. ★ To distinguish MDP CAs in Practice from other firms of CAs, the suffix “multi-disciplinary partnership firm of CA in practice” shall be used after the name of MDP CAs in Practice. ★ The registration number of MDP CAs in Practice shall contain the abbreviation “MDP” to distinguish it from registration number of other firms of CAs. <p>(c) Verification of Partners: It is the duty of MDP CAs in Practice to submit the documentary evidence in case of partners who are not the members of the ICAI. Above documentary evidence needs to be attested by a CA in practice who is not related to the MDP CAs in Practice.</p>
Services to be rendered by MDP CAs in Practice	★ MDP CAs in Practice can render all services as prescribed in Section 2(2) of the Act read with Regulation 190A of the Regulations. MDP CAs in Practice can also render services allowed to be performed by other professionals who are its partners.
Audit under the Companies Act, 2013	★ ‘Majority criteria’ for the purpose of computing eligibility of MDP CAs in Practice for the purpose of appointment as statutory auditor under the Companies Act, 2013 shall be calculated both on the basis of the number of partners as well as their aggregate share of profits in MDP CAs in Practice so that the majority criteria is clearly established.
Reconstitution of MDP CAs in Practice (Admission, retirement, death)	★ In case of any change in partners (admission, retirement, death) or any change in details of partners, MDP CAs in Practice will be required to submit the necessary particulars to the Institute in Form 18 within 30 days of such change.
Establishment of Branch Office	★ By virtue of Section 27 of the CA Act, 1949, only CA are permitted to be in-charge of the branch offices of MDP CAs in Practice. In case, MDP CAs in practice desires that a non-CA partner be made in-charge of any branch office, it may make request to the Council of ICAI in this regard.

THE GUIDELINES FOR NETWORKING OF INDIAN CA FIRMS, 2021

Three models of networking – Options offered to Members

Following approaches are placed before the Members in practice, any one of which can be adopted by those desirous of expanding their practice:

Approach I – Different firms coming together to form an Alliance with a new name of Alliance & continuing to practice independently & can showcase as an Alliance to the world.

Approach II – Different firms coming together to form a Network with a new Network name & practicing in the name of firms belonging to Network. This Model is subdivided into following two options:

<ul style="list-style-type: none"> - Network of firms in existing model by practising in individual firm name - Network of firms with a Lead firm acting on behalf of constituent firms of Network 				
Sr. No.	Criteria	APPROACH A Alliance Model	APPROACH B1 Network Model	APPROACH B2 Lead Firm Model
1.	Guidelines	THE GUIDELINES FOR ALLIANCE	THE GUIDELINES FOR NETWORKING	THE GUIDELINES FOR NETWORKING WITH LEAD FIRM CONCEPT
2.	Definitions	Alliance - "Alliance" means a larger structure of a group of Indian CA Firms that have come together for mutual benefits by pooling resources, showcase their combined strength, & have uniform policies, technology & collaterals, & showcase themselves as one big unit.	Network - "Network" means a larger structure of a group of Indian CA Firms that have come together for mutual benefits by pooling resources, showcase their combined strength, & have uniform policies, technology & collaterals, & showcase themselves as one big unit.	Network - "Network" means a larger structure of a group of Indian CA Firms that have come together for mutual benefits by pooling resources, showcase their combined strength, & have uniform policies, technology & collaterals, & showcase themselves as one big unit, with one lead firm acting on behalf of the member-firms.
3.	Name	When four firms viz. A & An entity is allowed to join only one Alliance. Co., B & Co., C & Co. & D & Co. come together to form an Alliance, they may name their Alliance as "ABCD". In case they wish to	When four firms viz. A & Co., B & Co., C & Co. & D & Co. come together to form a Network, they may name their Network as "ABCD". In case they wish to use suffix, they will use the suffix "& Affiliates" or "Network" to their common	When four firms viz. A & Co., B & Co., C & Co. & D & Co. come together to form a Network, they will suffix "& Affiliates" or "Network" to one of the firms selected by constituent firms as Lead firm e.g. if A &

		use suffix, they will use the suffix "& Alliance" to their common name to make it "ABCD & Alliance".	name to make it "ABCD & Affiliates" or "ABCD Network".	Co. is chosen as Lead firm, then name of Network will be "A & Co. & Affiliates"
4.	Objective	<p>The objective of the Alliance Guidelines is to provide a framework for a firm of CA seeking benefits from Alliance, such as:</p> <ul style="list-style-type: none"> - Wider co-operation amongst the professionals - Sharing of common name of Alliance, if desired by Alliance firms, & to showcase their combined strength for securing professional work. - Wider professional reach - Referral practices - Wider geographical presence 	<p>The objective of the Networking Guidelines is to provide a framework for a firm of CA seeking benefits from networking, such as:</p> <ul style="list-style-type: none"> ☐ - Wider co-operation amongst the professionals ☐ - Sharing of common name of Network, if desired by Network firms, & to showcase their combined strength for securing professional work. - Pooling of knowledge, guidance, training, resources & infrastructure. - Wider professional reach - Sharing of methodologies, practices, strategy etc., in domestic & international markets - Referral practices - Wider geographical 	<p>The objective of the Networking Guidelines is to provide a framework for a firm of CA seeking benefits from networking, such as:</p> <ul style="list-style-type: none"> ☐ - Wider co-operation amongst the professionals ☐ - Sharing of common name of Network, if desired by Network firms, & to showcase one lead firm with their combined strength for securing professional work. - Pooling of knowledge, guidance, training, resources & infrastructure. - Wider professional reach - Sharing of methodologies, practices, strategy etc., in domestic & international markets - Referral practices - Wider

			presence	geographical presence
5.	Registration	Alliance will be registered with ICAI. ICAI will allot unique Alliance Registration Number (ARN)	Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN)	Network will be registered with ICAI. ICAI will allot unique Network Registration Number (NRN)
6.	Practice	<ul style="list-style-type: none"> ★ Firms are free to carry on practice as independent firms, despite being constituents of Alliance. ★ Alliance may direct the best practices to be followed by individual constituent firms. ★ Firms belonging to one Alliance can't be allowed to become Associates of another Alliance or Network, so that regulatory complexities are avoided. 	<ul style="list-style-type: none"> ★ Firms are bound by internal integration agreement, & practice as independent firms, subject to internal agreement. ★ Network's decision prevails upon other firms. ★ Firms belonging to one Network can't be allowed to become Associates of another Network or Alliance, so that regulatory complexities are avoided. 	<ul style="list-style-type: none"> ★ Firms can have an internal agreement recognising one of the firms as the lead firm, depending upon the specialism & expertise required for each assignment. The individual firms can carry on practice as independent firms. ★ The lead firm & its constituents can't be allowed to become Associates of another Network or Alliance, so that regulatory complexities are avoided.
7.	Empanelment	<ul style="list-style-type: none"> ★ All firms in Alliance can apply for empanelment separately as individual firms. Their coming together is 	<ul style="list-style-type: none"> ★ All firms belonging to Network can apply for empanelment, separately as individual firms. ★ ICAI will put in efforts to secure 	<ul style="list-style-type: none"> ★ Lead firm is entitled to apply for empanelment in its own name, but by way of internal agreement, it

