

2016-17

## Report on Audit Quality Review



**QUALITY REVIEW BOARD**

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

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<http://www.qrbca.in>

October, 2017



Gr. Floor, Admin. Block, ICAI Bhawan,  
A-29, Sector 62, NOIDA – 201309 (U.P.).  
INDIA.

P: + 91 120 3045983

F: +91 120 3045984

E: [secretary@qrbca.in](mailto:secretary@qrbca.in); [reviews@qrbca.in](mailto:reviews@qrbca.in)

W: <http://www.qrbca.in>

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## From the Chairperson's Desk



This June 2017 Quality Review Board completed 10 years of its establishment. 10 years ago, it was established by Parliament of India with the mandate to review the quality of audit services provided by the members of the ICAI and to guide its members to improve the quality of audit services. The QRB also notes failure to adhere to the various statutory and other regulatory requirements. It also makes recommendations to the Council of ICAI with regard to the quality of services provided by the members of the Institute.

Since its inception, it is the continued endeavor of the Quality Review Board to oversee the Audit firm's audit quality services and to ensure that the audit firm's deficiencies in statutory audit services for listed and other public interest entities, in particular, are being appropriately and suitably addressed. It is of immense satisfaction that the Quality Review Board, being the sole statutory body mandated to perform audit quality review function of various entities in the public interest, is vigorously continuing its independent review of statutory audit services of the audit firms auditing accounts of the top listed and other public interest entities in India. Since FY 2012-13, the Board has selected a total of 585 review assignments for review of statutory audits of 443 entities, being public interest entities in India. These entities selected from various industries for review, represent more than 85% market cap of the stocks listed on the National Stock Exchange (NSE, world's 12th largest stock exchange with an overall market capitalization of US\$1.41 trillion as of March, 2016) and Bombay Stock Exchange (BSE, world's 11th largest stock exchange with an overall market capitalization of US\$2 trillion as of July, 2017). 300 Audit firms registered with the ICAI were selected for review of audit quality of these selected audit file/s.

Since then, the Board has finalised a total of 383 review reports while reviewing audits of top listed and other public interest entities in India. Based upon these 383 review reports, 29 cases have been recommended to the ICAI Council for consideration in terms of the requirements of Section 28B(a) of the Chartered Accountants Act, 1949 and in 206 cases appropriate advisories were issued by the Quality Review Board to the concerned Audit firms for improvement in their audit quality in terms of the requirements of Section 28B(c) of the Chartered Accountants Act, 1949. Out of the 29 cases recommended to the ICAI Council, it has decided to refer 7 cases to the Disciplinary Committee for initiating disciplinary proceedings; issue appropriate advisory to the concerned Audit firms in 19 cases; and close 3 cases. Out of the total 383 review reports completed till date, findings of 257 review reports were presented

in the earlier Reports of the Board. Since then, 74 reviews have been completed till June, 2017. In this report, we have included key findings, analysis and summary of observations made by the Reviewers in these 74 review reports. I hope the stakeholders will find them useful.

Through this desk, I would also like to inform of some other developments that have taken place since my last communication:-

- We had an opportunity to attend Opening Session of the Board meeting of the Public Interest Oversight Board (PIOB) of the International Federation of Accountants (IFAC) on 7.2.2017 at New Delhi and apprised them of the work carried out by the QRB as part of overall Indian audit oversight mechanism.
- On 9.2.2017, we had an opportunity to address the participants at the ICAI – PIOB Joint Stakeholders’ Conclave on “*Global Audit Oversight: Reconciling Perception Gap*”.
- To further strengthen the procedural mechanism of the Board, interactions were held with the Technical Reviewers (TRs) empanelled with the Board to obtain their experiences, views etc. during February- March, 2017 (in different batches).
- Keeping in view the areas where consistent deficiencies in audit quality were observed by the Board, a webcast was organized on Audit Quality Review – Key Learnings for Audit Firms on 10.04.2017. This webcast was widely watched by the Chartered Accountants and Audit Firms.
- Keeping in view the experience gained during the process of reviews being carried out by the QRB since the year 2012 as well as international practices and requirements for audit oversight, the Board has formed study group(s) for the following areas:-
  - a. to undertake holistic examination of the ‘Procedure for Quality Review of Audit Services of Audit Firms’ (‘Procedure’) specifying the scope of review, manner of review, criteria for selection of audit firms, review team composition, reporting, confidentiality and other aspects and make recommendations to the Board for suggesting appropriate amendments, if required, to the existing Procedure issued by the Board;
  - b. to suggest measures to raise audit quality bar in line with the stakeholders’ perceptions towards high quality financial reporting, effective audits and good corporate governance;
  - c. to suggest framework for undertaking Root Cause analysis of review findings.

The overall effectiveness of the Board and the contribution of each member and special invitees have enabled the Board to attain its stated objectives. I would like to thank, in particular, Mr. Injeti Srinivas, Secretary, Ministry of Corporate Affairs, Mr. K. V. R. Murty, Joint Secretary (Corporate Affairs) and Mr. Nilesh Shivji Vikamsey, President, ICAI for their continuous overall support and guidance in spearheading the activities of the Board. I also

thank Mr. V. Kurian, Director General (Com.—I), Office of the Comptroller & Auditor General of India & Convenor, Quality Review Group and all the other Members of the Quality Review Group and all the Convenors and Members of all other Sub-Committees/ Study/Expert Group(s) constituted by the Board for their invaluable contribution. I would also like to thank all the Technical Reviewers empanelled with the Board for their contribution in assisting the Board in carrying out its review work. I also highly appreciate the role of CA. Mohit Bajjal, Secretary, QRB and CA. Vinod Lakhera of the QRB Secretariat and all other staff who provided excellent support to the Board including in finalization of this Report.

Yours sincerely,



Dr. Parvinder Sohi Behuria  
Chairperson, Quality Review Board

Place: NOIDA  
Date: 26.10.2017

## Executive Summary

### Background

Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted the Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

The Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory auditors; and (b) the quality control framework adopted by the Statutory auditors/ audit firms in conducting audit.

In accordance with this Procedure, the Board initiated a system of review of statutory audit services of the audit firms auditing accounts of public interest entities in India since August 2012 pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. Since August 2012, the Quality Review Board has selected a total of 585 Quality Review assignments for initiating reviews of statutory audits of 443 companies/entities, being top listed and other public interest entities in India. The Board had selected 300 Audit firms, registered with the ICAI, who had performed these audits. These 443 entities represent various industries/sectors. Audits of 10 companies/entities were in relation to the financial statements for the year ended on 31 March, 2011 or the year 2010 as the case may be; those of 58 companies/entities pertained to the financial statements for the year ended on 31 March, 2012 or the year 2011 as the case may be; those of 100 companies/entities pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be; those of 91 companies/entities pertained to financial statements for the year ended on 31 March 2014 or the year 2013 as the case may be; those of 88 companies/entities pertained to financial statements for the year ended 31 March 2015 or the year 2014 as the case may

be; and those of 96 companies/entities pertained to financial statements for the year ended 31 March 2016 or the year 2015 as the case may be.

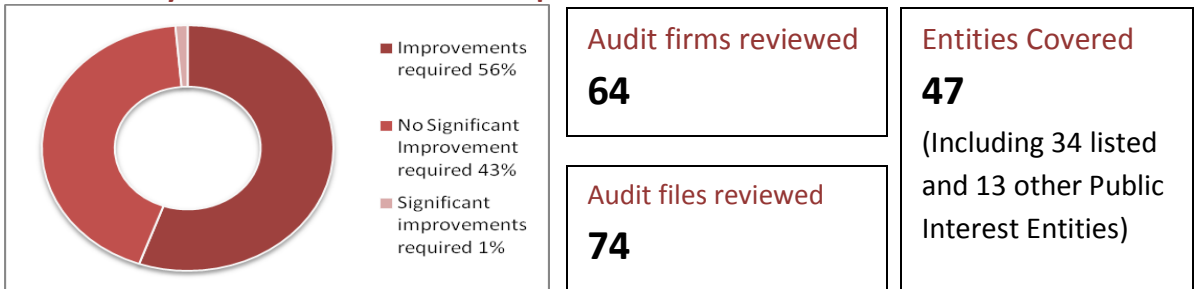
In line with the international best practices, the Board decided to adopt risk based approach for selection of audit engagements for initiating audit quality reviews during the F.Y. 2016-17. Companies/entities selected for review by the Board till now represent more than 85% market cap of the stocks listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The Technical Reviewers empanelled with the Board for conducting these reviews who alongwith their qualified assistants ensured that resources of about 300 qualified professionals were available with the Board for conducting these review assignments.

Out of a total of 585 reviews started since August 2012, a total of 383 review reports have been finalized by the Board till date. Based upon these 383 review reports, 29 cases have been recommended to the ICAI Council for consideration and in 206 cases appropriate advisories were issued by the Board to the concerned audit firms for improvement in quality. Out of the 29 cases recommended to the ICAI Council, it has decided to refer 7 cases for initiating disciplinary proceedings; issue appropriate advisory to the concerned Audit firms in 19 cases; and close 3 cases. The whole review mechanism has been administered as per best international practices based upon detailed analysis of the inspection systems of the audit regulators around the world. A total of 383 reports were accepted by the Quality Review Board till date. Review findings of 257 reports were presented in the earlier Reports of the Board. Since then, 74 reviews have been completed till June, 2017. Out of these 74 reviews, 69 pertained to the financial statements for the year ended on 31 March, 2014 or the year 2013 as the case may be; and 5 reports pertained to the financial statements for the year ended on 31 March, 2015 or the year 2014 as the case may be. A summary of some of the observations noticed by the Technical Reviewers in respect of these 74 review reports is enclosed at **Appendix A**. Key findings with respect to compliance with various Standards on Auditing, Accounting Standards, other relevant laws and regulations alongwith their comparative position as depicted in the previous review report of the Board for the period 2015-16 are as per following:-



## Key Findings

### Audit Quality Reviews covered in the Report



### Standards on Auditing<sup>1</sup>

#### Quality Control Framework (SQC-1)

Para 1 of SQC-1 mentions “the purpose of this Standard on Quality Control is to establish standards and provide guidance regarding a firm’s responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related service engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute (hereinafter referred to as “the Code”).”

However, it has been seen that failure to implement various elements of the system of quality control continued to remain the most common finding. Other findings included failure of audit firms in establishing policies and procedures designed to provide eligibility and maintaining the objectivity of engagement quality control reviewers; lack of awareness of audit firms in maintaining staff appraisal policy and policy with

#### Examples of Root Cause(s)

Responsibility for improving audit quality primarily lies with Audit firms. Root cause analysis is one of the key components in realizing such improvements. When firm identifies why a behavior that impacts audit quality is occurring, it is more likely that firm will be able to design and implement appropriate and responsive measures that either encourage those behaviors that support audit quality or remediate to prevent those that do not. The continued enhancement of root cause analysis should offer better understanding of what drives audit quality.

Audit firms are expected to check their own quality control system, including individual engagements, with reference to the deficiencies and their causes. If any deficiency is discovered in the system, through

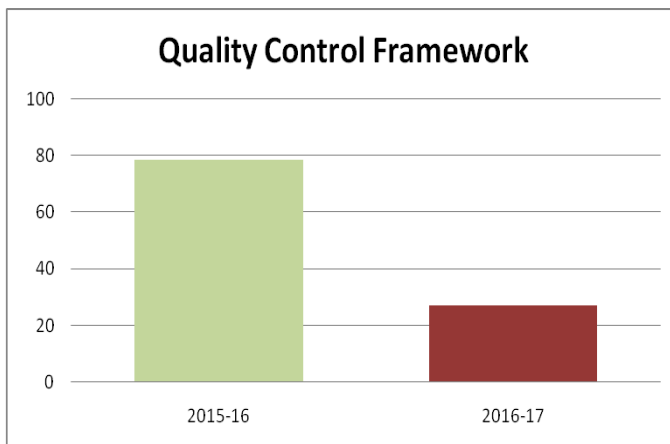
<sup>1</sup> The various graphs included in this section represent the comparative % of findings under the respective categories for reviews completed during 2016-17 (upto June, 2017), (pertaining to the financial statements for the years ended on 31 March, 2014 and 31 March, 2015), viz-a-viz FY 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014).

regard to delegation of improved and increased responsibility; failure of audit firms to maintain documentary evidence for implementation of various elements of quality control such as independence, client acceptance & continuance, human resources, EQCR, consultancy, engagement performance and monitoring; failure of firm in maintaining policy & procedure to notify the firm of breaches of independence requirements etc.

The following graph depicts the comparative position in respect of findings observed in this regard during the period reported with those reported in the previous period.

As can be seen, since the last report, there has been significant improvement with respect to compliance with the requirements of SQC-1 which is a good indication and is reflective of overall improvement in implementation of quality control framework at the level of Audit firms reviewed during the period.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



internal or external reviews, the audit firm should not only remedy the deficiency itself but also investigate and improve the root cause(s) thereof. Some of the examples of root cause(s) could be:-

- Audit firm did not have comprehensive SQC document on various elements of quality control or was not backed by evidence supporting the implementation.
- CEO and managing partner did not fully recognize how audit environment had changed, and did not understand required quality control system to be implemented.
- CEO and Managing partner did not take action to enhance partners' awareness, capabilities and competence to improve audit quality and perform audit engagements.
- Failure to allocate sufficient resources, enough time and experienced, competent engagement team (including EQCR).
- Failure to implement policies and procedures for acceptance and continuance of engagements.
- Failure to test independence on the engagements ensuring independence at all times.
- Failure to have learning calendar and ensuring that firm's partners and employees are complying ICAI CPE rules.
- Failure to implement elements of monitoring activity.

### Key Takeaways for Audit Firms (SQC-1)

- ✓ Improve implementation and documentation for various elements of the system of quality control as per SQC-1.
- ✓ Maintain policy & procedure to notify breaches of independence requirements.
- ✓ Provide eligibility and maintain objectivity of Engagement Quality Control Reviewer (EQCR).
- ✓ Maintain staff appraisal policy.
- ✓ Maintain policies and procedures with regard to engagement performance, engagement documentation and archival process.
- ✓ Improve monitoring mechanism and take corrective action for any of the deficiency identified during inspection process and communicate to its partner.

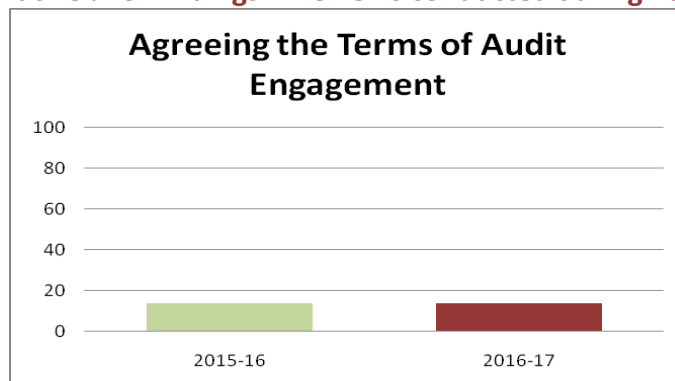
### Agreeing the Terms of Audit Engagement (SA 210)

Para 3 of SA 210 mentions the objective of the auditor is that “he is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through: (a) establishing whether the preconditions for an audit are present; and (b) confirming that there is common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.” However, it has been seen in certain cases that there had been failure to agree on the terms of audit engagement with management or the Audit Engagement Letter did not:

- adequately cover all aspects of the objective and scope of the audit of financial statements including management and auditors responsibilities;
- properly identify the applicable financial reporting framework for the preparation of the financial statements;
- make reference to the expected form and content of any reports to be issued by the auditor.

As can be seen below, since the last report, there has been no improvement with respect to compliance with the requirements of SA 210 at the level of Audit firms reviewed during the period.

### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



**Key Takeaways for Audit Firms (SA 210)**

- ✓ Agree on the terms of audit engagement with management.
- ✓ Cover all aspects of the objective and scope of audit, responsibilities of the management and auditors in the engagement letter.
- ✓ Identify the applicable financial reporting framework in the engagement letter.
- ✓ Make reference to the expected form and content of any reports to be issued.
- ✓ Engagement letter should be signed and dated within a reasonable time frame from the date of appointment.

**Audit Documentation (SA- 230)**

Para 5 of SA 230 mentions the objective of the auditor is 'to prepare documentation that provides: (a) a sufficient and appropriate record of the basis for the auditor's report; and (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements'.

Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached.

Findings in this area included failure of audit firms in recoding of significant matters arising under the audit; no documentary record was available to monitor the control activity to assess the risk of material misstatements; failure of audit firms in disposing of observations in the internal audit report; lack of awareness of audit firms in maintaining the details of persons who performed the audit work and the date of such work completed and the persons who reviewed the work; Audit documentation did not provide sufficient and appropriate record of the basis for the auditor's report. In certain cases, it also did not provide evidence that the audit was planned and performed in accordance with SAs and applicable legal & regulatory requirements; there was no engagement quality control reviews of listed

**Examples of Root Cause(s)**

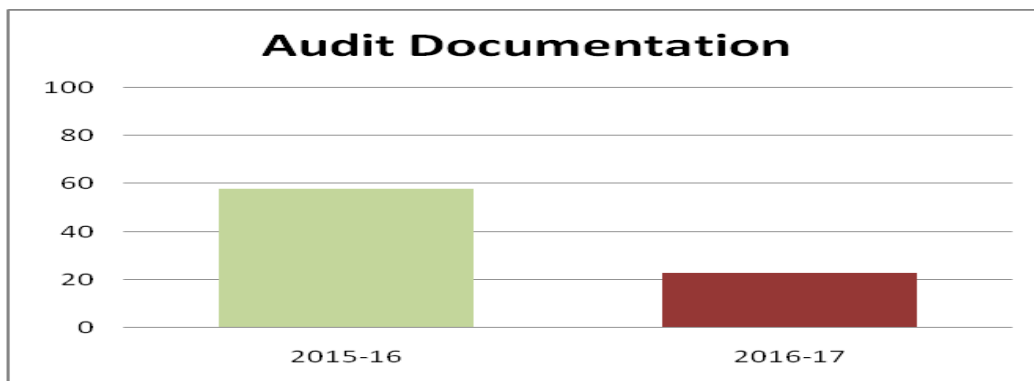
Work performed and not documented indicates deficiencies in planning and performance of audit including identifying risk of material misstatements, planned procedures for mitigating such risks. If audit documentation is not prepared properly for an important audit matter, it may not necessarily merely be a deficiency of documentation but could also imply deficiencies in EQCR, cyclical monitoring, education, training and/or other areas. Other Examples of root cause(s) could be:

- Audit firm's personnel did not fully recognize the importance of audit documentation.
- Engagement team did not fully verify whether audit documentation was prepared.
- Engagement partner did not review audit documentation nor provided sufficient attention because they placed too much confidence on sharing awareness of the entity issues and audit procedures to be performed among their engagement team.
- Engagement partner did not provide sufficient direction and supervision to less experienced

engagements and no assembly and timely archival of work papers.

As can be seen below, since the last report, there has been significant improvement with respect to compliance with the requirements of SA 230 which is a good indication and is reflective of overall improvement in implementation at the level of Audit firms reviewed during the period.

### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



audit practitioners despite they were in majority due to frequent turnover.

- Engagement partner did not conduct sufficient review of audit documentation.
- Engagement did not have proper EQCR in place.
- Audit firm did not have in place education/ training system with due consideration of experience of audit practitioners, scope of their audit engagements, newly adopted audit standards and other relevant factors.

### Key Takeaways for Audit Firms (SA- 230)

- ✓ Prepare audit documentation on a timely basis duly recording who performed and reviewed audit work and the date/s of completion and review.
- ✓ Prepare audit documentation to understand:
  - nature, timing and extent of audit procedures performed to comply with SAs and applicable legal and regulatory requirements;
  - results of audit procedures performed and audit evidence obtained; and
  - significant matters arising during the audit, conclusions reached and significant professional judgments made.
- ✓ Document discussions of significant matters with management and those charged with governance.
- ✓ Put in place EQCR system and ensure compliance.
- ✓ Put in place education/training system with due consideration of experience of audit practitioners, scope of their audit engagements, newly adopted audit standards and other relevant factors.
- ✓ Comply with policies and procedures for assembly and archival of work papers within stipulated time.

### **Auditor's Responsibilities relating to fraud in an audit of financial statements (SA- 240)**

Para 10 of SA 240 provides 'the objective of the auditor are: (a) to identify and assess the risk of material misstatements in the financial statements due to fraud; (b) to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and (c) to respond appropriately to identified or suspected fraud.'

Findings in this significant segment included lack of awareness of audit firm in showing professional skepticism throughout the audit period. The documentation of understanding of the entity was also found to be lacking; based on the documentation available, it was difficult to conclude whether fraud risk was considered during the audit of the financial statements. In certain instances, work related to consideration of fraud risk in an audit involved filling-up of checklists.

#### **Key Takeaways for Audit Firms (SA- 240)**

- ✓ Maintain professional skepticism throughout the audit period.
- ✓ Make inquiries of management and others within the entity and not merely with the MD and CFO. Inquiry should also be made with Chairman, Audit Committee, Board members, Internal audit team, Key management personnel and others not generally associated with audit on a regular basis.
- ✓ Identify and sufficiently respond to significant risks such as revenue recognition, journal entries and related parties by adequately performing sufficient work in the areas identified.
- ✓ Review accounting estimates for biases and performing adequate work.
- ✓ Review policies frequently to determine if the materiality policies are still appropriate in terms of the requirements of SAs.

#### **Risk Assessment and Response to Assessed Risk (SA- 300, 315, 320, 330)**

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

#### **Examples of Root Cause(s)**

- Audit firm failed to establish overall audit strategy.
- Audit firm failed to include in the audit plan about the planned audit procedures including identification and assessment of risk of material misstatement that are required to be carried out so that the engagement complies with SAs.
- Audit firm failed to implement a suitable sampling methodology and document on file any calculations as proof thereof and that the extent of testing is an adequate response to the assessed risk levels.

- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.

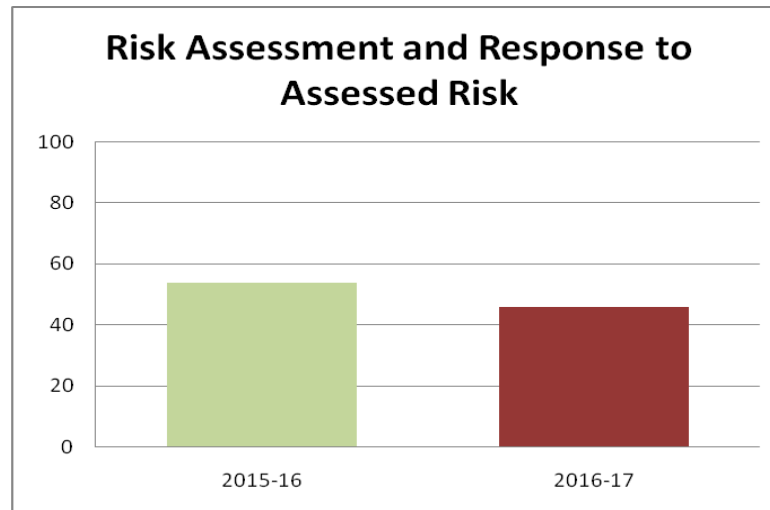
- Audit firm failed to test IT related controls, testing IT generated reports, changes to IT systems and have adequate IT personnel on engagement.
- Lack of appropriate audit tools, training and experienced staff as well as review.
- Audit firm failed to document design and effectiveness of controls and performing appropriate test of controls.

The major findings under this segment are:

- Failure of Audit Firm in adequately documenting the audit plan to provide evidence that the Audit firm has identified and assessed risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment.
- Failure in maintaining documentation of performance of risk assessment procedure.
- Memorandum / document detailing identification of risks of material misstatements, planned audit procedures i.e. their nature, timing and extent, strategy in terms of reliance of controls, approach to validate IT related controls, testing of IT generated reports was not explicit.
- Failure of firm in maintaining documentation to determine materiality level.
- Failure of audit firm to document whether changes had occurred since the previous audit that may have affected its relevance to the current audit.
- Documentation for understanding of control activities necessary to assess risk of material misstatement and design of further risk procedures responsive to assessed risk had not been maintained.
- Documentation had not been maintained by the Audit Firm for designing and performing tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls.
- Documentation and audit evidence for examining material journal entries and other adjustments had not been maintained by the Audit Firm.

As can be seen below, since the last report, there has been slight improvement with respect to compliance at the level of Audit firms reviewed during the period.

**Comparative % of findings in reviews conducted during 2015-16 and 2016-17:**



**Key Takeaways for Audit Firms (SA- 300, 315, 320, 330)**

- ✓ Perform risk assessment procedure to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels.
- ✓ Obtain understanding of the nature of the entity, its operations, its ownership and governance structures, the types of investments that the entity is making and plans to make, including investments in special-purpose entities.
- ✓ Obtain an understanding of internal control relevant to the audit.
- ✓ Design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.
- ✓ Include in the audit plan about the planned audit procedures including identification and assessment of risk of material misstatements and appropriate audit responses that are required to be carried out so that engagement complies with SAs.
- ✓ Test IT related controls, IT generated reports and have appropriate planned procedures including changes to IT systems and have appropriate IT personnel on engagement.
- ✓ Document the design and effectiveness of controls and performing appropriate test of controls to obtain sufficient appropriate audit evidence.



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

Audit evidence is all the information used by the auditor in arriving at the conclusion on which the audit opinion is based. In other words, it is necessary to support the auditor's opinion and report. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. Key findings in this area included:

- Failure of audit firm to maintain specific documentation to validate / test certain assumptions made by the actuary like discount rate, average life, attrition, average salary, average age, average past service cost etc. with the base data sent to the actuary for determining the gratuity liability.
- Process followed for selecting items for the purpose of designing test of control and test of details not documented.
- Failure to maintain control over external confirmation requests.
- Failure to perform alternate audit procedures in case of non-response to external confirmation requests.
- Failure to inquire as to reasons for management's refusal to allow the auditor to send confirmation request and failure to evaluate the implications of management's refusal on the auditor's assessment of risks of material misstatement.
- Failure of audit firm in testing of opening balances to verify whether the audited balances were brought forward to the next year.
- Lack of awareness of audit firm in maintaining documents to support analytical procedure performed.
- Sample selected purely on random basis and in such cases each sampling unit in the population did not have a chance of selection.
- Methodology for selection of sample had not been documented.

