



The Institute
of Chartered
Accountants of
India
(Set up by an act of
Parliament)

The Chartered Accountant STUDENT

Your monthly guide to CA news, information and events

SPECIAL ISSUE ON
**ADVANCED AUDITING AND
PROFESSIONAL ETHICS**





CA Students' Conference- Jalgaon : ICAI Vice President, CA. Prafulla P. Chhajed along with the Central Council Members, CA. S. B. Zaware, CA. Anil Bhandari, Prof. P. P. Mauhlikar, Pro - Vice Chancellor of North Maharashtra University, Branch Chairman, CA. Ajay Jain, Branch WICASA Chairman, CA. Sagar Patni and other office bearers and students at the inaugural ceremony.



CA Students' Conference- Nagpur: Chief Guest, Dr. Ved Prakash Sharma, Chancellor, Krishna Institute of Medical Sciences addressing the Conference. Central Council Member, CA. Anil Bhandari, Branch Chairman, CA. Umang Agrawal, Branch WICASA Chairman, CA. Jiten Saglani also seen.



Past President, ICAI, CA. Jaydeep N. Shah, Central Council Members, CA. S. B. Zaware, CA. Nihar Jambusaria, Chief Guest Shri Vijay Darda, former Rajya Sabha Member, Branch Chairman, CA. Umang Agrawal, Branch WICASA Chairman, CA. Jiten Saglani at the conference.



GST Seminar- Nagpur: ICAI Vice President, CA. Prafulla P. Chhajed being welcomed at the seminar in the presence of ICAI Past President, CA. Jaydeep N. Shah, Branch Chairman, CA. Umang Agrawal and Branch WICASA Chairman, CA. Jiten Saglani.



CA Students' Conference- Salem: Central Council Members, CA. Babu Abraham Kallivayalil, CA. M. P. Vijay Kumar, Branch Chairman, CA. S. Suresh Kumar, Vice Chairman, K. Divya and Branch SICASA Chairman, CA. A. V. Arun at the inaugural ceremony.

PRESIDENT'S COMMUNICATION



completing their 1st / 2nd year of practical training must register for the test scheduled for **September 23, 2018**. Further, details in this regard are available on https://www.icai.org/new_post.html?post_id=15030&c_id=347. Frequently Asked Questions (FAQs) concerning the assessment test are also available on the Institute's website and I advise you to go through the same.

Live Virtual Classes

As I informed in my previous communication, Live Virtual Classes for CA Intermediate and Final levels have been commenced from August 16, 2018 across the nation. To enable you to attend these classes, they have been scheduled beyond your office hours, i.e., from 7.00 AM to 9.00 AM in the morning and from 6.00 PM to 8.00 PM in the evening. I am sure that you will avail this learning opportunity which is aimed to facilitate effective knowledge delivery at reasonable cost.

Mock Tests

Mock Tests (Series-I) is being organised for the students of CA Foundation, CA IIPC, Intermediate and CA Final (old and New) courses from **August 27 till September 25, 2018**. This will enable you to assess your preparedness for the exams as well as identify gaps in learning. A quick analysis of your mock test result will give you clarity on the topics which require your attention and thorough revision. I genuinely hope that you will make good use of this facility to upgrade your performance and supplement learning.

To support you in your exam preparation, the current issue of this Journal carries a capsules on **Paper 3: Advanced Auditing & Professional Ethics of Final Course**, wherein the students will not only be finding topics like Professional Ethics, Internal Management and Operation Audit but also they will be able to enhance their knowledge on Fraud indicators and response thereto, Investigation, Due Diligence and Forensic Audit. In addition 700 series of Revised Standards on Auditing based on Audit Reports is also covered.

Overseas Campus Placements

First ever Overseas Campus Placement programme for CAs is being organised during **September 14 to 16 in New Delhi, Mumbai and Chennai** through personal interview/video conferencing mode in collaboration with our Chapters abroad for which till date 150 requirements/vacancies have been received. It offers unique opportunities for newly qualified CAs to fulfill their professional aspirations and give their career a head start. I would like to wish all the very best to those who have registered for the same.

Irrespective of the career path you choose, you will have to exhibit utmost integrity, sincerity and thorough professionalism to be able to succeed in your endeavours. Remember - **Success is simple to achieve, do what is right, the right way at the right time.**

With best regards,

CA. NAVEEN N. D. GUPTA
PRESIDENT, ICAI, NEW DELHI

Dear Students,

Congratulations to the ones successful in May 2018 CA Intermediate/ IIPC exams and best wishes to those who are going to meet success soon. My special regards to the rank holders who performed exceedingly well despite tough competition.

Drawing analogy from the age-old tradition of **Guru and Shishya**, in our profession relationship between a **Principal and an Article Assistant** can be examined from the same perspective. Similar to the tradition, the association of a Principal with their Article/(s) goes much beyond the formal period of training. The Principal develops the overall persona of the articles. From imparting technical knowledge, to instilling the soft skills and passion for learning, from inculcating discipline, moral values, ethical principles to reinstating the professional conduct, the **Principal** plays a very significant role as a mentor and guide like an ideal **Guru**. The shloka aptly praises the Guru:

Gurur Brahma, Gurur Vishnu, Gurur Devo Maheshwara,

Gurur Sakshat Parabrahma, Tasmai Shri Gurve Namah

Meaning: Realise that the Guru is Brahma Himself. He is Vishnu and He is also Shiva (Maheshwar). Guru is Parabrahma (Supreme God or the Absolute Truth). With this knowledge, I (salute) offer my obeisance to the Guru.

With this note, I convey my greetings to all of you on the auspicious occasion of **Teacher's Day**, observed on **5th September every year**, the birth anniversary of hon'ble past President of India, **Dr. Sarvepalli Radhakrishnan**. He was a renowned scholar, noted educationist, a true statesman and above all a devoted teacher.

Practical Training Assessment

Practical training is the crucial connecting link between theoretical knowledge and the profession. While knowing theoretical concepts is vital for examinations, knowing their practical application gives the winning edge in professional life. Lessons learnt in articleship training prepares you to solve practical problems in a systematic and structured manner. Taking it forward, I would like to inform that practical training assessment has been introduced to assess the knowledge gained by you during the course of practical training and the ability to apply the subject specific skills acquired while undergoing the training in that particular area through online Multiple-Choice Question tests. All the students who will be

VICE PRESIDENT'S COMMUNICATION ||



Dear Students,

At the outset, I extend my best wishes to the teaching fraternity on the auspicious occasion of Teacher's Day, which is observed every year on September 5th to commemorate the birth day of the great philosopher, teacher par excellence and the former President of India, **Dr. Sarvepalli**

Radhakrishnan. As you know, the role of a teacher in any society is noteworthy and invaluable. The teachers are the role models for the students as they try to follow them in their manners, costumes, etiquette and conversational style. Moreover, teachers are considered architects for moulding the future of their students.

In the Chartered Accountancy profession, the role of our principal is very important. The practical training serves as the launching platform to unfold the horizons of a successful professional career. Being a well groomed and well disciplined student of Chartered Accountancy Course, it is the utmost responsibility of our students to follow the code of conduct while learning the nitty-gritty of the professional skills under the mastery and

able guidance of their respective principals. As future CA professionals, you should always keep yourself adhere with the core principles of our enduring profession viz. Integrity, Objectivity, Independence, Confidentiality, Professional Competence and Ethical Behaviour. I hope that by following these principles candidly and earnestly, you can reach to the acme of success in your professional endeavours.

Recently, the results of the Intermediate (IPC) existing and new course examinations of May 2018 were declared. I offer my heartiest congratulations to those students who have passed and my full support to those who have not been able to make up to the success list. I also congratulate the rank holders of the examination.

Wishing you all the best in all your pursuits of life

Yours sincerely

CA. PRAFULLA P. CHHAJED
VICE PRESIDENT, ICAI, NEW DELHI

TOPPERS OF CHARTERED ACCOUNTANTS INTERMEDIATE (IPC) EXAMINATION MAY-2018



DEEPA JAIN
DELHI
FIRST



LAKSHMANAN A.
COIMBATORE
SECOND



PARTH GUPTA
DELHI
THIRD

INTERMEDIATE (NEW) EXAMINATION MAY-2018



SAKSHI AIRAN
INDORE
FIRST



RADHIKA CHAUTHMAL BERIWALA
SURAT
SECOND



AKSHIT AGARWAL
JAIPUR
THIRD



Dear Students,

At the outset, I would like to felicitate and convey my heartiest greetings to the teaching fraternity on the auspicious occasion of Teacher's Day, which is observed every year on 5th September to commemorate the birth day of the former President of India, late Dr. Sarvepalli Radhakrishnan, a philosopher and a teacher par excellence. It is my firm belief that under the able guidance of your respective principal who is imparting practical training, you all will be successful in the realm of accounting profession.

I am extremely happy to convey my hearty congratulations to all the successful candidates of the May 2018 Intermediate (IPC) and Intermediate (New) Examinations. I convey my heartiest congratulations to those who have secured ranks. They deserve special praise for their painstaking efforts in securing the coveted positions. The factors, which contributed to the creditable success of the rank holders include total commitment to the cause and a confident approach, sincere, serious and systematic preparation from the very inception and planning of the study methodology in advance and adherence to the same etc.

My heart goes out to all those who could not get through the examinations, and I exhort you, not to get disheartened or depressed with the negative result. Failures make us much stronger in life. Try to face defeat with grace and learn from your mistakes. So get up, and again commence with a fighting spirit and this time more smartly and wisely.

As you know the examination system of the Institute is one of the best systems in the country and it has maintained very high standards of integrity, confidentiality and credibility over the years. It seeks to test the multifaceted knowledge, which a Chartered Accountant is expected to possess. To achieve success, you have to approach the examination with a positive attitude. I am sure; you would have already started your preparations for the November examinations with some plans. The study materials provided by the Institute would help you to develop a strong conceptual base. It gives you the parameters within which you have to study.

I would also suggest you to take the practical training very seriously. Many students consider practical training as a burdensome task. But practical knowledge is a must for success in your respective examinations. You should

also make it a habit of visiting the Institute's website. It contains all the educational inputs of the Board of Studies like latest study materials, suggested answers, RTPs, supplementary study materials, notifications etc. It also contains announcements like relevant list of publications, Accounting and Auditing Standards etc. applicable for the examination.

Practical Training Assessment Test

A significant initiative of Board of Studies is the practical training assessment which would be commencing this month. Concurrent practical training along with theoretical education is undoubtedly the unique feature of the CA course. In fact, it is the knowledge and skills acquired by students during the three year practical training which helps them develop the requisite professional competence. It is keeping in mind the importance of practical training in developing professionally competent chartered accountants, that practical training assessment has been introduced in the scheme of education and training. The concepts learnt through theoretical education need to be effectively demonstrated during practical training. Effective application of such concepts in practical training is, thus, a *sine qua non* to emerge as a professionally competent chartered accountant. Practical training assessment, thus, serves as an indicator of the level of knowledge and skills acquired by you in the course of practical training. The skills are assessed at two levels, namely, after completion of the first and second year of practical training. The compulsory subject area is accounting and auditing (including corporate laws) at both levels; and optional subjects are Direct Tax, Indirect Tax and Internal Audit. One optional subject has to be chosen at the first level and two optional subjects have to be chosen at the second level, in addition to the compulsory subject. We are sure that, with effective practical training, you would be able to do very well in this assessment, which is MCQ based.

Live Virtual Classes

With a view to facilitate effective knowledge delivery at affordable cost, Live **Virtual Classes** have been started by BOS for CA Intermediate and Final levels from **August 16, 2018**. The students can watch the live classes from their own work stations. We are getting overwhelming response from the students. Those who could not register so far can register now. Online registration form is available at <https://icai.org/bos/vlc/>. The students can also watch the earlier missed classes as the recorded versions are available online.