		<p>basically for non-audit services.</p> <p>★ For audit practice, they all remain as independent practitioners</p>	<p>recognition of the combined strength & resources.</p>	<p>will be on behalf of entire Network. When Lead firm applies for empanelment, other constituent firms cannot apply.</p> <p>★ ICAI will put in efforts to secure recognition of the combined strength & resources</p>
8.	Conflict	<p>★ Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Alliance cannot do internal audit. If one firm does audit work, another firm in the Alliance cannot perform non-audit services of same client.</p> <p>★ Rotation of audit amongst constituent firms will not be permitted.</p>	<p>★ Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit. If one firm does audit work, another firm in the Network cannot perform non-audit services of same client.</p> <p>★ Rotation of audit amongst constituent firms will not be permitted.</p>	<p>★ Conflict exists e.g. if one firm does statutory audit of an entity, another firm in Network cannot do internal audit. If one firm does audit work, another firm in the Network cannot perform non-audit services of same client.</p> <p>★ Rotation of audit amongst constituent firms will not be permitted.</p>
9.	Reconstitution	<p>★ Firms are free to join & exit Alliance.</p> <p>★ Reconstitution has to be registered with ICAI.</p>	<p>★ Firms are bound by Network's internal integration agreement.</p> <p>★ Reconstitution has to be registered with ICAI.</p>	<p>★ Firms are bound by Network's internal integration agreement.</p> <p>★ Reconstitution has to be registered with ICAI.</p>
FURTHER GUIDANCE GIVEN BY COUNCIL				

Based on views collected at Outreach Programmes & based on deliberations within the Council, the Council has given following further guidance to the members:

- ✦ Firms might need to have detailed knowledge of other firms to make up their mind as to with which firm they will go for Alliance/ Networking. Therefore, data of firms will be made available in the Self Service Portal for the members to view & take informed decision.
- ✦ Any firm of CA can become a part of any one Alliance or any one Network. If it intends to become part of one Alliance, it cannot become part of a Network, & vice versa.
- ✦ ICAI will consider providing a Model deed/ template.
- ✦ Name of Alliance/ Network should resemble name of member-firms or a combination of acronym. Alliance/ Network should not bear the name of God/ Goddess/ deity or which has no relationship with name of member-firms. Descriptive names will not be allowed. Names which smack of publicity will not be allowed. Names which resemble any of the existing firms or network will not be allowed. Brand name should be owned only by Indian citizen who is resident in India.
- ✦ Alliance/ Network will be permitted as joint ventures for specific assignments.
- ✦ Documents such as deeds, MOUs, forms can be signed by the Managing Partner of each of the member-firms & need not be signed by all partners.
- ✦ Only firms & LLPs can become member-firms in Alliance/ Network. Individual practitioners are not permitted to be part of Alliance/ Network.
- ✦ Every agreement, bye-law, MOUs, by whatever name called, must be filed with ICAI, without which registration will not be given.
- ✦ The legal status of Alliance/ Network can be that of AOP as recognised by tax laws. Alliance/ Network may open bank accounts in its own name, obtain PAN & GST registration.
- ✦ Alliance/ Network can take up non-attest assignments in its own name, if work is so assigned.
- ✦ Alliance/ Network may prepare a common balance sheet & get the same audited.
- ✦ Alliance/ Network can have website of its own. Appropriate guidelines will be prepared by Ethical Standards Board of ICAI.

Audit Committee & Corporate Governance

APPLICABILITY OF LODR REGULATIONS

Unless otherwise provided, these regulations shall apply to the listed entity who has listed any of the following designated securities on recognised stock exchange(s):

- ★ Specified securities listed on main board or SME Exchange or Innovators Growth platform
- ★ Non-convertible securities
- ★ Indian depository receipts
- ★ Securitised debt instruments
- ★ Units issued by mutual funds
- ★ Security receipts
- ★ Any other securities as may be specified by the Board

The provisions of these regulations which become applicable to listed entities on the basis of market capitalisation criteria/ criterion of the value of outstanding listed debt securities shall continue to apply to such entities even if they fall below such thresholds.

(Entities having NCDs 500 Cr & above as on 31st March of Last Financial Year are called High value Debt Listed Entities)

Chapter IV of LODR covers regulation 15 to regulation 48, out of these regulation 15 to regulation 27 deal with corporate governance matters. Chapter IV was formed for companies whose equity shares and convertible securities were listed. Accordingly, regulation 15 to 27 is also applicable to HVD listed entities, that means all corporate governance regulations unless specified only for equity are applicable to them also.

REPORT ON CORPORATE GOVERNANCE

- ★ The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 21 days from the end of each quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the listed entity.

APPROVAL OF SHAREHOLDERS

- ★ The listed entity shall ensure that approval of shareholders for appointment of a person on the Board of Directors is taken at the next general meeting or within a time period of three months from the date of appointment, whichever is earlier.
- ★ The appointment, re-appointment or removal of an independent director of a listed entity, shall be subject to the approval of shareholders by way of a special resolution.

ATLEAST 1 MEETING OF INDEPENDENT DIRECTORS

- ★ The independent directors of the listed entity shall hold at least 1 meeting in a financial year, without the presence of non-independent directors & members of the management & all the independent directors shall strive to be present at such meeting.

RESIGNATION/ REMOVAL OF INDEPENDENT DIRECTOR

- ★ An independent director who resigns or is removed from the BoD of the listed entity shall be replaced by a new independent director at the earliest but not later than 3 months from the date of such vacancy.
- ★ Provided that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as

the case may be, the requirement of replacement by a new independent director shall not apply.