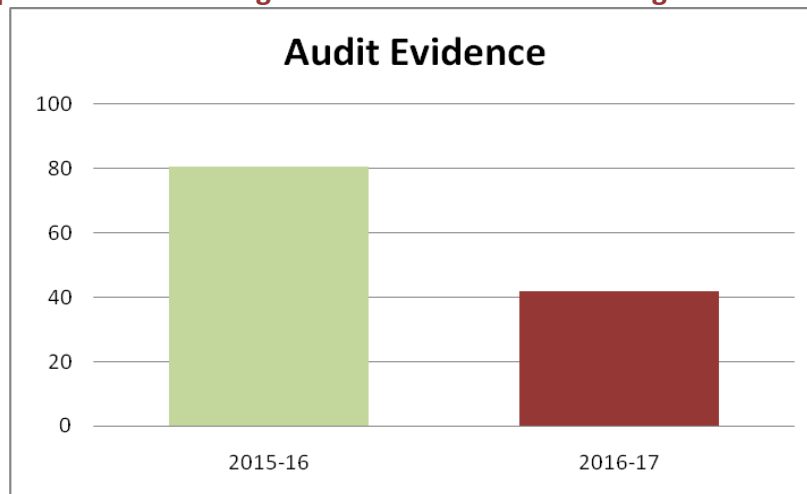
**Examples of Root Cause(s)**

- Engagement team identifies significant risks but completes audit procedures only by inquiry without obtaining sufficient appropriate audit evidence.
- Engagement team identifies inconsistencies and irregularities with other audit evidence but does not determine the necessity of additional audit procedures.
- Even though the assessed risk of material misstatement is high, the engagement team performs the tests of details only by obtaining the entity's internal vouchers and other less reliable audit evidence without assessing the quality of the obtained audit evidence.
- During sampling among the audit procedures in response to the assessed risk, the engagement team does not select samples from the appropriate selection range to reach a conclusion for the entire population.
- Engagement team did not perform audit procedures to comprehensively understand the related parties.
- Engagement team did not perform procedures on the management's methods and data used for accounting estimates.
- Engagement team did not assess the management's bias.

- Auditor failed to obtain sufficient appropriate audit evidence about the assertion made by the management in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction. Also insufficient audit procedure in identifying and testing of related parties and their transactions.
- Management Written Representation did not contain the appropriate representation accepting the responsibility regarding design, implementation and maintenance of internal control to prevent and detect fraud. Also it did not contain the appropriate representation that they believe significant assumptions used in making accounting estimates are reasonable.

As can be seen below, since the last report, there has been significant improvement with respect to compliance with the requirements of relevant SAs which is a good indication and is reflective of overall improvement in implementation at the level of Audit firms reviewed during the period.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



#### Key Takeaways for Audit Firms (SA- 500, 505, 510, 520, 530, 540, 550, 570, 580)

- ✓ Design and perform audit procedures that are appropriate in the circumstances for obtaining sufficient appropriate audit evidence.
- ✓ Maintain control over external confirmation requests while using external confirmation procedures.
- ✓ Select items for the sample in such a way that each sampling unit in the population has a chance of selection.
- ✓ Perform audit procedures to comprehensively understand related parties.
- ✓ Appropriately identify and assess risks of material misstatement in accounting estimates, and perform appropriate audit procedures to address such risks.
- ✓ Perform analytical procedures during planning stage, audit performance and when forming overall conclusion as to whether financial statements are consistent with auditor's understanding of entity.
- ✓ Maintain documentation for the work performed.

### Audit Conclusions and Reporting (SA 700, 705, 706)

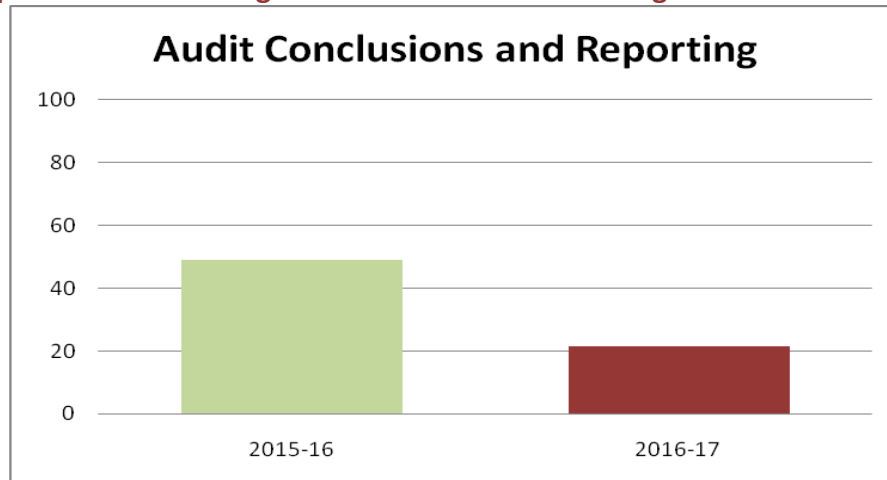
Para 6 of SA 700 provides that objectives of auditor are to: (a) form an opinion on financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and (b) express clearly that opinion through a written report that also describes the basis for the opinion.

#### Examples of Root Cause(s)

- Audit firm does not conclude the audit opinion at the end of the audit, based on audit evidence obtained and sometimes they have pressure to complete the audit on time.

Findings in this area included failure to describe appropriately the auditor's responsibility as described in SA 700; the name of the signing partner and his membership number was not mentioned in the various documents like Balance Sheet, Statement on P&L and all other certificates issued to the entity; the auditor had neither quantified the impact of qualifications as mentioned in the auditor's report nor provided the reasons for non-quantification. As can be seen below, since the last report, there has been significant improvement with respect to compliance with the requirements of relevant SAs which is reflective of overall improvement in implementation at the level of Audit firms reviewed during the period.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



#### Key Takeaways for Audit Firms (SA 700, 705, 706)

- ✓ Form an opinion on financial statements based on evaluation of conclusions drawn from audit evidence obtained; and express clearly that opinion through written report that also describes the basis for the opinion.
- ✓ Obtain reasonable assurance about whether financial statements as a whole are free from material misstatement, whether due to fraud or error.
- ✓ Modify opinion in auditor's report and conclude, based on audit evidence obtained, that the financial statements as a whole are not free from material misstatement. Have appropriate consultations within the Firm for any modifications to the audit report and document such consultations as part of work papers.
- ✓ Include an Emphasis of Matter paragraph in auditor's report to draw users' attention to matter presented or disclosed in financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding.
- ✓ Obtain management representation letter before audit report is issued.

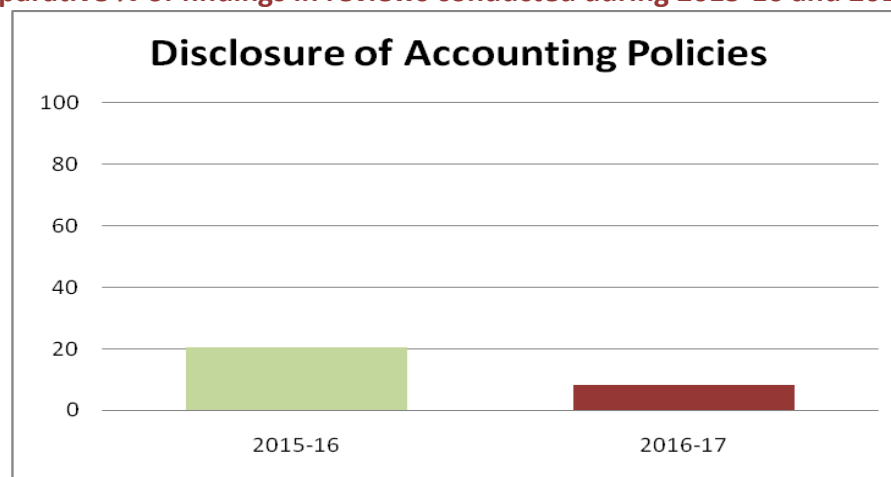
## Accounting Standards<sup>2</sup>

### Disclosure of Accounting Policies (AS-1)

Para 2 of AS 1 states ‘the view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated’.

Findings in this segment included failure to disclose all the significant accounting policies adopted in the preparation and presentation of financial statements.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



### Cash Flow Statements (AS-3)

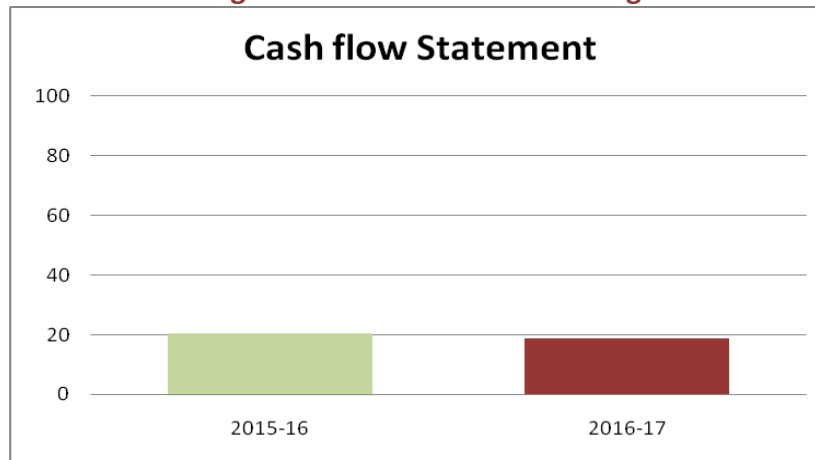
Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.

Findings in this area included failure to disclose correctly various cash flows arising from operating, investing and financing activities; failure to properly classify various items of cash flows in cash and cash equivalents; failure to disclose the components of cash and cash equivalents and present reconciliation of the amounts in cash flow statement with

<sup>2</sup> The various graphs included in this section represent the comparative number of findings under the respective categories for reviews completed during 2016-17 (upto June, 2017), (pertaining to the financial statements for the year ended from 31 March, 2014 to 31 March, 2015), viz-a-viz 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014).

equivalent items reported in the Balance Sheet; failure to disclose method of preparation in accounting policies followed.

### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



#### Depreciation Accounting (AS-6)

Depreciation has a significant effect in determining and presenting the financial position and results of operations of an enterprise. Different accounting policies for depreciation are adopted by different enterprises. Disclosure of accounting policies for depreciation followed by an enterprise is necessary to appreciate the view presented in the financial statements of the enterprise.

Findings in this area included failure to state that depreciation was charged on pro-rata basis on addition/deletion; method of charging depreciation had not been disclosed in the policy.

#### Accounting for Investments (AS-13)

Findings in this area included current investments were stated to be at the lower of cost or “net realizable value” instead of “fair value”; failure to make any provision for the other than temporary diminution in the value of long term investments in subsidiaries.

#### Employee Benefits (AS-15)

Findings in this area included failure to disclose the amount recognized as an expense for defined contribution plans; failure to disclose information that enables the users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans.

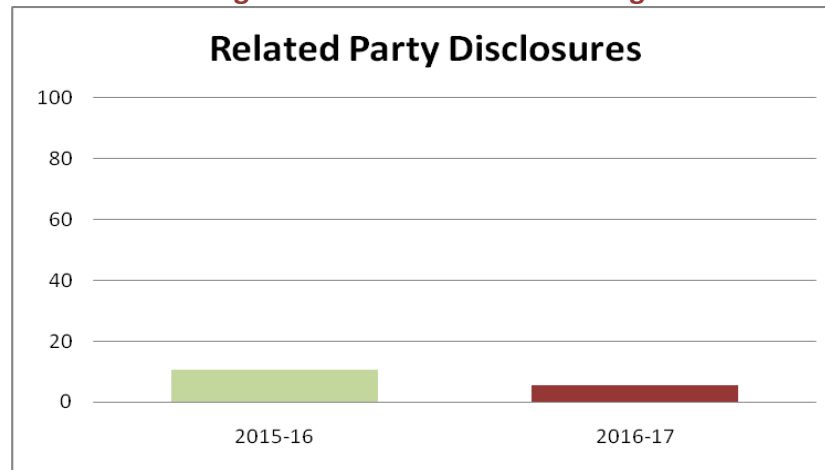
#### Related Party Disclosures (AS-18)

Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm’s-length basis between independent parties. However, that presumption may not be valid when related party relationships exist because related parties may enter into transactions which unrelated parties would not enter into. Also, transactions between related parties may not be

effected at the same terms and conditions as between unrelated parties. Sometimes, no price is charged in related party transactions, for example, free provision of management services and the extension of free credit on a debt. In view of the aforesaid, the resulting accounting measures may not represent what they usually would be expected to represent. Thus, a related party relationship could have an effect on the financial position and operating results of the reporting enterprise.

Findings in this area included failure to disclose related party transaction; failure to disclose volume of transactions; names of those for which relationships existed for a part of the year not mentioned but transactions entered into have been given.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



#### Earnings Per Share (AS-20)

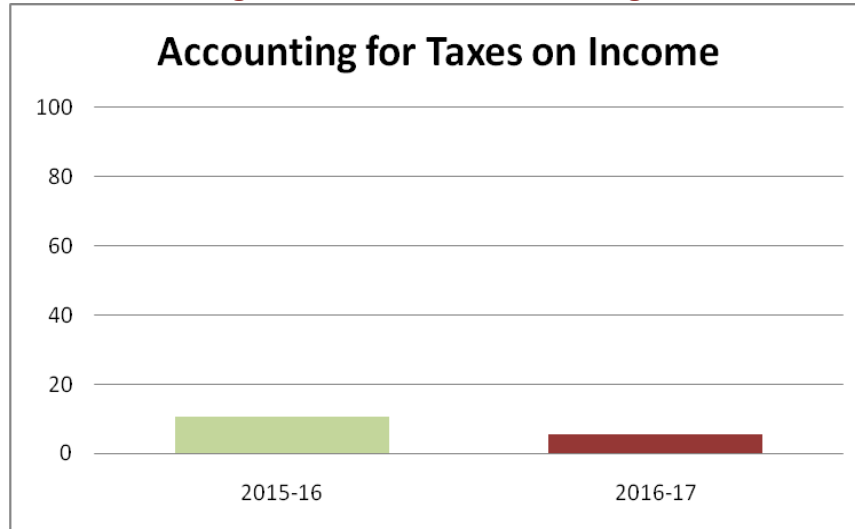
Findings in this area included failure to disclose numerator and the denominator used in order to arrive at the diluted earnings per share; failure to disclose reconciliation of amount used as numerator with the net profit for the period.

#### Accounting for Taxes on Income (AS-22)

Taxes on income is one of the significant items in the statement of profit and loss of an enterprise. In accordance with the matching concept, taxes on income are accrued in the same period as the revenue and expenses to which they relate. Matching of such taxes against revenue for a period poses special problems arising from the fact that in a number of cases, taxable income may be significantly different from the accounting income. This divergence between taxable income and accounting income arises due to two main reasons. Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income.

Findings in this area included failure to disclose the breakup of Deferred Tax Assets (Net); failure to test and review the status of availability of virtual certainty of sufficient taxable income being available against the deferred tax assets while continuing with the Deferred Tax Asset already existing in the accounts.

**Comparative % of findings in reviews conducted during 2015-16 and 2016-17:**



**Intangible Assets (AS-26)**

Findings in this area included failure to disclose in the accounting policy the amortization period; failure to capitalize as an intangible asset.

**Provisions, Contingent Liabilities and Contingent Assets (AS-29)**

Findings in this segment included failure to make appropriate provision for accrued liabilities; failure in disclosure of contingent liabilities for disputed tax liabilities; Further, in respect of provision for liabilities, timing of outflow, uncertainties about outflows and expected reimbursement have also not been disclosed; also in respect of contingent liabilities an indication of the uncertainties relating to any outflow and the possibility of any reimbursement have not been disclosed.

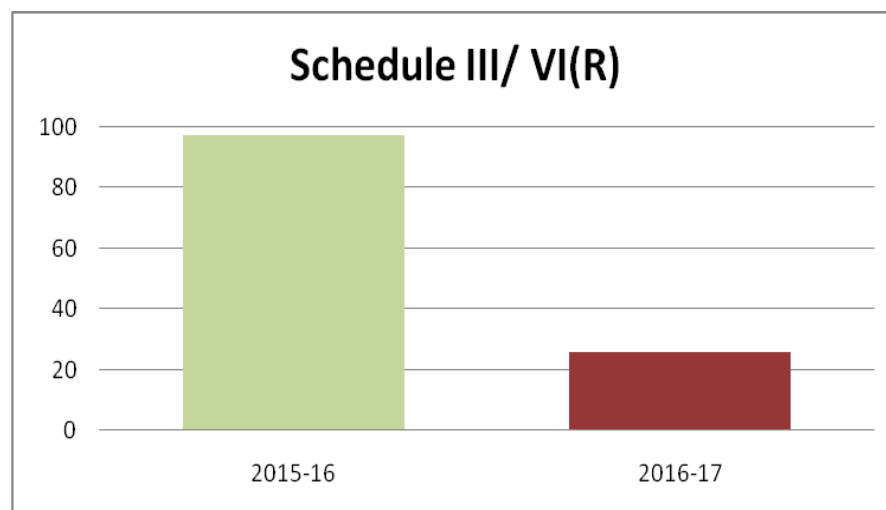
### Other Relevant Laws and Regulations<sup>3</sup>

#### Schedule III of the Companies Act 2013/Revised Schedule VI of the Companies Act, 1956

Section 129(1) of the Companies Act 2013 (former Section 211(1) of the Companies Act, 1956) requires all companies to draw up the balance sheet and statement of profit and loss as per the format set out in Schedule III (earlier Schedule VI). As per the notification of Ministry of Corporate Affairs (MCA) dated 26<sup>th</sup> March 2014, financial statements for all companies (except banking and insurance companies) have to be prepared using the format given by Schedule III for financial years commencing on or after 1<sup>st</sup> April 2014.

Cases of deficiencies in regard to the compliance with schedule III/ revised schedule VI have been noted, relating to the disclosure and classification by the companies in their financial statements. Though these deficiencies did not result in any material misstatement and did not have financial impact on the results of the company but adherence should be made to the Schedule III/ Revised Schedule VI for preparing the financial statements.

#### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:



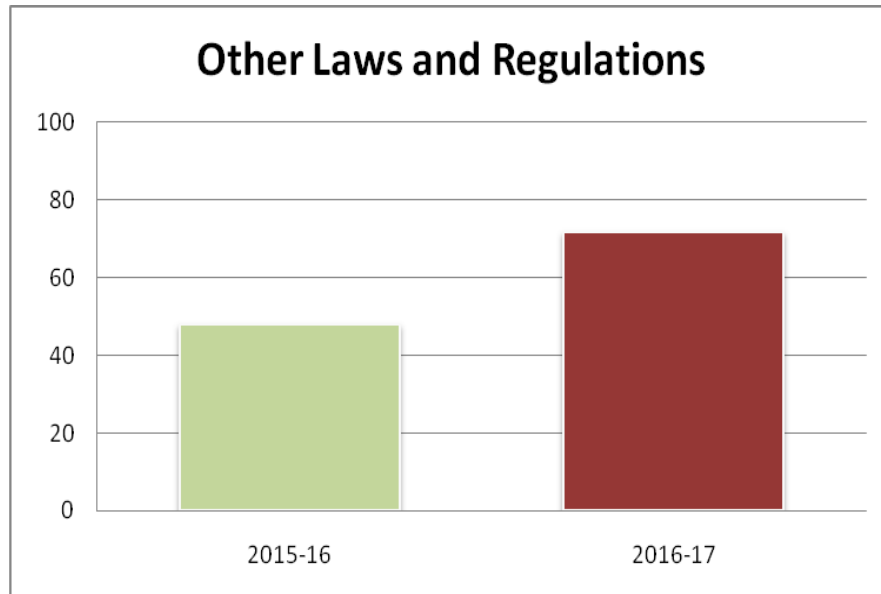
<sup>3</sup> The graph included in this section represents the comparative number of findings under the respective categories for reviews completed during 2016-17 (upto June, 2017), (pertaining to the financial statements for the year ended from 31 March, 2014 to 31 March, 2015), viz-a-viz 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014).



### Other Laws and Regulations<sup>4</sup>

Findings in this area included failure to disclose and report appropriately under various clauses of CARO, 2016 (Earlier 2003); and in some cases failure to disclose requirements of SEBI (Mutual Funds) Regulations; failure to meet requirement of Clause 32 of Listing Agreement; failure to disclose the requirements of schedule III of Banking Regulation Act, 1949.

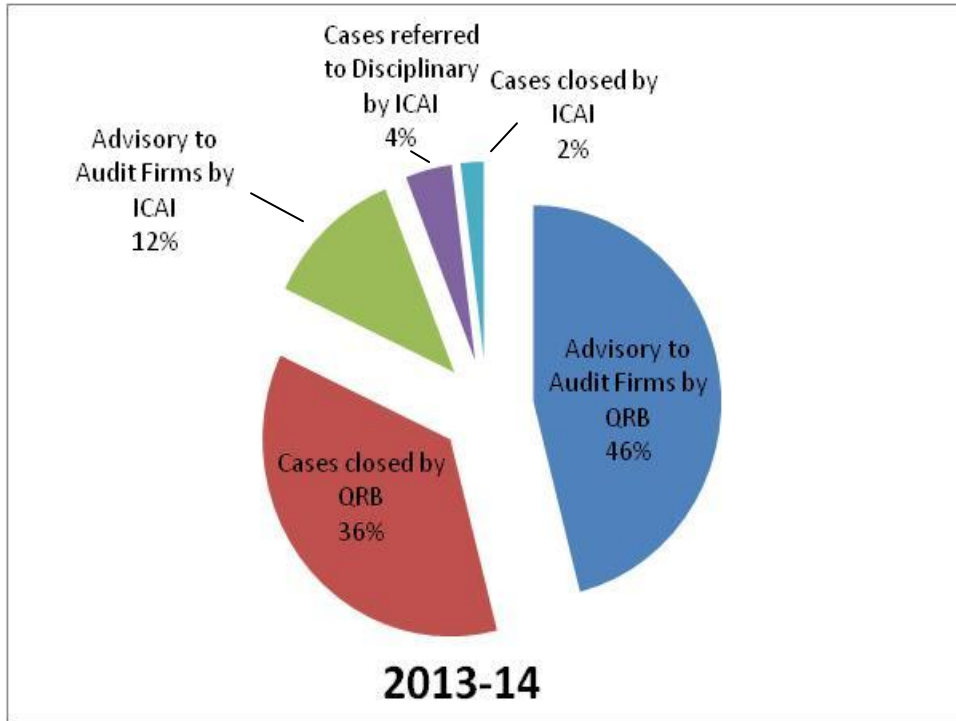
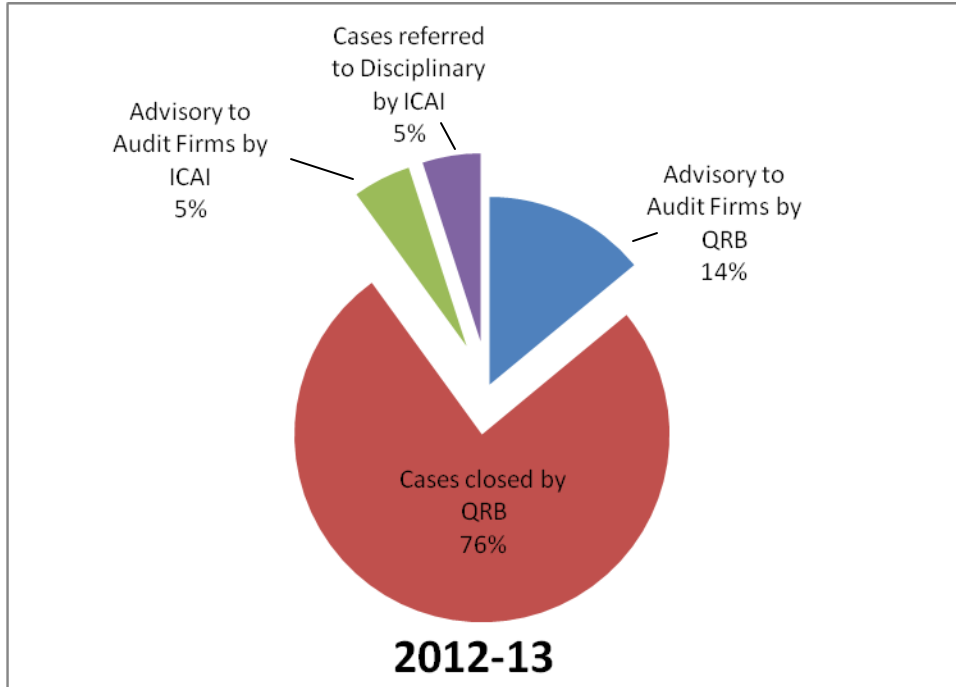
### Comparative % of findings in reviews conducted during 2015-16 and 2016-17:

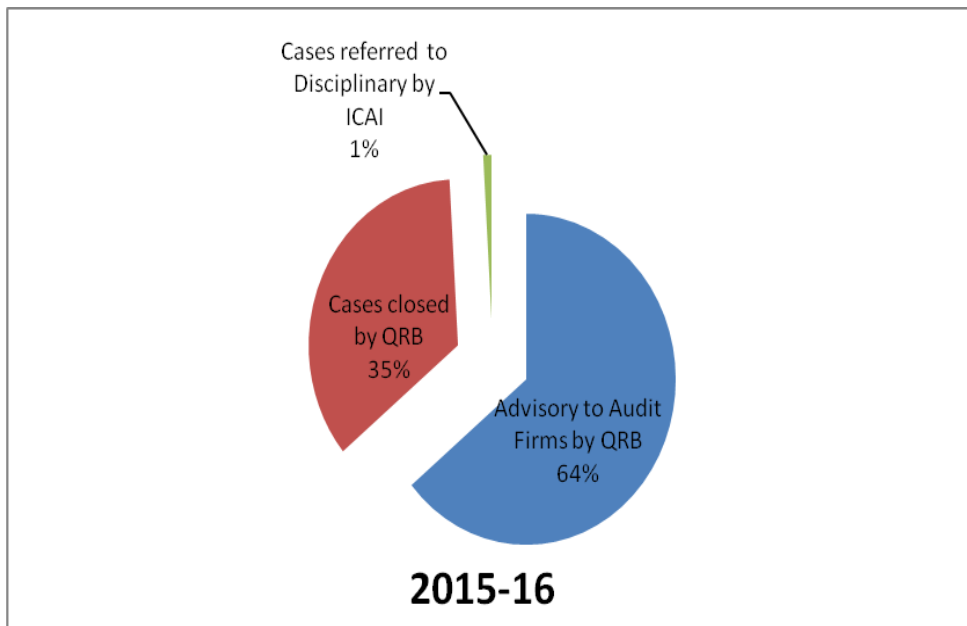
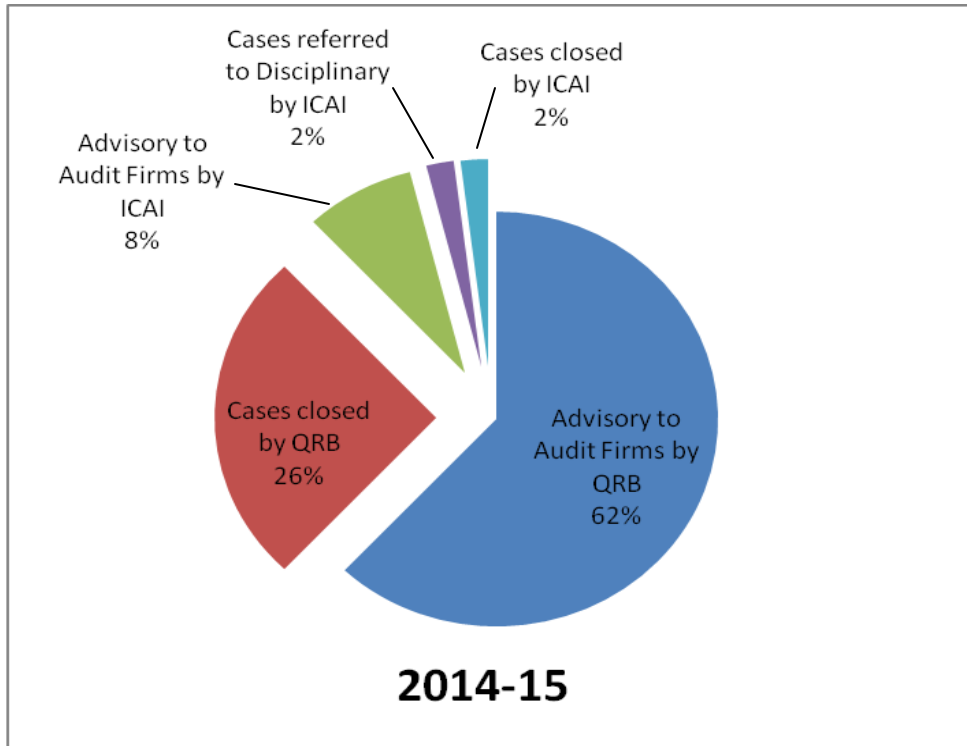


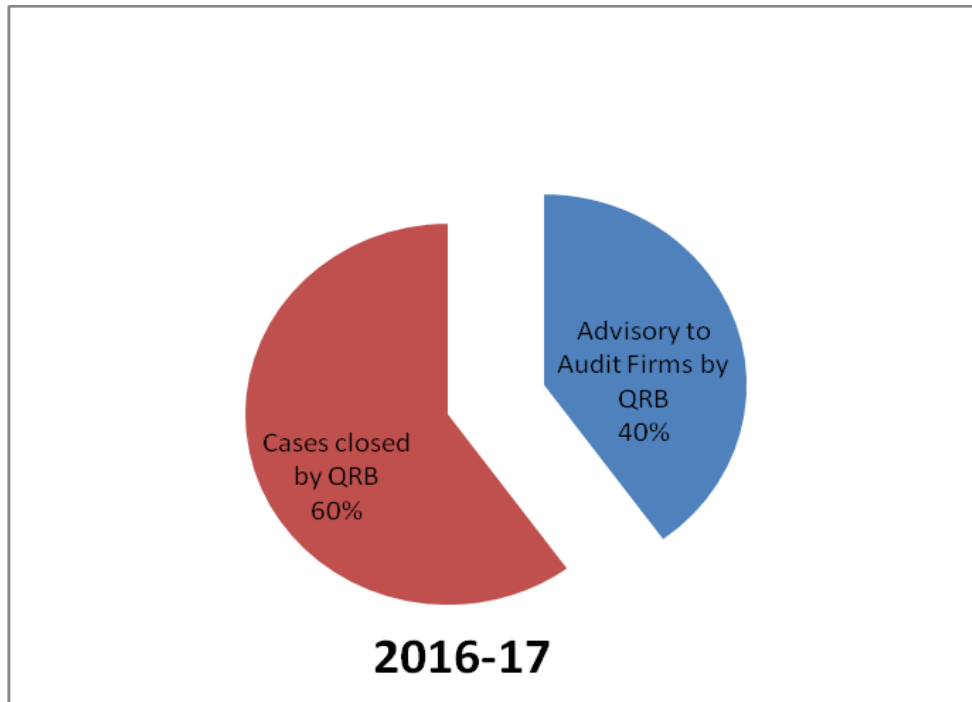
<sup>4</sup> The graph included in this section represents the comparative number of findings under the respective categories for reviews completed during 2016-17 (upto June, 2017), (pertaining to the financial statements for the year ended from 31 March, 2014 to 31 March, 2015), viz-a-viz 2015-16 (upto August, 2016), (pertaining to the financial statements for the years ended after 31 March, 2012 to 31 March, 2014).