If you study with commitment, success would come knocking at your doorsteps very soon! As said by Winston Churchill "**Success is not final, failure is not fatal: it is the courage to continue that counts.**"

Wish you all the best

CA. DHINAL A. SHAH
CHAIRMAN, BOARD OF STUDIES, ICAI

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SWACHH BHARAT - A STEP TOWARDS CLEANLINESS

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ADVANCED AUDITING AND PROFESSIONAL ETHICS

FINAL NEW COURSE PAPER 3- ADVANCED AUDITING AND PROFESSIONAL ETHICS: A CAPSULE FOR QUICK REVISION

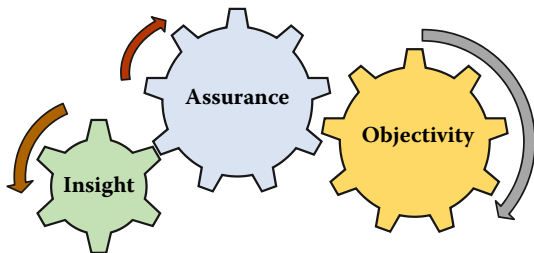
It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course.

Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students in quick revision before examination.

This series of capsules is on Paper 3: Advanced Auditing & Professional Ethics of Final Course. It may be mentioned that this capsule is a tool for quick revision of some significant areas of Auditing subject, this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material and RTP for comprehensive study & revision.

CHAPTER 17 INTERNAL AUDIT, MANAGEMENT AUDIT AND OPERATIONAL AUDIT

Internal Audit



As defined in scope of the Standards on Internal Audit, Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies(Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

(a) every listed company;

(b) every unlisted public company having-
(i) paid up share capital of **fifty crore rupees or more** during the preceding financial year; or
(ii) turnover of **two hundred crore rupees or more** during the preceding financial year; or

(iii) outstanding loans or borrowings from banks or public financial institutions exceeding **one hundred crore rupees or more** at any point of time during the preceding financial year; or
(iv) outstanding deposits of **twenty five crore rupees or more** at any point of time during the preceding financial year; and

(c) every private company having-
(i) turnover of **two hundred crore rupees or more** during the preceding financial year; or

(ii) outstanding loans or borrowings from banks or public financial institutions exceeding **one hundred crore rupees or more** at any point of time during the preceding financial year.

Who can be Appointed as Internal Auditor: The internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

His main responsibility, however, must be

to maintain adequate system of internal control by a continuous examination of accounting procedures, receipts and disbursements and to provide adequate safeguards against misappropriation of assets.

to observe independently accounting staff and must not in any way divest himself of any of the responsibilities placed upon him.

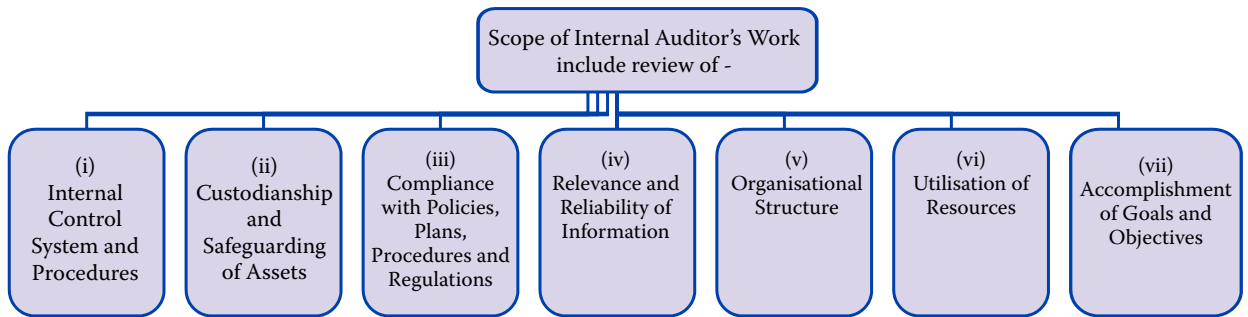
Not to involve himself in the performance of executive functions in order that his objective outlook does not get obscured by the creation of vested interest.

to observe facts and situations and bring them to notice of authorities who would otherwise never know them; also, they critically appraise various policies of the management and draw its attention to any deficiencies, wherever these require to be corrected.

to associate closely with management and his knowledge must be kept up to date by his being kept informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies. He must enjoy an independent status.

In addition, the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit. It may also be noted that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

ADVANCED AUDITING AND PROFESSIONAL ETHICS ||



The internal auditor should

1. Be straightforward, honest and sincere in his approach to his professional work;
2. Be fair and must not allow prejudice or bias to override his objectivity;
3. Should maintain an impartial attitude. He should not only be independent in fact but also appear to be independent.
4. The internal auditor should not, therefore, to the extent possible, undertake activities, which are or might appear to be incompatible with his independence and objectivity.

Qualifications of Internal Auditor (IA)

1. The internal auditor (IA) should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
2. Accounting and finance functions provide basic data for management control of an enterprise. Therefore the IA must have accounting and financial expertise to be able to discharge his duties.
3. The IA is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
4. He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
5. An understanding of management principles and techniques is another essential qualification of an IA as also the ability to deal with people.
6. By his conduct the IA should provide an assurance to the management that confidentiality of such information would be maintained.

Basic Elements of the Internal Audit Report: As per Standard on Internal Audit (SIA) 4 the internal auditor's report includes the following basic elements, ordinarily, in the following layout:

- (a) Title;
- (b) Addressee;
- (c) Report Distribution List;
- (d) Period of coverage of the Report;

- (e) Opening or introductory paragraph;
 - (i) identification of the processes/functions and items of financial statements audited; and
 - (ii) a statement of the responsibility of the entity's management and the responsibility of the internal auditor;
- (f) Objectives paragraph - statement of the objectives and scope of the internal audit engagement;
- (g) Scope paragraph (describing the nature of an internal audit):
 - (i) a reference to the generally accepted audit procedures in India, as applicable;
 - (ii) a description of the engagement background and the methodology of the internal audit together with procedures performed by the internal auditor; and
 - (iii) a description of the population and the sampling technique used.
- (h) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;
- (i) Observations, findings and recommendations made by the internal auditor;
- (j) Comments from the local management;
- (k) Action Taken Report – Action taken/ not taken pursuant to the observations made in the previous internal audit reports;
- (l) Date of the report;
- (m) Place of signature; and
- (n) Internal auditor's signature with Membership Number.

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used - Evaluating the Internal Audit Function:

Evaluation of IA Function includes:

- Appraisal activity.
- Examining / Evaluating/ Monitoring adequacy / effectiveness of internal controls.

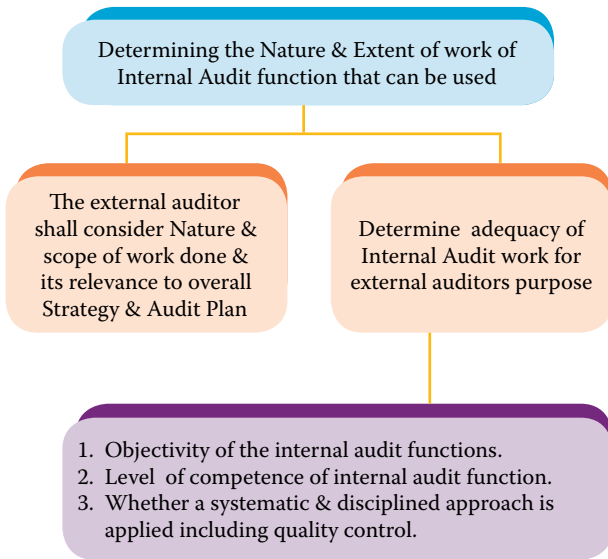
Scope of IA Function

- Monitoring Internal controls.
- Examination of financial & Operating functions.
- Review of regulatory Laws & Compliances.

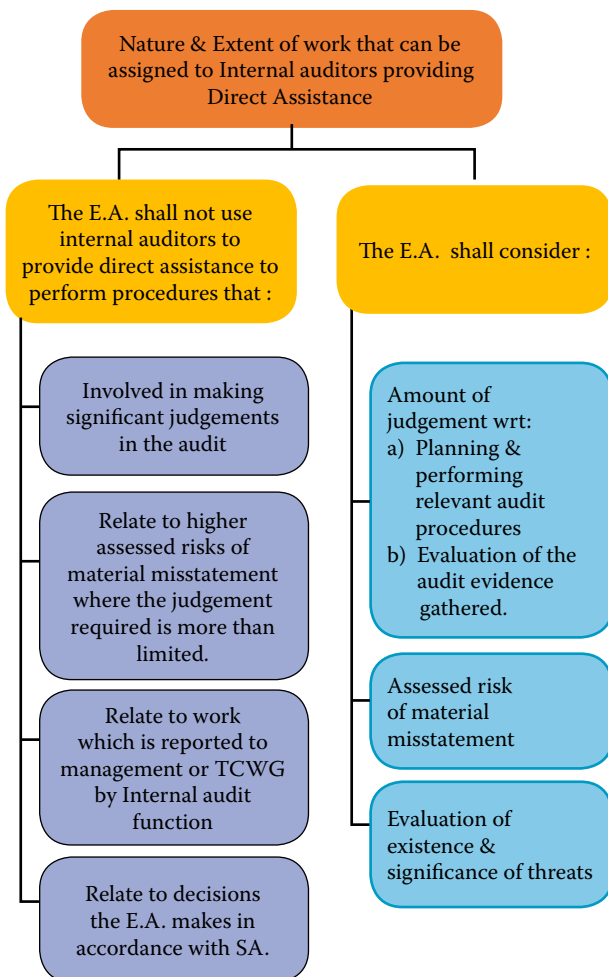
Objective of Evaluation of IA Function

- Assurance to management.
- Evaluate & improve the effectiveness of Risk management.

ADVANCED AUDITING AND PROFESSIONAL ETHICS



Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance



* EA = External Auditor
IA = Internal Auditor

If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

- The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
- The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
- Who reviewed the work performed and the date and extent of that review in accordance with SA 230 Audit Documentation;
- The written agreements obtained from an authorised representative of the entity and the internal auditors; and
- The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Finally, a review of the internal audit function in specified companies has become a statutory responsibility for the statutory auditor.

Management Audit: "In a management audit, the auditor will look to see whether management is getting information relevant to the decisions and actions which it must take. This will require a much more intensive analysis of information needs and the efficiency of the existing system in meeting them. The auditor will not have to decide whether management is making the right strategic and operative decisions but rather whether management has available to it and is using the relevant information and techniques necessary to evaluate rationally the various alternatives that exist".

Organising the Management Audit

- Devising the statement of policy
- Location of audit function within the organisation
- Allocation of personnel
- Staff training programme
- Time and other aspects
- Frequency

Brief Steps w.r.t Audit Report

Planning the Audit Report	Supporting information	Preparing draft report	Writing and issuing the final report	Follow-up of the audit report	Action / Response of Management on Audit Report
Before starting the report, the auditor should ask himself, "What do I want to tell the reader about this audit? The answer will enable him to communicate effectively."	The management auditor should supplement his report by such documents and data which adequately and convincingly support the conclusions. Supporting information may include the relevant standards or regulations.	Before writing the final report, the auditor should prepare a draft report.	The final report should be written only when the auditor is completely satisfied with the draft report.	The management auditor should review whether follow-up action is taken by management on the basis of his report. If no action is taken within a reasonable time, he should draw management's attention to it.	Where management has not acted upon his suggestions or not implemented his recommendations, the auditor should ascertain the reasons therefor.

Operational Audit : Operational auditing is a systematic process involving logical, structured and organised series of procedures.

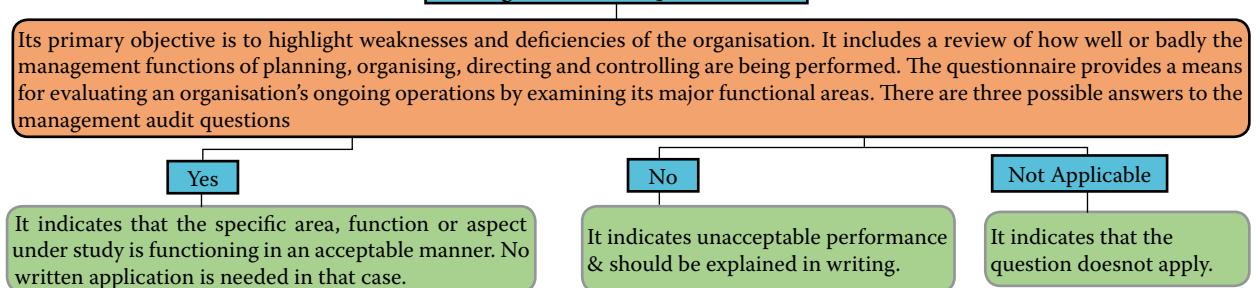
Qualities of Operational Auditor

- In areas beyond accounting and finance, his knowledge ordinarily would be rather scanty and this is a reason which should make him even more inquisitive.
- He should ask the who, why, how of everything.
- He should try to see everything as to whether that properly fits in the business frame and organisational policy. He should be persistent and should possess an attitude of skepticism.
- He should not give up or feel satisfied easily. He should imbibe a constructive approach rather than a fault-finding approach.
- If the auditor succeeds in giving a feeling of help and assistance through constructive criticism, he will be able to obtain co-operation of the persons who are involved in the operations.