D & O INSURANCE

- ★ The top 500 listed entities by market capitalization calculated as on March 31 of the preceding financial year, shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.]
- ★ No independent director, who resigns from a listed entity, shall be appointed as an executive / whole time director on the board of the listed entity, its holding, subsidiary or associate company or on the board of a company belonging to its promoter group, unless a period of one year has elapsed from the date of resignation as an independent director."
- ★ A 'high value debt listed entity' shall undertake Directors and Officers insurance (D and O insurance) for all its independent directors for such sum assured and for such risks as may be determined by its board of directors.

ROLE OF AUDIT COMMITTEE – NEW POINT ADDED

- ★ Consider & comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity & its shareholders.

INFORMATION TO SHAREHOLDERS

In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

- ★ A brief resume of the director;
- ★ Nature of his expertise in specific functional areas;
- ★ Disclosure of relationships between directors inter-se;
- ★ Names of listed entities in which the person also holds the directorship & the membership of Committees of the Board along with listed entities from which the person has resigned in the past 3 years; &
- ★ Shareholding of non-executive directors. Directors [in the listed entity, including shareholding as a beneficial owner.
- ★ In case of independent directors, the skills and capabilities required for the role and the manner in which the proposed person meets such requirements.

SECRETARIAL AUDIT

Secretarial Audit Report	<ul style="list-style-type: none"> ★ Every listed entity & its material unlisted subsidiaries incorporated in India shall undertake secretarial audit & shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.
Secretarial Compliance Report	<ul style="list-style-type: none"> ★ Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within 60 days from end of each financial year.

Peer Review

OBJECTIVES OF PEER REVIEW

The main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute-

- ❖ comply with Technical, Professional & Ethical Standards as applicable including other regulatory requirements thereto &
- ❖ have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.
- Peer Review is primarily directed towards ensuring as well as enhancing the quality of audit and assurance services of Chartered Accountants in Practice. Such an objective of the peer review process makes it amply clear that the reviewer is not going to sit on the judgment of the practice unit while rendering assurance services but to evaluate the procedure followed by the practice unit in rendering such a service.
- Accordingly, where a Practice Unit is not following the prescribed Standards, the Reviewers are expected to recommend measures to improve the procedures followed by the Practice Units. To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature.
- The conclusion, therefore, is that the peer review seeks to identify and address patterns of non-compliance with quality control standards.

APPLICABILITY & PERIODICITY OF PEER REVIEW

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

LEVEL I: PEER REVIEW ONCE IN 3 YEARS

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

- (i) Statutory Central Audit of any Bank or Insurance Company
- (ii) Statutory Audit of Central or State Public Sector Undertakings & Central Cooperative Societies having turnover exceeding ₹ 250 crores or net worth exceeding ₹ 5 crores.
- (iii) Statutory Audit of asset management companies or mutual funds.
- (iv) Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (LODR) Regulations, 2015.
- (v) Statutory audit of any body corporate including trusts which are covered under public interest entities.
- (vi) Statutory Audit of entities which have raised funds from public or banks or financial institutions or by way of donations/contributions over ₹ 50 Crore.
- (vii) Statutory Audit of entities having net worth of more than ₹ 100 crore or having turnover of ₹ 250 crore or above.
- (viii) Statutory Audit of entities which have been funded by Central & / or State Government(s) schemes of over ₹ 50 Crore.
- (ix) Statutory Audit of NBFCs having deposits of ₹ 100 crore, or above.
- (x) Statutory Audit of Entities preparing the financial statements as per Ind AS.

LEVEL II: PEER REVIEW ONCE IN 4 YEARS

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

- (i) Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of - (a). Public Sector undertaking (b) Any bank (c). Any Insurance Company
- (ii) Statutory Audit of NBFCs not covered in L-1 above,
- (iii) UDIN's generated by the Practice Units more than the specified number determined by the Board from time to time.
- (iv) Any other Practice Unit providing assurance or other services not covered under (i) (ii), and (iii) hereinabove.

2. SPECIAL CASE REVIEW

- ★ The Board, based on specific information received from Secretary, ICAI or Disciplinary directorate or any other Regulator, which in the opinion of the Board requires a special review of the Practice Unit, may conduct a special review of the Practice Unit for a period to be determined in each case.
- ★ Any Practice Unit not selected for Peer Review, may suo moto apply to the Board for the conduct of its Peer Review. An auditee (Client) may request the Board for the conduct of Peer Review of its auditor (Practice Unit). The Board shall in both the cases act upon the same within 30 days from the date of receipt of such request.

PEER REVIEW BOARD

Tenure & Meeting Requirement

- ★ The term of two third members shall be for 3 years or end of the term of the member in the Council whichever is earlier, or such other period as may be prescribed by the Council from time to time. The Chairman & the Vice-Chairman of the Board may be rotated every year by the Council of the Institute.

Casual vacancies on the Board shall be filled by the Council. A Member of the Disciplinary Committee or the Disciplinary Board of the ICAI shall not be a member of the Board.

- ★ No business shall be transacted at any meeting of the Board unless there are present at least 1/3 members of the Board but not less than 3 members, including the Chairman or, in his absence, the Vice Chairman. The Board shall meet as and when required for transaction of the business before it. However, at least one meeting shall be held in every calendar quarter.

ELIGIBILITY TO BE A REVIEWER

- ★ **A Peer Reviewer shall: -**

- (a) Shall be a member in practice with at least 7 years of audit experience.
- (b) In case a member has moved from industry to practice and is currently in practice he should have at least 10 years of audit experience in industry and at least 3 years audit experience in practice.

Should have undergone the requisite training and cleared the requisite test for Peer Review as prescribed by the Board.

- ★ **A member on being appointed as a Reviewer shall be required to furnish -**

- (a) a declaration as prescribed by the Board, at the time of Empanelment as a Peer Reviewer.
- (b) a Declaration of Confidentiality as per Annexure A to this Statement while giving consent for appointment as a Peer Reviewer.

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

- (a) any disciplinary action/proceeding is pending against him
- (b) he has been found guilty of professional or other misconduct by the Council or the Board of Discipline or the Disciplinary Committee at any time
- (c) he has been convicted by a competent court whether within or outside India, of an offence involving moral turpitude & punishable with imprisonment
- (d) he or his partners or personnel has any obligation or conflict of interest in the Practice Unit.
- (e) He has undergone training/articleship under any of the partner of Practice Unit.