**Key Indicators**

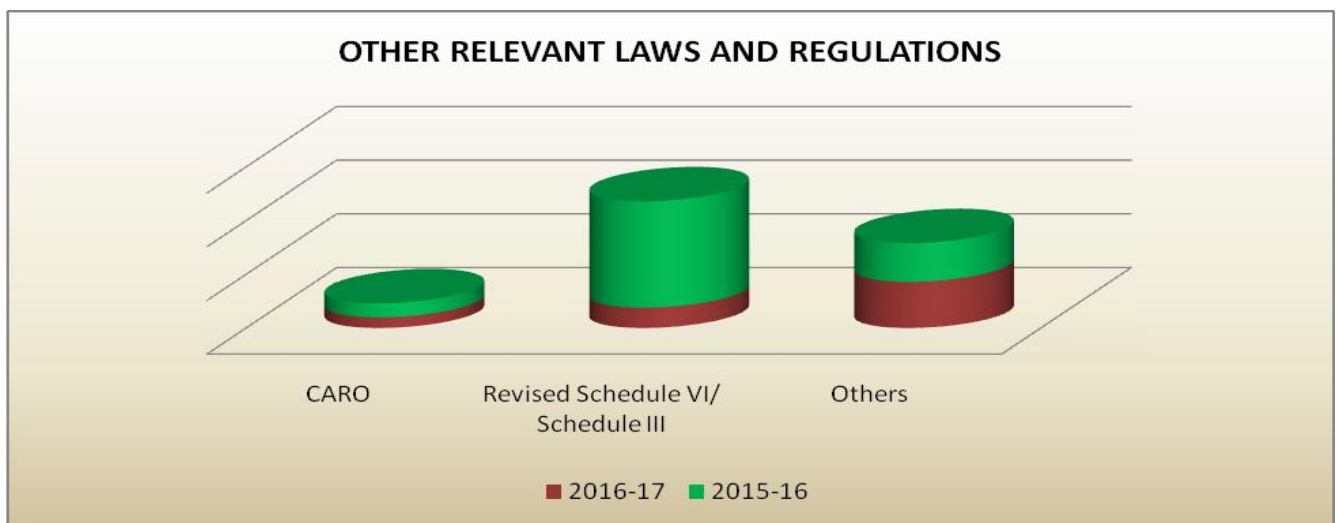
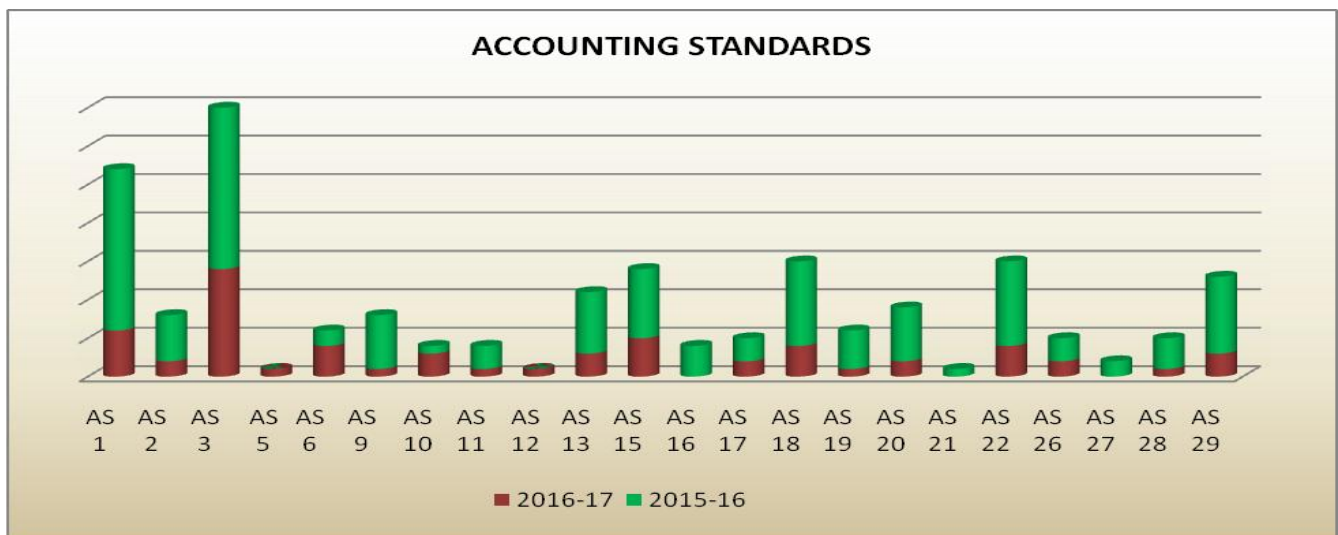
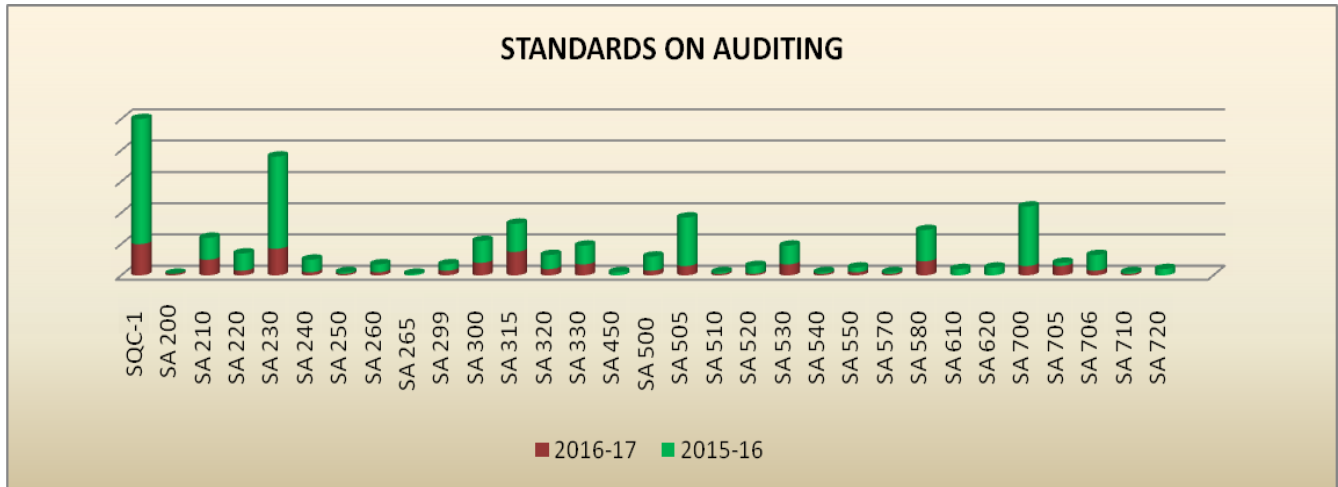
Yearly outcome of the reviews completed on the basis of number of review assignments:







**Comparative Graphical Presentation of Number of Observations on\*:**



\*Note: For details of titles of Standards on Auditing (SA) and Accounting Standards (AS), please refer Tables 2 & 3 at Pages 56 & 58 respectively.

## 1. Introduction

### 1.1 About the Quality Review Board (the 'Board')

1.1.1 Under Sec. 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government is empowered to constitute a Quality Review Board consisting of a Chairperson and ten other members. The Chairperson and members of the Board are appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. Five members of the Board are nominated by the Council of the Institute of Chartered Accountants of India (ICAI) and the Chairperson and other five members are nominated by the Central Government. The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by Sec. 28A of the Chartered Accountants Act, 1949, by Notification GSR. 448 (E) dated 28th June, 2007. The Central Government then re-constituted the Quality Review Board vide Notification No. GSR 38(E) dated 19th January, 2011 in the Gazette of India: Extraordinary as amended from time to time vide Notification Nos. GSR 684 (E) dated 14th September, 2011, GSR 441(E) dated 12th June, 2012, GSR 486 (E) dated 21st June, 2012, GSR 810 (E) dated 5th November, 2012, GSR 131 (E) dated 28th February, 2014 published in the Gazette of India Extraordinary Part II, Section 3, Sub-section (i) dated March 1, 2014, Notification No. GSR 569 (E) dated 7<sup>th</sup> August, 2014, Notification No. GSR 837(E) dated 24<sup>th</sup> November, 2014, Notification No. GSR 563(E) dated 20<sup>th</sup> July, 2015, Notification No. GSR 744(E) dated 30<sup>th</sup> September, 2015 and Notification No. GSR 681(E) dated 12<sup>th</sup> July, 2016 & Notification No. GSR 376(E) dated 17<sup>th</sup> April, 2017.

1.1.2 Six members of the Board including Chairperson are nominated by the Central Government while five members are nominated by the Council of the Institute of Chartered Accountants of India. The composition of the Central Government nominees on the Board incorporates senior representatives from the Ministry of Corporate Affairs, Government of India, Comptroller & Auditor General of India, Securities & Exchange Board of India (securities market regulator of India) and Ministry of Law & Justice, Government of India. The other two Government nominees on the Board are the Chairperson, Quality Review Board who is a retired Indian Revenue Service Officer of the Government of India and formerly Member, Central Board of Direct Taxes, Ministry of Finance, Government of India, and the other one a practicing Advocate. Majority of members are independent of the profession.

## 1.2 Composition of the Board

1.2.1 The current composition of the Board consists of the following:-

### Nominees of the Central Government

1. Dr. (Mrs.) Parvinder Sohi Behuria, IRS (Retd.), Gurugram – Chairperson (wef 20.7.2015)
2. Mr. Rajat Sethi, Advocate, Mumbai – Member (wef 12.07.2016)
3. Mr. K. V. R. Murty, Joint Secretary, Ministry of Corporate Affairs, New Delhi – Member (wef 12.07.2016)
4. Mr. Jayanta Jash, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member (wef 12.07.2016)
5. Mr. Vithayathil Kurian, Director General (Com.)-I, Office of the Comptroller & Auditor General of India, New Delhi – Member (wef 12.07.2016)
6. Mr. Mahendra Khandelwal, Additional Government Advocate, Ministry of Law and Justice, Department of Legal Affairs, New Delhi – Member (wef 12.07.2016)

### Nominees of the Council of the ICAI

7. CA. Nilesh S. Vikamsey, President, ICAI, Mumbai– Member (wef 17.04.2017)
8. CA. Dhinal A. Shah, Ahmedabad– Member (wef 17.04.2017)
9. CA. M. P. Vijay Kumar, Chennai – Member (wef 17.04.2017)
10. CA. (Dr.) Debashis Mitra, Guwahati – Member (wef 17.04.2017)
11. CA. Sanjay Vasudeva, New Delhi – Member (wef 17.04.2017)

### Special Invitees

- Mr. Chandra Wadhwa, Council Member, ICAI, New Delhi – Special invitee (nominated by the Central Government wef 10.06.2016)
- Mr. V. Sagar, Secretary, ICAI, New Delhi – Special invitee

### Secretary to the Board

- CA. Mohit Baijal

### 1.3 Functions of the Board

1.3.1 As per Sec. 28B of the Chartered Accountants Act, 1949, the Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

### 1.4 Rules of the Board

1.4.1 Government of India has, in exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949 (38 of 1949), made 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006' issued vide Notification No. GSR 735(E) dated 27th November, 2006 in the Gazette of India: Extraordinary as amended from time to time vide Notification Nos. GSR 152 (E) dated 5<sup>th</sup> March, 2009, GSR 8 (E) dated 10<sup>th</sup> January, 2012, GSR 32 (E) dated 16<sup>th</sup> January, 2014 and GSR 148 (E) dated 8<sup>th</sup> February, 2016.

1.4.2 Rule 6 of Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 specifies that the Board may, in discharge of its functions: –

- (a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- (b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;
- (c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;



Provided that where the Board does not receive the information called for by it from any Member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board.

Provided further that where the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (1 of 1956) (*now, Companies Act, 2013*), the Board may request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

(d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;

(e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

## 1.5 Procedure for Quality Review of Audit Services of Audit Firms

1.5.1 In exercise of the aforesaid Rule 6, the Quality Review Board has issued the detailed Procedure for Quality Review of Audit Services of Audit Firms (the 'Procedure') specifying the scope of review, manner of review, criteria for selection of audit firms, review team composition, reporting, confidentiality and other aspects. The Procedure can be easily accessed at the website of the QRB at <http://www.qrbca.in>. In terms of this Procedure issued by the Board, the Board has initiated the system of independent review of quality of audit services of audit firms in India. A copy of the Procedure is enclosed at **Appendix C**.

## 1.6 Meetings Held

1.6.1 The details of various meetings held during the financial year 2016-17 of the Quality Review Board and the Quality Review Group/ various Sub-Committees constituted by the Board are enclosed at **Appendix B**.

## 2. Review

### 2.1 Introduction

2.1.1 Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted a Quality Review Board (the 'Board') to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:-

- a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- b) to review the quality of services provided by the members of the Institute including audit services; and
- c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2.1.2 In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review.

2.1.3 In terms of the aforesaid Rule 6, the Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure'). As per the aforesaid Procedure, Quality Review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory auditors; and (b) the quality control framework adopted by the Statutory auditors/ Audit firms in conducting audit.

2.1.4 In accordance with this Procedure, the Board has initiated a system of review of statutory audit services of the audit firms auditing accounts of top listed and other public interest entities in India pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers.

## 2.2 Empanelment of Technical Reviewers

2.2.1 With a view to further augment the number of Technical Reviewers empanelled with the Board, the Board decided the following criteria for empanelment of Technical Reviewers with the Board:-

- You should have minimum fifteen years of post qualification experience as a chartered accountant and be currently active in the practice of accounting and auditing;
- You should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years; Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies;
- You should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.
- You should not currently be a Member of the QRB Board or ICAI's Central Council/Regional Council/Branch level Management Committee.

2.2.2 The Board also decided that a total of 100 Technical Reviewers, as recommended by the Sub-Committee-I, may act as Technical Reviewers with the Quality Review Board for the block period of financial years 2017-18 to 2019-20 subject to a) ICAI verification on an yearly basis of the details of such Chartered Accountants with regard to any disciplinary action/ proceeding taken or pending against them or their firms or any other partner of their firms during last 3 financial years and/or thereafter; b) background check from the ICAI about their general conduct/standing; and c) evaluation in terms of their quality.

**2.2.3 Based upon the recommendations made by the Sub-Committee-I, the Board empanelled 100 Chartered Accountants as Technical Reviewers with the Quality Review Board for the block period of financial years 2017-18 to 2019-20. Their profile in terms of experience and age is as below:-**

AGE OF TRs (YEARS)	NUMBER OF TRs
39-50	24
51-60	41
61-70	30
71-80	5
<b>TOTAL</b>	<b>100</b>

EXPERIENCE OF TRs (YEARS)	NUMBER OF TRs
15-25	33
More than 25-35	42
More than 35-45	22
More than 45	3
<b>TOTAL</b>	<b>100</b>

### **2.3 Industry Specific Experts for associating with the Board**

2.3.1 On-line applications were also invited from industry specific experts for associating with the Quality Review Board and an announcement was also hosted at the website of Quality Review Board (<http://www.qrbca.in>).

2.3.2 The Board also discussed on the possible role of the industry specific experts in the entire review exercise. After detailed deliberations in the matter, the Board decided to initiate the process for engaging industry experts on a pilot basis for assisting in the reviews of audit quality of insurance entities.

## 2.4 Selection of Audit firms for Quality Review

2.4.1 Para 8 of the 'Procedure for Quality Review of Audit Services of Audit Firms' issued by the Board (hereinafter 'Procedure') provides the following criteria for selection of audit firms:

"8. Quality Review may be introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be on the basis of following criteria:

(a) Criteria based on companies whose accounts have been audited:

- i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, insurance companies, NBFCs, unlisted Public Sector Undertakings, asset management companies may be selected on the basis of one or more of the following:-
  - random selection;
  - on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
  - regulatory concerns pointing towards stakeholder risks;
  - reported fraud or likelihood of fraud;
  - major non-compliances with provisions relating to disclosures under relevant statutes.
- ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either suo moto or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.
- iii. The Board may select any enterprise for suo moto review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for suo moto reviews may, however, be done using

methods such as random sampling, selection of particular class or classes of enterprises/audit firms.

- iv. The Secretariat should place the details of the enterprises, selected for review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'.

(b) Criteria based on Audit Firms auditing the accounts:

Selection of audit firms should also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose.”

**Selection of Audit firms for Quality Reviews initiated during the F.Y. 2016-17**

2.4.2 Upon consideration of the recommendation made by the Sub-Committee-I of QRB for initiating Quality Reviews during the financial year 2016-17, and in line with the international best practices, the Board decided to adopt risk based approach for selection of audit engagements for initiating audit quality reviews during the F.Y. 2016-17. Accordingly, various entities were selected as per following criteria:-

Category	Basis of selection of Companies/Entities	Weightage
A	BSE 200/NSE 200 indices: Out of BSE 200/NSE 200 indices, selecting companies not yet reviewed by the QRB	67%
B	Insurance Companies: Top life insurance companies based upon the Assets under Management.	21%
	AMCs: top Asset Management Companies based upon Average Assets under Management	
	Top Companies which came out with IPOs during last three years with issue amount of Rs. 500 Crores and above	
	Audit Firms having 2 or more NSE listed Statutory Audit assignments during FY 2014-15 and not yet selected for review by QRB	
C	Unlisted Banks: Top unlisted banks excluding cooperative banks, gramin banks & foreign banks selected based upon their	12%

	advances	
	Unlisted PSUs with Initial Public Offers in pipeline selected randomly	

2.4.3 It was further decided that:

- The statutory auditors for the year ending on 31.3.2015 or the year 2014, as the case may be, in respect of the companies/entities selected as per above, may be selected for their Quality Review.
- Generally, maximum of five audit engagements in respect of a particular audit firm may be selected for review during the year. However, in certain cases, more than five audit engagements of an audit firm may also be selected for review on case to case basis. Further, in the absence of adverse observations noted by the Board in the past, generally, not more than one audit file of an engagement partner in a firm may be selected in one particular year. However, in certain cases, more than one audit file of an engagement partner in a firm may also be selected by the Board on case to case basis.
- In case of a joint central statutory audit, normally, each of the joint statutory auditors may be reviewed by different Reviewers.

**2.4.4 Pursuant to the above, during the financial year 2016-17, a total of 105 Quality Review (QR) assignments were offered to the Technical Reviewers as per the decision of the Board for performing Quality Review of the Statutory Audits conducted by the audit firms auditing accounts of top listed and other public interest entities in India for the financial year 2014-15 or the year 2014, as the case may be, of the 88 Companies/ entities selected by the Board.** The Board assigned the Quality review work, so selected, to the respective Technical Reviewers empanelled with the Board as per recommendation of the Sub-Committee-I.

## 2.5 Quality Review Process

2.5.1 In terms of the Procedure issued by the Board, the quality review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. The review would involve assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting the audit.

2.5.2 As per Para 9 to 14 of the Procedure issued by the Board which describe the constitution and functioning of the Review Groups, the Board may constitute one or more Quality Review Groups (hereinafter referred to as Review Groups) to conduct preliminary reviews of the general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, in consultation with the Board. There could be two categories of the Review Groups:

- (a) Industry Specific; and
- (b) Generic.

Industry Specific Review Groups may be constituted for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.

Each of the Review Group would be assisted by Technical Reviewer(s), who may be an outsourced service provider. The job of the Technical Reviewer(s) would be to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the auditors/ audit firms in conducting audit.

The report, so prepared by the Technical Reviewer, may be considered at the meetings of the Review Group. The Review Group may also consult the Board on any issue, on which the Group feels that the guidance of the Board is necessary.

The Review Group may complete the review of cases referred to it and submit its report on the same to the Board within the specified period of time. The Board may, however, extend this time limit for submission of reports by the Review Group.

The report of the Review Group shall expressly state the following:

- Particulars of the enterprise;
- A detailed description of the non-compliance with the matters stated in the Terms of Reference, if any;



- A detailed description of the evidences that support the non-compliance; and
- Review Group's recommendations about the actions that are required to be taken in a particular case.

2.5.3 As per Para 16 of the Procedure, the Technical Reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report.

2.5.4 As per Para 18 of the Procedure, the Technical Reviewer, based upon the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A Reviewer may qualify the report due to one or more of the following:-

- non-compliance with technical standards;
- non-compliance with relevant laws and regulations;
- quality control system design deficiency;
- non-compliance with quality control policies and procedures; or
- non-existence of adequate training programmes for staff.

2.5.5 As per Para 19 of the Procedure, following are the basic elements of the Reviewer's Report. The report should contain:-

- (a) Elements relating to audit quality of companies:-
  - i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
  - ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.
  - iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.
- (b) Elements relating to quality control framework adopted by the audit firm in conducting audit:-
  - i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.
  - ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.

- iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.
- iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

2.5.6 As per Procedure issued by the Board, in addition to compliance with the statutory provisions and technical standards, the following broad checklist has been specified for Quality Reviews:-

1. Whether the company has prepared and presented the financial statements in the format relevant to it?
2. Examine the accounting policies of the enterprise.
  - Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI.
  - Whether all significant accounting policies that should have been disclosed are disclosed.
  - Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
3. Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards have been made.
4. Where the audit report is qualified:
  - Whether the qualifications have been made in a clear and unambiguous manner;
  - Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same;
  - Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements.
5. Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.

6. Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.
7. Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
8. Does auditor monitor compliance with policies and procedures relating to independence?
9. Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?
10. Does auditor/audit firm has established procedures for record retention, including security aspects?
11. Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

2.5.7 In accordance with the Procedure as aforesaid, the Board constituted a Quality Review Group (QRG) consisting of some of the members of the Board comprising both nominees of the Central Government and the ICAI. The QRG is headed by the nominee of the office of the Comptroller & Auditor General of India (C&AG) on the Board and consists of majority of non-practioners. The QRG considers the reports of the Technical Reviewers and makes its recommendations to the Board.

2.5.8 The recommendations of the Quality Review Group are then considered by the Quality Review Board.

## 2.6 Manner of conducting Quality Reviews

2.6.1 In respect of the various quality review assignments initiated by the Board in terms of the Procedure issued by the Board, the Technical Reviewers, empanelled with the Board, were assigned the work of conducting the quality review of the selected Statutory auditor/audit firm. The scope & objective of the quality reviews conducted by the Technical Reviewers is as under:-

- a) The Technical Reviewers had to examine whether the Statutory Auditor has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards.
- b) The Technical Reviewers had to examine whether the Statutory Auditor has ensured compliance with the relevant laws and regulations.
- c) The Technical Reviewers had to examine whether the Statutory Auditor/Audit firm has implemented a system of quality control with reference to the applicable quality control standards.
- d) The Technical Reviewers had to examine whether the Statutory Auditor has considered SA 240, "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by The Institute of Chartered Accountants of India (ICAI).
- e) The Technical Reviewers had to examine whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the company/entity audited by the Statutory Auditor/Audit firm.
- f) The Technical Reviewers might, within the scope of review, go beyond the issues covered in the Quality Review Program General Questionnaire recommended by the Board.

However, it was further clarified that statutory audit of standalone financial statements as well as consolidated financial statements reported upon by the statutory auditor, if any, in respect of the company/entity selected shall be included in the scope of review.

2.6.2 The approach to the above stated quality review was as per the approach set-out in the aforesaid Procedure issued by the Board. In addition, they were required to:

- a) themselves make on-site visit to the Statutory Auditor/Audit firm for conducting the review and reviewing the audit working papers as defined under the relevant standards laid down by the ICAI. The Technical Reviewers could have access to or take abstracts of the records and documents maintained by the audit firm in relation to the review. However, in order to maintain confidentiality, the Technical Reviewers were asked not

- to make any copies/extracts of the audit firm's Clients' file or records examined by them while conducting Review, as a part of their working papers;
- b) furnish an undertaking that they shall not outsource/sub-contract this assignment to any other person;
  - c) follow the guidelines issued by the Quality Review Board from time to time including (i) providing their detailed comments giving proper justification and explanation in respect of the various matters required to be commented upon by them in the Annexures to be enclosed alongwith their final report and (ii) refer industry specific Technical Guide, if any, brought out by the ICAI while completing their assignment; and
  - d) follow the approach set out in the Peer Review Manual issued by the ICAI for guidance in respect of any other matters.