Type of Operational Audits

Functional Audits	Functions are a means of categorising the activities of a business, such as the billing function or production function. There are many ways to categorise and subdivide functions. A functional audit has the advantage of permitting specialisation by auditors.	Objectives of Operational Audit <ul style="list-style-type: none"> Appraisal of Controls Evaluation of Performance Appraisal of Objectives and Plans Appraisal of Organisational Structure 	(i) Is the organisational structure in conformity with management objectives?
Organisational Audits	An operational audit of an organisation deals with an entire organisational unit, such as a department, branch, or subsidiary.		(ii) Whether the organisational structure is drawn up on the basis of matching of responsibility and authority?
Special Assignments	In operational auditing, special assignments arise at the request of management. There are a wide variety of such audits.		(iii) Whether the line of responsibility from the top to the bottom is clearly discernible from the structure?
			(iv) Whether the delegation of responsibility and authority at each stage is clear and overlapping are avoided?
		Management Audit Questionnaire: A management audit questionnaire is an important tool for conducting the management audit. It is through these questionnaires that the auditors make an inquiry into important facts by measuring current performance. Such questionnaires aim at a comprehensive and constructive examination of an organisation's management and its assigned tasks.	

Management Audit Questionnaire



Thus, management audit questionnaire for this part of the audit not only serves as a management tool to analyse the current situation; more importantly, it enables the management auditors to synthesise those elements that are causing organisational difficulties and deficiencies.

CHAPTER 18 DUE DILIGENCE INVESTIGATION AND FORENSIC AUDIT

UNIT 1 -DUE DILIGENCE

Due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business opportunity. It involves review of financial and non-financial records as deemed relevant and material.



There are many reasons for carrying out due diligence including:

- To confirm that the business is what it appears to be;
- To identify potential 'deal killer' defects in the target and avoid a bad business transaction;
- To gain information that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and
- To verify that the transaction complies with investment or acquisition criteria.

Classification of Due-Diligence

Commercial or Operational Due Diligence

Performed by the concerned acquire enterprise involving an evaluation from commercial, strategic and operational perspectives.

Financial Due Diligence

- Perform after completion of commercial due diligence.
- Analyse the books of accounts and other information pertaining to financial matters of the entity.

Tax Due Diligence

Pertains to all taxation and related matters of the entity.

Legal Due Diligence

This may be required where legal aspects of functioning of the entity are reviewed.

Environmental Due Diligence

To study the entity's environment, its flexibility and adaptiveness to the acquirer entity.

Personnel Due Diligence

To ascertain that the entity's personnel policies are in line or can be changed to suit the requirements of the restructuring.

Financial Due Diligence

In order to achieve its objective, the due diligence process can include any or all of the following objectives for individual areas of the verification:

- Brief description of the history of business
- The background of promoters
- Accounting policies and practices
- Management information systems
- Details of management structure
- Trading results, both past and the recent past
- Assets and liabilities as per latest balance sheet
- Current status of Income tax assessments including appeals pending against tax liabilities assessed by tax authority
- Cash flow patterns
- The projection of future profitability

The objective of the Due Diligence exercise will be to look specifically for any hidden liabilities or over-valued assets.

Hidden Liabilities

- ♣ The company may not show any show cause notices which have not matured into demands, as contingent liabilities. These may be material and important.
- ♣ The company may have given "Letters of Comfort" to banks and financial institutions. Since these are not "guarantees", these may not be disclosed in the Balance sheet of the target company.
- ♣ The Company may have sold some subsidiaries/businesses and may have agreed to take over and indemnify all liabilities and contingent liabilities of the same, prior to the date of transfer. These may not be reflected in the books of accounts of the company.
- ♣ Product and other liability claims; warranty liabilities; product returns/discounts; liquidated damages for late deliveries etc., and all litigation.
- ♣ Tax liabilities under direct and indirect taxes.
- ♣ Long pending sales tax assessments.
- ♣ Pending final assessments of customs duty where provisional assessment only has been completed.
- ♣ Agreement to buy back shares sold at a stated price.
- ♣ Future lease liabilities.
- ♣ Environmental problems/claims/third party claims.
- ♣ Unfunded gratuity/superannuation/leave salary liabilities; incorrect gratuity valuations.
- ♣ Huge labour claims under negotiation when the labour wage agreement has already expired.

Over-Valued Assets

- ♣ Uncollected/uncollectable receivables.
- ♣ Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc., with name of company.
- ♣ Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
- ♣ Assets carried at much more than current market value due to capitalisation of expenditure/foreign exchange fluctuation, or capitalisation of expenditure mainly in the nature of revenue.
- ♣ Litigated assets and property.
- ♣ Investments carried at cost though realisable value is much lower.
- ♣ Investments carrying a very low rate of income / return.
- ♣ Infructuous project expenditure/deferred revenue expenditure etc.
- ♣ Group Company balances under reconciliation etc.
- ♣ Intangibles of no value.

Work Approach to Due diligence : The purchase of business in many instances is the largest and most expensive assets purchase in life time and therefore some caution should be exercised through the due diligence process. Therefore, assessing the businesses fair value passes through.

Reviewing and reporting on the financials submitted by the target company.

Assessing the business first hand by a site visit (if applicable).

Working through the due diligence process with the acquisition company or investor by defining the key areas.

Helping prepare an offer based on completion of due diligence.

How to Conduct Due Diligence



Start with an open mind. Do not assume that anything wrong will be found and look for it. What needs to be done is to identify trouble spots and ask for explanations.

Get the best team of people. If you do not have a group of people inside your firm that can do the task (e.g. lack of staff, lack of people who know the new business because you are acquiring a business in an unrelated areas, etc.), there are due diligence experts that you can hire. When hiring such professionals, look for their experience record in the industry.



Get help in all areas like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment so that you get a 360-degree view of the acquisition candidate.

Talk to customers, suppliers, business partners, and employees are great resources.



Take a risk management approach. So, while you want to do your research, you also want to make sure that you do not antagonise the team of people of the target company by bogging them down with loads of questions.

Prepare a comprehensive report detailing the compliances and substantive risks/issues.



Contents of a Due Diligence Report: The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report

Executive Summary	Comments on properties, terms of leases, lien and encumbrances
Introduction	Assessment of operating results
Background of Target	Assessment of taxation and statutory liabilities
Objective of due diligence	Assessment of possible liabilities on account of litigation and legal proceedings against the company
Terms of reference and scope of verification	Assessment of net worth
Brief history of the company	Interlocking investments and financial obligations with group / associates companies, amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account
Share holding pattern	SWOT Analysis
Observations on the review	Comments on future projections
Assessment of management structure	Status of charges, liens, mortgages, assets and properties of the company
Assessment of financial liabilities	Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
Assessment of valuation of assets	Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.

UNIT 2 : INVESTIGATION

Basis of Difference	Investigation	Audit
(i) Objective	An investigation aims at establishing a fact or a happening or at assessing a particular situation.	The main objective of an audit is to verify whether the financial statements display a true and fair view of the state of affairs and the working results of an entity.
(ii) Scope	The scope of investigation may be governed by statute or it may be non-statutory.	The scope of audit is wide and in case of statutory audit the scope of work is determined by the provisions of relevant law.
(iii) Periodicity	The work is not limited by rigid time frame. It may cover several years, as the outcome of the same is not certain.	The audit is carried either quarterly, half-yearly or yearly.
(iv) Nature	Requires a detailed study and examination of facts and figures.	Involves tests checking or sample technique to draw evidences for forming a judgement and expression of opinion.
(v) Inherent Limitations	No inherent limitation owing to its nature of engagement.	Audit suffers from inherent limitation.
(vi) Evidence	It seeks conclusive evidence.	Audit is mainly concerned with <i>prima-facie</i> evidence.
(vii) Observance of Accounting Principles	It is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts.	Is governed by compliance with generally accepted accounting principles, audit procedures and disclosure requirements.
(viii) Reporting	The outcome is reported to the person(s) on whose behalf investigation is carried out.	The outcome is reported to the owners of the business entity.

Steps in Investigation: As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:

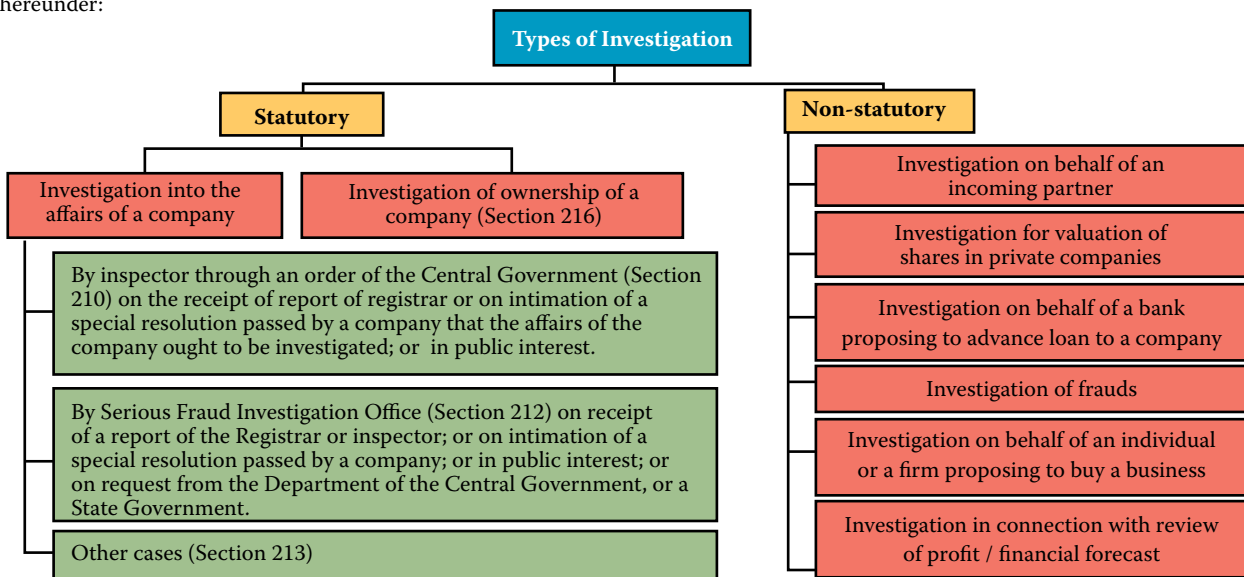
1. Determination of objectives and establishment of scope of investigation.
2. Formulation of the investigation programme.
3. Examination and study of various records by reference to appropriate evidence.
4. Analysis, processing and interpretation of findings.
5. Preparation of report and drawing up of conclusions.

Diagram showing Sequence of Steps for Investigation

The important issues to be kept in mind by the investigator while preparing his report are as follows:

- (i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.
- (ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimised.
- (iii) Relevant facts and conclusions should be properly linked.
- (iv) Bases and assumptions made should be explicitly stated.
- (v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.
- (vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.
- (viii) The opinion of the investigator should appear in the final paragraph of the report.

Types of Investigation: The different types of investigation that a chartered accountant is usually called upon to carry out are given hereunder:



Who can be appointed as an Inspector - A firm, body corporate or other association cannot be appointed as an inspector. Thus, a firm of professional accountant cannot be appointed as inspector but an individual accountant can be so appointed.

PROCEDURE, POWERS ETC., OF INSPECTORS – Section 217 of the Companies Act, 2013 states the procedures, powers of the Inspectors as follows:

Duty of officers and employees of the company towards inspector to preserve and to produce all books and papers relating to the company or the person; and to provide assistance in connection with the investigation which they are reasonably able to give.

Inspector may ask information from any body corporate

Not to keep Books and Papers in custody for more than 180 days

Examine on oath

Inspector to possess all the Powers of Civil Court under the Code of Civil Procedure, while trying a suit in respect of specified matters.

Assistance of Officers of Government to Inspector to provide necessary assistance to the inspector for the purpose of inspection, investigation etc.