- ★ Reviewer shall not accept any professional assignment from the Practice Unit for a period 2 years from the date of appointment. Further, he should not have accepted any professional assignment from the Practice Unit for a period of 2 years before the date of appointment as reviewer of that Practice Unit.

OBLIGATIONS OF THE PEER REVIEWER

The Reviewer shall not take any extracts of the Practice Units clients' file or records examined by him while conducting Peer Review, as a part of his working papers.

- ★ The Reviewer shall complete the Review within the prescribed time frame & submit the report to the Board.
- ★ The Reviewer shall document all his working papers and submit a copy of his working papers to the Board, if called for by the Board within 18 months of submission of Review Report.

THE PEER REVIEW PROCESS

A. SELECTION OF PRACTICE UNIT & APPOINTMENT OF REVIEWER

- (I) Notification to the Practice Unit: A Practice Unit which has been selected for a Peer Review shall be notified by the board.
- (II) A detailed declaration cum questionnaire in the form approved by the Board shall be submitted by the Practice Unit within 7 days from the date the Practice Unit (PU) has been notified by the Board so that Reviewer to be allotted from the Panel of 3 reviewers can be identified by the Board as per declaration cum questionnaire submitted by Practice Unit.
- (III) Name of 3 Reviewers shall be recommended by the Board to the Practice Unit so selected.
- (IV) The Practice Unit shall select one out of the 3 Reviewers & intimate to the Board within 7 days of receipt of the names.
- (V) The Board shall intimate the Reviewer so selected & seek his consent within 7 days.

B. PLANNING

(i) Information to be furnished by Practice Unit:

On intimation by the Board, of the Reviewer's consent, the Practice Unit shall within 2 days provide the copy of completely filled up questionnaire earlier submitted with Board to the Reviewer along with:

- Details of any proceedings against the Practice Unit or any of its partners or qualified assistants taken by any regulatory, monitoring or enforcement bodies relating to investigation or allegation of deficiency in the conduct of attest function by them during the period of three financial years preceding the period of review or at any time thereafter i.e. till the date of submission of the duly filled-in Questionnaire.

(ii) Information to be furnished by Peer Review Board:

The Peer Review Board shall call for relevant information from the UDIN Directorate & may share the concerned details with Peer Reviewer which shall form part of Peer Review.

(iii) Selection of Sample by the Reviewer:

(a) The Reviewer shall within 7 days of receiving the information from the Practice Unit select a sample of the assurance

Services that he would like to Review & intimate the same to the Practice Unit & the Peer Review Board.

(b) The Reviewer may also seek further / additional clarification from the Practice Unit on the information furnished / not furnished.

(c) The Reviewer shall plan for an on-site Review visit or initial meeting in consultation with the Practice Unit. The Reviewer shall give the Practice Unit at least 5 days' time to keep ready the necessary records of the selected assurance services.

(d) The Reviewer & Practice Unit shall mutually co-operate & ensure that the entire Review process is completed within 60 days from the date of notifying the Practice Unit about its selection for Review.

C. EXECUTION

(i) Peer Review Visits: Peer Review visits will be conducted at the Practice Unit's head office or /& branch(es) or any other locations. This on-site Review should not extend beyond 7 working days based on the size of the Practice Unit.

From the initial sample selected at the planning stage, the Reviewer, in consultation with the Peer Review Board, may reduce or enlarge the initial sample size of assurance service engagements for Review.

(ii) Review of Records: The Reviewer is required to adopt a combination of compliance approach & substantive approach in the Review process.

(A) **Compliance Approach:** The compliance approach is to assess whether proper control procedures have been established/ followed by the Practice Unit to ensure that assurance services are being performed in accordance with Technical, Professional & Ethical Standards.

The following areas shall be considered:

- ✦ Assurance services records for Administration
- ✦ Review & Evaluation of System of Internal controls
- ✦ Substantive Tests
- ✦ FS Presentation & Disclosures
- ✦ Assurance Services Conclusions
- ✦ Assurance Services Reporting

(B) **Substantive Approach:** This approach requires a Review of the assurance working papers in order to establish the extent of compliance, whether the assurance work has been carried out as per the Technical, Professional, & Ethical Standards.

D. REPORTING**(i) Discussion/Communication of Findings**

(a) After completing the on-site Review, the Reviewer, before making his Report to the Board, shall communicate his findings in the Preliminary Report to the Practice Unit if in his opinion, the systems & procedures are deficient or non-compliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification.

(b) The Practice Unit shall within 5 days after the date of receipt of the findings, make any submissions or representations, in writing to the Reviewer.

(ii) Peer Review Report of Reviewer

(a) At the end of an on-site Review if the Reviewer is satisfied with the reply received from the Practice Unit, he shall submit a Peer Review Report to the Board along with his initial findings, response by the Practice Unit & the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.

(b) In case the Reviewer is of the opinion that the response by the Practice Unit is not satisfactory, the Reviewer shall accordingly submit a modified Report to the Board incorporating his reasons for the same.

The Reviewer shall also submit initial findings (i.e. Preliminary Report), response by the Practice Unit (Response to Preliminary Report) & the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.

(c) In case of a modified report, The Board shall order for a "Follow On" Review after a period of one year from the date of report as mentioned in (b) above. If the Board so decides, the period of 1 year may be reduced but shall not be less than 6 months from the date of issue of the report.

PEER REVIEW CERTIFICATE

On receipt of the Peer Review Report, the Board shall within 3 months:

(a) Issue a Peer Review Certificate to the Practice Unit mentioning the validity period.

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

VALIDITY OF PEER REVIEW CERTIFICATE

➤ A Practice Unit cannot continue with the existing certificate, whose validity has expired. All documents signed by the Practice Unit during the intervening period (i.e. expiry of previous certificate & issuance of new certificate) will be invalid.

➤ Therefore, it is the responsibility of the Practice Unit to complete the Peer Review of the firm & submit all necessary documents at least 1 month before the date of expiry of the previous certificate.