2.6.3 While assigning the quality review work to the respective Technical Reviewers, in order to ensure independence and avoid conflict of interest, in most of these cases, as far as possible, the Technical Reviewer hailing from a different city/region was selected than the city/region of H.O. of the Audit firm. Also, the following eligibility conditions were specified for carrying out the specified quality review assignment to the Technical Reviewers who were required to submit a declaration of eligibility before starting the assignment with respect to the following conditions:-

- a) You should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.
- b) You or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have been the statutory auditor of the company, as specified, or have rendered any other services to the said company/entity during last three financial years and /or thereafter.
- c) You or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have had any association with the specified statutory audit firm, during the last three financial years and /or thereafter.
- d) You comply with all the eligibility conditions laid down for appointment as an auditor of a company u/s 141(3) of the Companies Act, 2013 which apply mutatis mutandis in respect of your review of the quality of statutory audit of the company/entity, as specified, so far as applicable.

2.6.4 It was also specified to the Technical Reviewers that for carrying out the quality review assignment, they could undertake a maximum of one on-site visit to the Statutory Audit firm which shall not extend beyond seven days or, in exceptional circumstances, such

other extended period, for specific reasons to be recorded in writing, with the prior approval of the Chairperson, Quality Review Board, which shall not, in any case, extend beyond fourteen days. For this purpose, they could also take the assistance of not more than three assistants who:

- a) shall be chartered accountant;
- b) do not attract any of the disqualifications prescribed under the Chartered Accountants Act, 1949;
- c) shall also have to sign the statement of confidentiality in a prescribed format;
- d) shall have no direct interface either with the audit firm under review or the Board;
- e) should have been working with them for atleast one year as a member/a partner in the CA firm with them;
- f) should not have been associated with the Statutory auditor/audit firm under review and the company/ entity selected during last three financial years and/or thereafter.

2.6.5 The Board considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Technical Reviewers were requested to ensure that all information, papers, materials, documents etc. relating to the company/audit firm, as selected and assigned to them, that they will gain during the course of assignment are kept in strict confidence. They were, accordingly, required to send duly signed statement of confidentiality including by each one of their assistants in a prescribed format. The Board also viewed that there should be no conflict of interest of all those connected with the entire review process. The Board decided that all persons involved with the entire review process including members of Board/Review Group, Technical Reviewers, his/her assistants and QRB secretariat shall maintain confidentiality of information obtained during reviews and also appropriately disclose to the Board, from time to time, their interests or that of the partners of their firm or their relatives, if any, in relation to statutory audit firm being reviewed by Board or entity concerned whose audit was selected for review.

2.6.6 During the period, the Board had also specified the format for the Final Report, and the Quality Review Program General Questionnaire containing questions concerning various aspects of an audit firm such as Quality control, ethical requirements & audit independence; leadership and responsibilities; assurance practices; client relationships & engagements; human resources, consultation; differences of opinion; engagement quality control review; engagement documentation; audit planning & risk assessment; materiality; audit sampling & other selective testing procedures; audit documentation; audit evidence; written representations; and Auditor's report. A copy of specified format for aforesaid final report,

Quality Review Program General Questionnaire alongwith the specified formats for the other Annexures to the Technical Reviewer's Final Report is enclosed at **Appendix D**.

2.6.7 The Technical Reviewers have been specified the aforesaid Questionnaire, who in turn are required to send it to the concerned audit firm for filling-up the Questionnaire which is required to be commented upon by the concerned Technical Reviewer based upon his examination of the matters.

2.6.8 In terms of Para 16 of the Procedure issued by the Board, Technical Reviewers were required to issue a preliminary report to the audit firm also sending its copy to the Board alongwith the response of the audit firm thereon. They were advised to complete the aforesaid quality review assignment and send their final report alongwith a copy of Annual report of the company/entity for the year, as specified, to the Board in the specified format, which may be based upon the guidelines as provided and, in terms of the requirements of, the Procedure issued by the Board on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment. In addition, they were also required to send a copy of their final report to the Statutory Auditor/Audit firm, requesting the Statutory Auditor/Audit firm to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewers were also required to submit within next 7 days a summary of their findings, and their final comments in the specified format.

2.6.9 The following table describes the various stages involved in the conduct of the quality review assignments:-

#### **Quality Review Stages**

1.	Selection of Audit Firm and Technical Reviewer to conduct Quality Review and sending Offer Letter of Engagement to the Technical Reviewer.
2.	Technical Reviewer to convey his acceptance of Letter of Engagement by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by the Technical Reviewer and his assistant/s, if any.
3.	Intimation to the Audit Firm about the proposed Quality Review and acceptance of the assignment by the Technical Reviewer. Also marking a copy of the intimation to the Technical Reviewer.
4.	Technical Reviewer to send the specified Quality Review Program General Questionnaire to the Audit firm for filling-up and call for additional information from the Audit Firm, if required.
5.	Technical Reviewer to carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent.

6.	Technical Reviewer to send the preliminary report to Audit firm.
7.	Audit firm to submit representation on the preliminary report to the Technical Reviewer.
8.	Technical Reviewer to submit final report alongwith a copy of Annual report of the company/entity for the year, as specified, to the Board in the specified format, on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment. In addition, they shall also send a copy of their final report to the Statutory Auditor/Audit firm, requesting the firm to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewer shall submit within next 7 days a summary of their findings, alongwith their final comments in the specified format.
9.	Quality Review Group to consider the report of the Technical Reviewer and responses of the Audit firm and make recommendations to Quality Review Board.
10.	Quality Review Board to consider the report of the Quality Review Group and decide.

2.6.10 As aforesaid, in accordance with the Procedure issued, the Board has initiated a system of review of statutory audit services of the audit firms auditing accounts of public interest entities in India pursuant to the aforesaid process comprising selection of the audit firms for review and engagement of Technical Reviewers. Since August 2012, the Quality Review Board has selected a total of 585 Quality Review assignments initiating reviews of statutory audits of 443 companies/entities, being top entities listed at prominent stock exchanges in India and other top public interest entities in India. These audits were performed by 300 Audit firms, registered with the ICAI. An update of the details of various Quality Reviews initiated by the Board are as follows:-

**Details of Quality Review assignments initiated by the QRB**

S. No.	Particulars	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	Total
1.	Total number of Statutory Audit assignments of Companies/entities selected for initiating Quality Reviews during the financial year	37	56	123	138	105	126	585
2.	Total number of Companies/entities involved in Quality Review	26	42	100	91	88	96	443



	assignments selected at 1 above							
3.	Total number of final reports of Technical Reviewers received in respect of the assignments at 1 above	37	56	123	132	71	06	425
4.	Out of the total number of final reports received at 3 above:							
a)	Total number of final reports accepted by the Quality Review Board	37	56	123	129	38	--	383
b)	Out of the balance final reports: -Under consideration of /yet to be considered by QRG				03	33	06	42
5.	Out of total number of final reports considered by the Quality Review Board as at 4 above: <sup>5</sup>							
a)	Total number of final reports taken on record and matter was considered as complete by so informing concerned Statutory audit firm/s	27	22	32	45	23	--	149
b)	Total number of cases recommended to the Council of the ICAI for consideration and appropriate action u/s 28B(a) of the Chartered Accountants Act, 1949	04	10	14	01	--	--	29
c)	Total number of cases where appropriate advisories were issued to concerned Audit firm/s u/s	05	26	77	83	15	--	206

<sup>5</sup> Total of the break-up of 5 may not match with the total number at 4 as certain cases appear in more than one of the sub-categories of 5.

	28B(c) of Chartered Accountants Act, 1949 under intimation to ICAI							
d)	Others	01	03	-	-	-	-	04
6.	Out of the total number of cases recommended to the Council of the ICAI for consideration and appropriate action u/s 28B(a) of the Chartered Accountants Act, 1949 as at 5 (b) above:							
a)	Total number of cases where Council decided to refer the matter to the DC	02	02	02	01	-	-	07
b)	Total number of cases where Council decided to issue appropriate advisory to the concerned Audit firm/s	02	07	10	-	-	-	19
c)	Total number of cases closed by the Council	-	01	02	-	-	-	03
d)	Total number of cases under consideration of the Council	-	-	-	-	-	-	-

2.6.11 An industry-wise list of number of companies/entities in respect of the various review assignments selected by the Board during the financial year 2016-17 is:-

**During the financial year 2016-17 :-**

S. No.	Name of Sector	Name of Industry	No. of Entities	No. of Public Sector Entities	No. of Private Sector Entities
1.	Asset Management Cos.		5	1	4
2.	Automobile		1		1
3.	Cement & Cement Products		2		2
4.	Chemicals		2		2

		Agrochemicals	2		2
5.	Construction/ Realty		2	1	1
6.	Consumer Goods	Food & food processing	2		2
		Electronics	3		3
		Other	6		6
7.	Electronics	Electric equipment	1	1	
8.	Financial Services	Banks	7	1	6
		Infrastructure Finance	1	1	
		Others	2		2
9.	Industrial Manufacturing	Industrial Manufacturing	5	1	4
10.	Infrastructure		1		1
11.	Insurance		5		5
12.	IT		5		5
13.	Iron & Steel		1	1	
14.	Media & Entertainment		2		2
15.	Mining & Extraction	Coal	1	1	
		Copper	1	1	
		Zinc	1		1
		Aluminum	1	1	
16.	NBFCs		2		2
17.	Oil & Gas	Distribution	1	1	

18.	Paper		1	1	
19.	Pharma		8		8
20.	Power	Generation & distribution	4		4
21.	Services	Marine Port	1		1
		Education	1		1
		Mail & Post	1		1
		Air	2		2
		Other	2	1	1
22.	Telecom		1		1
23.	Textiles		5	1	4
<b>TOTAL</b>			<b>88</b>	<b>14</b>	<b>74</b>

## 2.7 Findings Observed during the Quality Reviews conducted<sup>6 7</sup>

### Introduction

2.7.1 Quality reviews initiated by the QRB are designed to identify and address weaknesses and deficiencies related to how the audits were performed by the Audit firms. To achieve that goal, quality reviews included reviews of certain aspects of selected statutory audits performed by the firm and reviews of other matters related to the firm's quality control system. As stated in the Procedure issued by the Board, the review involved assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting the audit.

2.7.2 In the course of reviewing aspects of selected audits, a review may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, aspects in which an entity's financial statements do not present fairly the financial position or the results of operations in conformity with the applicable Generally Accepted Accounting Principles (GAAP) and other technical standards. It is not the purpose of a review, however, to review all of a firm's audits or to identify every aspect in which a reviewed audit is deficient. Accordingly, a review should not be understood to provide any assurance that the firm's audits, or its clients' financial statements or reporting thereon, are free of any deficiencies.

2.7.3 In addition, inclusion of a deficiency in a review report does not mean that the deficiency remained unaddressed after the Technical Reviewers brought it to the firm's attention. When deficiencies are discovered after the date of the audit report, a firm is expected to take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. A Board quality review does not typically include review of a firm's actions to address deficiencies identified in that review, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take action.

2.7.4 The review procedures included a review of aspects of the firm's auditing of financial statements of selected audit/s. The scope of the reviews was determined according to the Board's

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<sup>6</sup> Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be constructed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and technical & professional standards.

<sup>7</sup> Any references in this report to violations or potential violations of law, rules, technical or professional standards should be understood in the supervisory context in which this report is prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's co-operation in addressing issues constructively should not be construed and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

criteria, and the firms were not allowed an opportunity to limit or influence the scope. The major focus of the reviews was on compliance with Technical standards, relevant laws & regulations, quality of reporting, firm's quality control framework. In addition to evaluating the quality of the audit work performed on a specific audit, the review included review of certain aspects of the firm's practices, policies, and procedures related to audit quality. The review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

2.7.5 The Technical Reviewers expressed an opinion on whether the system of quality control for the attestation services of the firm under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with the applicable Technical standards and maintenance of the quality of attestation service work they perform. The Technical Reviewer's review would not necessarily disclose all weaknesses in the quality of attestation work or all instances of lack of compliance with applicable Technical Standards. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. In the process, the Technical Reviewers also identified what they considered to be deficiencies and any defects in, or criticisms of the firm's quality control system.

### **Observations**

2.7.6 The Board initiated a system of review of statutory audit services of the audit firms auditing accounts of top listed and other public interest entities in India since FY 2012-13 pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. As of June, 2017, 68,446 firms are registered with the ICAI which include 21,010 partnership firms, 257 LLPs and 47,179 proprietary firms. Since FY 2012-13, the Quality Review Board had selected a total of 585 Quality Review assignments for initiating reviews of statutory audits of 443 companies/entities, being top entities listed at prominent stock exchanges in India and other top public interest entities in India. These audits were performed by 300 Audit firms, registered with the ICAI. These 443 entities represent various industries/sectors and more than 85% market cap of the stocks listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). Audits of 10 companies/entities were in relation to the financial statements for the year ended on 31 March, 2011 or the year 2010 as the case may be; those of 58 companies/entities pertained to the financial statements for the year ended on 31 March, 2012 or the year 2011 as the case may be; those of 100 companies/entities pertained to the financial statements for the year ended on 31 March, 2013 or the year 2012 as the case may be; those of 91 companies/entities pertained to the financial statements for the year ended on 31 March, 2014 or

the year 2013 as the case may be; those of 88 companies/entities pertained to the financial statements for the year ended on 31 March, 2015 or the year 2014 as the case may be; those of 96 companies/entities pertained to the financial statements for the year ended on 31 March, 2016 or the year 2015 as the case may be. The Technical Reviewers empanelled with the Board for conducting these reviews who alongwith their qualified assistants ensured that resources of more than 300 qualified professionals were available with the Board for conducting these review assignments.

2.7.7 QRB reviews focus on areas where it is believed improvements might be necessary, and do not focus on those areas where it is believed quality is good or has been adequately addressed. As a result, this report is not a balanced score which may create an unduly negative impression of overall audit quality. However, this is not the case and that is duly reflected in the issues identified, and in particular, those discussed in this report. QRB recognises the role its reviews play in improving the overall quality of audit work and, consequently, create confidence in financial reporting. Generally, improvements in audit quality are achieved because firms are encouraged and advised to address the weaknesses identified in individual audit engagements and the ICAI is also informed to address issues as identified by the reviews. QRB has referred, and will continue to refer, certain matters to the ICAI Council for further consideration. Out of a total of 585 reviews started since August 2012, the Board has finalized a total of 383 review reports as depicted in the table below:-

**Table 1: Number and Percentage of reviews completed and their outcome**

S. No.		Reviews Initiated in the financial year					2017-18	Total
		2012-13	2013-14	2014-15	2015-16	2016-17		
1	Number of reviews initiated	37	56	123	138	105	126	585
2	Number of reviews completed	37	56	123	129	38	-	383
3	Number of reviews where QRB issued advisories to concerned Audit firm/s	05	26	77	83	15	-	206
4	Number of reviews recommended to the ICAI Council for consideration and action	04	10	14	01	-	-	29
5	Number of reviews where ICAI Council decided to issue advisory to the concerned Audit firm/s	02	07	10	-	-	-	19
6	Number of reviews where ICAI Council decided to refer the matter for Disciplinary	02	02	02	01	-	-	07
7	<b>Percentage of review cases referred for Disciplinary [6/2 x 100]</b>	<b>5.41%</b>	<b>3.57%</b>	<b>1.63%</b>	<b>0.78%</b>	-	-	<b>1.83%</b>

2.7.8 A total of 383 review reports were accepted by the Quality Review Board till date and the review findings of 257 reviews were presented in the earlier two Reports of the Board. Since then, 74 reviews have been completed till June, 2017. Out of these 74 reviews, 69 reviews pertained to the financial statements for the year ended on 31 March, 2014 or the year 2013 as the case may be and 05 reviews pertained to the financial statements for the year ended on 31 March, 2015 or the year 2014 as the case may be. A summary of the observations noticed by the Technical Reviewers in respect of these 74 review reports completed till June, 2017 is enclosed at **Appendix A**. The following tables summarize/analyze the review results in respect of these 74 reviews completed by the Board till June, 2017:-

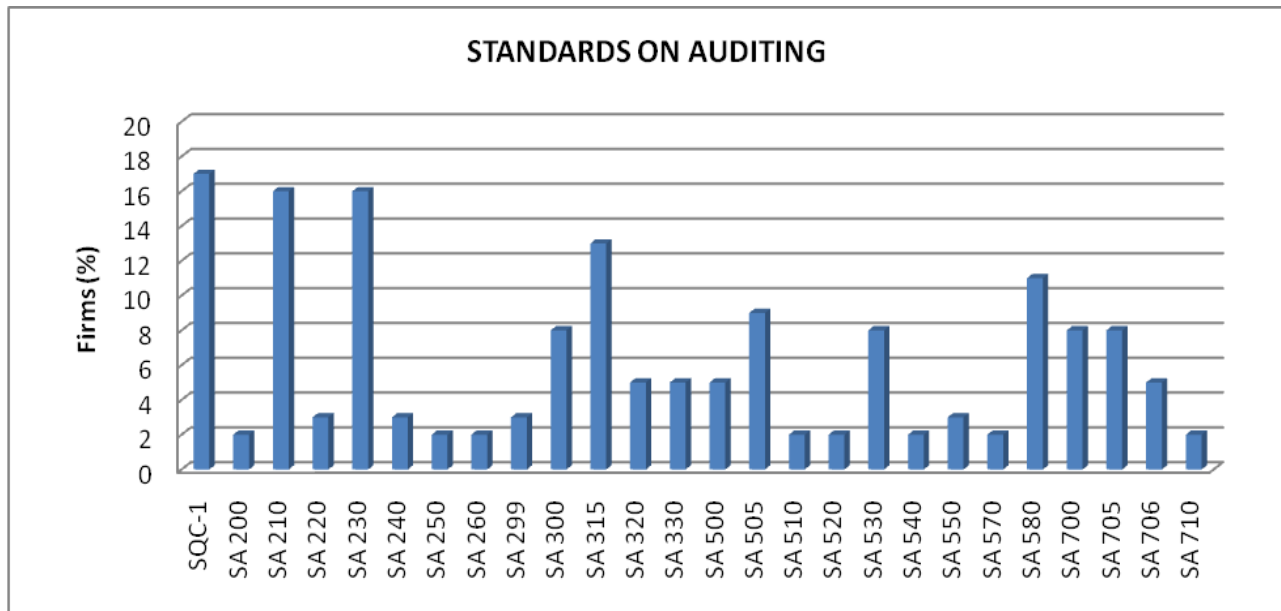
**Table 2: Number of Firms having observations on Standards on Auditing (SA)**

Standards on Auditing	Number of Observations	Number of Firms involved	% of Firms to Total Firms (Total Firms =64)
SQC-1 Quality Control for Firms that perform Audits and Reviews of Historical Financial information, and other assurance and related services engagements	20	11	17
SA 200 Overall Objectives of the Independent Auditor And the Conduct of an Audit in Accordance with Standards on Auditing	1	1	2
SA 210 Agreeing the Terms of Audit Engagements	10	10	16
SA 220 Quality Control for an Audit of Financial Statements	3	2	3
SA 230 Audit Documentation	17	10	16
SA 240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	2	2	3
SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements	1	1	2
SA 260 Communication with those Charged with Governance	2	1	2
SA 299 Responsibility of Joint Auditors	3	2	3
SA 300 Planning an Audit of Financial Statements	8	5	8
SA 315 Identifying and assessing the risks of material misstatement through understanding the Entity and its environment	15	8	13
SA 320 Materiality in Planning and Performing an Audit	4	3	5
SA 330 Auditor's responses to assessed risks	7	3	5
SA 500 Audit Evidence	3	3	5
SA 505 External Confirmations	6	6	9
SA 510 Initial Audit Engagements- Opening Balances	1	1	2
SA 520 Analytical Procedures	1	1	2



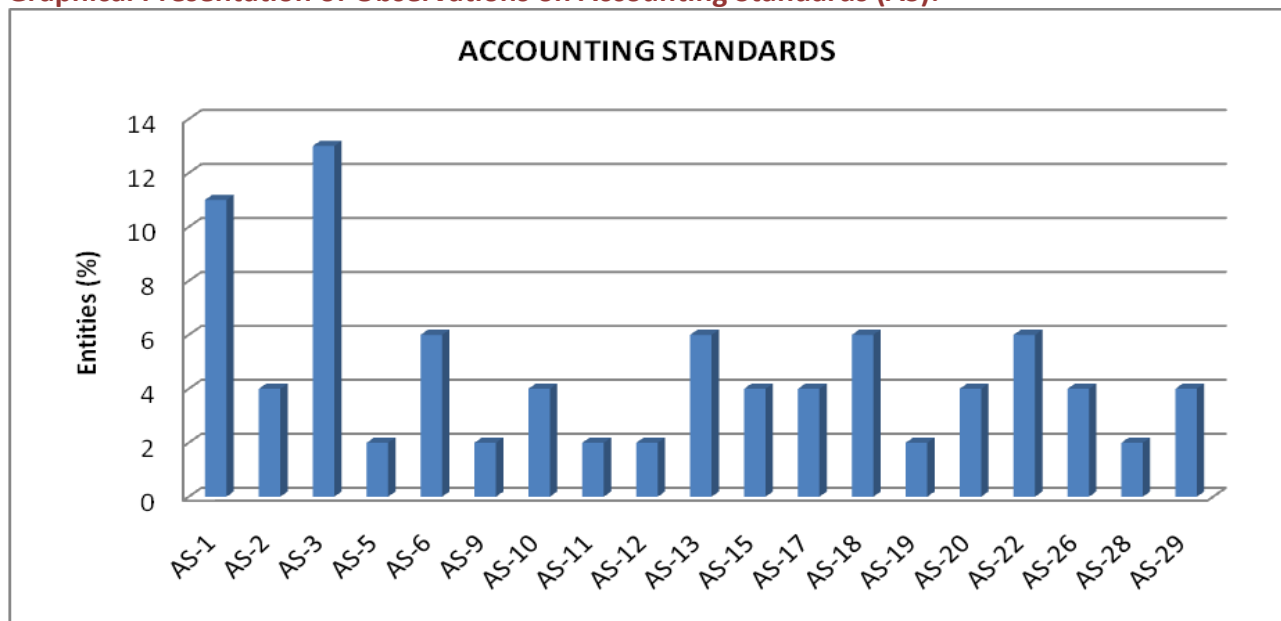
SA 530 Audit Sampling	7	5	8
SA 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates and related Disclosures	1	1	2
SA 550 Related Parties	2	2	3
SA 570 Going Concern	1	1	2
SA 580 Written Representations	9	7	11
SA 700 Forming an Opinion and reporting on Financial Statements	6	5	8
SA 705 Modification to the opinion in the Independent Auditor's Report	6	5	8
SA 706 Emphasis of matter paragraphs and other matters paragraphs in the Independent Auditor's Report	3	3	5
SA 710 Comparative information – Corresponding Figures and Comparative Financial Statements	1	1	2

**Graphical Presentation of Observations on Standards on Auditing (SA):**



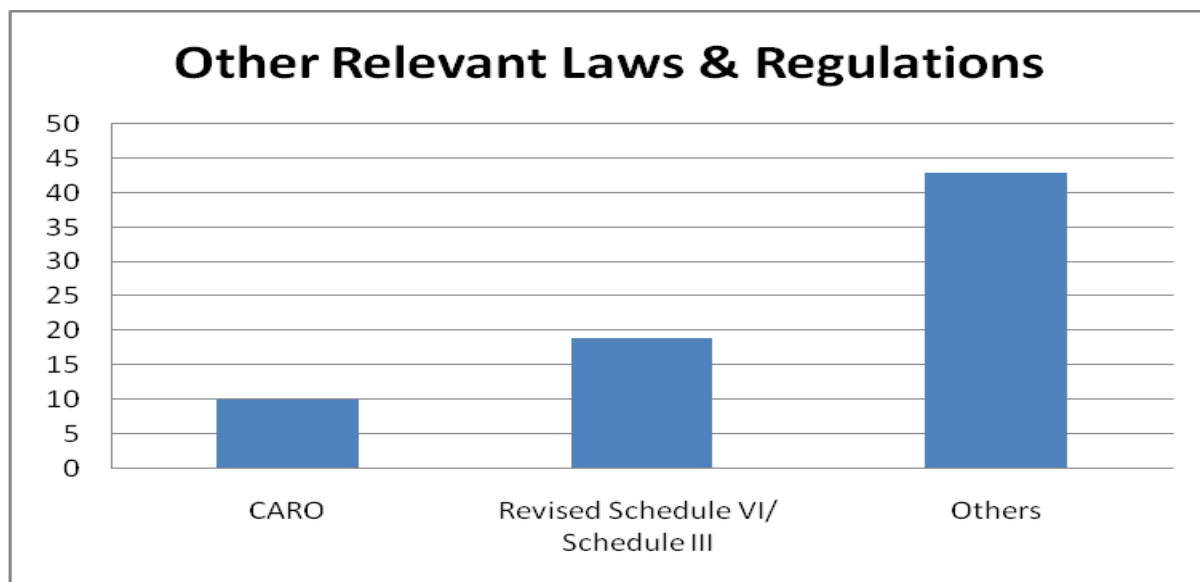
**Table 3: Number of Audits having observations on Accounting Standards (AS)**

Accounting Standards	Number of Observations	Number of Entities	% of Entities to Total Entities (Total Entities =47)
AS - 1 Disclosure of Accounting Policies	6	5	11
AS -2 Valuation of Inventories	2	2	4
AS -3 Cash Flow Statements	14	6	13
AS -5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies	1	1	2
AS-6 Depreciation Accounting	4	3	6
AS – 9 Revenue Recognition	1	1	2
AS – 10 Accounting for Fixed Assets	3	2	4
AS – 11 Effects of Changes in Foreign Exchange Rates	1	1	2
AS-12 Accounting for Government Grants	1	1	2
AS – 13 Accounting for Investments	3	3	6
AS – 15 Employee Benefits	5	2	4
AS – 17 Segment Reporting	2	2	4
AS – 18 Related Party Disclosures	4	3	6
AS – 19 Leases	1	1	2
AS – 20 Earnings Per Share	2	2	4
AS – 22 Accounting for Taxes on Income	4	3	6
AS- 26 Intangible Assets	2	2	4
AS – 28 Impairment of Assets	1	1	2
AS – 29 Provisions, Contingent Liabilities and Contingent Assets	3	2	4

**Graphical Presentation of Observations on Accounting Standards (AS):**

**Table 4: Number of Observations on Other Relevant Laws & Regulations**

Observations on Other Relevant Laws & Regulations	Total Number of observations
CARO	10
Revised Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013	19
Others	43

**Graphical Presentation of Observations on Other Relevant Laws & Regulations:**

**Appendix A****A brief summary of some of the observations of the Technical Reviewers****STANDARDS ON QUALITY CONTROL****SQC 1- QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS**

- On the basis of the deliberations with the partners, it transpired that the training was provided to the staff by the partners through lecture meetings within the office premises once in two months. Though recording of topic discussed was available, information relating to the topics deliberated in the training session was not minuted. (Para 10 of SQC-1)
- No policy & procedure to notify the firm of breaches of independence requirements except for cases reported as the case may be. (Para 20 of SQC-1)
- The Firm had not obtained Independence Declaration.
- The Firm had not established policy and procedure to deal with situations where new information at hand would have caused the firm to decline an engagement. [Para 34 of SQC-1]
- The Firm had no formal policy document dealing with the aspects covered by SQC-1 including the personnel matters. It is noted that there is no systematic manner of implementation of the professional education, continuing professional development, training aspects of the Policy in terms of competencies. Further, standard checklist were not used by the firm for the audit assignments. (Para 36 to 41 of SQC-1)
- Adequate audit program including use of computer assisted audit techniques (CAATs) had not been prepared by the audit Firm to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff. Further, audit program for verification of compliance with guidelines for annual closing of accounts issued by Entity and documentation for such verification had not been maintained. (Para 47 of SQC-1)
- The firm had only two partners, consultation, was obtained from outside professionals. However, this aspect was not clearly documented in the Consultation Section of the SQC manual as required in terms of paras 51 to 54 of SQC -1.
- The firm had sufficient policies and procedures for consultation among the partners. However, the discussions were not documented for the agreed conclusions. Again, minutes of the joint auditors were not found in the case of audit of the entity and accordingly it was difficult to come to a conclusion that internal consultation took place among the joint auditors. (Para 51 of SQC-1)

- No policy and procedure had been formulated for establishing the eligibility and maintaining the objectivity of engagement quality control reviewers (Para 68 of SQC-1). Second partner review for the audit of Entity had been carried out over telephonic discussion without access of audit working papers to the reviewer. The process of EQCR was non-existent for listed and unlisted company audits. There was no evidence of second partner review.
- The Firm had not prepared any Policy document dealing with the aspects covered by SQC-1 including the personnel matters contending that it doesn't have any other audit engagement. Also, there is no systematic manner of implementation of the professional education, continuing professional development, training aspects of the Policy in terms of competencies.
- The Firm's personnel were provided with the SQC Policy when they joined the Firm. However, no documentation was maintained in respect of this activity to demonstrate how this Policy was communicated on an ongoing basis to existing employees and newly joined employees. Further, acknowledgement of the same was also not available on record.