Evidence from place outside India: If in the course of an investigation into the affairs of the company, an application is made to the competent court in India by the inspector stating that evidence may be available in a country or place outside India, such court may issue a letter of request to a court or an authority in such country or place for seeking such evidence.

It may be noted that the letter of request shall be transmitted in such manner as the Central Government may specify in this behalf.

INSPECTOR'S REPORT - Under section 223 of the Companies Act, 2013, an inspector shall, if so directed by the Central Government, submit interim reports to that Government, and on the conclusion of the investigation, shall submit a final report to the Central Government. Every report made, shall be in writing or printed as directed by the Central Government. A copy of the report may be obtained by making an application to the Central Government.

Investigation under sections 210 and 213 do not call for any special approach. Approach/Steps for pursuing the investigation are:

(i) **Clarity of Terms of Reference:** The inspector should ensure that the terms of reference are clear, unambiguous and in writing.

(ii) **Scope of Investigation:** Next step is to determine the scope of the investigation on the basis of the terms of reference.

(iii) **Period for investigation:** He should also have regard to the period over which the investigation should stretch.

(iv) **Framing of Programme:** The next step is the investigator/inspector should frame his programme for investigation in a systematic manner.

(v) **Using the work of Experts:** He should also consider whether assistance of other experts like engineers, lawyers, etc., is necessary.

(vi) **Legal requirements and investigation Report:** Only after he has completed the steps in the investigation programme and has marshaled all the information that he needed should he prepare his report. He, however, can also make interim report as provided under section 223 of the Companies Act. Before he makes his final report he should obtain and keep on record the evidence relied upon by him. He should make his report in accordance with the provisions of the section 223 of the Companies Act, 2013.

Investigation of Frauds: In the Companies Act, 2013 meaning of fraud has been considered in two specific sections viz. Section 143(10), where the SAs specified by the ICAI are deemed to be the auditing standards for purposes of the Act, which, *inter alia*, define fraud, and in section 447, where punishment for fraud has been prescribed.

Fraud has been defined in paragraph 11(a) of SA 240, "The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements" as 'an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.'

In the context of stating the provisions for punishment for fraud, section 447 of the Act has explained the term 'fraud' as "fraud in relation to affairs of a company or any body corporate, includes any act, omission, concealment of fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss."

Types of Frauds: Frauds may broadly be categorised as –

Fraudulent Financial Reporting	Mis-appropriation of Assets
<ul style="list-style-type: none"> ♣ Alteration or falsification of records & documents. ♣ Misrepresentation in or intentional omission of events, transactions or information. ♣ Intentional misapplication of accounting principles. ♣ Fictitious Journal Entries. ♣ Adjusting assumptions and changing Judgments. ♣ Omitting, advancing or delaying the recognition of events or transactions. 	<ul style="list-style-type: none"> ♣ Embezzlement of receipts in respect of written-off accounts. ♣ Stealing physical assets or intellectual properties. ♣ Introduction of fictitious vendors. ♣ Payment of factitious employees. ♣ Using entities assets for personal use.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Fraudulent Entries	Sales Frauds	Collection Frauds	Expenses Frauds
<ul style="list-style-type: none"> ◆ Late entry ◆ No entry ◆ Part entry ◆ Inserting wrong entries to divert attention 	<ul style="list-style-type: none"> ◆ Price enhancement ◆ Omission to make receipt of sale of scrap. ◆ Billing and sales reversals in amusement parks. ◆ Food production yield ratio in hotels and suppression of Revenue. ◆ Using or hiring assets of the company in lean period. ◆ Omission in preparation of dispatch note for sale. ◆ Sale of Assets recorded as Income. 	<ul style="list-style-type: none"> ◆ Defalcation of contributions to charity funds ◆ Crediting donation to loan accounts 	<ul style="list-style-type: none"> ◆ Entering ineligible discount ◆ Overcharging expenses ◆ Falsification of documents ◆ Untimely payment ◆ Introduction of fictitious vendor

Payroll Frauds	Data Frauds
<ul style="list-style-type: none"> ◆ Extra number of employees ◆ Extra hours ◆ Calculation of net pay by transferring rounding off amount to personal account ◆ Not deactivating the retired employees' IDs 	<ul style="list-style-type: none"> ◆ Change in computer data ◆ Destroy, suppress or insert records ◆ Using open fields in computerised accounting system

Technology related Frauds	Banking related Frauds	Others
<ul style="list-style-type: none"> ♣ Employing hostile software programs or malware attacks ♣ Phishing mails ♣ Vishing – Voice Mail ♣ SMSishing - Text messages ♣ Whaling – Targeted phishing on high net worth individuals ♣ Card duplications ♣ Stealing confidential data 	<ul style="list-style-type: none"> ♣ Forged Signatures ♣ Cheque Frauds - Alteration in amounts, alteration in accounts titles, Kite flying ♣ Cash lending during working hours ♣ Missing notes in bundles ♣ Use of same notes bundles by two branches ♣ Wrong posting in other accounts ♣ Misuse of sensitive stationery ♣ ATM transaction misuse ♣ Using PINs of debit card/credit card holder ♣ Advances - Car, Xerox Machine, inflated stock statements, inflated projections, forged/duplicate land documents, L/Cs 	<ul style="list-style-type: none"> ♣ Teaming and Lading ♣ Process houses mixing inferior quality material to sale good quality material ♣ Pilferage and theft in super markets ♣ Selling classified information, ♣ Withholding information from customer about free product schemes, discount and concession ♣ Enhancement of performance ♣ Taking advantage of disaster or natural calamity ♣ Trust FDs ♣ Fictitious journal entries to inflate expenses or income

Indicators of Fraud

Several indications of possible frauds can be listed as follows :-

- i. Discrepancies in Accounting Records including non-recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
- ii. Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
- iii. Unacceptable management responses such as – denial of access to records/facilities/employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.
- iv. Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

Responses to Fraud : SA 330 states the auditor's responses to assessed risks. Response to the risks related to management override of controls includes testing the appropriateness of journal entries and other adjustments made in preparation of the Financial Statements, review of accounting estimates for biases and also review the significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.

Auditor needs to assess fraud risk factors for material misstatement or misappropriation of assets due to fraud, such as incentive / pressures, opportunities and attitudes / rationalisations.

The responses to fraud will include **communications to management and those charged with governance, communication to regulatory and enforcement authorities and appropriate documentation on his assessment of the risks of material misstatement.**

Auditor's ability to detect fraud depends on factors such as –

- the skillfulness of the perpetrator
- the frequency & extent of manipulation
- the degree of collusion involved
- the relative size of individual amounts manipulated; and
- the seniority of those individuals involved

Detection of Fraud depends upon effectiveness of Audit Procedure. Detection risk, however, can only be reduced, not eliminated.

UNIT 3 : FORENSIC AUDIT

“Forensic” means “suitable for use in the court of law”. Bologna said that it is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of legal system.

Important Definitions

Forensic: The word forensic comes from the Latin word *forensis*, meaning “of or before the forum.” It is -

- ♣ Relating to, used in, or appropriate for courts of law or for public discussion or argumentation.
- ♣ Relating to the use of science or technology in the investigation and establishment of facts or evidence in a court of law.

Forensic Accounting: The integration of accounting, auditing and investigative skills yields the speciality known as Forensic Accounting. It is the study and interpretation of accounting evidence. It is the application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as embezzlement or fraud.

Forensic Accounting can sometimes be referred to as Forensic Auditing.

Forensic Investigation: Also known as forensic audit is the examination of documents and the interviewing of people to extract evidence. Forensic Accounting examines individual or company financial records as an investigative measure that attempts to derive evidence suitable for use in litigation.

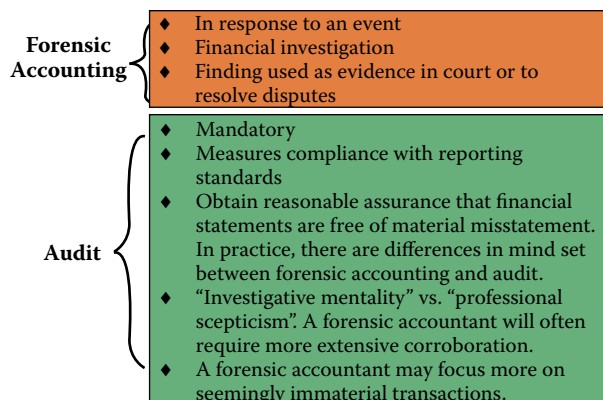
Fraud Auditing: It is a meticulous review of financial documents conducted when fraud is suspected. Some entities do them as a precaution to prevent fraud from happening and to catch it before the loss magnifies. A Fraud Audit however is not an Investigation. Fraud auditing is used to identify fraudulent transactions, not to figure out how they were created. Fraud auditors often go outside the books of accounts to find fraudulent transactions.

Red Flag: Red flags are sign or warning of any impending danger or inappropriate behavior. Red flags do not necessarily indicate the existence of fraud however are indicators that, caution needs to be exercised while investigating the situations. Red flags are classified in categories such as financial performance red flag, accounting system red flags, operational red flags and behavioural red flags.

Forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. In addition, an audit may be conducted to determine negligence in addition, an audit may be conducted to determine negligence

Audit vs. Forensic Accounting/ Forensic Audit

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit.



Sr. No.	Particulars	Other Audits	Forensic Audit
1	Objectives	Express an opinion as to ‘True & Fair’ presentation	Whether fraud has taken place in books
2	Techniques	Substantive & Compliance. Sample based	Investigative, substantive or in depth checking
3	Period	Normally for a particular accounting period	No such limitations
4	Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on the management certificate/ Management Representation.	Independent/verification of suspected/ selected items where misappropriation is suspected
5	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/ contracts are examined.
6	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

FORENSIC AUDITOR : A Forensic Auditor is often retained to analyse, interpret, summarise and present complex financial and business related issues in a manner which is both understandable and properly supported. Forensic Accountants are trained to look beyond the numbers and deal with the business reality of the situation.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

A Forensic Auditor is often involved in:

Fraud Detection	Computer Forensics	Fraud Prevention	Providing Expert Testimony
Investigating and analysing financial evidence, detecting financial frauds and tracing misappropriated funds.	Developing computerised applications to assist in the recovery, analysis and presentation of financial evidence.	Either reviewing internal controls to verify their adequacy or providing consultation in the development and implementation of an internal control framework aligned to an organisation's risk profile.	Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

In order to properly perform these services, a Forensic Auditor must be familiar with legal concepts and procedures and have expertise in the use of IT tools and techniques that facilitate data recovery and analysis. In addition, a Forensic Auditor must be able to identify substance over form when dealing with an issue.