Audit of Banks

LONG FORM AUDIT REPORT (LFAR)

- ✦ Besides the audit report as per the statutory requirements discussed above, the terms of appointment of auditors of public sector banks, private sector banks & foreign banks (as well as their branches), require the auditors to also furnish a LFAR.
- ✦ The long form audit report is to be given by statutory branch auditors as well as statutory central auditors. The LFAR for branch auditors is in form of questionnaire where observations/comments have to be provided on range of matters including cash, balance with banks, investments, advances, deposits etc. These are submitted by the statutory branch auditors to statutory central auditors.
- ✦ The consolidation is done at head office level & LFAR for bank is submitted by statutory central auditors to management.
- ✦ The LFAR, on the bank, after due examination, should be placed before the ACB of the bank indicating the action taken/proposed to be taken for rectification of the irregularities, if any, mentioned therein; & a copy of the LFAR & the relative agenda note, together with the Board's views or directions, is submitted to RBI within 60 days of submission of LFAR by statutory auditors.

SPECIAL CONSIDERATIONS IN IT ENVIRONMENT

Considering the importance of IT systems in preparation & presentation of FS, it is imperative that bank should share detailed information with auditors like: -

- ✦ Overall IT policy, structure & environment of Bank's IT system
- ✦ Data processing & data interface under various systems
- ✦ Data integrity & data security
- ✦ Business Continuity plans & disaster control plans
- ✦ Accounting manual & critical accounting entries, their processes & involvement of IT systems
- ✦ Controls over key aspects, use of various account heads, expense booking, overdue identification etc.
- ✦ Controls on recording of various e-banking & internet banking products & channels
- ✦ MIS reports being generated & their periodicity
- ✦ Major exception reports & process of generation including embedded logic
- ✦ Process of generating various information related to various disclosures in financial statements & involvement of IT Systems

INTERNAL AUDIT & INSPECTION

- ✦ Central audit & inspection department in Banks is a combination of centralized function with some level of decentralization which is usually headed by a Chief Audit Executive. It is responsible for undertaking risk-Based Internal Audit (RBIA) as per the framework as stipulated by RBI.

✦ **Risk-based Internal audit is conducted based upon the risk assessment of business & control risks of branches. The risk assessment process includes: -**

- Identification of inherent business risks in various activities undertaken by branches (Business risk)
- Assessment of effectiveness of control systems for monitoring inherent risks of business activities of branch (Control risk)
- Making an assessment of level & direction of various risk areas & assess level & direction of overall business risk & control risk
- Drawing up of risk matrix taking into account factors viz. Risk of branch

INTERNAL CONTROLS – CLEARINGS

- ★ Under the Cheque Truncation System (CTS) implemented by RBI, an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection.
- ★ As per RBI guidelines, the branch is required to either call the customer or email him for any cheque received for the amount of ₹ 5 lakh & above in respect of inward clearings. The Auditor may verify the compliance on test check basis.
- ★ The Auditor is to check whether signature of the drawer of the cheque is being verified by the staff or not as else there will be liability of the paying bank under all circumstances.
- ★ The unpaid cheques received in outward clearing should be either sent to the customers at their recorded address or the customers be informed to collect the same from bank branch.

INTERNAL CONTROLS - ADVANCES

- Examine area of credit appraisal & verify whether laid down procedures regarding credit appraisals including loan applications, preparation of proposals, obtaining satisfaction about credit worthiness of borrowers are being followed;
- Examine advances are sanctioned according to delegated authority;
- Examine all necessary loan documents have been executed after sanction but before disbursements are made to borrowers;
- Examine compliance with stipulated terms of sanction & end use of funds more particularly in case of term loans;
- Examine existence, enforceability & valuation of securities. In respect of securities requiring registration, examine this area also;
- Examine the validity of the recorded amounts;
- Review operations of the accounts & look for adverse features like unauthorised over drawings beyond limits;
- Examine whether system laid down in bank for review/renewals of advances is being followed;
- Review whether drawing power is being calculated properly on basis of stock/book debt statements received from borrowers as stipulated in respective sanction letters;
- Ensure compliance with Loan Policy of Bank as well as prudential norms of RBI including appropriate asset classification & provisioning.

SUBSTANTIVE AUDIT PROCEDURE – ADVANCES

- Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.
- Verify that each customer of bank is tagged under single customer id in respect of all its accounts including those in which credit facilities are granted.
- Examine all large advances while other advances may be examined on a sample basis.
- Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 & SMA2 borrowers from the bank & same can be considered for selection of problematic accounts.
- Examine those accounts which have been adversely commented upon by concurrent auditors/bank's internal inspection/RBI inspection team.
- Examine list of restructured accounts to ensure that restructure is as per RBI guidelines. Remember restructured account portfolio requires additional provisioning.

- Examine quick/early mortality accounts. Any advance slippage to NPA within 12 months of its sanction is called as quick/early mortality case.
- Verify completeness & accuracy of interest being charged.
- Carry out appropriate analytical procedures.

VERIFICATION OF DEPOSITS

Current & Savings Deposits

- ★ Verify on a sample basis current account & saving accounts opened during the year for adherence to KYC norms. Verify that saving accounts are opened in name of individuals, HUF, some approved institutions like trusts, educational institutes etc. Remember that saving accounts are not opened for business or professional concern. The business transactions are carried in current accounts which can be opened for all kind of customers like companies, individuals, partnership firms etc.
- ★ Verify the balances in individual accounts on a sample basis.
- ★ Check the calculations of interest on a test check basis. Remember that no interest is paid generally on current accounts by banks.
- ★ Examine whether the procedure for obtaining balance confirmation periodically has been followed consistently. Examine, on a sampling basis, the confirmations received.
- ★ Ensure that debit balances in current accounts are not netted out on the liabilities side but are appropriately included under the head 'advances'.
- ★ Inoperative accounts (both current & saving) are a high-risk area of frauds in banks. As per RBI guidelines, a savings/ current account should be treated as inoperative/dormant if there are no transactions in the account for over a period of 2 years. Verify on a sample basis some of inoperative accounts revived/closed during the year. Ensure that inoperative accounts are revived only with proper authority. In this regard, cases where there is significant reduction in balances of such accounts as compared to previous year, examine authorisation for withdrawals.

Term Deposits

- Examine whether the deposit receipts & cash certificates are issued serially & all of them are accounted for in the registers.
- Verify in case of bulk deposits (₹ 2 crore & above for scheduled commercial banks presently), correct rate of interest has been offered.
- In case of closure of term deposit, test check whether required foreclosure penalty has been deducted from applicable rate of interest payable.
- Verify on sample basis some of recurring deposit accounts opened during the year.
- Verify correctness of rate of interest on term deposits on sample basis.