## STANDARDS ON AUDITING

### SA 200- OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

- The audit evidence obtained by the Audit Firm to reduce audit risk to an acceptably low level and thereby enable the Audit Firm to draw reasonable conclusions on which to base their opinion was not adequate. (Para 17 of SA 200)

### SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS

- The Engagement Letter did not make reference to the compliance with the disclosures in the financial statements in terms of various RBI guidelines, and only made reference to compliance with the Accounting Standards and Companies Act. There was also no reference to the issue of various certificates to the RBI as applicable to NBFCs though the audit file and documents made a reference to the same. Further, there was no separate Engagement Letter for the RBI related certifications.
- In the Engagement Letter, there was no reference to the 'Reporting Format' to be issued. (Para A-22 of SA 210)
- Letter of engagement was issued only for limited review engagements for the Quarter ended 31.12.20## which was signed by all the joint auditors and acknowledged by Dy. Gen. Manager. No such letter of engagement was issued in respect of statutory audit/other certifications for the year ended 31st March, 20##. (Para 9 of SA 210)
- Engagement letter was not issued by the firm every year as in the opinion of the firm, factors listed in Para A27 of SA 210 had not arisen requiring either revision of the terms of audit engagement or to remind the entity of existing terms. However, the Letter for Terms of Audit Engagement for the first year was also not on record.
- The Engagement Letter issued to one of the Branch of the Entity had not been addressed to the prescribed authority of the Branch. Further, the receipt of the engagement letter had not been acknowledged by the branch official.  
Also, no Engagement Letter had been issued to the 2 Zones and 12 Regions allocated to the audit Firm for audit of Entity for the year ended 31.03.20##. (Para 10 of SA 210)
- The Audit Firm had not issued Engagement letter for the Tax Audit Attestation functions.
- The Firm had not included the form of the report, and the scope did not include all the items specified in the appointment letter and also the appointment for quarterly limited review.
- The Audit Firm had not complied with the appointing authority's terms and conditions of acceptance.
- Engagement letter for limited review and corporate governance was not available on record.

- The Engagement letter did not contain remuneration to be paid for the assignment nor did it contain the manner in which the fee shall be computed.

#### **SA 220- QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS**

- The audit firm had not complied with the provisions relating to client acceptance and audit engagement as it accepted the engagement without following appropriate procedures for acceptance and without assessing the competence and capability of handling the engagement. Non-compliance of Para 12, Para A-8, Para 14, Para A 10-12, Para 16, Para A-16-17 & 20, Para 17, Para A 18-20, Para 19, Para A 23-25, Para A-25 and Para A-35 are observed.
- The Audit Firm had not documented the policy for Engagement Control Quality Reviewer as required by Para 25 of SA 220 in its laid down policies and procedures.
- As per Para 20 of SA 220, “Engagement Quality Control Reviewer” shall perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor’s report. However, there was no evidence on record in the working papers for having conducted the review process on the matters specified in Para 20.

#### **SA 230- AUDIT DOCUMENTATION**

- In the work paper for testing of Commercial Papers issued, there was no work paper evidence that demonstrated compliance with the relevant RBI guidelines. Refer para 8(a) of SA-230.
- The documentation of the sample for testing of Retail Gold Loans only indicated that the LTV ratio was adhered to in accordance with the RBI guidelines without specifying the actual ratio and whether the same was in accordance with the RBI guidelines (including the changes effected during the audit period) which was not strictly in accordance with the requirements of para 9(a) of SA-230 which requires identifying the characteristics of specific items tested so as to identify any inconsistencies or deviations.
- The audit firm did not have any working papers or summary sheets or valuation reports with regard to following vital matters:
  - a. The audit firm did not have original signed standalone financial statements as well as original consolidated financial statements.
  - b. No written inter- communications among joint auditors were available. Minutes of Joint Auditors were not maintained or the matters discussed with other joint auditors were not on record.
  - c. Workings for provision of NPAs. If not at Bank level, workings were not available in respect of the FGMOs/ROs allocated to the firm.
  - d. Provision for Income Tax and Deferred Tax workings are not available.

e. Actuarial valuation Reports and workings for provision for gratuity and leave salary were not available.

f. Summary statement of branch wise MOC's that had been considered in the consolidation had been kept by the audit firm. However, copies of the Branch Auditors' Reports and documentation as to how each of the comments of the Branch Auditors were considered in the consolidation was not available with the audit firm. (Para 8 of SA 230)

- There were no evidence of work performed and significant matter identified, discussed and resolved. Further, there was also no evidence of documentation that could substantiate the conclusion reached on the financial statements. (Para 8 of SA-230)
- Documentation of significant matters arising during the audit had not been made in final work papers and there was no evidence of how the firm had reached conclusion on such matters (Para A-8 to A-11 of SA 230)
- As per Para 9(b) and (c) of SA 230 on Audit Documentation, the details of the persons who performed the audit work and the date of such work completed and the persons who reviewed the work to be noted. No such matters found recorded in the Audit Programme on Finalization of Accounts.
- The Checklists for each AS/SA need to be detailed one showing all major aspects of compliances checked and cannot be in a summarized manner. Further, it should have reference of the audit staff who have performed such checks.
- Audit Documentations were not linked up to the Audit planning and procedures as required by SA 230. The implementation processes on the same were not documented.
- Adequate documentation had not been maintained by the Audit Firm that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with Auditing Standards and applicable legal and regulatory requirements.
- Documentation for audit observations for most of the audit work had not been maintained by the Audit Firm for audit of the Entity.
- Audit Firm had not maintained documentation for verification of compliance with guidelines for annual closing of accounts issued by the Entity. (Para 5 of SA 230)
- Adequate documentation had not been prepared by the Audit Firm sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
  - (a) The nature, timing, and extent of the audit procedures performed to comply with the Standards on Auditing and applicable legal and regulatory requirements; and
  - (b) The results of the audit procedures performed, and the audit evidence obtained.(Para 8 of SA 230)
- There was no separate checklist for attest function- Internal audit department.
- The sampling methodology adopted in the Audit was not available in the file.



- In respect of classification of NPA on receivables, the Audit Firm did not have in their file, the veracity of the classification of NPAs.
- The Audit firm did not have independent checklists for the Divisional Audit, Branch Audits, Scheme Business attest functions.
- The audit firm had addressed to the management of its Zonal branch, their observations on the audit of accounts of the Zone. There was nothing on record to establish how the observations were addressed by the management, however the report was qualified only in respect of one of the issues raised. At the another Office level, only some of the issues relating to abovementioned Zone were addressed in Jt. Auditor's Observations to the management, however, there was nothing on record to establish how the observations were addressed by the management to the satisfaction of the Jt. Auditors as the audit report was unqualified.
- No documentary record was available to monitor the control activity to assess the risk of material misstatements.
- No documentary evidence was provided to meet the requirements of risk assessment (SA 315 and SA 330).
- The managing partner explained the risk of material misstatement was considered based on the ABC analysis of the Internal Audit Report but there was no documentary evidence for this.
- The disposal of the observations in the Internal Audit Report was not available on record.
- In case of security deposit taken from dealers which are old for which no records were available for classification that they will be repayable till the closure of dealership.
- Orders from Vat/Excise department were not held on record.
- No document was available for Bad Debts written up during the year except the Management representation.
- No audit checklist for compliance with AS 21 & AS 27 applicable for Consolidated Financial Statement was available in the working file and details regarding elimination and investment were also not available.

### **SA 240- AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

- The audit firm had not shown professional skepticism throughout the period of audit which would have indicated the possibility of material misstatement in the financial statements due to frauds. The documentation of understanding of the entity was also found to be lacking. (Para 12, 13, 17, 25, 39 and 44 of SA 240)
- Based on documentation available/provided, it was difficult to conclude whether fraud risk was considered during the audit of the Company's financial statements.

### **SA 250- CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS**

- The following areas of non-compliance of laws and regulations had been identified as per the audit report:
  1. Non maintenance of investments in Government securities as liquid assets in terms of section 45IB of RBI Act 1934
  2. Non maintenance of minimum Capital Adequacy Ratio in terms of RBI's guidelines for NBFCs
  3. Non-compliance of the norms in relation to the repayment of deposits on their maturity dates in terms of provisions of section 58A, 58AA or any other provision of the Companies Act 1956.The audit firm had neither given any communication to the management nor to those charged with governance about these non-compliances. (Para 22 of SA 250)

### **SA 260- COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

- In notes to the Financial Statements on Deferred Tax, it was stated that the Company has not recognised any Deferred Tax Asset on provision for Standard Assets in view of the fact that this is not a timing difference which has a reasonable certainty of reversal in the future for which there was a memo on the file. However, considering that the said issue is subject to differing practices, the same could also have been communicated to the Management and those Charged with Governance (i.e. Audit Committee) as a significant qualitative accounting judgment / estimate in terms of Para 12(a) of SA-260.
- Review of the presentation to the Audit Committee revealed that the extent of reliance on the work of the Internal Auditor had not been communicated to those Charged with Governance (i.e. Audit Committee) as required in terms of para A-18 of SA-260.

### **SA 299- RESPONSIBILITY OF JOINT AUDITORS**

- Documentation of communication/discussion between the Joint Auditors in their meetings regarding the important areas requiring attention during the Statutory Audit of Entity had not been done (noncompliance of Para 4 of SA 299).

- Audit firm alongwith other joint auditors had issued Long Form Audit Report. Issues in Long Form Audit Report (LFAR) were observed:  
Differences were noted between data given in the audited financial statements with LFAR were found in:-
  - i. the amount of fresh NPAs during the year;
  - ii. reduction of NPAs during the year. (Para 5 of SA 299)
- The following were observed in a joint audit of consolidated financial statements
  - a. Differences were noted in the amounts relating to revenue as per Consolidated Statement of P&L and disclosure made in Notes of Schedule of the Consolidated Accounts.
  - b. Deferred tax component of subsidiary is not considered in the consolidated financial statements. Same amount of Deferred Tax Asset appears in both Consolidated and standalone financial statements.

### **SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS**

- It was observed that the Audit planning memorandum was prepared on 15th April, 20## (i.e. after the close of the financial and does not make a reference to the timing of the audit procedures especially those that were to be performed at an interim stage (Para 8 of SA-300).
- There were few details of Accounting Standards but there was no justification on why these were only considered , the details of nature, timing of test and procedures at the assertion level were not mentioned in the Planning document, the detail of risk assessment procedures were not mentioned in the planning document and no details on understanding of control activities necessary to assess the risk of material misstatements were mentioned.
- Audit strategy did not contain applicable financial reporting framework and other legal and regulatory framework. (Para A.3 of SA 300)
- Audit Programme and Audit Plan made by the Audit Firm were not comprehensive as required by SA-300. As required, it did not adequately contain the detailed steps, extent of coverage, sampling, timing and extent of direction and supervision by engagement team. Further, there was no policy document in respect of issues detailing the implementation processes and documentation thereof.
- Audit strategy and audit plan had not been documented for the work allotted to the Firm for audit of Entity except for few branches and Treasury division of Entity.
- Audit plan, wherever prepared for audit of Bank, does not include timing and extent of planned risk assessment procedures including taking into consideration the adverse business conditions in which the borrower entities of the Bank operate. Further, neither the audit plan included verification of compliance with guidelines for annual closing of

accounts issued by Bank nor any documentation for such verification had been maintained. [Para 8 of SA 300]

- Audit Firm had not adequately documented in the audit plan evidence that the Audit firm had identified and assessed risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment. (Para 8 & 1 of SA 300)
- Audit plan did not include (a) timing, (b) extent of checking and direction in some cases and (c) supervision of engagement team members and review of their work. (Para 10 of SA 300)

### **SA 315- IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT**

- The firm had maintained a separate file for certain documents of a permanent nature including statutory documents. Also the firm referred to the SOP manuals whilst designing its audit programmes and testing. However, important extracts of the same were not documented as part of the process flow in one place and carried forward or kept in a separate file and updated on an on-going basis to comply with the requirements of SA-230 in general and paras 18 and 32(b) of SA-315 in particular.
- In respect of the balance of Auction Proceeds Receivable Account, the only procedure performed was the verification of subsequent realisations which addresses the validity assertion. There was no specific procedure to address the completeness of the balance by linking it with the process of issue of the Auction Notice in respect of NPAs, and hence not strictly in accordance with the requirements of para A-111(a)(ii) A-111(b)(iii) of SA-315.
- The audit firm had not made any risk assessment before conducting the audit. The documentation required for understanding the entity and the environment it is working in were found to be lacking. (Para 5, Para A 1-5, Para 11, Para 12, Para A42-A65, Para 25, Para 32 of SA 315)
- No formal documentation as to carry forward and updating as necessary to reflect the changes in the entity's business and processes as per Para A 134 of SA 315.
- During the course of Audit, the firm had not documented the different audit procedures / steps performed for identifying and assessing the risk of material misstatement as required by SA 315.
- Adequate documentation for inspection of Concurrent audit report and inspection reports relating to the work allocated to the Audit Firm for audit of Bank has not been maintained.
- Documentation for understanding of control activities necessary to assess risk of material misstatement and design of further risk procedures responsive to assessed risk had not been maintained by the Audit Firm.
- Documentation for discussion with the audit team regarding the susceptibility of the financial reports to material misstatement had not been maintained by the Audit Firm.

- Documentation for identification and assessment of the risks of material misstatement at the financial report level, and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures had not been maintained by the Audit Firm. (Para 25 of SA 315)
- Memorandum / document detailing identification of risks of material misstatements, planned audit procedures i.e. their nature, timing and extent, strategy in terms of reliance of controls, approach to validate IT related controls, testing of IT generated reports was not explicit.
- Documentation on internal controls including review of IT controls for both general application and automated controls by competent personnel and review of design and implementation was not available.

### **SA 320- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT**

- Documentation to determine materiality level had not been made by the Audit Firm except for advances and expenses in case of audit of 3 branches and Treasury Division of Bank. (Para 10 of SA 320)
- Audit Firm had not maintained documentation for determining the nature, timing and extent of further audit procedures based on performance materiality. (Para 11 of SA 320)
- No documents in support of the materiality level in terms of amount for the Bank as a whole as well as for performance materiality was available.

### **SA 330- AUDITOR'S RESPONSES TO ASSESSED RISKS**

- Though the Audit Firm used information obtained from previous experience with the entity and from previous audits, it did not document whether changes had occurred since the previous audit that may have affected its relevance to the current audit. (Para 14 of SA 330)
- Documentation for designing and performing further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level had not been maintained by the Audit Firm. (Para 6 of SA 330)
- Documentation had not been maintained by the Audit Firm for designing and performing tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls. (Para 8 of SA 330)
- Documentation and audit evidence for examining material journal entries and other adjustments had not been maintained by the Audit Firm. (Para 20 of SA 330)
- Procedures performed had not been linked to material class of transactions, account balance and disclosures and the risk of material misstatements.

- The work papers wherein substantive testing was performed (i.e. schedules) were not cross referenced to the groupings/trial balance with reference numbers in all cases. Further, there was no evidence of referencing/cross-referencing the financial statements to the trial balance.

#### **SA 500- AUDIT EVIDENCE**

- There was no specific documentation to validate / test certain assumptions made by the actuary like discount rate, average life, attrition, average salary, average age, average past service cost etc. with the base data sent to the actuary for determining the gratuity liability which was strictly not in terms of para A-45 of SA-500.
- Process followed by the engagement team for selecting items for testing for the purpose of designing test of control and test of details had not been documented by the Audit Firm. (Para 10 of SA 500)

#### **SA 505- EXTERNAL CONFIRMATIONS**

- Audit work papers stated that external confirmations were directly sent to the parties but as per confirmation copies, it was found that confirmations were addressed to the company.
- Whilst the memo on confirmation procedures specifies that the same have been despatched under the control of the firm, the proof regarding the posting / despatch under the firm's control was not retained. Further, the memo could have been more specific / elaborate to bring out the dates of the despatch, persons performing the work etc. to demonstrate that the requirements of para 7 of SA-505 are complied with. Also, the audit working papers should have documentation of the results of the confirmation in terms of values and not in terms of number of accounts circularised and hence it was not clear whether alternate procedures were performed on all non-confirmed parties.
- The Firm did not circularize requests for confirmations of vendor and customer balances. It had been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of Balances. Audit firm should have evaluated scope limitation in these circumstances.

The Firm had not documented the reasons for Management's refusal and also not performed any procedures as required by Para 8 of SA 505.

- As required in terms of SA 505-External Confirmations, there was no procedure adopted to obtain external confirmations as audit evidence.

**SA 510- INITIAL AUDIT ENGAGEMENTS- OPENING BALANCES**

- The Firm was appointed as Central Statutory Auditors, jointly with other auditors. In respect of the areas of work allocated or branches/zones allocated (as per the Work Allocation Sheet amongst the auditors) to the Firm, testing of opening balances to verify whether the audited balances were brought forward to the next year as required by aforesaid SA was not documented.

**SA 520- ANALYTICAL PROCEDURES**

- The documents in support of analytical procedure performed were not made available.

**SA 530- AUDIT SAMPLING**

- As observed for Audit Sampling and Other Selective Testing Procedures, the Audit Firm had an Audit Checklist containing the Pre-Audit process, documents to be obtained and detailed audit procedures to be carried out during the audit. On review of the same, it was noted that though the same was ticked as 'Yes, No and NA columns' in support of work/test performed, however, the extent of verification of the work/test performed were not mentioned therein and further the same was not signed by the partner in-charge of the audit and concerned team members/assistants who had carried out the verification process.
- Whether the Audit Firm has designed and performed appropriate substantive procedures for each material class of transactions, account balance, and disclosure could not be commented as there were no documentation of such procedure, as majority of the schedules/details/working papers were not signed by the audit team members.
- Basis of audit sampling had not been documented.
- Methodology for selection of sample and extent of checking had not been documented by the Audit Firm except for verification of advances and expenses.
- The documents in support of the means of selecting items for testing and also the criteria for sampling that are effective in meeting the purpose of the audit procedure were not made available.
- The sampling method adopted as per the SA checklist available with the firm addresses only with respect to advances and no other items. Further, the sampling method in case of regions/ zone and central office departments were also not addressed in the same.

**SA 540 - AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES AND RELATED DISCLOSURES**

- Audit Firm had not obtained specific representation from the management stating that the assumptions used in making accounting estimates are reasonable. (Para 22 of SA 540)

**SA 550- RELATED PARTIES**

- In respect of related party transactions, whilst the Central Government approval has been obtained in terms of the Companies Act, 1956, there was no documentation to justify / conclude whether procedures have been performed as per para 24 of SA-550. It may be noted that the CG approval specifically mentioned that the company was required to adhere to the arm's length principle.
- The audit firm had neither ensured the completeness of the information furnished about related parties in the financial statements nor retained documentary evidence to ascertain the arm's length price of those transactions. (Para 14, 15 & 24 of SA 550)

**SA 570- GOING CONCERN**

- The audit firm had considered the events or conditions indicating significant doubt on the going concern assumption. Since the company did not make adequate disclosure of such significant doubts in the financial statements, the auditor had not expressed qualified or adverse opinion. (non-compliance of Para 10, 11, 12, 17, 18 & 20 of SA 570)

**SA 580- WRITTEN REPRESENTATIONS**

- i. No Letters of Representations were obtained from Branch Management for conducting Branch audit and also other offices audited by the audit firm allocated to them.  
ii. Letter of Representation obtained from HO did not cover following few important aspects:
  - a) Use of fixed assets
  - b) Subsequent events
  - c) Classification of advances and provisioning thereof in compliance of IRAC Norms
  - d) Related party disclosures
  - e) Custody of BR Forms,
  - f) Classification and valuation of Investments as per RBI Norms.
  - g) Provisioning for all known liabilities
  - h) Cash management and physical verification system of cash
  - i) Outstanding balances in suspense accounts exceeding 90 days are duly provided for. (Para 8 of SA 580)
- The Audit Firm had not requested the management to provide a written representation letter that all relevant information and access as agreed in the terms of the audit engagement has been provided to the Audit Firm and that all transactions have been recorded and are reflected in the financial statements. [Para 10 of SA 580]
- The Management Representation letter, obtained from the Entity did not contain the following clauses as:



- (a) that the management has provided the firm with all relevant information and access as agreed in the terms of the audit engagement; and
  - (b) that all transactions have been recorded and are reflected in the financial report
  - (c) the management's responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud
  - (d) whether they have disclosed to the firm the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud
  - (e) whether they have disclosed to the member their knowledge of fraud, suspected fraud, or any allegations of fraud or suspected fraud, affecting the entity.
- Management Written Representation did not contain the appropriate representation accepting the responsibility regarding design, implementation and maintenance of internal control to prevent and detect fraud.
  - Management written representation did not contain the appropriate representation that they believe significant assumptions used in making accounting estimates are reasonable.
  - Written Representation states that the enterprise has followed accrual system of accounting other than for bonus. But it was seen from the notes to accounts, in respect of the items specified in the referred note accrual system is not followed.
  - Management Representation letter obtained was incomplete in relation to the requirements of the IRDA norms.
  - The firm has not obtained Written Representations in relation to Consolidated Financial Statements as per requirement of SA 580 (Revised) Written Representations.

#### **SA 700- FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

- Non-compliance with the directives of the Council of ICAI relating to SA-700 with regard to reporting under clause 4 (ix) (a) of the Companies (Auditors Report) Order, 2003 and Sec 227 (3) (g) of the Companies Act, 1956 wrt the cess payable u/s 441A of the Companies Act, 1956, in the Independent Auditors Report on Standalone Financial Statements. ICAI, based on the decision taken at its 312th Council meeting held on December 25-27, 2011, had advised the members that they need not report on this matter.
- While giving Auditors Responsibility statement in the Auditors Report in paragraph 4, specific statement that "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control" was not stated. (SA 700 r/w ICAI Councils announcement vide page No 128 of " The Chartered Accountant" Journal for the month of March, 2014)
- The name of the signing Partner and his membership number was not mentioned in the various documents like Balance Sheet, Statement of Profit and Loss and all the certificates issued to Bank, in the case of attestation in the case of Branch and Zonal Audited accounts. (Para 40- A36 of SA 700)

- In the Zonal/DO Audit Reports, in many cases, the RA account of individual businesses account were not signed by the Audit Firm mentioning the name and membership number of the Auditor signing the same.
- The Audit Report referred to the inclusion of the returns of some Branches but it is not stated that the accounts of the branch have been considered up to 31st December.
- Para 9 of the format requires the following statement to be made by the auditors in their reports:  
"In our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement comply with applicable accounting standards."  
The audit reports of the branches and other offices given by the audit firm do not contain the above para. However, Audit Report on the Standalone and Consolidated Financial Statements of the Company contains the above para. (Guidance note on Bank Audits)

### **SA 705- MODIFICATIONS TO THE OPINION IN INDEPENDENT AUDITOR'S REPORT**

- The audit firm had not insisted on removal of the limitation of non-availability of almost all the major heads of the financial statements. The audit firm had neither quantified the impact of the two areas commented in Basis of qualification nor expressed the reasons for non-quantification (Para 11, 13 & 16 of SA 705)
- The Audit Firm has issued Auditors report in the old format, and not as "Independent Auditor's Report' as envisaged in SA 705.
- The Audit Firm had in their Auditor's Report under Opinion Para under Para 7, had remarked about the True and Fair View of the Accounts of the Zone mentioning "subject to the adjustments which are to be made at the Central Office and our comments in Annexure A".  
The Revised Independent Auditors Report Format SA 705, etc., has the following to be given whenever the Auditor has comments to offer, whether qualification or otherwise, as:
  - a) Emphasis of Opinion
  - b) Qualified Opinion/Basis for Qualified Opinion
  - c) Adverse Opinion
- SA 705 Paragraph 25(a) & (b) requires that when the Auditor disclaims an opinion then it should be described in the Basis for Disclaimer of Opinion paragraph (Annexure 8F). However, there was no such paragraph and the opinion was given under Basis for Qualified Opinion. Further, the amounts involved were not quantified by the Management in Notes regarding deletions of assets assumed to be cash sales and regarding unreconciled balances treated as part of working capital changes.
- As per Notes on accounts states about the accounting for tax on income (AS 22) wherein bank has reversed Deferred tax liability created on claims of marked to market loss of investment in tax computation and also not recognized the same in the current year, as in

the Bank's opinion, the difference is permanent difference. Pursuant to the opinion of the Expert Advisory Council of the Institute of Chartered Accountants of India on the subject, the matter is being referred to the Indian Banks Association for their guidance on the matter. Therefore, the audit firm should have qualified or emphasized the note to attract users' attention to such matter in their report.

#### **SA 706 - EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**

- Independent Auditors' Report on Consolidated Financial Statements has "Other Matter" reported. At the end, following statement should have been mentioned: "Our opinion is not qualified in respect of this matter."
- As per Schedule: Notes on Accounts, DTL on marked to market loss of investment has been reversed by Bank, whereas the Opinion of Expert Advisory Committee of the Institute of Chartered Accountants of India, such difference is a temporary difference. Since, the Entity was forming an opinion which was opposite to that of the EAC, the Audit firm should have attracted the users' attention to such matter in their Report.
- The Annual Report containing "Independent Auditors' Report" relating to its standalone business, contained Emphasis of Matter at a point. However, "Independent Auditors' Report" issued for Consolidated Financial Statements of the Annual Report of the Entity did not contain this clause or any statement / clarification.