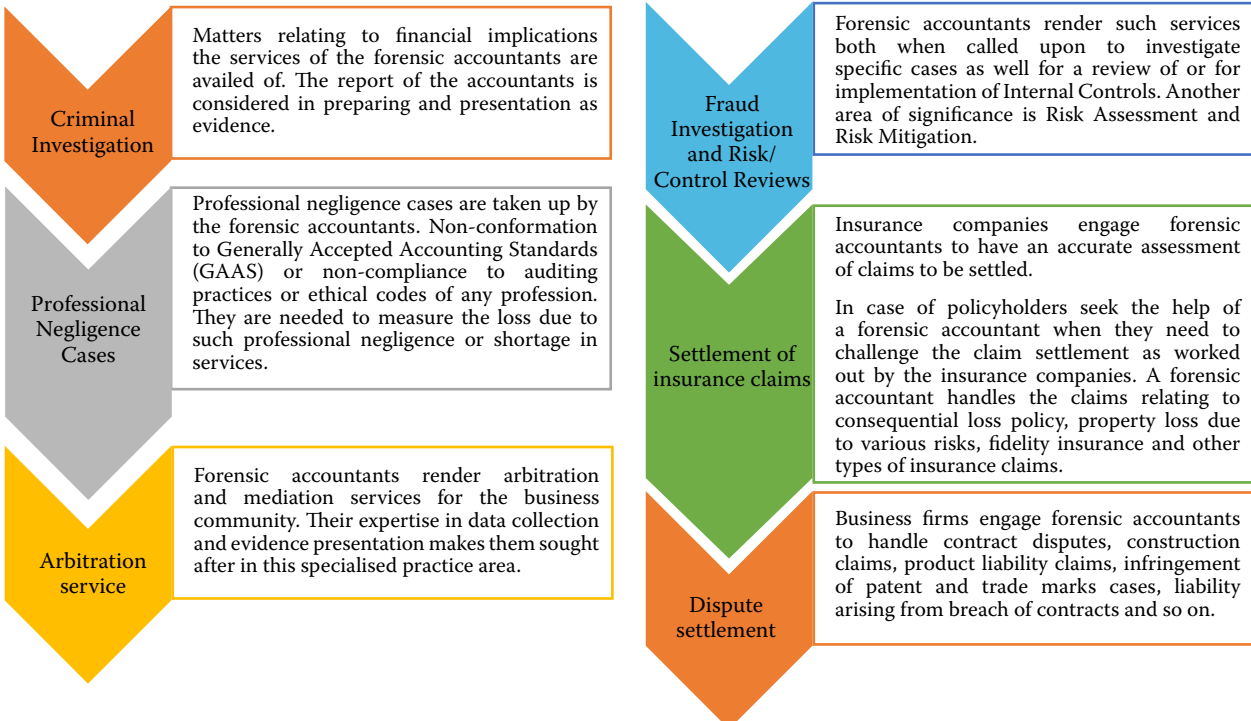
Forensic Auditors are retained by:



Services rendered by Forensic Auditors:

- ❖ Crafting questions to be posed
- ❖ Responding to questions posed
- ❖ Identifying documents to be requested and/or subpoenaed
- ❖ Identifying individuals to be most knowledgeable of facts
- ❖ Conducting research relevant to facts of the case
- ❖ Identifying and preserving key evidence
- ❖ Evaluating produced documentation and information for completeness
- ❖ Analysing produced records and other information for facts
- ❖ Identifying alternative means to obtain key facts and information
- ❖ Providing questions for deposition and cross examination of fact and expert witnesses

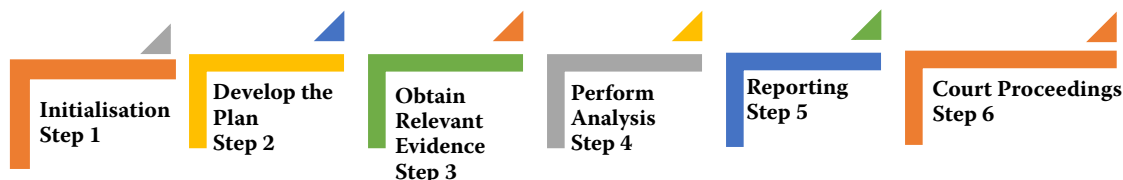
The services rendered by the forensic accountants are in great demand in the following areas:



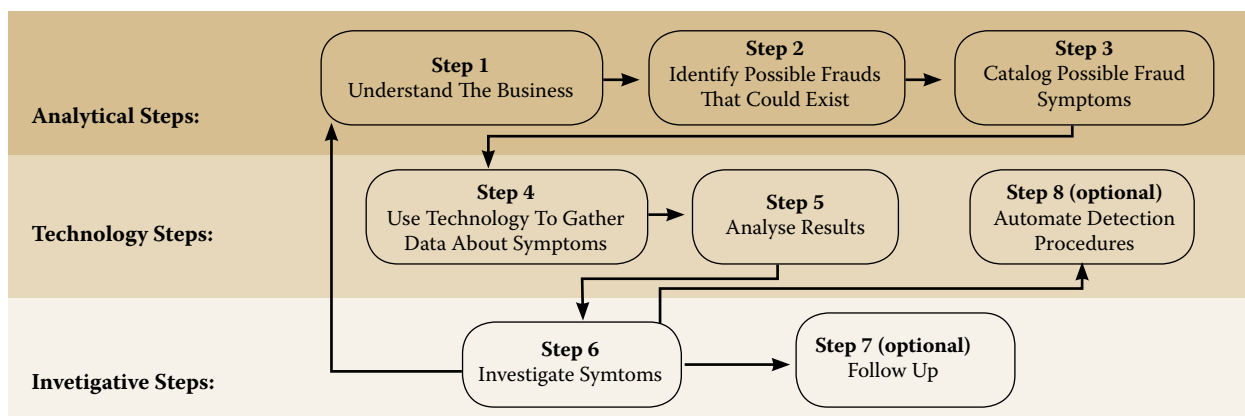
ADVANCED AUDITING AND PROFESSIONAL ETHICS ||

Characteristics- Forensic Auditor	Skills - Forensic Auditor should possess
<ul style="list-style-type: none"> ♣ Out of the Box Thinking ♣ Strong Visualisation and Imagination ♣ Curiosity ♣ Persistence ♣ Detail-oriented ♣ Inquisitiveness ♣ Creativity ♣ Discretion ♣ Skepticism ♣ Confidence ♣ Sound professional judgement 	<ul style="list-style-type: none"> ♣ Auditing standards, procedures and related methodologies ♣ Accounting & Business reporting systems ♣ Information Technology ♣ Data Analytics ♣ Criminology ♣ Legal Framework ♣ Litigation processes & procedures ♣ Investigative Techniques ♣ Evidence gathering ♣ Network of professional contacts in related fields viz. enforcement, regulatory bodies, law, industry, peers etc.

Process of Forensic Accounting : Each Forensic Accounting assignment is unique. Accordingly, the actual approach adopted and the procedures performed will be specific to it. However, in general, many Forensic Accounting assignments will include the steps detailed below.



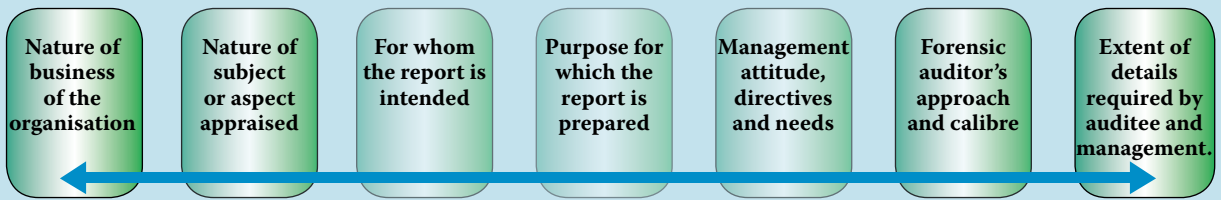
Forensic Audit Techniques



Forensic Audit Report : Points to keep in mind while reporting	
Clear thinking	<ul style="list-style-type: none"> ♣ To whom the report is directed ♣ Purpose and aim ♣ Cool and calm thinking to have logical and coherent presentation ♣ Pattern of presentation
Keep the reader uppermost in mind	<ul style="list-style-type: none"> ♣ Translate technical matters to layman's language ♣ To visualise the reader's viewpoint
Unbiased approach	<ul style="list-style-type: none"> ♣ To mention the view point of the audtee
Impact of the report	<ul style="list-style-type: none"> ♣ The probable reaction to reporting. Whether action or decision will follow in quickest possible time or to be treated as of academic interest only. ♣ To remember the universal saying - "don't jump to conclusions"
Facts and figures to be in proper sequences	

ADVANCED AUDITING AND PROFESSIONAL ETHICS

The main factors to be considered for the various ways of presentations of written reports are



Sample Table of Contents of a Forensic Audit Report may include the following:

1. EXECUTIVE SUMMARY

- 1.0 Background
- 1.1 Origin of the Audit
- 1.2 Audit Objective
- 1.3 Proposed Audit Outputs
- 1.4 Audit Implementation Approach

2. RISK ANALYSIS

2.1 Internal Environment Risk	2.2 External Environment Forces
2.1.1 Financial Management	2.2.1 Influence of Economics and relevant Market
2.1.2 Customers, Products and Competitors	2.2.2 Political and Legal Scenario
2.1.3 Information technology	2.2.3 Technology in the Sector
2.1.4 Business Process	
2.1.5 Human Resource Management	

3. AUDIT PROCESS

- 3.1. Preliminary understanding of scope and incident coverage
 - (i) Identification of all related data elements
 - (ii) Preparation of a List of "persons of interest" for interview

(iii) Obtain management approval for scope

- 3.2. Collect Evidence
- 3.3. Conduct Interviews
- 3.4. Analyse findings
- 3.5. Validate Inferences and conclusions

4. EVIDENCE OF RISK EVENTS

- 4.1 Conflicts of interest
- 4.2 Bribery
- 4.3 Extortion
- 4.4 Theft
- 4.5 Fraudulent transactions
- 4.6 Inventory frauds
- 4.7 Misuse of assets
- 4.8 Financial Statement frauds

5. AUDIT RECOMMENDATIONS

- 5.1 Logical Framework Approach
- 5.2 Preconditions and Risks

6. GOVERNANCE ON RECOMMENDATION IMPLEMENTATION

- 6.1 Stakeholders
- 6.2 Budget Considerations

LIST OF ANNEXURES

CHAPTER 20 PROFESSIONAL ETHICS

Our Institute's Motto – '*Ya Esha Supteshu Jagrati*' is adopted from *Kathopanishad* and it denotes 'eternal vigilance' – awakening when the world is asleep.

Chartered Accountants as professionals are engaged in building trust to vast variety of users, whether shareholders, government, banks, investors, employees or others, which imposes a public interest responsibility on their profession. Like other professionals, Chartered Accountants also have some set of code of ethics. This Code of Ethics establishes ethical requirements for Professional Accountants.



A Chartered Accountant, either in practice or in service, has to abide by these ethical behaviours. They are expected to follow the fundamental principles of professional ethics while performing their jobs. Any deviation from the ethical responsibilities brings the disciplinary mechanism into action against the Chartered Accountants.

Fundamental Principles: The fundamental principles as discussed in Code of Ethics of ICAI, to be complied, are given below:



Member in Practice Prohibited from using a Designation Other Than Chartered Accountant

(i) The member of the Institute are now permitted to use the word 'CA' as prefix before their name irrespective of the fact that they are in practice or not.

(ii) Under section 7 of the Chartered Accountants Act, 1949 a member in practice cannot use any designation other than that of a Chartered Accountant, nor can he use any other description, whether in addition thereto or in substitution therefor, but a member who is not in practice and does not use the designation of a Chartered Accountant may use any other description. Nevertheless a member in practice may use any other letters or description indicating membership of Accountancy Bodies which have been approved by the Council or of bodies other than Accountancy Institutes so long as such use does not imply adoption of a designation and/or does not amount to advertisement or publicity.

For example, though a member cannot designate himself as a Cost Accountant, he can use the letters A.I.C.W.A. after his name, when he is a member of that Institute.

Maintenance of Branch Offices : In terms of section 27 of the Act, if a Chartered Accountant in practice or a Firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are:

(1) Temporary offices in a city in the plains for a limited period not exceeding 3 months in a year.

(2) The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.

(3) The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.

(4) The temporary office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.

(5) Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

It is necessary to mention that the Chartered Accountant in-charge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant, he must be in whole time employment with him. However, a member can be in-charge of two offices if they are located in one and the same Accommodation. In this context some of the Council's decisions are as follows:

(1) With regard to the use of the name-board, there will be no bar on putting up of a name-board in the place of residence of a member with the designation of Chartered Accountant, provided it is a name-plate or a name-board of an individual member and not of the firm.

(2) The exemption may be granted to a member or a firm of Chartered Accountants in practice to have a second office without such second office being under the separate charge of a member of the Institute, provided-

(a) the second office is located in the same premises, in which the first office is located or,

(b) the second office is located in the same city, in which the first office is located or,

(c) the second office is located within a distance of 50 km. from the municipal limits of a city, in which the first office is located.

A member having two offices of the type referred to above shall have to declare, which of the two offices is his main office, which would constitute his professional address.

KYC Norms for CA in Practice: The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC Norms). In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.