Deposits Designated In Foreign Currencies

- ★ Verify some of FCNR accounts opened during the year on sample basis & ensure these conform to RBI directions.
- ★ Verify on sample basis permissible credits & debits in FCNR accounts as per RBI directions.
- ★ In case of FCNR accounts, examine whether these have been converted into Indian Rupees at rate notified in this behalf by head office. Examine whether any resultant increase or decrease has been taken to the profit & loss account.
- ★ Verify that interest on deposits has been paid on the basis of 360 days in a year.

Others

- ★ In case of NRE & NRO accounts, verify on a sample basis credits & debits as per RBI guidelines. Also check repatriability.

- ★ NRE accounts are repatriable whereas NRO accounts are not repatriable except for all current income subject to certain conditions.

General

- ★ Verify that deposits of a bank are not inflated for purpose of balance sheet presentation. For example, some customers might be given overdrafts near date of balance sheet & the resultant overdrawn amounts may be placed as deposits with banks & further advances may be given on strength & security of these deposits. It would lead to inflated deposits as well as advances. The transactions may be reversed after close of the year.
- ★ In such cases which indicate the possibility of window-dressing, the auditor should consider making a suitable qualification in main audit report besides other applicable reporting.
- ★ Examine that interest accrued but not due on deposits is not included under the relevant deposits but is shown under the head 'other liabilities & provisions'
- ★ Ensure that framework relating to 'Know Your Customer' & Anti-Money Laundering measures is formulated & put in place by the bank.

CONTINGENT LIABILITIES OF BANKS

In respect of contingent liabilities, the auditor is primarily concerned with seeking reasonable assurance that all contingent liabilities are identified & properly valued. The auditor should obtain representation from management that:-

- ★ (i) all off-balance sheet transactions have been accounted in the books of accounts as & when such transaction has taken place;
- ★ (ii) all off balance sheet transactions have been entered into after following due procedure laid down;
- ★ (iii) all off balance sheet transactions are supported by the underlying documents;
- ★ (iv) all year end contingent liabilities have been disclosed;
- ★ (v) the disclosed contingent liabilities do not include any crystallised liabilities which are of the nature of loss/ expense & which, therefore, require creation of a provision/adjustment in the financial statements;
- ★ (vi) the estimated amounts of financial effect of the contingent liabilities are based on the best estimates in terms of Accounting Standard 29, including consideration of the possibility of any reimbursement;
- ★ (vii) in case of guarantees issued on behalf of the bank's directors, the bank has taken appropriate steps to ensure that adequate & effective arrangements have been made so that the commitments would be met out of the party's own resources & that the bank will not be called upon to grant any loan or advances to meet the liability consequent upon the invocation of the said guarantee(s) & that no violation of section 20 of the Banking Regulation Act, 1949 has arisen on account of such guarantee; &
- ★ (viii) such contingent liabilities which have not been disclosed on account of the fact that the possibility of their outcome is remote include the management's justification for reaching such a decision in respect of those contingent liabilities

CONCURRENT AUDIT**Scope of concurrent audit**

- ★ The detailed scope of the concurrent audit should be clearly & uniformly determined for the Bank as a whole by the Bank's Central Inspection & Audit Department in consultation with the Bank's Audit Committee of the Board of Directors (ACB).

<ul style="list-style-type: none"> ★ In determining the scope, importance should be given to checking high-risk transactions having large financial implications as opposed to transactions involving lesser amounts. ★ Further, the guidelines issued by the RBI cover all the key areas of activities of the branch which is under concurrent audit.
Concurrent Audit System in Commercial Banks
<ul style="list-style-type: none"> ★ It hardly needs to be stressed that the concurrent audit system is to be regarded as part of a bank's early-warning system to ensure timely detection of irregularities & lapses which helps in preventing fraudulent transactions at branches. ★ It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches/coverage of business operations, appointment of auditors, appropriate reporting procedures, follow-up/rectification processes & utilisation of the feedback from the system for appropriate & quick management decisions. ★ The bank should once in a year review the effectiveness of the system & take necessary measures to correct the lacunae in the implementation of the programme.
Appointment of Concurrent Auditors & Accountability
<ul style="list-style-type: none"> ➤ The option to consider whether concurrent audit should be done by bank's own staff or external auditors is left to the discretion of individual banks. ➤ In case the bank has engaged its own officials, they should be experienced, well trained & sufficiently senior. The staff engaged on concurrent audit must be independent of the branch where concurrent audit is to be conducted. ➤ ACB of the bank shall decide the maximum tenure of external concurrent auditors with the bank. Generally, tenure of external concurrent auditors with a bank shall not be more than 5 years on continuous basis. However, no concurrent auditor shall be allowed to continue with a branch/business unit for a period of more than 3 years. ➤ If external firms are appointed & any serious acts of omissions or commissions are noticed in their working their appointments may be cancelled & the fact may be reported to RBI & ICAI. ➤ Terms of appointment of the external firms of Chartered Accountants for the concurrent audit & their remuneration may be fixed by ACB of banks keeping in view various factors such as coverage of areas, skill sets required, number of staff required & time to be devoted to audit.
Coverage of Business/Branches
<ul style="list-style-type: none"> ★ The scope of work to be entrusted to concurrent auditors, coverage of business/branches, etc. is left to the discretion of the head of internal audit of banks with the due prior approval of the ACB. ★ Banks may, however, ensure that risk sensitive areas identified by them as per their specific business models are covered under concurrent audit. ★ The broad areas of coverage under concurrent audit shall be based on the identified risk of the unit & must include random transaction testing of sufficiently large sample of such transactions wherever required.
Reporting Systems By Concurrent Auditor
<ul style="list-style-type: none"> ★ There should be proper reporting of the findings of the concurrent auditors. For this purpose, each bank should prepare a structured format.
<ul style="list-style-type: none"> ★ There should be zone-wise reporting of the findings of the concurrent audit to Audit Committee Board ★ (ACB) & an annual appraisal/report of the audit system should be placed before the ACB.

★ Before submission of the report, discuss the important issues on which he/she wishes to report with the branch manager & concerned officers.
★ Minor irregularities pointed out by the concurrent auditors are to be rectified in a timely manner. Serious irregularities should be reported to the controlling offices/ Head Offices for immediate action.
★ Whenever fraudulent transactions are detected, they should immediately be reported to Inspection & Audit Department as also the Chief Vigilance Officer as well as Branch Managers concerned.
★ Follow-up action on the concurrent audit reports should be given high priority by the controlling office/Inspection & Audit Department & rectification of the features done without any loss of time.