#### **SA 710 - COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS**

- The Audit Firm had not maintained any documentation regarding evaluating whether the comparative information agreed with the amounts and other disclosures presented in the prior period. Further, the Audit Firm had also not maintained any documentation and audit evidence to determine whether a misstatement exists. (Para 7 & 8 of SA 710)

## ACCOUNTING STANDARDS

### AS- 1 DISCLOSURE OF ACCOUNTING POLICIES

- Accounting Policy in relation to amortisation of Computer Software was not disclosed in Significant Accounting Policies to Standalone Financials in Notes. (Para 24 of AS-1)
- In - Principal accounting policies of standalone financial statements and Principal accounting policies of consolidated financial statements, it had been stated that “Income/ Expenditure is generally accounted for on accrual basis except for income to be accounted for on cash basis as per regulatory provisions”. However, the items of income which are accounted for on cash basis are not specifically mentioned. (Para 24 of AS-1)
- The Significant Accounting Policy in the Audited Financial Statements did not disclose the policy on the Use of Estimates. Preparation of financial statements requires the use of estimates by the management for various aspects which may be significant. Similarly, there was no policy for Impairment of Assets (AS – 28) and Provisions, Contingent Assets and Contingent Liabilities (AS – 29) which are equally significant.
- The presentation and disclosure of WIP in the financial statements give rise to the following issues:
  - i) The fact that the inventory of WIP included “Materials lying with Contractors” should have been disclosed either as a note in the financial statements or the value of the “Materials lying with Contractors” should have been added as a separate line item since the value thereof, is material. In the absence of such a clarificatory note, the fact that the stock of WIP only included stock of materials issued to contractors and that the stage of completion was not relevant therefore could not be ascertained by the users of the financial statements.
  - ii) Further, the Significant Accounting Policy with respect to WIP should have been phrased in such a manner so as to ensure that it clearly brought out the difference in the method of valuation of WIP lying with the Contractors and the valuation of WIP under process at the Company’s factories.
- Accounting policy for Revenue recognition for service rendered not disclosed in the Notes to Accounts.  
Accounting policy of the company for presenting cash flow statement had not been disclosed.

### AS-2 VALUATION OF INVENTORIES

- Same value had been carried in books despite the fact that there had been no movement in the inventories. The shelf life of most of the items had expired but the valuation had still been not made on lower of cost or NRV. (Para 5 of AS-2)

- As per accounting policy disclosed in audited financial statement of the company stock in process was valued at cost. (Para 5 of AS-2)

### AS-3 CASH FLOW STATEMENTS

- Review of the Cash Flow Statements attached to the financial statements of the schemes revealed the following discrepancies:
  - i) Incorrect calculation of the Surplus/ Deficit for the year as arrived at in the Cash Flow Statements with a corresponding impact on the amount of investments.
  - ii) Non-cash expenses with respect to amortization of premium/ discount has not been treated as of “non-cash nature” and has not been added back to profit as per the Statement of Profit and Loss.
- Foreign exchange fluctuation was not shown in PY figures. It was not clear where this effect was adjusted for determining cash flows from operating activities in the Consolidated Cash Flow Statement. (Para 20 of AS-3)
- Foreign exchange fluctuation gain (net) should have been dealt separately for determining cash flows from operating activities in the Cash Flow Statement. [standalone financials] (Para 20 of AS-3)
- “Dividend received” was shown under financing activities though the same was received on the Investments made by the company. (Para 30 of AS-3)
- The Company had reported (Net) figures for increase in Secured and Unsecured Loans and increase in Housing Loans, whereas the same should have been reported on gross basis instead of netting off.
- Accounting policy not given whether it was prepared by Direct or Indirect Method.
- (1) Cash flow from Investing activities- the amounts should have been given on a Gross basis and not Net basis  
(2)Cash flow from Financing activities –amount raised through Tier II instruments (Para 8 & 21 of AS 3)
- In the Cash flow statement, cash outflow had been disclosed in respect of investment in Associates/ Subsidiaries, however, total purchase consideration and portion of purchase consideration discharged by means of cash and cash equivalents had not been disclosed in the Cash Flow Statement of standalone financial statements. (Para 38 of AS 3)
- Reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet had not been presented in the Cash Flow Statement of standalone financial statements and consolidated financial statements. (Para 42 of AS 3)
- The effect of change in exchange rates on cash held in foreign currency had not been disclosed as a separate part of reconciliation of the changes in cash & cash equivalents during the period. (Para 25 of AS 3)

- The method for preparation for the Cash Flow Statements, whether the Cash Flow Statements have been prepared under the Direct or Indirect method, had not been disclosed in the financial statements.
- Interest received and dividend received had not been adjusted with Cash Flow from Operating Activities and the same had not been disclosed separately as required by para 30.
- The Company has reported (Net) figures for increase / decrease in other investments, whereas the same should have been reported on gross basis instead of netting off.

#### **AS-5 NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES**

- The Accounting Standard (AS)-5 at paragraph 24 requires “However, a change in the estimated useful life of a depreciable asset affects the depreciation in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods, is recognized in future periods.” The requirement of the AS is to give the effect of any change to not only the current period but also in respect of the future periods. The reason for the change in depreciation as to whether there was a change in rate of depreciation or whether there was a change in the useful life of the asset was not given in the Notes to Accounts by the Management. Further, there was no identification of the Assets involved.

#### **AS-6 DEPRECIATION ACCOUNTING**

- a. It was not disclosed in accounting policy that depreciation is charged on pro-rata basis on addition / disposal.  
b. Depreciation policy should be separately disclosed and not to be included under accounting policy of fixed assets.
- Depreciation for the period for each class of assets had not been disclosed in the standalone financial statements and consolidated financial statements though total depreciation charge has been disclosed in Schedules. (Para 28 of AS 6)
- In Schedule – ‘Principal Accounting Policies’ annexed to the standalone financial statements and Schedule - Principal Accounting Policies annexed to the consolidated financial statements in respect of Premises, the depreciation rate had been disclosed as ‘At varying rates based on estimated life’ instead of disclosing the range of depreciation rates or the range of estimated useful life. (Para 29 of AS 6)
- The method of charging depreciation had not been disclosed in the policy. Similarly, investment property was also depreciated in the manner prescribed for fixed assets wherein the method of charging depreciation had not been disclosed.

**AS-9 REVENUE RECOGNITION**

- In Notes, Revenue Recognition, under the heads Investment Management Fees and Portfolio Management, the timing of recognition of revenue was not specified.

**AS-10 ACCOUNTING FOR FIXED ASSETS**

- Premises owned by the Entity included properties for which registration formalities were still in progress. However, as per fixed assets schedule in the additions during the year the figures did not corroborate.
- As per Schedule - Principal Accounting Policies annexed to the standalone financial statements and Schedule - Principal Accounting Policies annexed to the consolidated financial statements of the Entity, Premises were stated at revalued amount. However, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, had not been disclosed in the financial statements. (Para 37 of AS 10)
- On amalgamation, parent entity had paid stamp duty which was ascertained based on the revalued amounts of Land & Building. However, this value had been apportioned between Land and building on the basis of their historical cost and not on the revalued amounts which was not in accordance with AS 10 (Accounting for Fixed Assets) & the Guidance Note on Revaluation of Fixed Assets.

**AS-11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES**

- The company had not recognized the exchange differences on translation of assets and liabilities as income or expense. Besides, Income and expenditure items had also been converted at the year end rates instead of average rate for a week or a month. The carrying amounts of fixed assets had not been adjusted for increase or decrease in foreign exchange liability as at the date of closing (Para 6, 9 & 10 of AS-11).

**AS-12 ACCOUNTING FOR GOVERNMENT GRANTS**

- Accounting policy did not disclose the treatment of grant received against the fixed assets. Disclosure should be as per Para 14 of AS- 12.

**AS-13 ACCOUNTING FOR INVESTMENTS**

- The audit firm had not disclosed the permanent diminution in value of shares as per AS 13.
- Current Investments were stated to be at the lower of cost or “net realizable value” instead of “fair value”.
- The company had not made any provision for the diminution in the value of long term investments in subsidiaries despite of substantial reduction in their networth which were not temporary in nature. (Para 32 of AS-13)

### AS-15 EMPLOYEE BENEFITS

- In Notes of the financial statements there was no break- up of the nature of Insurer Managed Funds as per Para 120(h) of AS-15.
- A) The Accounting policy of schedule should have described and made a distinction between a Defined Contribution Plan and Defined Benefit Plans.  
(B) (i) No disclosures had been made in respect of Leave Encashment which is a Defined Benefit Plan (ii) in respect of Gratuity and Pension plans only disclosures to be made vide paras 120 (c),(e) & (f) of As 15 (Employee Benefits) have been made. Same observation on consolidated financial statement was observed. (Para 120 of AS-15)
- The amount recognized as an expense for defined contribution plan had not been disclosed in the standalone financial statements and consolidated financial statements of the Entity. (Para 47 of AS 15)
- None of the required disclosures in respect of Gratuity and Pension had been made in Schedule - Notes forming part of the Accounts annexed to the standalone financial statements and Schedule - Notes forming part of the Accounts annexed to the consolidated financial statements of Entity. (Para 120 of AS 15)
- None of the disclosures specified in Para 120 of AS 15 had been made in respect of unavailed leave in Schedule - Notes forming part of the Accounts annexed to the standalone financial statements and Schedule - Notes forming part of the Accounts annexed to the consolidated financial statements of Entity. (Para 120 of AS 15)

### AS-17 SEGMENT REPORTING

- In Notes of the Financial Statements on Segment Reporting, whilst the Bank FDs had been reflected as segment assets since these were earmarked against bonds issued, the income in respect thereof had been considered as unallocated which was against the basic principle enunciated in para 5.8 of AS-17.
- The required disclosures as specified in para 40 of AS 17 had not been made in Schedule - Notes forming part of the Accounts annexed to the standalone financial statements and Schedule - Notes forming part of the Accounts annexed to the consolidated financial statements of Entity.

### AS-18 RELATED PARTY DISCLOSURES

- Under Para 4 clause 3.5 of CARO report loan taken had not disclosed in related party disclosure.
- As per Schedule (Notes Forming Part of the Accounts) associates- names of those for which relationships existed for a part of the year not mentioned but transactions entered into had been given. (Para 23 of AS 18)



- Value of transactions (except for interest paid to/received from sponsor entity) had not been disclosed in Schedule (Para 23 of AS 18)
- The year end balances did not tally with the figures disclosed as a break up to the year end balances- i.e. (op+cy=closing)

#### **AS-19 LEASES**

- There was no disclosure vis-à-vis accounting for “Operating Leases” neither w.r.t. Cancellable nor w.r.t non-cancellable leases- either in the Accounting Policies or in the Notes on Accounts (Para 25).

#### **AS-20 EARNINGS PER SHARE**

- The Company had not disclosed the numerator and the denominator used in order to arrive at the Diluted Earnings per Share in its Notes to Accounts. (Para 48(ii) of AS-20)
- A reconciliation of amount used as numerator with the net profit for the period has not been disclosed. (Para 48 of AS 20)

#### **AS-22 ACCOUNTING FOR TAXES ON INCOME**

- With regard to Long term Capital Loss carried forward recognized as Deferred Tax Asset, the company had relied on the memorandum of understanding entered for sale of the shares in the subsidiary which results in a future long term capital gain. However, relevant disclosure as required under para 32 of AS 22 was not made in the Financials. Moreover, only net Deferred Tax Asset after offsetting deferred tax liability should have been presented (Para 29 of AS-22).
- The company had not reviewed the status of availability of virtual certainty of sufficient taxable income being available against the deferred tax assets while continuing with the Deferred Tax Asset already existing in the accounts. Besides, the breakup of Deferred Tax Assets (net) had not been disclosed in the financial statements. (Para 17, 26 & 31 of AS-22)

#### **AS-26 INTANGIBLE ASSETS**

- Accounting policy doesn't specify the amortization period as per para 90 of AS-26 'disclosure' in case of computer software.
- As per Accounting policy stated in Schedule - Principal Accounting Policies annexed to the standalone financial statements and Schedule - Principal Accounting Policies annexed to the consolidated financial statements of the entity, application software was charged to revenue during the year of acquisition instead of capitalizing it as intangible asset. (Para 20 of AS 26)

**AS-28 IMPAIRMENT OF ASSETS**

- The company had not assessed the impairment of assets despite of the fact that almost all the fixed assets were not in use for quite long and were showing indication of impairment. (Para 6 of AS-28)

**AS-29 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

- Para- 14, Provision for accrued interest on matured fixed deposits had not been made.
- Para- 27 – Contingent liabilities for disputed tax liabilities and other claims by vendors/contractors had not been disclosed.
- Contingent Liabilities for arrears of dividend on Cumulative preference shares had not been disclosed.
- In respect of Movement of Provision for Liabilities disclosed in para Schedule - Notes forming part of the Accounts annexed to the standalone financial statements of the Entity, nature of the obligation had not been disclosed though the nature of obligation for comparative information for previous period had been disclosed. Further, in respect of above Provision for liabilities, timing of outflow, uncertainties about outflows and expected reimbursement had also not been disclosed. (Para 67 of AS 29)
- In respect of Contingent liabilities disclosed in Schedule annexed to the standalone and consolidated financial statements of the Entity, an indication of the uncertainties relating to any outflow and the possibility of any reimbursement had not been disclosed in Schedule. (Para 68 of AS 29)

**REVISED SCHEDULE VI OF THE COMPANIES ACT, 1956/ SCHEDULE III OF THE COMPANIES ACT 2013**

- The Paid up Equity Share Capital was increased during the year as per Note XX of Schedule – XX, representing increase of Rs. XXX. These shares have been issued to Govt. of India, at a premium of Rs. XX per share. The audit evidence in respect of such fresh allotment is not available with the audit firm. The premium amount per share has been incorrectly disclosed in the financial statements.
- Disclosure of Bonus shares allotted during period of 5 years immediately preceding the reporting date and Buy back of shares had not been reported in previous year figures as during the year there was no change in share capital neither bonus shares were issued nor shares were back by the company.
- As per the Revised Schedule VI, in case of loans taken by the company, the repayment terms have to be mentioned but this is not in the case of a loan mentioned in note no. ## of the Balance Sheet, under the heading Long Term Borrowings.
- 1. As per schedule III of the Companies Act 2013 the item (long-term and short-term borrowing needs to specify rate of interest of each loan but in this case it had been shown only for debentures in the schedule.  
2. As per schedule III of the Companies Act 2013 the item (other current assets have to be classified as secured or unsecured and good or doubtful), this classification had not been shown in the audited balance sheet.  
3. As per schedule III of the Companies Act 2013 the debentures have to be shown in the order of maturity but it has not been shown in this order in the Balance Sheet.  
4. As per schedule III of the Companies Act 2013 the loan repayable on demand had not been shown in the schedule of borrowing.  
5. In consolidated Balance Sheet, Audit fees of subsidiaries and joint venture companies are required to be separately shown under the head "Audit Fees" whereas it had been shown under the head "Professional Fees" in Consolidated Balance Sheet.
- The bifurcation of borrowings into short term and long term was made when entire dues were already demanded back by the banks.
- The security for term loan had not been properly disclosed. (Para 8.3.1.11 & 8.3.1.12 of Guidance Note on Revised Schedule VI)
- Review of the financial Statements revealed that the information relating to rate of interest has not been disclosed in respect of the borrowings of the Company.
- Under note: short term borrowings- Loans and advances repayable on demand included fixed deposits (from Public). Fixed deposits or deposits from the public which cannot be classified as payable on demand as these had fixed tenure.

- Debts due from parties beyond 6 months were disclosed but not for the debts due for more than 6 months from the dates they had fallen due for payment. (Clause P of General Instructions for preparation of Balance Sheet).
- Non-current investments as per Guidance Note on Revised Schedule VI – Para 8.7.2.3 Provision for diminution made was not shown script wise. Investments are to be shown as cost less provision for diminution.
- The Company classified its investments in Associates, Subsidiary and Joint Venture as trade investments, whereas investments in other Equity Shares had not been classified as Trade Investments. Since the company was an investment company, all investments should have been classified as trade investments.
- The amount of Investments in India as per the Note is not in agreement with the amount as per Schedule – XX: Investments.
- Amalgamation had been effected in the financial statements during the year. Due to the said amalgamation, figures of the previous year were not strictly comparable with those of current year. This fact was not disclosed in the Notes.
- No provision was considered necessary for the old outstanding balances of sundry debtors, loans and advances, investments, inventories and Capital work in progress.
- The amount of Depreciation and amortization expenses on Fixed Assets in the face of the Statement of Profit & Loss did not match with the amount mentioned in the Fixed Assets Note.
- Review of the financial Statements revealed that the Finance Cost has been shown by way of a deduction from Interest Income in Note: Other Income and not on the face of the Statement of Profit and Loss. (Non-compliance of Para 9.5 of the GN on Revised Schedule VI)

## OTHER RELEVANT LAWS AND REGULATIONS

### Companies (Auditor's Report) Order, (CARO)

- The comment on whether the internal control system of the Company was commensurate with respect to the sale of goods and services was not made. Moreover, auditor had not reported whether there is a “continuing failure to correct major weakness in internal control system.”

- As regards the comments on Internal Audit system of a listed company, it had been commented:

“Since the operations of the company are at a very low level, in our opinion, the company does not require a comprehensive internal audit system”

The compliance of Section 138 of the Companies Act, 2013 read with Rule 13 of the Companies (Accounts) Rules 2014 which require each listed company to have an Internal Auditor, have not been complied with. Even otherwise, the assets and liabilities of the companies are quite substantial requiring proper internal audit system.

- Unpaid disputed statutory liabilities had not been disclosed.

- It has been commented in the audit report that:

“According to the information and explanations given to us the company has given guarantee for loans taken by others to banks or financial institutions excepting corporate guarantee to M/s .....”

The quantum of the corporate guarantee and the entity for which this corporate guarantee was issued has not been disclosed.

- As regards the comments on Internal Control systems of the company, it did not mention which particular area of internal controls were needed to be strengthened.
- In response to the requirement of commenting on cash losses in CARO, the audit report mentioned about the net loss instead of commenting on the cash losses.
- Para (ix) (a) of Annexure to the Independent Auditors' Report (Standalone financial statements) –

Review of the work papers relating to Income Tax computation (including as per limited reviews for intervening periods) embedded in IT Software- Audit Tool reveals material gaps between the amount of Advance Income Tax due to be deposited by the Company as per the Income Tax computation calculation worksheets and the actual amount of Advance Income Tax deposited.

Based on the information available, it can be clearly seen that Advance Income Tax was not deposited regularly as per the corresponding provision provided/ calculated at the end of each quarter and there was a regular/ continuous default in depositing Advance Tax with the amount of short deposit as at the end of the year.

- As per clause no XIV of the Annexure to the CARO report, the observation made by auditor was that the company was not dealing or trading in share/securities/debenture and other investments. However, as per the Cash Flow Statement, the company had purchased Mutual Fund units and redeemed such MF units during the year.

### Others

- Review of the scheme-wise details of total income and expenditure expressed as a percentage of the average daily net assets in Annexure to the financial statements revealed the following:
  - i. Loss incurred in respect of schemes has been included as being part of total expenses.
  - ii. On account of the aforesaid, in a few cases, the total expenses as a % of average daily net assets have exceeded the limits prescribed in the SEBI (MF) Regulations, 1996.  
The aforesaid incorrect inclusion of the scheme-wise loss with the other expenses resulted in an incorrect disclosure in Annexure VII. (Requirement of para (v)(A)(d) of para 4 & para 52 relating to contents of the Scheme-wise Revenue Account as referred to in the Eleventh Schedule of SEBI (mutual funds) Regulations, 1996)
- The Checklist / Annual Declaration of Independence which is obtained from the partners and qualified staff as is currently designed does not refer to the interests of relatives in holding of securities and providing guarantees etc. as per Section 141(3)(d) of the Companies Act, 2013. Further, the checklist does not have a provision for obtaining a positive affirmation that the staff have gone through the list of clients based on which they have complied with the independence requirements. This would make it difficult to comprehensively ensure whether the revised independence requirements under the Companies Act, 2013 have been complied with.
- In terms of the Listing Agreement with SEBI, the Cash Flow Statement had to be presented only under Indirect Method as given in Accounting Standard 3: Cash Flow Statements issued by the ICAI, but the Cash Flow Statement was presented under Direct Method. (Clause 32 of Listing Agreement for Equity with SEBI)
- The LFAR contains the wordings “Compiled by the Management and relied upon by the Auditors” which gives an impression to the reader that no audit had been carried out and only reliance had been placed upon the compilation by the Bank’s management.
- No disclosure, as required per Sec. 22 of MSMED Act, 2006, had been made.
- In Schedule 14 [to third schedule of the Banking Regulation Act, 1949] Other income: The following had been shown as Net balances instead of at Gross amounts:-
  - (i) Profit/(loss) on sale of Investments
  - (ii) Profit/(loss) on Revaluation of investments
  - (iii) Profit/(loss) on Sale of Land, Buildings & Other assets
  - (iv) Profit/(loss) on Exchange transactions

- As per Para 3 of Master Circular of RBI, valuation of investments:-
  - para 3.4(a)-Held to maturity- impairment, if any, not mentioned
  - 3.4(b) Available for Sale (AFS)-(i) the details of valuation mentioned against this category are equally applicable to Held for trading category also. However, the opening sentence states “Investments under this category are marked to market scrip wise as under” which conveys the meaning that the details per this para are applicable only to AFS category. In respect of Government securities (both Central and state) the valuation is not per the RBI directions. Further, it does not state about the method of valuation for unquoted securities.
  - (ii) In respect of equity shares (unquoted) the Valuation should be at ‘break-up Value (without considering revaluation reserves, if any)’ and not ‘book value’ as mentioned
  - (iii) Venture Capital- the mentioned method is applicable only to units issued by such funds. It is not applicable to Shares/bonds issued by such funds
  - (iv) Held for Trading (HFT) - the method mentioned is not per the Master circular of RBI
  - (v) There is no mention of method for identification of Non Performing Investments (NPI), accounting for income recognition and Provision for the same has not been mentioned
  - (c)Para 3.6:Income recognition-(i) In respect of profit on sale of securities in HTM category- ‘an equivalent amount is appropriated to the Capital reserve’- as per the Master circular the same should be net of taxes and the amount transferred to Statutory Reserve
- Investment reserve should be a part of Revenue and Other Reserve and not ‘Capital Reserves’ [para 3.4 of Master circular RBI/2013-14/109 DBOD No BP.BC. 8 /21.04.141/2013-14 July 1, 2013-Investment Reserve Account (IRA)]
- (i) Capital-Common equity Tier I Capital ratio not disclosed (ii)Amount of Equity Capital raised- not mentioned, (iii)Amount of Tier 1 capital raised of which---no amount mentioned,
  - (iv) Amount of Tier II Capital –disclosure not per requirement [RBI/2013-14/58 DBOD.BP.BC No.7/21.04.018/2013-14 July 1, 2013; para 3.1, not complied with]
- Business Ratios- items (v) &(vi) reported in lacs instead of Crores [Master circular RBI/2013-14/58 DBOD.BP.BC No.7/21.04.018/2013-14 July 1, 2013; para 3., 5]
- Segment Reporting: The details have been disclosed vertically which is not per the master circular of RBI [Master circular RBI/2013-14/58 DBOD.BP.BC No.7/21.04.018/2013-14 July 1, 2013, para 4.4]
- Details of Letters of Comfort – their assessed cumulative financial obligations under LOCs issued by the bank in the past and outstanding have not been disclosed [Master circular RBI/2013-14/58 DBOD.BP.BC no.7/21.04.018/2013-14 July 1, 2013 para 5.5]
- Banks are to disclose drawdown from reserves. No such disclosure is made by the Bank inspite of apparent drawdown from revaluation reserve, revenue and other reserves and

Share premium accounts (Para 5.3 of master Circular RBI/2013-14/58 DBOD.BP.BC No.7/21.04.018/2013-14 July 1, 2013)

- Though the fact of difference in Accounting policies has been disclosed vide note (Schedule ##), the proportions have not been disclosed (Para 10 of RBI circular DBOD.No. BP.BC. 72 /21.04.018/2001-02 dated Feb. 25,2003 on Guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision- FORM OF CONSOLIDATED PROFIT AND LOSS ACCOUNT OF A BANK AND ITS SUBSIDIARIES-)

Consolidated Financial Statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to do so, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

- In Consolidated Financial statements- (a) (Schedule ##) deferred Tax Liabilities – there is no change in the DTL on Special Reserve u/s36 (1)(viii)(as compared to Standalone) even though there is an appropriation towards the same in CFS (RBI/2013-14/412 DBOD. No. BP. BC.77/21.04.018/2013-14 December 20, 2013, Para 3)

- Movement has not been shown in case of Special Reserve (Master Circular of RBI on Disclosures Para 5.3)

- The following foot note has been given under para XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank:

“The above data has been compiled on the basis of guidelines of Reserve Bank of India and estimates in respect of certain Off Balance Sheet items made by the management and relied upon by the Auditors. In respect of Basel II, the system deficiencies/ data errors noticed / reported were addressed at Central Office. Based on the extensive exercise undertaken, Bank is of the view that, unrectified deficiencies, if any, will not have a significant impact on the overall reported Capital Adequacy.”

However, the Audit Firm has not maintained any documentation regarding communicating with those charged with governance, the un-corrected misstatements and requesting that the uncorrected misstatement be corrected. The Audit Firm has also not maintained any documentation and audit evidence to determine whether the uncorrected misstatement is material. (Para 3.1 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts' dated 1st July, 2013)

- The following disclosures required as per the referred Master circular has not been made in para XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank for the year ended 31.03.20XX:

- (i) Common Equity Tier 1 capital ratio (%) – Even if Nil or NA the same should be specified.
- (ii) Amount of equity capital raised.



(iii) Amount of Additional Tier 1 capital raised with break up in Perpetual Non-Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDI)

(iv) Breakup of Additional Tier II capital raised into Debt capital instruments and Preference Share Capital Instruments.

(Para 3.1 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts' dated 1st July, 2013)

- It is noted that figures for Basel I as disclosed under CRAR (%), CRAR-Tier-I Capital (%) and CRAR-Tier-II Capital (%) in para XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank has not been disclosed in comparative figures for previous period in para XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank. (Para 3.1 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts' dated 1st July, 2013)
- It is noted that in column XX of Note XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank with respect to 'Non SLR Portfolio', the amount is not tallied with the total amount in Shares, Debentures & Bonds, Subsidiaries / Joint Ventures and Others shown in Schedule XX – Investments annexed to the standalone financial statements of Bank i.e. there is a difference.
- It is noted that nature and terms of the swaps including information on credit and market risk has not been disclosed in Schedule– Notes forming part of the Accounts of the standalone financial statements of Bank. (Para 3.3.1 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts' dated 1st July 2013)
- In the standalone financial statements of Bank, closing balance as on March 31st March, 20XX in respect of 'Particulars of Restructure Accounts' given in para XX of Schedule XX – Notes forming part of the Accounts is not tallied arithmetically with opening balance as on April 1st 20XX + Fresh Restructuring during the year including additional / fresh sanctions to existing restructured accounts + Adjustments for movement across asset categories – Restructured standard advances which cease to attract higher risk weight and / or provision – reductions due to write offs / sale/ recovery, etc. for which the difference is not reconciled. The fact to this effect along with reconciliation in progress has been disclosed. (Para 3.4.2 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts dated 1st July 2013)
- Maturity pattern of Domestic Deposits and Domestic Advances has been disclosed in para XX of Schedule XX – Notes forming part of the Accounts of the standalone financial statements of Bank rather than total Deposits and total Advances. (Para 3.6 of 'Master Circular- Disclosure in Financial Statements- Notes to Accounts dated 1st July 2013)
- As per the audited financial statements, the disclosure under item No. XX was appearing as Profit on Sale of Investments (Net) instead of showing separately as per disclosure requirement under Banking Regulation Act.