1. Where Client is an Individual/ Proprietor

- A. General Information
- Name of the Individual
 - PAN No. or Aadhar Card No. of the Individual
 - Business Description
 - Copy of last Audited Financial Statement
- B. Engagement Information
- Type of Engagement

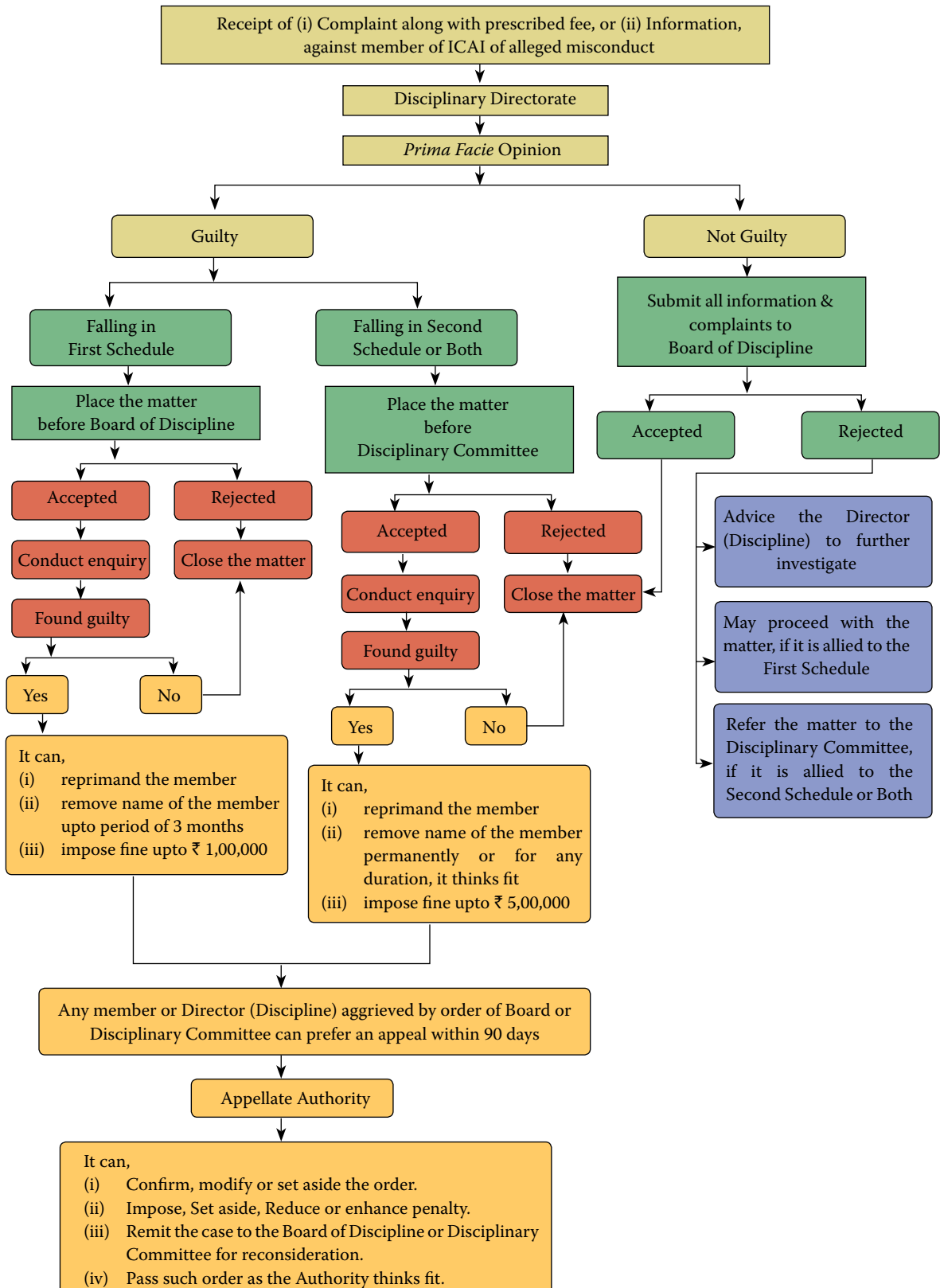
2. Where Client is a Corporate Entity

- A. General Information
- Name and Address of the Entity
 - Business Description
 - Name of the Parent Company in case of Subsidiary
 - Copy of last Audited Financial Statement
- B. Engagement Information
- Type of Engagement
- C. Regulatory Information
- Company PAN No.
 - Company Identification No.
 - Directors' Names & Addresses
 - Directors' Identification No.

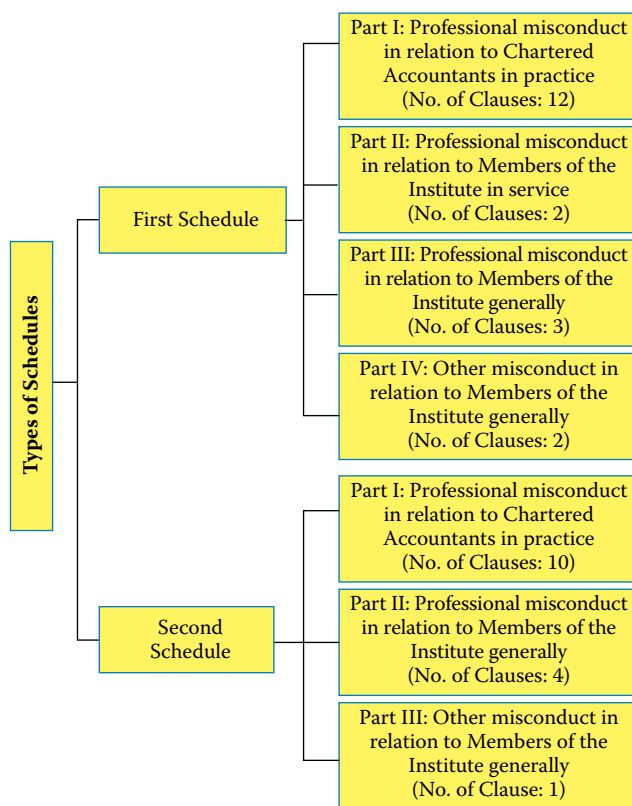
3. Where Client is a Non-Corporate Entity

- A. General Information
- Name and Address of the Entity
 - Copy of PAN No.
 - Business Description
 - Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)
 - Copy of last Audited Financial Statement
- B. Engagement Information
- Type of Engagement

Flow Chart of Discipline Procedure Mechanism



SCHEDULES TO THE ACT



The implications of the different clauses in the schedules are discussed below:

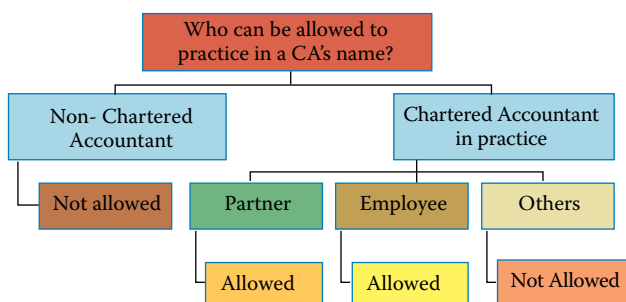
THE FIRST SCHEDULE

Where the Director (Discipline) is of the opinion that member is guilty of any professional or other misconduct mentioned in the First Schedule; he shall place the matter before the Board of Discipline.

PART I - Professional misconduct in relation to Chartered Accountants in practice

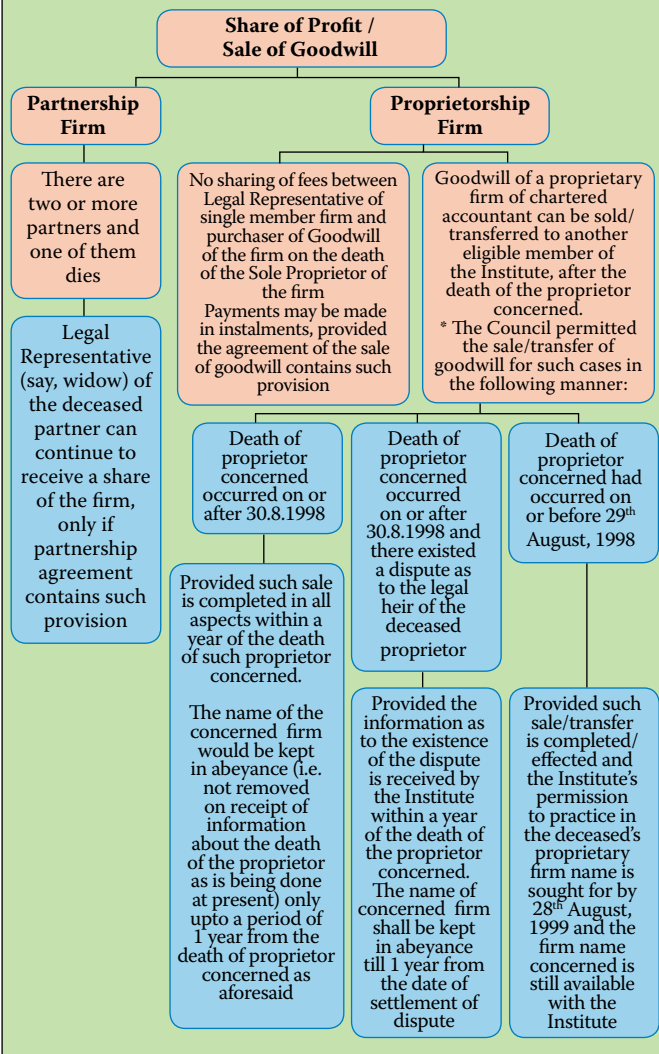
A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he:

Clause (1) allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.



Clause (2) pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Treatment of Goodwill –



* In case of a partnership firm when all the partners die at the same time, the above Council decision would also be applicable.

Clause (3) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute.

Clause (4) enters into partnership, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (V) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships.

Clause (5) Secures either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner or by means which are not open to a Chartered Accountant, any professional business.

Provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item (2), (3) and (4) of this part.

Clause (6) Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

Clause (7) Advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognised by the Central Government or may be recognised by the Council.

Provided that a member in practice may advertise through a write up, setting out the service provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council.

Clause (8) Accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Clause (9) Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of section 225 of the Companies Act, 1956, in respect of such appointment have been duly complied with.

(Now section 139 and 140 read with section 141 of the Companies Act, 2013. Students may note that till the time Code of Ethics etc. bare documents get updated from Ethical Standard Board of ICAI in pursuance of the Companies Act, 2013, students are required to understand the basic nature of the provision and quote the same along with the new corresponding provisions.)

Clause (10) Charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

The Council of the Institute has however framed Regulation 192 which exempts members from the operation of this clause in certain professional services. The said Regulation 192 is reproduced -

Regulation 192. Restriction on fees - No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings or results of such work, provided that:

- In the case of a receiver or a liquidator, the fees may be based on a percentage of the realisation or disbursement of the assets;
- In the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits;
- In the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of property valued;
- In the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
- In the case of certain fund raising services, the fees may be based on a percentage of the fund raised;
- In the case of debt recovery services, the fees may be based on a percentage of the debt recovered;
- In the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and
- Any other service or audit as may be decided by the Council.

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

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (Not being managing director or a whole time director) unless he or any of his partners is interested in such company as an auditor.

Clause (12) Allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

PART II - Professional misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person:

Clause (1) pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.

Clause (2) accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification

[Note: A member in the foregoing circumstances would be guilty of misconduct regardless of the fact that he was in whole-time or part-time employment or that he was holding Certificate of Practice along with his employment.]

PART III - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he:

Clause (1) not being a fellow of the Institute, acts as a fellow of the Institute.

Clause (2) does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

Clause (3) while inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV- Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

(1) is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months.

(2) in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

THE SECOND SCHEDULE

Part I - Professional misconduct in relation to chartered accountant in practice

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:

Clause (1) Discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

Clause (2) If he certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice.

Clause (3) Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.

Clause (4) Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Clause (5) Fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement not misleading where he is concerned with that financial statement in a professional capacity.

Clause (6) Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Clause (7) Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

Clause (8) Fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

Clause (9) Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause (10) Fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he:

Clause (1) Contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

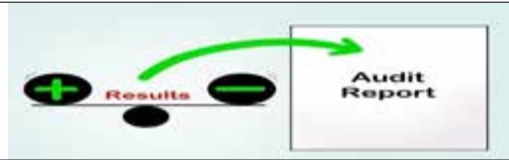
Clause (2) Being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer.

Clause (3) Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Clause (4) Defalcates or embezzles money received in his professional capacity.

THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The SA 700 series is purely dedicated to the auditor report to be issued by the auditor. Here, we are discussing SA 700, SA 701, SA 705 and SA 706.