Company Accounts & Audit

Resignation of Auditor Sec 140(2)

- ★ The auditor who has resigned from the company shall file within a period of **30 days** from the date of resignation, a statement in the prescribed form with the company & the Registrar, & in case of companies referred to in sec 139(5), the auditor shall also file such statement with the Comptroller & Auditor General of India, indicating the reasons & other facts as may be relevant with regard to his resignation.
- ★ If the auditor does not comply with the provisions of sub-section (2), he or it shall be liable to a penalty of **Rs. 50,000** or an amount equal to the remuneration of the auditor, whichever is less, & in case of continuing failure, with further penalty of **Rs. 500** for each day after the first during which such failure continues, subject to a maximum of **Rs. 2 lakhs**.

Sec 143 (3) The auditor's report shall also state—

(j) such other matters as may be prescribed.

The auditor's report shall also include their views & comments on the following matters, namely:-

- (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
- (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education & Protection Fund by the company.
- (d) [Omitted]
- (e) (i) Whether the management has represented that, to the best of it's knowledge & belief, other than as disclosed in the notes to the accounts, **no funds have been advanced or loaned or invested** (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
- (ii) Whether the management has represented, that, to the best of it's knowledge & belief, other than as disclosed in the notes to the accounts, **no funds have been received** by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; &
- (iii) Based on such audit procedures that the auditor has considered reasonable & appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) & (ii) **contain any material misstatement.**
- (f) Whether the **dividend declared or paid** during the year by the company is in compliance with sec 123 of the Companies Act, 2013.
- (g) [Whether the company, in respect of financial years commencing on or after the 1st April, 2022,] **has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility & the same has been operated throughout**

the year for all transactions recorded in the software & the audit trail feature has not been tampered with & the audit trail has been preserved by the company as per the statutory requirements for record retention.]

Duty to Report Fraud to Central Government Sec 143(12)

Sec 143(15) If any auditor, cost accountant, or company secretary in practice does not comply with the provisions of Sec 143(12), he shall,—

- (a) in case of a listed company, be liable to a penalty of **Rs. 5 lakhs**; &
- (b) in case of any other company, be liable to a penalty of **Rs. 1 lakh**.

Punishment for Contravention Sec 147

(1) If any of the provisions of sec 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than **Rs. 25,000** but which may extend to **Rs. 5 lakhs** & every officer of the company who is in default shall be punishable with fine which shall not be less than **Rs. 10,000** but which may extend to **Rs. 1 lakh**.

(2) If an auditor of a company **contravenes any of the provisions of sec 139, sec 144 or sec 145**, the auditor shall be punishable with fine which shall not be less than **Rs. 25,000** but which may extend to **Rs. 5 lakhs** or **4 times** the remuneration of the auditor, whichever is less.

✦ Provided that if an auditor has **contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities**, he shall be punishable with imprisonment for a term which may extend to **1 year** & with fine which shall not be less than **Rs. 50,000** but which may extend to **Rs. 25 lakhs** or **8 times** the remuneration of the auditor, whichever is less.

(3) **Where an auditor has been convicted under sub-section (2), he shall be liable to—**

- (i) **refund the remuneration** received by him to the company; &
- (ii) **pay for damages** to the company, statutory bodies or authorities [or to members or creditors of the company] for loss arising out of incorrect or misleading statements of particulars made in his audit report.

(4) The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring **prompt payment of damages** to the company or the persons under clause (ii) of sub-section (3) & such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.

(5) Where, in case of audit of a company being conducted by an **audit firm**, it is proved that the partner or partners of the audit firm has or have **acted in a fraudulent manner or abetted or colluded** in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm & of the **firm jointly & severally**.

Provided that in case of **criminal liability** of an audit firm, in respect of liability other than fine, the **concerned partner or partners**, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

DECLARATION OF DIVIDEND SEC 123

(1) No dividend shall be declared or paid by a company for any financial year except—

(a)

- ✦ out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of sub-section (2), or
- ✦ out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of that sub-section & remaining undistributed, or
- ✦ out of both.

Provided that in computing profits any amount representing **unrealised gains, notional gains or revaluation of assets** & any change in carrying amount of an asset or of a liability on measurement of the asset or the liability at fair value shall be excluded; or

(b) out of money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government:

- ✦ Provided that a company may, before the declaration of any dividend in any financial year, **transfer such percentage of its profits** for that financial year as it may consider appropriate to the **reserves** of the company:
- ✦ Provided further that where, owing to inadequacy or absence of profits in any financial year, any company proposes to **declare dividend out of the accumulated profits** earned by it in previous years & transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with such rules as may be prescribed in this behalf.
- ✦ Provided also that no dividend shall be declared or paid by a company from its reserves **other than free reserves.**
- ✦ Provided also that no company shall declare dividend unless carried over **previous losses & depreciation not provided** in previous year or years are set off against profit of the company for the current year.
- (2) For the purposes of clause (a) of sub-section (1), **depreciation** shall be provided in accordance with the provisions of **Schedule II.**
- (3) The Board of Directors of a company may declare **interim dividend** during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit & loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.
- ✦ Provided that in case the company has **incurred loss** during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the **average dividends** declared by the company during the **immediately preceding three financial years.**
- (4) The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within **5 days** from the date of declaration of such dividend.
- (5) No dividend shall be paid by a company in respect of any share therein except to the **registered shareholder** of such share or to his order or to his banker & shall not be payable except in cash:
 - ✦ Provided that nothing in this sub-section shall be deemed to prohibit the capitalisation of profits or reserves of a company for the purpose of issuing **fully paid-up bonus shares** or paying up any amount for the time being unpaid on any shares held by the members of the company:
 - ✦ Provided further that any dividend payable in **cash** may be paid by **cheque** or **warrant** or in any **electronic mode** to the shareholder entitled to the payment of the dividend.
- (6) A company which fails to comply with the provisions of **sec 73 & 74** shall not, so long as such failure continues, declare any dividend on its equity shares.