- In respect of the Schedule in respect of “Profit on Sale of Land, Buildings and other Assets” and “Profit on Exchange transactions” respectively, the words Net have been used in the financial statements representing that the Profit / Loss have been netted off instead of being shown separately as per the requirements of the Act. (Disclosure requirement under Banking Regulation Act)
- As per para No. 3.4.5 of RBI Master Circular on Disclosures in Financial Statements – Notes on Accounts “Provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Provisions against Standard Assets', under 'Other Liabilities and Provisions - Others' in Schedule No. XX of the balance sheet”.
- As per foot note to Note No. XX of Schedule – XX it was stated that the data has been compiled on the basis of guidelines of RBI and estimates in respect of certain off balance sheet items, made by the management and relied upon by the auditors. The firm had not retained audit evidence in this regard. It was also stated that in respect of Basel – II, the system deficiencies / data errors noticed / reported were addressed at central office, bank was of the view that the unrectified deficiencies, if any, will not have a significant impact on the overall reported CRAR. However, there was no audit evidence in the file as to how the deficiencies have been rectified by the management. (Banking Regulation Act)
- As per foot note to Para No. 3.3.1 of RBI Master Circular on Disclosures in Financial Statements – Notes on Accounts, certain disclosures are required to be made in respect of Forward Rate Agreement / Interest Rate Swap, pertaining to Nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps. The information required was not disclosed in the financial statements.
- As per Para No. 5.1 of RBI Master Circular on Disclosures in Financial Statements – Notes on Accounts, pertaining to disclosures for Provisions and Contingencies, there is a requirement for disclosure for Provision made towards Income tax.  
As per the financial statements at Para XX of Schedule – XX the disclosure has been made for taxes, which may include apart from Income Tax, other taxes also. Thus, the disclosure should have been made separately for Income Tax as well as for other taxes. Hence, the disclosure requirements of the Master Circular has not been complied with, to that extent.
- It is mentioned in the foot note (1) of Para 3.2.2 on Non SLR Investment Portfolio of the master circular on disclosures that total of Non SLR investments representing Issuer wise composition of SLR investment should tally with the total of Investments included under the categories in Schedule XX to the balance sheet.
- As per the format of LFAR for the head office of the bank prescribed by RBI, there are certain items / clauses which have been prescribed under Sl. No. VIII - Other Matters out of which the information in respect of some of the matters has not been given, the same are as under:

- a. Policies and systems for monitoring activities such as underwriting, derivatives etc.
- b. Adequacy of provisions made for off-balance sheet exposures and other claims against the bank
- c. Balances with other banks – observations on outstanding items in reconciliation statements
- d. Any major observation on branch returns and process of their consolidation in final statement of accounts.

- The unquoted figures wrt Investor group wise classification of all investments (current and long-term) in shares and securities include investments in property also, whereas the details required by RBI in this section is w.r.t investments in shares and securities only.
- As Per IRDA Regulation, if any figure is mentioned under the heading of “OTHERS” to be specified, which is not complied by Entity, only consolidated figure is mentioned.
- As per format specified by IRDA Regulation as follows: Provisions (Other than Taxation)
  - (a) For diminution in the value of investments (Net)
  - (b) Provision for doubtful debts
  - (c) Others (to be specified)

But Provisions for doubtful debts has not been considered/incorporated under the head of provisions (Other than Taxation) while preparing the profit & Loss Account for the year ended 31st March, 20XX.

It is presented in profit & Loss Account as under:

Provisions (Other than Taxation)

- (a) For diminution in the value of investments (Net)
- (b) Others (to be specified)

Therefore it has not been prepared as per format prescribed by IRDA Regulation.

IRDA Regulation prescribed the format to incorporate Bad debts written off in Profit & loss Account but while preparing the profit & loss Account It has not been incorporated/considered.

Therefore it has not been prepared as per format prescribed by IRDA Regulation.

- Schedule -5A [Pattern of shareholding] has not been prepared by Entity, as prescribed under IRDA regulations.
- As per Format Prescribed by IRDA Regulation- Current & Previous Year figures must be shown in a column sequence, which has not been complied by Entity.
- Format is prescribed by IRDA Regulation, “Net Commission” but Entity has prepared this schedule by mentioning “Total Commission”, which is not in accordance with format prescribed by Regulation.

**Details of Meetings held during FY 2016-17:**

The details of meetings of the Quality Review Board, constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949, and Quality Review Group/ various other Sub-Committees constituted by the Board during the financial year 2016-17 are as follows:-

**Quality Review Board**

1. 47<sup>th</sup> meeting of the Quality Review Board held on 30<sup>th</sup> April, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
2. 48<sup>th</sup> meeting of the Quality Review Board held on 4<sup>th</sup> August, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
3. 49<sup>th</sup> meeting of the Quality Review Board held on 5<sup>th</sup> December, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.

**Quality Review Group**

4. 21<sup>st</sup> meeting of the Quality Review Group constituted by the QRB held on 11<sup>th</sup> April, 2016 and continued on 28<sup>th</sup> April, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
5. 22<sup>nd</sup> meeting of the Quality Review Group constituted by the QRB held on 17<sup>th</sup> May, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
6. 23<sup>rd</sup> meeting of the Quality Review Group constituted by the QRB held on 23<sup>rd</sup> June, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
7. 24<sup>th</sup> meeting of the Quality Review Group constituted by the QRB held on 4<sup>th</sup> October, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
8. 25<sup>th</sup> meeting of the Quality Review Group constituted by the QRB held on 21<sup>st</sup> November, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
9. 26<sup>th</sup> meeting of the Quality Review Group constituted by the QRB held on 06<sup>th</sup> February, 2017 at ICAI Bhawan, Indraprastha Marg, New Delhi.

**Sub-Committee-I**

10. 12<sup>th</sup> meeting of the Sub-Committee-I constituted by the QRB held on 12<sup>th</sup> April, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.
11. 13<sup>th</sup> meeting of the Sub-Committee-I constituted by the QRB held on 19<sup>th</sup> July, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.

**Audit Committee of QRB**

12. 2<sup>nd</sup> meeting of Audit Committee of QRB held on 26<sup>th</sup> September, 2016 at ICAI Bhawan, Indraprastha Marg, New Delhi.

## Procedure for Quality Review of Audit Services of Audit Firms

### *Introduction*

1. In exercise of the powers conferred by Section 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government, by notification, constituted a Quality Review Board consisting of a Chairperson and ten other members. Quality Review aims to assess the quality of audit of the financial statements of a company as well as the work done by the auditors in carrying out their statutory function.

### *Definitions*

2. In these procedures, unless the context otherwise requires, :-

(a) "Board" means the Quality Review Board constituted under Section 28A of the Chartered Accountants Act, 1949.

(b) "Council" means the Council of the Institute of Chartered Accountants of India.

(c) "Institute" means the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949).

(d) "Member" means a member of the Institute of Chartered Accountants of India.

(e) "Notification" means a notification published in the Gazette of India.

(f) "Stakeholders" in respect of a company may include shareholders, investors, creditors, suppliers, customers, Government, employees, trade unions and society.

(g) "Technical Standards" include:-

- i. Accounting Standards issued by the Institute of Chartered Accountants of India;
- ii. Statement on Standard Auditing Practices and Engagement Standards issued by the Institute of Chartered Accountants of India;
- iii. Framework for the Preparation and Presentation of Financial Statements and Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services issued by the Institute of Chartered Accountants of India;
- iv. Statements issued by the Institute of Chartered Accountants of India;

- v. Compliance of the Guidance Notes issued by the Institute of Chartered Accountants of India;
  - vi. Notifications/Directions issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature; and
  - vii. Compliance of the provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed.
3. Words and expressions used and not defined in these procedures but defined in the Companies Act, 1956 (1 of 1956) or Chartered Accountants Act, 1949 (38 of 1949), shall have the same meanings respectively assigned to them in those Acts.

#### **Scope and functions of the Board**

4. Section 28B of the Chartered Accountants Act, 1949 provides that:

“The Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.”

5. In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C and Sub-section (1) of Section 28D of the Chartered Accountants Act, 1949, the Central Government has made ‘Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006’. Rule 6 specifies that the Board may, in discharge of its functions: –

- a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;

- c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;
- d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
- e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

6. The Quality Review Board has decided that the *modus operandi* for accomplishment of the quality inspection and assessment of the work of Auditors while carrying out audit function needed to be worked out so that the Board could not only assess the quality of audit but also the work done by Auditors in carrying out their statutory function. Further, the broad contours and requirements of review and the manner in which such review would be carried out, should not only be made known to users, stakeholders and service providers, in advance, but should also be transparent.

### **Manner of Review**

7. Quality Review under the Chartered Accountants Act, 1949 is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. The Quality Review would involve inspection and assessment of the work of auditors while carrying out the audit function so that the Board is able to assess:

- a) the quality of audit and reporting by the auditors; and
- b) the quality control framework adopted by the auditors/ audit firms in conducting audit.

However, these procedures for review of quality of audit services of audit firms would not extend to internal audit services provided by the members of the Institute which shall be covered by the Board at a later stage. Further, these procedures would also not extend to services provided by the members of the Institute, in employment.

### **Selection of Audit Firms**

8. Quality Review may be introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be on the basis of following criteria:

(a) *Criteria based on companies whose accounts have been audited:*

- i. In the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected on the basis of one or more of the following:-
  - random selection;
  - on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
  - regulatory concerns pointing towards stakeholder risks;
  - reported fraud or likelihood of fraud;
  - major non-compliances with provisions relating to disclosures under relevant statutes.
- ii. The Board may review the general purpose financial statements of the enterprises and the auditor's report thereon with a view to assessing the quality of audit and reporting by the auditors either *suo moto* or on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs etc. The Board may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements may have been highlighted by the media and other reports. The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.
- iii. The Board may select any enterprise for *suo moto* review of its general purpose financial statements with a view to assessing the quality of audit and the auditor's report thereon. The selection for *suo moto* reviews may, however, be done using methods such as random sampling, selection of particular class or classes of enterprises/audit firms.
- iv. The Secretariat should place the details of the enterprises, selected for review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'.



*(b) Criteria based on Audit Firms auditing the accounts:*

Selection of audit firms should also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose.

***Constitution of Quality Review Groups***

9. The Board may constitute one or more Quality Review Groups (hereinafter referred to as Review Groups) to conduct preliminary reviews of the general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, in consultation with the Board. There could be two categories of the Review Groups:

(a) Industry Specific; and

(b) Generic.

10. Industry Specific Review Groups may be constituted for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.

11. Each of the Review Group would be assisted by Technical Reviewer(s), who may be an outsourced service provider. The job of the Technical Reviewer(s) would be to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the auditors/ auditing firms in conducting audit.

***Functioning of the Review Groups***

12. The report, so prepared by the Technical Reviewer, may be considered at the meetings of the Review Group. The Review Group may also consult the Board on any issue, on which the Group feels that the guidance of the Board is necessary.

13. The Review Group may complete the review of cases referred to it and submit its report on the same to the Board within the specified period of time. The Board may, however, extend this time limit for submission of reports by the Review Group.

14. The report of the Review Group shall expressly state the following:

(a) Particulars of the enterprise;

- (b) A detailed description of the non-compliance with the matters stated in the Terms of Reference of the Board, if any;
- (c) A detailed description of the evidences that support the non-compliance; and
- (d) Review Group's recommendations about the actions that are required to be taken in a particular case.

15. The members of the Review Groups and the Technical Reviewer/s may be entitled for reimbursement of travelling expenditure incurred in connection with the meetings of the Review Groups equivalent to that is reimbursable to a member of the Council of the Institute. Members of the Review Groups (other than the ICAI's Central Council Members, Regional Council Members and the Members of the Branch level Management Committee) and Technical Reviewer/s would be eligible for such an amount of honorarium that would be decided by the Board from time to time.

### **Reporting**

16. The reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report. The reviewer, based upon his satisfaction from the representation by the audit firm, may decide to issue either an interim report or a final report to the Board. The purpose is to establish the guidelines on the form and contents of the reviewer's report issued pursuant to review of the quality of audit services of an audit firm.

17. The reviewer should adhere to the principle requirements mentioned while preparing his report. It may be noted that the requirements mentioned apply to the interim as well as the final reports of the reviewer.

18. Reviewers, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A clean report indicates that the reviewer is of the opinion that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a reviewer may qualify the report due to one or more of the following:-

- ◆ non-compliance with technical standards;
- ◆ non-compliance with relevant laws and regulations;
- ◆ quality control system design deficiency;
- ◆ non-compliance with quality control policies and procedures; or

- ◆ non-existence of adequate training programmes for staff.

### ***Basic elements of the Reviewer's Report***

19. The report should contain:

(a) Elements relating to audit quality of companies:-

- i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
- ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.
- iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.

(b) Elements relating to quality control framework adopted by the audit firm in conducting audit:-

- i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.
- ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.
- iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

20. The Quality Review Report should be issued on the reviewer's (individual) letterhead and signed by the reviewer. The report should be addressed to the Board and should be dated as of the date of the conclusion of the review.

### ***Guidelines for qualifying Review Report***

21. In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed in respect of following matters:

- (a) whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- (b) whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- (c) whether independence of audit firm/ auditors is maintained in conducting audit.
- (d) whether the firm has instituted adequate mechanism for training of staff.
- (e) whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- (f) whether the skill and competence of assistants are considered before assignment of attestation engagement.
- (g) whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.
- (h) whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (i) whether the audit firm maintains the permanent file and the current file as per the standards laid down by the ICAI.
- (j) whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- (k) whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

### ***Consideration of the Reports of the Review Groups***

22. The Review Group's Report on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of Comptroller and Auditor General of India (C&AG), on case to case basis, and the C&AG's views, if any, shall be put-up before

the Board along with the Report (on the particular PSU) of the Review Group. In all other cases, the Review Group's Report along with the decision of the Board on the quality of audit by the auditor of a PSU should be furnished to the Office of the C&AG for information.

23. The reports of the Review Groups on the quality of audits by the auditors of enterprises (other than those covered under Para 22) shall be placed before the Board for its consideration directly.

24. The Board may, after due consideration of the report and comments of Office of C&AG, wherever applicable, decide whether the recommendation made by the Review Group should be accepted or otherwise. The Board may, *suo moto*, take such further action, as it may deem appropriate. If the Board decides against the recommendations made by the Review Group in its report, the Board shall record the reasons for doing so.

#### ***Actions to be recommended by the Board***

25. The actions that the Board may recommend include:

- (a) Referring the case to the Director (Discipline) of the Institute for necessary action under the Chartered Accountants Act, 1949;
- (b) Informing the details of the non-compliance to the regulatory bod(y)/ies relevant to the enterprise;
- (c) Intimating the Auditor as to the findings of the Report as well as action initiated under Para 25 (a) and/or (b);
- (d) Consider the matter complete and inform the audit firm/auditor accordingly.

#### ***Review Team composition and cost***

26. The composition of the review team should depend on the size of the companies audited by the audit firm selected for the purpose of review. The composition of the team, being multi-disciplinary in nature and mandatorily headed by an individual Chartered Accountant, having not less than 15 years experience in practice, may also include one or more of the following: –

- (a) Experts or persons with industry specific experience;
- (b) Academician possessing knowledge of the industry or accountancy;
- (c) Other experts depending on the nature of analytical work emerging from the review.

However, no firm of Chartered Accountants may be included as a member of the review team.

27. The Board should be able to obtain the services of experts including from ICAI. Funding of such cost may be sought from Government of India through contribution from the Investors Education and Protection Fund (established by the Central Government) since the primary objective is sustenance and enhancement of quality of audit and related services, and the function was exercised to ensure that the public duties of an auditor were properly discharged in the interest of investors. In addition, if a review is needed to be carried out on a request by a Regulator or Government Agency, that Regulator or Government Agency may fund the cost of such review.

### ***Confidentiality***

28. The Board shall be bound to keep all the matters referred to it as well as any other information, papers, documents, etc. received during the course of the review confidential. Similar confidentiality conditions shall also apply to the members of the Review Groups and the Technical Reviewers associated with the Board.

### ***Declaration(s) to be obtained from audit firms***

29. The following declarations have been identified as particularly relevant:-
- a) the term “conflict of interest” would be defined/spelt out clearly without any ambiguity;
  - b) appropriate declaration be obtained from the audit firm including its partners and companies with reference to its / their “interest”, if any, respectively on the company and audit firm.

### ***Publication of the findings observed by the Board***

30. With a view to apprising the stakeholders and others concerned about the findings observed during the review, the Board may publish the same in the manner considered appropriate by it.

### ***Power to amend or modify operating Procedures***

31. These operating procedures have been prepared by the Board to provide a broad framework for its functioning. It is recognised that the procedures to be followed by the Board might require modification/amendment for the efficient and effective functioning of the Board. Wherever the Board is of the view that these operating procedures require modification in the light of the experience gained, it may amend or modify the operating procedures as it may deem appropriate.

### ***Broad Checklist for Quality Reviews***

In addition to compliance with the statutory provisions and technical standards, the following broad checklist may be considered for Quality Reviews:-

1. Whether the company has prepared and presented the financial statements in the format relevant to it?
2. Examine the accounting policies of the enterprise.
  - Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI.
  - Whether all significant accounting policies that should have been disclosed are disclosed.
  - Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
3. Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards have been made.
4. Where the audit report is qualified:
  - Whether the qualifications have been made in a clear and unambiguous manner;
  - Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same;
  - Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements.
5. Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.
6. Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.
7. Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
8. Does auditor monitor compliance with policies and procedures relating to independence?

9. Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?
10. Does auditor/audit firm has established procedures for record retention, including security aspects?
11. Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
12. Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?



On the letter head of Technical Reviewer

### **Specified Format for Final Report of Technical Reviewer**

#### **TECHNICAL REVIEWER'S REPORT**

**Date:**

Ref: *(Reference number to be mentioned for future correspondence)*

To  
The Chairperson  
Quality Review Board (QRB)  
(Insert address)

**Sub:** Quality review of (M/s XYZ & Co – Mention the Firm Name with the Firm Registration Number (the "Statutory Auditor" / the "Firm"/ the "Audit Firm")) in respect of Statutory Audit of ABC Company Limited ("the Company") for the year ended (As applicable)

**Ref:** No. XXX, dated Month XX, 20XX

#### **Final Report on the Quality Review of the Audit Services of the Firm**

With reference to your letter no XXX dated XXXX, I have conducted the Quality Review of M/s XYZ & Co (Firm Registration No...../Membership Number.....) ("the Audit Firm") in respect of the Statutory Audit of ABC Company Limited ("the Company"), for the year ended .....in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB ("the Procedures").

#### **Brief Profile of the audit firm**

M/s XYZ & Co. ("the Audit Firm") was established in the year xxxx. It operates with \_\_\_ (update as applicable) branches across India.

As informed to me, currently there are xx partners, xxxx professional and other staff including articles and semi-qualified (amend suitably based on information available).

#### **Audit Firm's Responsibility**

The compliance of conditions with applicable technical standards in India and other applicable professional and ethical standards, relevant laws and regulations, implementation of a system of quality control with reference to the applicable quality control standards, standards on auditing etc., is the responsibility of the Audit Firm and, the compliance with the accounting standards and the generally accepted accounting

principles while preparation and presentation of financial statements is that of the Management of the Company.

The Audit Firm's responsibility is to express an opinion on the financial statements of the Company for the year ended.....based on its audit. The Audit Firm is required to conduct their audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that they comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

### **Technical Reviewer's Responsibility**

A quality review of the audit services of the firm in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB ("the Procedures") involves interviewing, making enquiries and performing such other procedures to examine whether the Firm has complied with the applicable technical standards relating to the audit of the financial statements, the professional and ethical standards as issued by the Institute of Chartered Accountants of India (ICAI) including whether the Firm has considered SA 240 "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by ICAI and considered relevant laws and regulations. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards.

My examination and review was limited to procedures and implementation thereof, adopted by the Audit Firm for ensuring the compliance of

- Whether the Statutory Auditor has ensured compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- whether the Statutory Auditor/ Audit Firm has implemented a system of quality control with reference to the applicable quality control standards;
- whether the Statutory Auditor has considered SA 240, "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by The Institute of Chartered Accountants of India (ICAI); and
- Whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company,

It is neither an audit nor an expression of opinion on the financial statements of the Company. I further state that such compliance is neither an assurance as to the future viability of the Audit Firm / Company nor of the efficiency or effectiveness with which the Audit Firm has conducted the audit of the Company.

### **Basis for Qualified Report**

According to the Procedure for Quality Review of Audit Services of Audit Firms issued by the Quality Review Board, the report is being qualified in respect of the following matters which represent deviations/non-compliance:

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
<b>Example:</b>		
<b>SA 505 Revised – External Confirmations</b>	<p>It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. I have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances.</p> <p>The Firm has not documented the reasons for Management's refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).</p>	<b>C-2</b>

#### Other matters for improvement

Certain areas for improvement in terms of strengthening of policies and certain aspects relating to planning, risk assessment / documentation and certain disclosure requirements in relation to the financial statements of the Company for the year ended March 31, 20xx (please add any other relevant areas) have been detailed as under :

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
<b>Example:</b>		
SQC -1	<p>The Firm has an overall Policy document dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues:</p> <ul style="list-style-type: none"> <li>(a) Recruitment;</li> <li>(b) Performance evaluation;</li> <li>(c) Capabilities;</li> <li>(d) Competence;</li> <li>(e) Career development;</li> <li>(f) Promotion;</li> <li>(g) Compensation; and</li> <li>(h) Estimation of personnel needs.</li> </ul> <p>It is noted that there is no systematic manner of implementation of certain aspects of the Policy in terms of competencies, career development, evaluation etc.</p>	<b>C-1</b>

## Report

In issuing the report, I have considered the size of the Audit Firm (Refer the brief profile of the Audit Firm stated above), the extent of the applicability of Standard on Quality Controls and the relevant documentation to be maintained by the Audit Firm.

I enclose in the Final Report (Appendix – I) certain findings/observations viz., Elements relating to audit quality of companies, Elements relating to quality control framework adopted by the Audit Firm in conducting the aforesaid audit and other matters which include my comments arising out of the examination of the audited financial statements of the Company for the year ended XXXX in terms of my scope. Such matters, along with my comments / recommendations thereon have been discussed with the Audit Firm during the course of my review and their responses have been included insofar as my observations are concerned.

Based on my review conducted and subject to the weaknesses and deficiencies stated in the under the paragraph 'Basis for Qualified Report' and read with my comments under the paragraph 'Other matters for improvement' and our findings/observations stated Appendix I, nothing has come to my attention that causes me to believe that the Audit Firm has not complied with the aspects covered in terms of my scope mentioned in the "Technical Reviewer's Responsibility" paragraph.

QRB reviews are designed to identify and address weaknesses and deficiencies related to how a firm performs audit work. To achieve that goal, QRB reviews include reviews of certain aspects of selected audit work performed by the firm and certain aspects of the firm's quality control system. It is not the purpose of a review, however, to review all of a firm's audit work or to identify every respect in which reviewed audit work is deficient. Accordingly, a Technical Reviewer's report should not be understood to provide any assurance that the firm's audit work, or the relevant Company's financial statements or reporting on internal control, are free of any deficiencies not specifically described in a review report.

QRB Reviews encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The QRB, however, has no authority to prescribe the form or content of the Company's financial statements. That authority, and the authority to make binding determinations concerning whether a Company's financial statements are misstated or fail to comply with the disclosure requirements, rests with the relevant authority under the Companies Act or under the Listing Agreements with the Stock exchanges, SEBI or any other applicable Authority. Any description, in this report, of financial statement misstatements or failures to comply with such disclosure requirements should not be understood as an indication that the relevant Authority has considered or made any determination regarding these issues unless otherwise expressly stated.

I am also enclosing the Appendix II and III as required by the QRB, which is an attachment to the Final Report. In Appendix IV, I have enclosed brief profile of myself and each one of my assistants who assisted me in carrying out the above Quality Review assignment.

I would like to take this opportunity to thank the Partners, Managers and other personnel of the Audit Firm who have assisted me in carrying out my review.

*Technical Reviewer*  
Chartered Accountant  
Membership Number  
Signature  
(Name of the Member Signing the Report)

Enclosures:

1. Appendix I to Final Report
2. Appendix II
3. Appendix III
4. Profile of Technical Reviewer and Assistants on the engagement (Appendix IV)

**Template Appendix 1**

<b>C-1</b>	<b>Quality Control, Ethical requirement and Audit Independence</b>	
	<p><b>Example:</b></p> <p><b>Background:</b></p> <p>Paragraph 36 of SQC -1 on Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements (herein after referred as “SQC 1”) states:“<i>The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</i>”</p> <p><b>Comment:</b></p> <p>The Firm has an overall Policy document dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues:</p> <ul style="list-style-type: none"> <li>(a) Recruitment;</li> <li>(b) Performance evaluation;</li> <li>(c) Capabilities;</li> <li>(d) Competence;</li> <li>(e) Career development;</li> <li>(f) Promotion;</li> <li>(g) Compensation; and</li> <li>(h) Estimation of personnel needs.</li> </ul> <p>It is noted that there is no systematic manner of implementation of the professional education, continuing professional development, training aspects of the Policy in terms of competencies.</p>	<p><b>Recommendation:</b></p> <p>The implementation of the detailed policies and procedures in respect of personnel matters needs improvement.</p> <p><b>Firm’s Response:</b></p> <p>We have noted the comments made by the reviewer and his recommendations. We shall improve the implementation process as suggested.</p>

<b>C-2</b>	<b>SA 505 Revised – External Confirmations</b>	
	<p><b>Background:</b></p> <p>Paragraph 8 of SA 505 states that - If management refuses to allow the auditor to send a confirmation request, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness;</li> <li>(b) Evaluate the implications of management’s refusal on the</li> </ul>	<p><b>Recommendation:</b></p> <p>The Firm has to mandatorily comply with the requirements of the Standards on Auditing and where</p>

	<p>auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and</p> <p>(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.</p> <p><b>Comment:</b></p> <p>It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. We have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances.</p> <p>The Firm has not documented the reasons for Management's refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).</p>	<p>departures are made, should document such circumstances and perform alternative procedures in accordance with the requirements of the Standards.</p> <p><b>Firm's Response :</b></p> <p>Noted.</p>
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### Glossary

SQC	Standard on Quality Control
SA	Standards on Auditing
CARO	Companies Auditor's Report Order

**Appendix II****Name of Technical Reviewer (TR) & ICAI M. No.:****TR No.:****Reviewed Audit Firm:****Reviewed Audit Firm Registration No.:****Quality Review (QR) Assignment:**

<b>1 General</b>		<b>Technical Reviewer's Comments</b>
(i)	Whether Final report is issued on TR's (individual) letterhead.	
(ii)	Whether Final report has been signed and dated and addressed to the Chairperson, Quality Review Board.	
(iii)	Whether copy of Final Report was sent to the reviewed Audit Firm. If yes, please mention date of sending.	
(iv)	Whether an attachment which describes the quality review conducted including an overview and information on planning and performing the review has been enclosed with the Final Report.	
(v)	Whether Final report makes a reference to the preliminary report. Whether comments on this included in the Final Report.	-
(vi)	Whether preliminary report issued by the TR contained any deficiencies? If yes, please specify the areas of deficiencies?	
(vii)	Whether audit firm has responded to the preliminary report?	
(viii)	Whether copy of preliminary report issued and the response of the audit firm thereon has been sent to the Quality Review Board.	
(ix)	a. Whether TR is satisfied with the response of the audit firm on the preliminary report. If the preliminary report contained any areas of deficiencies and the TR is satisfied with the response of the audit firm, please also enclose a statement justifying the reasons for such satisfaction in respect of each of the matters stated in the preliminary report.	
	b. If the TR is not satisfied with the response of the audit firm, whether interim report or qualified report has been issued?	