SA-700	Forming an Opinion and Reporting on Financial Statements
Objective	<ul style="list-style-type: none"> Forming opinion on the financial statements. Form and content of the audit report.
Basic Elements of the Auditor's Report: The auditor's report includes the following basic elements, which ordinarily includes in case of Auditors' Report for Audits Conducted in Accordance with Standards on Auditing:	
1. Title	
2. Addressee	shall be addressed as required by the circumstances of the engagement
3. Auditor's Opinion:	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."</p> <div style="border: 1px solid black; padding: 5px;"> <p>The Opinion section of the auditor's report shall also:</p> <ul style="list-style-type: none"> (a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement comprising the financial statements; (d) Refer to the notes, including the summary of significant accounting policies; and (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. </div> <p>If the reference to the applicable financial reporting framework in the auditor's opinion is not to Accounting Standards, the auditor's opinion shall identify the origin of such other framework.</p>
4. Basis for Opinion:	<p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:</p> <div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> (a) States that the audit was conducted in accordance with Standards on Auditing; (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. </div>
5. Going Concern:	Where applicable, the auditor shall report in accordance with SA 570.
6. Key Audit Matters	For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701.
7. Responsibilities for the Financial Statements:	
This section of the auditor's report shall describe management's responsibility for:	
<p>(a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and</p>	<p>(b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.</p>

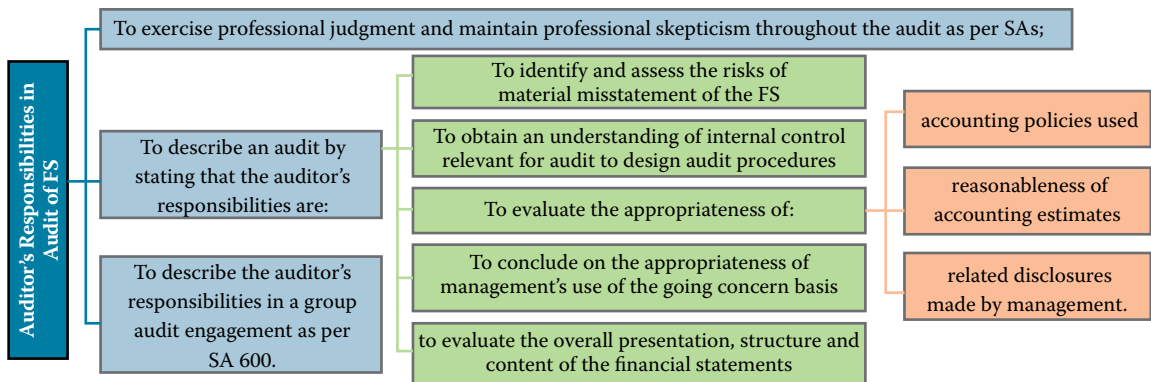
ADVANCED AUDITING AND PROFESSIONAL ETHICS

8. **Auditor's Responsibilities for the Audit of the Financial Statements:** The auditors report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

(I) **This section of the auditor's report shall:**

- (a) **State that the objectives of the auditor are to:**
 - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - (ii) Issue an auditor's report that includes the auditor's opinion.
- (b) **State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and**
- (c) **State that misstatements can arise from fraud or error, and either:**
 - (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or
 - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework.

(II) **The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:**



(III) **The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall:**

- (a) **State that the auditor communicates with those charged with governance regarding, among other matters:**
 - ♣ the planned scope and timing of the audit and
 - ♣ significant audit findings,
 - ♣ including any significant deficiencies in internal control that the auditor identifies during the audit;
- (b) **State that the auditor provides those charged with governance with a statement that the auditor has:**
 - ♣ complied with relevant ethical requirements regarding independence and
 - ♣ communicate with them all relationships and
 - ♣ other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and
- (c) For audits of financial statements of all such entities **for which key audit matters are communicated in accordance with SA 701**, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.
In accordance with the requirements of SA 701, the auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

9. **Location of the description of the auditor's responsibilities for the audit of the financial statements:** The description of the auditor's responsibilities for the audit of the financial statements required by this SA shall be included:

- (a) Within the body of the auditor's report;
- (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.

When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements of this SA.

10. Other Reporting Responsibilities

11. Signature of the Auditor: The auditor's report shall be signed.

- ♣ The report is signed by the auditor (i.e. the engagement partner) in his personal name.
- ♣ Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm.
- ♣ The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them.

12. Place of Signature: The auditor's report shall name specific location where the audit report is signed.

13. Date of the Auditor's Report: The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

(a) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Auditor's Report Prescribed by Law or Regulation: If the auditor is required by law or regulation applicable to the entity to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- (1) A title.
- (2) An addressee, as required by the circumstances of the engagement.
- (3) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.
- (4) An identification of the entity's financial statements that have been audited.
- (5) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.
- (6) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements of SA 570.
- (7) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements of SA 570 (Revised).
- (8) Where applicable, a section that includes the information required by SA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that SA 701.

(9) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements.

(10) A reference to Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements.

(11) The auditor's signature.

(12) The Place of signature

(13) The date of the auditor's report.

Auditor's Report for Audits Conducted in Accordance with Both Standards on Auditing Issued by ICAI and International Standards on Auditing or Auditing Standards of Any Other Jurisdiction. In this case, the auditor's report may refer to Standards on Auditing in addition to the International Standards on Auditing or auditing standards of such other jurisdiction, but the auditor shall do so only if:

(a) There is no conflict between the requirements in the ISAs or such auditing standards of other jurisdiction and those in SAs that would lead the auditor:

- (i) to form a different opinion, or
- (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by SAs; and

(b) The auditor's report includes, at a minimum, each of the elements set out in Auditor's Report Prescribed by Law or Regulation discussed above when the auditor uses the layout or wording specified by the Standards on Auditing. However, reference to "law or regulation" in above paragraph shall be read as reference to the Standards on Auditing. The auditor's report shall thereby identify such Standards on Auditing.

When the auditor's report refers to both the ISAs or the auditing standards of a specific jurisdiction and the Standards on Auditing issued by ICAI, the auditor's report shall clearly identify the same including the jurisdiction of origin of the other auditing standards.

Supplementary Information Presented with the Financial Statements

If supplementary information that is not required by the applicable financial reporting framework is

presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

SA-701	Communicating Key Audit Matters in the Independent Auditor's Report
Objective	<ul style="list-style-type: none"> To enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. To assist the user in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.
Definition of Key Audit Matters	Key Audit matter are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
Scope: Communicating key audit matters in the auditor's report is not:	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px; background-color: #e0f0ff;">a substitute for disclosures in the financial statements;</div> <div style="border: 1px solid black; padding: 5px; background-color: #fff9c4;">a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705;</div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 1px solid black; padding: 5px; background-color: #e0ffe0;">a substitute for reporting in accordance with SA 570 or</div> <div style="border: 1px solid black; padding: 5px; background-color: #ffe0e0;">a separate opinion on individual matters.</div> </div>
Applicability of SA 701	<ul style="list-style-type: none"> ♣ It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication ♣ This SA applies to audits of complete sets of general purpose financial statements of: <ul style="list-style-type: none"> ◆ listed entities and ◆ circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report and ◆ required by law or regulation to communicate key audit matters in the auditor's report <p><i>However, SA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.</i></p>

Determining Key Audit Matters: The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315

(b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

(c) The effect on the audit of significant events or transactions that occurred during the period.

Communicating Key Audit Matters: The introductory language in this section of the auditor's report shall state that:

(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and.

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

SA-705	Modifications to the Opinion in the Independent Auditor's Report
Scope	<ul style="list-style-type: none"> ♣ This SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. ♣ This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.
Objective	<p>The objective of the auditor is to express clearly an appropriately modified opinion on the financial statement that is necessary when:</p> <ol style="list-style-type: none"> The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Types of Modified Opinion	Types of Modified Opinions as per SA 705:	(i) Qualified Opinion
		(ii) Adverse Opinion
		(iii) Disclaimer of Opinion
<p>The decision regarding which type of modified opinion is appropriate depends upon:</p> <p>(a) The <i>nature of the matter</i> giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and</p> <p>(b) The <i>auditor's judgment about the pervasiveness</i> of the effects or possible effects of the matter on the financial statements.</p>		

Circumstances When a Modification to the Auditor's Opinion is Required:

The auditor shall modify the opinion in the auditor's report when:

The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or	The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
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Determining the Type of Modification to the Auditor's Opinion:

Qualified Opinion: The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

The auditor need to express a qualified opinion or to disclaim an opinion on the financial statements and auditor shall request that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor decides to withdraw: When the auditor decides to withdraw then before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion: When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

Communication with Those Charged with Governance: When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

Nature of Matter Giving Rise to the Modification:	Auditor's judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not pervasive	Material and pervasive
Financial Statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain Sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

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

Scope

- ❖ This SA deals with additional communication in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters
 - (a) presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (b) other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Objectives

- ❖ The objective of the auditor, having formed an opinion on the financial statements, is to **draw users' attention**, when in the auditor's judgment it is necessary to do so, by way of **clear additional communication in the auditor's report**, to:
- ❖ A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is **fundamental to users' understanding** of the financial statements; or
- ❖ As appropriate, **any other matter that is relevant** to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

- ❖ **Emphasis of Matter paragraph** : A paragraph included in the auditor's report that refers to **a matter appropriately presented or disclosed** in the financial statements that, in the **auditor's judgment**, is of such importance that it is **fundamental to users' understanding** of the financial statements.
- ❖ **Other Matter paragraph** : A paragraph included in the auditor's report that refers to a matter **other than those presented or disclosed** in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Emphasis of Matter Paragraphs in the Auditor's Report

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- (b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

Other Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) This is not prohibited by law or regulation; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

The auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

Communication with Those Charged with Governance

If the auditor expects to include an **Emphasis of Matter or an Other Matter paragraph** in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.

Residential Programme on Professional Skills Development at Centre of Excellence, Hyderabad and Jaipur

The Board of Studies is pleased to announce the next two batches of ICAI's 'Four Weeks Residential Programme' on Professional Skills Development as below:

Venue	Participant	Fees	Date	Online Registration
Centre of Excellence (CoE), Hyderabad	Women	₹ 48,000/-	25 th November, 2018 to 22 nd December, 2018	https://resource.cdn.icai.org/50872bos40499main.pdf
Centre of Excellence (CoE), Jaipur	Men	₹ 48,000/-	26 th November, 2018 to 23 rd December, 2018	https://resource.cdn.icai.org/50874bos40500main.pdf

This programme aims to help the Chartered Accountancy students and newly qualified Chartered Accountants in imbibing the professional skills required for effective functioning in business organisations and the profession. The Programme environment focuses on development of communication skills, personal qualities, interpersonal and teamwork skills, problem solving skills, leadership skills etc.

Salient Features of the Programme:

- ♣ Emphasis on Soft Skills, Communication Skills and Personality Development.
- ♣ Exemption from payment of Fees to Top 10 Rank holders.
- ♣ Part of Practical Training.
- ♣ No need for Separate Management and Communication Skills (MCS) forming part of Advanced Integrated Course on Information Technology and Soft Skills (AICITSS).
- ♣ Special Session on Group Discussion & Interview.
- ♣ Preparation of Project and Presentation Skills.
- ♣ Building Team Spirit.

Students who have passed Chartered Accountancy IPCC/ PCC/ PE- II examination and pursuing last year of Practical training or completed Practical training are invited to join the course for this batch. Recently qualified Chartered Accountants are also welcome to join the course.

Student's opinion

CoE is a place to learn from best of speakers who fill the session with loads of earnings and bundle of creativity. It is a great place to learn from students and professional with diverse background. A must-do course for all CA Students.

- CA. Kevin Dharmesh Gandhi
from Western Region
(Participant of 37th batch)

It was an amazing experience and the faculties were exceptionally good. It bridges the gap between a CA student and a professional. It influences us to be creative and think out of the box.

- Ms. Parnika Poddar
from Eastern Region
(Participant of 40th batch)

For online registration, you can proceed with 'Board of Studies Announcements' https://www.icai.org/new_category.html?cid=345 under the 'Students' tab on the Home Page of the ICAI's website www.icai.org. For any query, you can write us at ashokdua@icai.in or may also contact us on 0120-3045935 and Mobile No. 9868879548.

Director, Board of Studies

Feedback Forms for study material of new scheme

The Board of Studies has created feedback mechanism in BoS Knowledge Portal at https://icai.org/post.html?post_id=14685, wherein subject-wise feedback forms are available for all the subjects of the new scheme of education and training. Students are advised to submit their feedback/ suggestions on the study material of any subject through the feedback form of the respective subject. This will help the BoS in identifying amendments/ corrections required in the study material, if any, and rectifying them appropriately. Further, it is advised to submit the complete module/ chapter/ page no. details, if possible, such that the feedback can be used constructively.