Unpaid Dividend Account Sec 124

- (1) Where a dividend has been declared by a company but has not been paid or claimed within **30 days** from the date of the declaration to any shareholder entitled to the payment of the dividend, the company shall, within **7 days** from the date of expiry of the said period of **30 days**, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the **Unpaid Dividend Account.**

- (2) The company shall, within a period of **90 days** of making any transfer of an amount to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses & the unpaid dividend to be paid to each person & **place it on the website** of the company, if any, & also on any other website approved by the Central Government for this purpose, in such form, manner & other particulars as may be prescribed.
- (3) If any default is made in transferring the total amount to the Unpaid Dividend Account of the company, it shall pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of **12% per annum** & the interest accruing on such amount shall ensure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.
- (4) Any person claiming to be entitled to any money transferred to the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed.
- (5) Any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of **7 years** from the date of such transfer shall be transferred by the company along with interest accrued, if any, thereon to the Fund established u/s 125(1) & the company shall send a statement in the prescribed form of the details of such transfer to the authority which administers the said Fund & that authority shall issue a receipt to the company as evidence of such transfer.
- (6) All shares in respect of which dividend has not been paid or claimed for **7 consecutive years** or more shall be transferred by the company in the name of Investor Education & Protection Fund along with a statement containing such details as may be prescribed.
- ★ Provided that any claimant of shares transferred above shall be entitled to claim the transfer of shares from Investor Education & Protection Fund in accordance with such procedure & on submission of such documents as may be prescribed.
- ★ For the removal of doubts, it is hereby clarified that in case any dividend is paid or claimed for any year during the said period of **7 consecutive years**, the share shall not be transferred to Investor Education & Protection Fund.
- (7) If a company fails to comply with any of the requirements of this section, such company shall be liable to a penalty of **Rs. 1 lakh** & in case of continuing failure, with a further penalty of **Rs. 500 for each day** after the first during which such failure continues, subject to a maximum of **Rs. 10 lakhs** & every officer of the company who is in default shall be liable to a penalty of **Rs. 25,000** & in case of continuing failure, with a further penalty of **Rs. 100 for each day** after the first during which such failure continues, subject to a maximum of **Rs. 2 lakhs**.

Punishment for Failure to Distribute Dividends Sec 127

- ★ Where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within **30 days** from the date of declaration to any shareholder entitled to the payment of the dividend, every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to two years & with fine which shall not be less than **Rs. 1000** for every day during which such default continues & the company shall be liable to pay simple interest at the rate of **18% per annum** during the period for which such default continues:
- ★ Provided that no offence under this sec shall be deemed to have been committed:—
 - (a) where the dividend could not be paid by reason of the operation of any law;
 - (b) where a shareholder has given directions to the company regarding the payment of the dividend & those directions cannot be complied with & the same has been communicated to him;
 - (c) where there is a dispute regarding the right to receive the dividend;

- (d) where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or
- (e) where, for any other reason, the failure to pay the dividend or to post the warrant within the period under this section was not due to any default on the part of the company.

Audit under fiscal laws

Tax Audit – Under Section 44AB – Applicability of Tax Audit

- ★ **Threshold limit AY-2021-22:** - For a person carrying on business, has been increased from ` 1 crore to ` 10 crores.
- ★ The threshold limit, for a person carrying on business, is increased from Rs. 1 Crore to **Rs. 10 crores (A.Y. 2021-22)** in case when cash receipt & payment made during the year does not exceed 5% of total receipt or payment, as the case may be. In other words, more than 95% of the business transactions should be done through banking channels.
- ★ In other words, the above limits would be applicable only when cash receipts & payments made during the year does not exceed 5% of total receipt or payment, as the case may be. In other words, **95% or more** of the business transactions should be done through **banking channels**.
- ★ Provided further that for the purposes of this clause, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is **not account payee**, shall be deemed to be the payment or receipt, as the case may be, in **cash**.

Revision of Tax Audit Report

Revision of Tax Audit Report [Notification No.28/2021 dated 1.4.2021]

- ★ Sec 44AB lays obligation on certain persons mentioned thereunder carrying on business or profession, to get their accounts audited before the “specified date” by a Chartered Accountant, if their turnover exceeds the stipulated threshold or in cases where they are eligible to declare income on presumptive basis, if they claim that their income is lower than the income so computed. These persons have to furnish by the specified date, a report of the audit in the prescribed form. For this purpose, the CBDT has prescribed under Rule 6G, Forms 3CA/ 3CB & Form 3CD.
- ★ The CBDT has, vide this notification, amended Rule 6G to provide that the audit report furnished may be revised by the person by getting revised report of audit from a Chartered Accountant, duly signed & verified by such Chartered Accountant, if there is payment by such person after furnishing of report which necessitates recalculation of disallowance under sec 40 or sec 43B. The said revised audit report has to be furnished **before the end of the relevant assessment year for which the report pertains**.

Amendments in Form 3CD

- ★ In **PART – A** for **clause 8A**, the following clause shall be substituted, namely: - — 8A Whether the assessee has opted for taxation under sec 115BA/115BAA/115BAB/ **115BAC/ 115BAD?**
- ★ In **PART-B**, for **clause 17**, the following clause shall be substituted, namely: - Clause 17. 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 sec 43CA or 50C, please furnish -

Details of property	Consideration received or accrued	Value adopted or assessed or assessable	Whether provisions of second proviso to subsection (1) of sec 43CA or fourth proviso to clause (x) of sub-section (2) of sec 56 applicable? [Yes/No] .”;

- ★ In **PART-B**, in **clause 18**, for sub-clauses (ca) & (cb), the following sub-clauses, shall be substituted namely:-
“(ca) Adjustment made to the written down value under sec **115BAC / 115BAD** (for assessment year 2021-2022 only).....

(cb) Adjustment made to written down value of Intangible asset due to **excluding value of goodwill** of a business or profession.....

(cc) Adjusted written down value.....”;

✦ In PART-B, for in **clause 32**, for sub-clause (a), the following sub-clause shall be substituted, namely:-

(a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available:

Serial Number	Assessment Year	Nature of loss/ allowance (in rupees)	Amount as returned* (in rupees)	All losses/allowances not allowed under sec 115BAA/ 115BAC/ 115BAD	Amount as adjusted by withdrawal of additional depreciation on account of opting for taxation under sec 115BAC/115BAD^	Amounts as assessed (give reference to relevant order)	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Note: *If the assessed depreciation is less & no appeal pending then take assessed.

^To be filled in for assessment year 2021-2022 only.”:

✦ In PART-B, **clause 36** shall be omitted.