	(x)	Where the TR concludes that a modification in the report is necessary, a description of the reasons for modification.	
	(xi)	Is the Final Report qualified? If yes, please specify.	
	(xii)	Whether Quality Review Program Questionnaire with the audit firm's response and the TR's comments thereon enclosed with the Final Report?	
	(xiii)	Whether brief profile of the Technical Reviewer and each one of the assistants has been enclosed alongwith the Final Report?	
	(xiv)	Whether brief profile of the audit firm reviewed, giving details such as its constitution, structure etc. has been enclosed alongwith the Final Report?	
<b>2 Elements relating to audit quality of companies</b>			
<b>(a)</b>			
	(i)	A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitations.	
	(ii)	A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.	
	(iii)	A statement indicating the instances of lack of compliance with relevant laws and regulations.	
	(iv)	Whether review of internal control systems was carried out properly in performing attestation engagement?	
	(v)	Whether the quality of audit reports in respect of format and content found proper? If no, please specify.	
<b>(b) Elements relating to quality control framework adopted by the audit firm in conducting audit</b>			
	(i)	An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.	
	(ii)	A statement indicating that the system of quality control is the responsibility of the reviewed firm.	

	(iii)	An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestations services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.	
	(iv)	Whether general controls are in existence and operating effectively during the period under review? If no, please specify areas:	
		a. Independence	
		b. Professional Skills and Standards	
		c. Outside Consultation	
		d. Staff Supervision and Development	
		e. Office Administration	
	(v)	Whether proper systems and procedures exist within the audit firm to ensure compliance with technical standards? If no, please specify areas:	
		a. Accounting standards including interpretations thereof	
		b. Standards on Auditing including general clarifications thereof	
		c. Statements/ Guidance Notes/ICAI's notifications/directions etc.	
		d. Self regulatory measures.	
<b>3</b>	<b>Other matters:</b>		
	(i)	Whether independence of audit firm/ auditors is maintained in conducting audit.	
	(ii)	Whether the firm has instituted adequate mechanism for training of staff.	
	(iii)	Whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the	

		auditee.	
	(iv)	Whether the skill and competence of assistants are considered before assignment of attestation engagement.	
	(v)	Whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.	
	(vi)	Whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.	
	(vii)	Whether the audit firms maintains the audit working papers as per the standards laid down by the ICAI	
	(viii)	Whether audit records administration is satisfactory?	
	(ix)	Whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statements.	
	(x)	Whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.	
	(xi)	Whether the audit conclusions drawn are duly supported by audit queries/observations?	
<b>4 Broad Checklist for Quality Reviews:</b>			
	(i)	Whether the company has prepared and presented the financial statements in the format relevant to it?	
	(ii)	Examine the accounting policies of the enterprise.	
		(a) Are all the accounting policies in accordance with the requirements of the applicable A.S. and Guidance Notes.	
		(b) Whether all significant accounting policies that should have been disclosed are disclosed.	

		(c) Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.	
	(iii)	Whether the disclosures required by the law/ regulations, requirements prescribed by the regulations and those required by the A.S. have been made.	
	(iv)	Where the audit report is qualified:	
		(a) whether the qualifications have been made in a clear and unambiguous manner.	
		(b) Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same.	
		(c) Whether the auditor has considered the overall effect of the qualifications on the true & fair view presented by the financial statements.	
	(v)	Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.	
	(vi)	Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/ accounting entry? If yes, comment on how it has been dealt with in the financial statements.	
	(vii)	Does auditor monitor compliance with policies and procedures relating to independence?	
	(viii)	Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?	
	(ix)	Does auditor/audit firm has established procedures for record retention, including security aspects?	
	(x)	Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?	
<b>5</b>	(i)	Whether the TR received adequate co-operation from the audit firm during QR.	
	(ii)	Is there any other issue/matter which the TR wants to bring to the notice of the quality Review Board? If yes, please specify.	

**Appendix III**

Appendix III - Part A

**Quality Review Program General Questionnaire****Quality Review Assignment:****Name of Technical Reviewer & ICAI M. No.:****Technical Reviewer's No.:**

<b><u>Questions</u></b>	<b><u>Audit Firm's/Member's Response</u></b>	<b><u>Technical Reviewer's Comments</u></b>	<b><u>Page Reference in the Final Report</u></b>
<b><u>Quality Control, Ethical Requirement &amp; Audit Independence</u></b>			
1. How has the firm established and maintained a system of quality control in accordance with the objective Standard on Quality Control -1 (SQC). SA 220			
Note: This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute (hereinafter referred to as "the Code").			
2. Do the personnel responsible for establishing and maintaining the firm's system of quality control have an understanding of the entire text of Standard on Quality Control-1 (SQC)			
3. Has the firm complied with each requirement of Standard on Quality Control-1 (SQC) unless, in the circumstances of the firm, the requirement is not relevant to the services provided by the firm?			
4. Are there any particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by Standard on Quality Control-1 (SQC)			
5. Has the firm established and maintained a system of quality control that includes policies and procedures addressing each of the six elements of quality control, as identified by Standard on Quality Control-1 (SQC)			
6. Has the firm documented its policies and procedures? { Standard on Quality Control-1 (SQC) }			

<b><u>Leadership &amp; Responsibilities</u></b>			
7. What policies and procedures have been established to promote that quality is essential in performing engagements? Standard on [Quality Control -1 (SQC). SA 220]			
8. What policies and procedures have been established to ensure that those who have been assigned responsibility for the quality control system have sufficient and appropriate experience ability? [Quality Control -1 (SQC). SA 220]			
<b><u>Relevant ethical requirements</u></b>			
9. What policies and procedures do you implement to ensure that you and your staff are free of any self interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity? [Quality Control -1 (SQC). SA 220]			
10. What policies and procedures do you implement to ensure you and your staff adhere to the other ethical standards outlined by ICAI, being professional competence and due care, confidentiality, and professional behaviour? [Quality Control -1 (SQC). SA 220]			
<b><u>Independence</u></b>			
11. Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements? Please provide your reviewer with copies of these policies and procedures.[Quality Control -1 (SQC). SA 220] [Guidance Note on Independence of Auditor]			
<b><u>Assurance Practices only</u></b>			
12. How does the firm evaluate the impact of client engagements, circumstances or relationships on independence requirements and what action is taken to reduce threats to an acceptable level? [Quality Control -1 (SQC). SA 220]			
13. What policies and procedures exist to notify the firm of breaches of independence requirements, to enable it to take appropriate actions to resolve such situations? [Quality Control -1 (SQC). SA 220]			

<p>14. Does the firm, at least annually, obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements? [Quality Control -1 (SQC). SA 220]</p>			
<p>15. What safeguards are applied where the firm uses the same senior personnel on assurance engagements over a long period of time? [Quality Control -1 (SQC). SA 220]</p>			
<p><b><u>Client Relationships &amp; Engagements</u></b></p>			
<p>16. With regards to accepting and continuing client relationship and specific engagements, how does the firm ensure that it :</p>			
<p>a. is competent and capable ?</p>			
<p>b. complies with relevant ethical requirement ?</p>			
<p>c. appropriately assesses the integrity of the client?</p>			
<p>d. how does the firm obtain the necessary information before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client</p>			
<p>17. How does your firm ensure there is a clear understanding with the client regarding the terms of the engagement?</p>			
<p><b>Note :</b>Engagement document/s are necessary under Revised Standard on TERMS OF AUDIT ENGAGEMENT 210 (Engagement documents may include letters, agreements or any other appropriate means in writing).</p>			
<p>18. Does each engagement document adequately cover the following common elements? <b>Note:</b> If the firm does not include these in their engagement documents, this does not constitute a breach of the professional/legislative standard(s). However, it is recommended they be incorporated in future. Further guidance on preparing an engagement document is found in SA 210</p>			
<p>a. an introduction explaining that the purpose of the engagement document is to confirm the member’s understanding of the terms of the engagement?</p>			

b. the purpose of the engagement?			
c. the scope of the engagement, including the period of appointment and time schedules, the applicability of any legislation and professional standards relevant to the engagement, information required of the client or any other pertinent matter?			
d. for taxation engagements, a description of the self-assessment rules (e.g. substantiation audits, reasonable care) which informs clients of their responsibilities and the penalties relating to any tax shortfall?			
e. for taxation engagements, a statement in writing that the responsibility for the accuracy and completeness of the particulars and information provided by the client rests with the client. That any advice given to the client is only an opinion based on your knowledge of the client's particular circumstances. Finally that a taxpayer has obligations under self assessment to keep full and proper records in order to facilitate the preparation of accurate returns			
<b>Note:</b> It is not compulsory to be included in the engagement document. Where this is not please advise what other document you are providing to your clients with the statement in writing.			
f. for compilation engagements, a reference to an appropriate disclaimer of liability and the limitations of the engagement?			
g. the client's responsibility for the completeness and accuracy of the financial information/report?  <b>Note:</b> It is not compulsory to be included in the engagement document. Where this is not please advise what other document you are using to obtain the client's acknowledgement.			
h. the form of report you will issue (if applicable)?			
i. for audit engagements, the objective of the audit, the scope of the audit and an explanation as to the extent to which an audit can be relied on to detect material misstatements?			



j. the request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement document?			
19. How does the firm deal with potential conflicts of interest that have been identified prior to, or during, an engagement? What documentation is kept on file in such situations? [STANDARD ON QUALITY CONTROL (SQC) 1]			
20. How does the firm deal with situations where new information at hand would have caused the firm to decline an engagement? [STANDARD ON QUALITY CONTROL (SQC) 1]			
21. Do you require management representation letters from clients?			
22. How does the client acknowledge responsibility for the accuracy of the accounts and the various reports?			
23. How is the client made aware that where no audit or review has been carried out, no assurance is expressed in the engagement?			
24. Is the former accountant of each new client contacted by letter, with the new client's written permission, requesting appropriate information to assist the firm in deciding whether to accept the appointment? <b>Note:</b> This is required as per the guidelines laid down by the council in code of ethics for the acceptance of audit engagements. It is recommended for all other engagements also.			
25. How does the firm deal with being asked to provide a second opinion on behalf of a company or an entity that is not an existing client?			
<b>Human resources</b>			
26. How does the firm ensure that sufficient policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.			

<b><u>Consultation</u></b>			
<p>27. Are the firm's policies and procedures designed to ensure appropriate consultation takes place, with either internal or external professionals possessing the relevant expertise, to resolve difficult or contentious matters including to:</p> <ul style="list-style-type: none"> <li>• appropriate consultation takes place on difficult or contentious matters</li> <li>• sufficient resources are available to enable appropriate consultation to take</li> <li>• document and agree conclusions (Assurance Practices only); and</li> <li>• document reasons why alternative courses of action were undertaken; (Assurance practices only)</li> <li>• implement conclusions? [Quality Control -1 (SQC). SA 220]</li> </ul>			
<p>28. Are standard checklists, manuals, working papers and/or other appropriate methods used for client engagements to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff</p>			
<b><u>Differences of opinion</u></b>			
<p>29. How does the firm deal with and resolve differences of opinion regarding the performance and outcomes of an engagement</p>			
<b><u>Engagement quality control review</u></b>			
<p>30. How are engagement quality control reviews (i.e. second partner reviews) conducted for appropriate engagements in order to meet the requirements of [Quality Control -1 (SQC). SA 220]?</p>			
<p>31. How does the firm establish the eligibility, and maintain the objectivity, of engagement quality control reviewers?</p>			

<b>Engagement documentation</b>			
<p>32. What policies and procedures exist to:</p> <p>a. complete the assembly of final engagement files on a timely basis? [Quality Control -1 (SQC). SA 220]</p> <p>b. maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation? [Quality Control -1 (SQC). SA 220]</p> <p>c. retain engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation? [Quality Control -1 (SQC). SA 220]</p>			
<p>33. Are file-notes maintained to document issues which are not addressed in the standard working papers?</p>			
<p>34. Are carry-forward working papers maintained? (Note: This should include file-notes which document issues for future periods.)</p>			
<p>35. Do you have policies and procedures to ensure that you adequately monitor the tax lodgement process?</p>			
<p>36 Do you have procedures in place to avoid the submission of misleading or incorrect information to the authorities or to the client? Please describe.</p>			

**Quality Review Program General Questionnaire****Quality Review Assignment:****Name of Technical Reviewer & ICAI M. No.:****Technical Reviewer's No.:**

<b><u>Questions</u></b>	<b><u>Audit Firm's/Member's Response</u></b>	<b><u>Technical Reviewer's Comments</u></b>	<b><u>Page Reference in Final Report</u></b>
<b>Audit Planning and Risk Assessment</b>			
37. Does the file contain an audit strategy? (SA 300) If so, does it consider/contain evidence that the audit firm has obtained a general understanding of the applicable financial reporting framework, and the legal and regulatory framework applicable to the entity?			
38. Is the audit firm's audit strategy designed to provide an understanding of whether the entity's selection and application of accounting policies are appropriate for its business (including their internal controls) and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry? [SA 300]			
39. Does the file contain an audit plan that includes, at a minimum, a description of the nature, timing and extent of planned risk assessment procedures as well as further audit procedures at the assertion level? (SA 300)			
40. Has the audit firm performed the following risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels: (SA 315 and 300,320,330) (a) Inquiries of management and others within the entity; (b) Analytical procedures; and (c) Observation and inspection?			
41. Has the audit firm demonstrated an understanding of control activities necessary to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks? (SA 315,320,300,330) And where applicable, has there been discussions within the			

team regarding the susceptibility of the financial reports to material misstatement? [SA 330]			
42. Has the audit firm identified and assessed the risks of material misstatement at the financial report level, and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures? (SA 315) Has the audit firm documented these risks? (SA 315)			
43. As part of the risk assessment, has the audit firm determined whether any of the risks identified are, in the audit firm's judgement, significant risks (i.e. risks requiring special audit consideration)? (SA 315,330)			
44. Does the audit plan include evidence that the audit firm has identified and assessed risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment? [ SA 300,315,320,330]			
45. Does the audit plan outline the nature, timing and extent of direction and supervision of engagement team members and the review of their work? [SA 300]			
46. Where the audit firm used information obtained from previous experience with the entity and from previous audits, did the audit firm determine whether changes had occurred since the previous audit that may have affected its relevance to the current audit? (SA 300)			
47. Has the audit firm performed audit procedures and related activities to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions? [ SA 550]			
48. Is there evidence that the audit firm remained alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the audit firm? [SA 550]			
49. If expertise in a field other than accounting or auditing was necessary to obtain sufficient audit evidence, did the audit firm consider using the work of an expert, including the work of an actuary? [SA 620 ]			
50. Where a component\branch auditor has performed work, has the audit firm obtained a sufficient understanding of, among			

other things, the capabilities, competence and independence of that component\branch auditor? [SA 600]			
51. As the external\Statutory auditor, has the audit firm considered whether the work of the internal auditors has an affect on the external\Statutory audit procedures? (SA 610)			
52. In performing risk assessment procedures to understand the entity and its environment, has the audit firm considered whether there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern? (SA 570)			
53. Is there evidence that the audit firm has planned and performed the audit with professional scepticism and using professional judgement? (SA 200, SA 240)			
<b>Materiality</b>			
54. (a) Has the audit firm determined: (i) materiality for the report as a whole, and if applicable classes of transactions, balances and disclosures (SA 320); and (ii) performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures? (SA 320)			
(b) Where management refused to correct some or all of the misstatements communicated by the audit firm, did the audit firm: (i) determine whether such uncorrected misstatements were material, individually or in aggregate? (SA 450) (ii) evaluate whether the financial report as a whole was free from material misstatement? (SA 450)			
<b>Audit Sampling and Other Selective Testing Procedures</b>			
55. (a) Has the audit firm designed and performed further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level? (SA 330)			
(b) Has the audit firm designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls where: (SA 330)			
(c) In the design of tests of control and tests of details, has the audit firm determined appropriate means of selecting items for testing that are effective in meeting the purpose of the audit			

procedure? (SA 500,SA 530) Examples include:			
(i) selecting all items (100% examination);			
(ii) selecting specific items; and			
(iii) audit sampling.			
(d) Has the audit firm designed and performed appropriate substantive procedures for each material class of transactions, account balance, and disclosure? (ASA 330 and SA 520 ,SA 320 & 315)			
(e) Did the audit firm’s substantive procedures include the following audit procedures related to the financial report closing process:(SA 330)			
(a) agreeing or reconciling the financial report with the underlying accounting records; and			
(b) examining material journal entries and other adjustments made during the course of preparing the financial report?			
(f) If the audit firm has identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, has the audit firm obtained sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors? [SA 570 ]			
g) When undertaking an audit sample, did the member:			
(i) determine a sample size sufficient to reduce sampling risk to an acceptably low level? (SA 530)			
(ii) select items for the sample in such a way that each sampling unit in the population had a chance of selection? (SA 530)			
<b>Audit Documentation</b>			
56. (a) Has the audit firm documented discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussion took place? (SA 230)			
(b) When information has been identified that is inconsistent with the audit firm’s final conclusion regarding a significant			

matter, has the audit firm documented how the inconsistency was addressed? (SA 230)			
c) Has the audit firm prepared documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with Auditing Standards and applicable legal and regulatory requirements? (SA 230)			
(d) Has the audit firm prepared audit documentation:			
(i) on a timely basis; and (SA 230)			
(ii) that is inadequate which would result in an experienced auditor being unable to understand: (SA 230)			
(e) When existing audit documentation has been modified, or new audit documentation has been added after the assembly of the final audit file has been completed, has the audit firm, regardless of the nature of the modifications or additions, documented:(SA 230)			
(a) the specific reasons for making them; and			
(b) when and by whom they were made and reviewed?			
(f) Has the audit firm adopted appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation and the needs of the practice in accordance with legal requirements of record retention? (SA 230,200)			
<b>Audit Evidence</b>			
57. (a) Has the audit firm considered whether external confirmation procedures are to be performed as substantive audit procedures? [ SA 500,501,505 ]			
(b) Has the audit firm designed and performed audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. [SA 501]			
(c) For initial audit engagements, has the audit firm obtained sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report? (SA 510)			
(d) Has the audit firm obtained an understanding of the			



following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: (SA 540)			
(i) the requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures; (ii) how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report, and (iii) how management makes the accounting estimates, and an understanding of the data on which they are based?			
(e) Has the audit firm determined whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified? (SA 710)			
(f) Has the audit firm obtained sufficient appropriate audit evidence about whether: (SA 540)			
+ management's decision to recognise, or to not recognise, the accounting estimates in the financial report;			
+ the selected measurement basis for the accounting estimates, and			
+ the disclosures in the financial report related to accounting estimates, are in accordance with the requirements of the applicable financial reporting framework?			
(g) Has the audit firm obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the audit firm to draw reasonable conclusions on which to base their opinion? (SA 200)			
(h) Has the audit firm evaluated, based on the audit evidence, whether the accounting estimates in the financial report are either reasonable in the context of the applicable financial reporting framework, or are misstated? (SA 540)			
(i) If the audit firm has used an expert, has the audit firm evaluated:			
+ whether the expert has the necessary competence, capabilities and objectivity for the audit firm's purposes? (SA			

<b>620)</b>			
+ the adequacy of the expert's work for the audit firm's purposes? (SA 620)			
(j) Has the audit firm communicated in writing any significant deficiencies in internal control identified during the audit to those charged with governance and, where appropriate, to management, on a timely basis? (SA 265)			
(k) Has the audit firm maintained control over external confirmation requests, ensuring that, among other things, return information for responses are sent directly to the audit firm? (SA 505]			
(l) Has the audit firm obtained an understanding of the services provided by a service organisation to the client, and has the audit firm evaluated the design and implementation of the client's internal control relating to these services?(SA 402)			

**Quality Review Program General Questionnaire****Quality Review Assignment:****Name of Technical Reviewer & ICAI M. No.:****Technical Reviewer's No.:**

<b><u>Questions</u></b>	<b><u>Audit Firm's/Member's Response</u></b>	<b><u>Technical Reviewer's Comments</u></b>	<b><u>Page Reference in Final Report</u></b>
<b>Written Representations</b>			
58. Has the firm obtained appropriate written representations from management, and where appropriate, from those charged with governance:			
(i) that management has fulfilled its responsibility for the preparation of the financial report in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement? (SA 580)			
(ii) that (a) it has provided the firm with all relevant information and access as agreed in the terms of the audit engagement; and (b) all transactions have been recorded and are reflected in the financial report? (SA 580)			
(iii) where the firm determines that such written representations are necessary to support other audit evidence relevant to the financial report or one or more specific assertions in the financial report? (SA 580)			
(iv) regarding its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud?			
(v) stating whether they have disclosed to the firm the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud? (SA 240)			
(vi) stating whether they have disclosed to the member their knowledge of fraud, suspected fraud, or any allegations of fraud or suspected fraud, affecting the entity? (SA 240)			
(vii) whether they believe significant assumptions used in			

making accounting estimates are reasonable? (SA 540)			
<b>Auditors' Report</b>			
59. (a) Where the financial report is prepared in accordance with a fair presentation framework, does the firm's audit report comply with the requirements of SA 700			
(b) Has the firm represented compliance with Auditing Standards in the audit report in cases where he/she has not complied fully with ALL of the Auditing Standards relevant to the audit? (SA 200)			
c) When forming an opinion and reporting on financial Statements, has the firm applied the requirements in SA 700 Forming an Opinion and Reporting on a Financial Statement, including that the audit report states whether the firm believes that the audit evidence is sufficient and appropriate to provide a basis for the opinion? (SA 700 and SA 200 )			
(d) Has the firm read the other information (e.g. management report, financial summaries) to identify material inconsistencies, if any, with the audited financial report? (SA 720)			
(e) Where the firm has identified a fraud or has obtained information that indicates that a fraud may exist, has the firm communicated these matters on a timely basis to the appropriate level of management or, where applicable, to those charged with governance in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities? (SA 240)			

**Quality Review Program - Questionnaire on Financial Statements Review****Quality Review Assignment:****Name of Technical Reviewer & ICAI M. No.:****Technical Reviewer's No.:**

<b><u>Questions</u></b>	<b><u>Audit Firm's/Member's Response</u></b>	<b><u>Technical Reviewer's Comments</u></b>	<b><u>Page Reference in Final Report</u></b>
1. Has the audit firm evaluated and documented, the applicable accounting standards for the entity?			
2. (a) Whether the audit firm has verified the applicable significant accounting policies for the purpose of disclosure in line with the requirements of AS - 1?			
2. (b) Has the audit firm evaluated and documented, whether the going concern assumption is appropriate?			
3. Whether the audit firm has verified the compliance with the requirements of AS 2 in respect of inventories ? (if applicable)			
4. Whether the audit firm has verified the compliance with the requirements of AS 3, for preparation of Cash Flow Statements ?			
5. Has the audit firm performed review of events occurring after the Balance Sheet Date as per AS 4 ? Does the documentation demonstrate the procedures carried out ?			
6. Whether the audit firm has verified the compliance with the requirements of AS 5?			
7. Whether the audit firm has verified the compliance relating to depreciation and disclosures thereof in the financial statements as per AS 6?			
8. Whether the audit firm has verified the compliance with the requirements of as per AS 7? (if applicable)			
9. Whether the audit firm has verified and documented that the Revenue recognised is in line with the guidance in Accounting Standard 9 - Revenue Recognition and the accounting policy stated in the financial statements.? (AS 9)			
10. Has the audit firm verified the compliance with the			

requirements of AS 10 ?			
11. Has the compliance with the requirements with AS 11 been evaluated and documented?			
12. Whether the company has complied with the requirements of AS 12 in respect of grants ? (if applicable)			
13. Whether the audit firm has evaluated the compliance with requirements of AS 13, for investments ?			
14. In case of any amalgamation, has the audit firm evaluated the compliance with the requirements of AS 14 ?			
15. Has the audit firm verified the assumptions used by actuary for recognition and measurement of employee benefits? Have the necessary disclosures been made in the financial statements as per AS 15?			
16. Whether the company has complied with the requirements of AS 16 ? (if applicable)			
17. Has the audit firm verified the details of the segment reporting and whether the necessary disclosures with regard to segments as per the requirements of AS 17 have been made ?			
18. Has the audit firm performed and documented procedures to verify compliance with the requirements of AS 18 ?			
19. Whether the audit firm has evaluated the compliance with requirements of AS 19 in respect of Leases ?			
20. Whether the presentation and disclosure of the EPS (basic and diluted, where applicable) is in accordance with AS 20 - Earnings per share			
21. Whether the audit firm has verified and documented that the Consolidated Financial Statements comply with the requirements of AS 21 ?			
22. Whether the audit firm has verified that, the computation of deferred tax and disclosure of asset / liability is as per requirements of AS 22 ?			
23. Whether the company has complied with the requirements of AS 23? (if applicable)			
24. In case of any discontinuing operations, has the audit firm evaluated the compliances with the requirements of AS 24 and			

whether the disclosures in the financial statements have been made as per the standard ?			
25. Whether the company has complied with the requirements of AS 25 in case of interim financial reporting ?			
26. Whether the company has complied with the requirements of AS 26 with respect to intangible assets			
27. Whether the company has complied with the requirements of AS 27? (if applicable)			
28. whether the audit firm evaluated, if any assets of the entity require to be impaired ? Whether the compliance with requirements of AS 28 have been verified?			
29. Has the audit firm verified the provisions, contingent liabilities and contingent assets? Does the documentation of procedures carried out demonstrate the verification of compliance with the standards ?			
30. Has the Company complied with the requirements of AS 30, 31 and 32 with respect to financial instruments ? (if adopted)			
31. Has the audit firm evaluated that whether the disclosure requirements as per the applicable accounting standards have been complied with ?			

**Quality Review Program - Questionnaire on Documentation****Quality Review Assignment:****Name of Technical Reviewer & ICAI M. No.:****Technical Reviewer's No.:****Paragraph reference in Report**

<b>Technical Reviewer's Comments</b>	<b>Firm's Response:</b>
Audit Planning Documentation	
Identification of Risk of Material Mistatements	
Referencing and cross referencing documentation in the work papers	
Involvement of IT Specialists	
Calculation of Materiality	
Appropriateness of sample selection	
Issues Identified and conclusions reached	
Discussions with the Management	
<b>Consolidated Financial Statements:</b>	
Referencing and cross referencing documentation in the work papers	
Review of Elimination entries	
Basis of selection of components	
Resolution of issues noted by the component auditors	



**Brief profile of the Technical Reviewer and assistants assisted in carrying out the Quality Review assignment**

	<p><b>CA A.....</b></p> <p><b>Membership No - xxxxxx</b></p>
<p>Qualified in Nov 200x, A..... is a .....</p>	
	<p><b>CA S.....</b></p> <p><b>Membership No – xxxxxx</b></p>
<p>Qualified in May 199x, S..... is a .....</p>	