Students may also view the amendments done in the study material through the Excel Sheets uploaded for every paper in BoS Knowledge Portal under the tab "Feedback Window".

Director, Board of Studies

Announcement for Final (New Course) Students appearing in November 2018 Examinations for paper 6D: Economic Laws

Subject: Relevant amendments for November 2018 examination

Students of Final (New) Course, appearing in November 2018 examinations, are advised to refer significant amendments related to the topics for the Period 1st May 2017 to 30th April, 2018 w.r.t paper 6D: Economic laws.

The said amendments is available at the following given link <https://resource.cdn.icai.org/51362bos41039.pdf>
These amendments are to be read with the applicable study material of November 2017 edition.

Director, Board of Studies

Scholarships for CA Students

Board of Studies, ICAI invites applications for the award of Scholarships to the selected candidates to be paid from October 1, 2018 onwards under following categories:

Sr. No.	Scholarship Category	No. of Scholarships	Amount (p.m.)	Eligibility Criteria
1.	Merit-cum-Need	As per eligibility criteria	₹ 1500/-	Rank holders (other than covered under Merit category) of Intermediate (IPC) May, 2018 Exam whose parents/guardians total annual income does not exceed ₹ 2,50,000/-
2.	Need Based and Weaker Sections	300	₹ 1250/-	Students of Intermediate (IPC)/Intermediate Course whose parents/guardians total annual income does not exceed ₹ 2,00,000/-
		200	₹ 1250/-	Students of Final Course whose parents/guardians total annual income does not exceed ₹ 2,00,000/-
		As per eligibility criteria	₹ 1250/-	The children undergoing Intermediate (IPC)/Intermediate or Final Course of the deceased members of ICAI where financial assistance is provided to spouses of the deceased members from the Chartered Accountants Benevolent Fund (CABF) shall also be eligible for scholarship.
3.	Sri Dhanraj Kanhaiyalal Dudheria Scholarships	6	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final from Karnataka State under Need Based & Weaker Sections criteria
4.	R.K. Khanna Memorial Scholarships	2	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria
5.	J.S. Lodha Memorial Scholarships	3	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria
6.	J.M. Sethia Charitable Trust Scholarships	3	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria
7.	BCCO Foundation Scholarships	2	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria
8.	R. P. Dalal Memorial Scholarship	3	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria
9.	Out of Joint Corpus formed by Donors	6	₹ 1250/-	Students of Intermediate (IPC)/Intermediate/Final under Need Based & Weaker Sections criteria

Board of Studies, ICAI also awards **Merit Scholarships** to the Meritorious Students as a token of appreciation. Students whose names are appearing at Sl. No. 1-10 of Merit lists of Intermediate (IPC) of May, 2018 Exam, in case the Rank at Sl. No.10 continues to Sl. No. 11 or 12 or so on, then all such rank holders shall be granted @ ₹ 2000/- p.m. Such students are not required to apply.

The detailed guidelines along with the requisite application forms (Form no. 3 & 4) are available on the Institute's Website (www.icai.org) (link: http://www.icai.org/post.html?post_id=6486).

Terms for award of Scholarships:

- Applicants shall be the registered students of Intermediate (IPC)/ Intermediate or Final Course.
- In the case of Intermediate (IPC)/Intermediate Students, Scholarship shall be paid for a maximum period of 18 months.
- In the case of Final students, Scholarship shall be paid for a maximum period of 30 months or balance period of their articleship, whichever is less.
- An additional amount of Rs. 100/- p.m. shall be paid to SC/ ST/ OBC students, under Need-based and Weaker Section Category on submission of certificate/ documentary proof duly attested by a gazetted officer or a member of the Institute.
- One scholarship under the Need-Based and Weaker Section Category is reserved for a Physically Challenged student.
- Income Certificate (Form No. 4) is to be submitted on the letter head of the Principal under whom the Student is undergoing Articleship (Practical Training) (Part I) / letter head of any member of ICAI in case the Student is not undergoing Articleship (Part-II). The applications without Form No. 4 will not be processed.

Duly completed and signed Application Forms in the prescribed formats as mentioned above should reach the Director, Board of Studies, The Institute of Chartered Accountants of India, ICAI Bhawan, A-29, Sector-62, NOIDA-201309 **latest by 1st October, 2018.**

In case of any clarification, please contact the Board of Studies, Telephone Nos. 0120-3045914/931; email: ajay.kumar@icai.in

Director, Board of Studies

Organized by: Board of Studies, ICAI

Hosted by: Udaipur Branch of CIRC & CICASA of ICAI

THEME: KNOWLEDGE & TRAINING WITH ETHICAL QUOTIENT - PATHWAY TO PROFESSIONAL EXCELLENCE

**ICAI BHAWAN,
SECTOR 14, UDAIPUR**

DAY-1

10.00 am to 10.30 am	Inaugural Session
10.30 am to 11.00 pm	Special Session: I Motivational Session by Eminent Personality
11.00 am to 12.30 pm	Technical Session: I: Topic: Company Law
12.30 pm to 1.30pm	Special Session: II: Topic- BOS Presentation and Interaction with Board of Studies.
2.15pm to 3.45 pm	Technical Session: II: Topic: Disruption in Economy (Covering Changes in Economy in recent times- Startup, Digitisation, Demonitisation etc.)
3.45 pm to 5.00 pm	Technical Session : III: Topic: Capital Market

DAY 2

10.00 am to 12.00 noon	Technical Session : IV : Topic: GST
12.00 Noon to 1.30 pm	Special Session: III: Topic – Career Beyond CA-Special Address by Eminent Personality
2.15 pm to 4.00 pm	Technical Session: V: Topic: Income Tax
4.00 pm to 4.30 pm	Valedictory Session

Registration fees	₹ 500/- per student
Registration on the Portal	The student has to register & make the payment online on the Portal itself, the link will be http://bosactivities.icai.org/

CA. Dhinal Ashvinbhai Shah, Chairman, BOS; **CA. Vijay Kumar Gupta**, Vice-Chairman, BOS; **CA. Prakash Sharma**, Central Council Member & Conference Director; **CA. Gyan Chandra Mishra**, Chairman, CIRC of ICAI & Conference Co- Director; **CA. Pankaj Jain**, Chairman, Udaipur Branch of CIRC of ICAI & **CA. Dilip Kothari**, Chairman, Udaipur Branch of CICASA of ICAI, Conference Coordinators.

Postponement of First Examination of Practical Training

The Council has decided to assess students after completion of first and second year of practical training with online MCQ based tests. The students completing their 1st/ 2nd year of practical training in a particular quarter of a year would be eligible to register for the said test in the subsequent quarter.

The first test for both the category of students which was scheduled to be held on August 26, 2018 has now been postponed to September 23, 2018. The students who have completed their 1st/ 2nd year of practical training during the second quarter of 2018, i.e. April-June, 2018 would be eligible to appear in these assessments anytime during September-December, 2018. The registration related details will be hosted on the Institute website shortly.

Frequently Asked Questions (FAQs) are also available on the Institute website at the link:

<https://resource.cdn.icai.org/50659bosfaqapt.pdf>

Director, Board of Studies

Clarification regarding Date of Completion of First/ Second year of Practical Training for Practical Training Assessment Test

Students may note that for the purpose of appearing in Practical Training Assessment test, the first/ second year completion date would be calculated as one year/ two years after the date of commencement of practical training irrespective of excess leaves. For instance, if a student has commenced practical training on July 1, 2017, taken leaves from January 1, 2018 to February 1, 2018, his/ her first year completion date for the purpose of assessment test would be considered as June 30, 2018 and second year completion date as June 30, 2019.

However, in case of termination/ transfer, the time gap during transfer from one principal to another principal will not be included in calculating first/ second year of practical training. For instance, if a student has commenced practical training on July 1, 2017, taken transfer on January 1, 2018 and then joined new Principal on February 1, 2018, his/ her first year completion date for the purpose of assessment test would be extended to July 31, 2018 and second year completion date as July 31, 2019.

Director, Board of Studies



The Institute of Chartered Accountants of India (ICAI)

World Accountancy Education Day

Organised By: Career Counseling Group (CCG), ICAI

10th November, 2018

Accountancy Education for All

World Accountancy Education Day will be celebrated on 10th November, 2018 with the theme "Accountancy Education for All" conducted by the Career Counselling Group (CCG) of the Institute of Chartered Accountants of India in India as well as Abroad.

Objectives of Celebrating World Accountancy Education Day

World Accountancy Education Day will be celebrated every year with the following objectives

- To widely spread a message about the significance of Commerce Education in the daily life of the people.
- To display all the activities, efforts and achievements in the field of Commerce for human welfare.
- To discuss all the issues and implement innovative strategies for the development of the Accountancy education.
- To give an opportunity to showcase the talents of Commerce students in the country. To encourage the people as well as popularize the Accountancy education.

The Commerce Carnival is going to be an event with a series of activities and programs involving school and college students, eminent Educationists and faculties of the state, country & abroad. We want to provide a real platform for the budding students to make their career and profession in Commerce.

10th November, 2018 - World Accountancy Education Day

Why

On November 10, 1494, a book titled Summa de Arithmetica, Geometria, Proportioni et Proportionalita (Everything About Arithmetic, Geometry and Proportion) was published in Venice. This was the first book that aimed to summarize the mathematical knowledge of those days. One of the tractatus of the Summa, entitled "Particularis de computis et scripturis" (About accounts and other writings) provides a detailed description of Venetian book-keeping. This was the first printed essay on double entry bookkeeping - called "Method of Venice" - and was direct base of some widespread works on mercantile

Deputy Convener

Career Counseling Group (CCG), ICAI

accounting. The author of the book was Italian mathematician and Franciscan friar Luca Bartolomeo de Pacioli. Although double-entry bookkeeping had been around for centuries, Pacioli's 27-page treatise on the subject has earned him the title "The Father of Modern Accounting." The system he published included most of the accounting cycle as we know it today.

Commemoration of World Accountancy Education Day

- The World Accountancy Education Day will be expected to celebrate in capital cities of each state as well as other cities and in abroad destinations
- Career Counselling/Mega Career Counselling Programme will be organized to promote the Accountancy Education in in each Branch/ Regional Councils/Chapter Abroad.
- Mega Career Counselling Programme cum Exhibitions will be organized to promote the Accountancy Education in Branch/ Regional Councils/Chapter Abroad.

Activities to be organized during the Accountancy Education Day in the Branches/ Regional Councils/ Chapters Abroad on 10th Nov., 2018

- Career Counselling Programme /Mega Career Counselling Programme
- Press Conference
- Radio/TV talk shows
- Public speech
- Commerce exhibitions
- Debate Competition
- Quiz competitions
- Elocution Competition
- Essay Writing Competition
- Marathon race/ Human Chain
- Variety of other programmes

The aforesaid programmes will be organized to popularize the Accountancy education in the country as well as abroad amongst the student community & other stakeholders.

Convener

Career Counseling Group (CCG), ICAI

For any Query please contact:

Secretary, Career Counselling Group (CCG), The Institute of Chartered Accountants of India
ICAI Bhawan, A-29, Sector 62, Noida (U.P.) - 201309, Telephone (O): 0120-3876871, 886
Email: ccc.events@icai.in



CA Students' Conference- Trichur: Central Council Member, CA. Babu Abraham Kallivayalil inaugurating the Conference in the presence of CA. Aryan K K, Chairman, SICASA and other SICASA members.



CA Students' Conference- Aurangabad: Central Council Member, CA. Anil Bhandari inaugurating the Conference in the presence of Branch Chairman, CA. Sachin Lathi, Branch WICASA Chairman, CA. Pankaj Soni and other dignitaries.



National Conference for CA Students- Kolkata: Chief Guest Shri Nalin S. Kohli, Advocate, Supreme Court lighting the lamp to inaugurate the Conference. ICAI Past President, CA. Uttam Prakash Agarwal, Central Council Members, CA. (Dr.) Debasish Mitra, CA. Sushil Kumar Goyal, CA. Ranjeet Kumar Agarwal, Chairman, EIRC, CA. Sonu Jain, Chairman, EICASA, CA. Sumit Binani also seen.

If undelivered, please return to: The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi-110104