

# Practical Aspects of Issue of Certificates & Reports



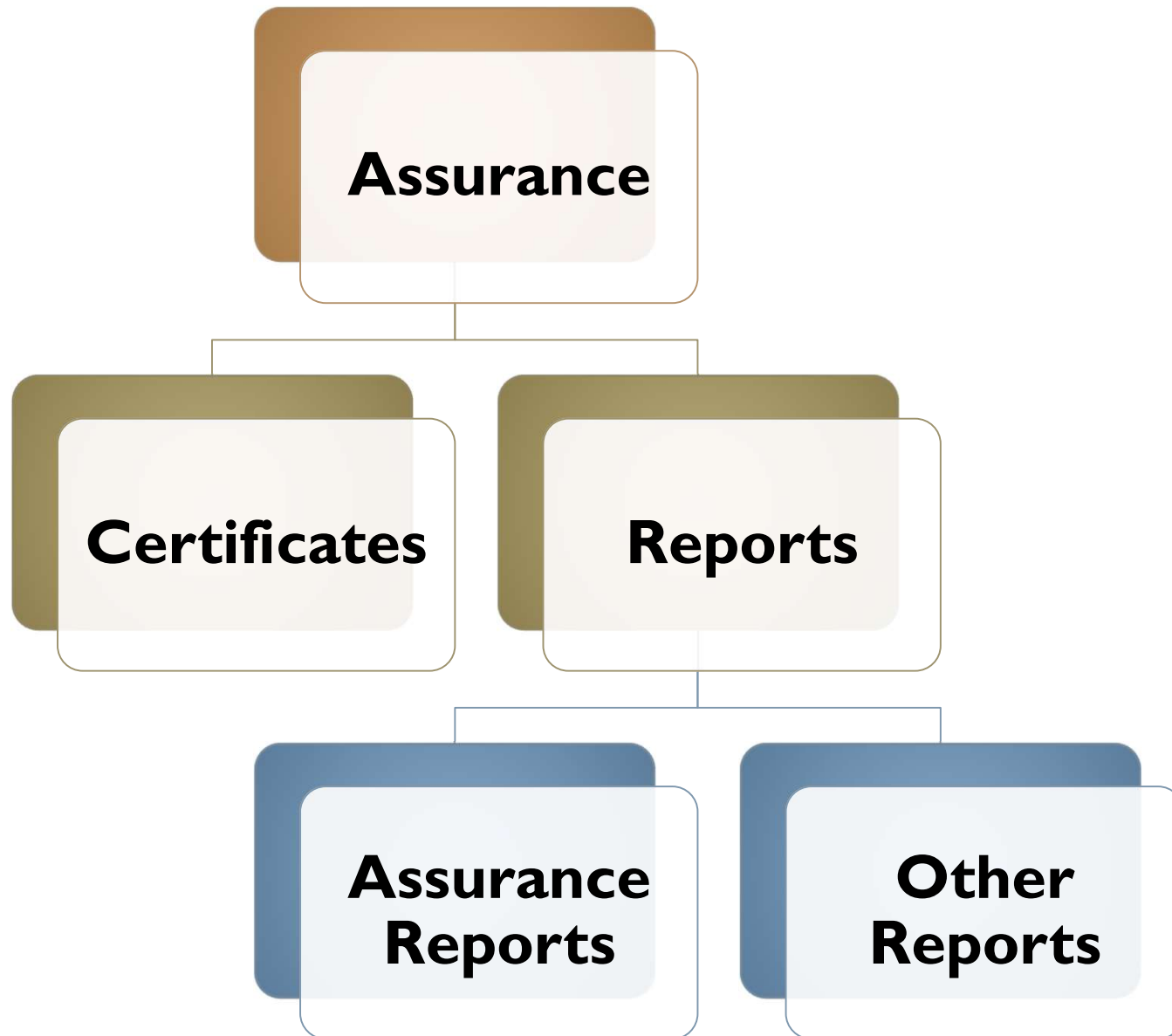
**Rohini, CPE Study Circle of  
NIRC of ICAI**

**2<sup>nd</sup> April 2021**



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**FCA, FCS, FCMA, LL.B, MIMA, DISA, IP**



# OVERALL

- **Frameworks**
- **Statements**
- **Standards**
- **Guidance Notes**
- **Technical Guide**
- **Clarifications**
- **Practice Manuals**
- **Studies**
- **Other Materials**

# **Certificates**

- **How are they issued?**
- **For what??**
- **Guidance Note on Reports or Certificates for Special Purposes**
- **UDIN**

## **GN Illustrations**

- 1. Turnover/Net Worth/Net Profit/Working Capital/similar engagement pursuant to a Tender requirement**
- 2. Annual Activity Certificate for Indian Branch Office/Liaison Office of Foreign Companies**
- 3. Manner of Utilization of Funds required under SEBI (LODR) Regulations, 2015**
- 4. Statement of Fixed Assets for the Last Two Years in Respect of One of the Project of an Entity**

# **Certificate Format**

- **EL / Agreement**
- **Matter to be certified**
- **Management Responsibility**
- **Practitioner's Responsibility**
- **Opinion**
- **Restriction of Use**
- **Signatures with UDIN**

# **Main Objective of Audit**

- **To express an opinion on Financial Statement (FS)**
- **FS should be prepared as per applicable AS and statutory requirements**
- **Responsibility of FS, AS,...**

**PROFESSION**

**S. 44AA**

**S. 44ADA**

**S. 194 J**

**S. 44AB**

**S.S (1)**

**S.S (2)**

**S. 44AA(I)**

**Notified**

**Books  
Mandatory –  
GR > 1.50 L**

**Books  
Ind /HUF – 25 L/  
2.5L; Others –  
10L / 1.2 L**

**Sportspersons**



# Accounting Standards



**Entities that  
are to follow  
AS**

**Companies**

**Other than  
Companies**

**Companies  
(Accounting  
Standards)  
Rules, 2006**

**Ind AS**

**ICDS**

**AS issued  
by ICAI**

**ICDS**

# Companies Act 2013

- **FS has to be AS compliant:**
  - **FS to disclose deviation from AS**
  - **Reason for deviation**
  - **Financial effect arising of deviation**
- **Non- compliance**
  - **MD,**
  - **WTD in charge of finance**
  - **CFO**
  - **Any other person charged by Board**
  - **If no one – all directors**
  - **Imprisonment upto 1 yr or F – 50 k to 500 k or both**

# Companies Act 2013

- Auditor to ensure & report that FS are AS compliant - S. 143(3)(e)
- Non-compliance fine S. 147:
  - Min -25 k; Max - 5 L or 4 times of remuneration, whichever is less.
  - Willful intention to deceive Co. or its shareholders or Crs. or Tax authorities – Imp. Upto 1 year & F -50 k to 25 L or 8 times of remuneration, whichever is less
  - Class suit action for willful –refund fee too
  - NFRA
  - ICAI

# **AS Disclosures in Notes**

- **SMC / Non- SMC**
- **AS I - Policies**
- **Comparative figures**
- **Notes for Non-Corporates**

## SMC Disclosure

- **“The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 2013. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”**
- **Two year wait period if change from Non-SMC to SMC**

# MSME Disclosure

## Non Corporate

- **“The Entity is a Micro Small and Medium Sized Enterprise (MSME) as per the announcement made by ICAI and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.”**
- **Two year wait period if change from Level I to II or II to III or III to IV**

## AS Applicability for Non-Corporates

- Effective for Accounting Periods from 1.4.2020
- Instead of 3 levels.. Now 4 levels

Level	Turnover			Borrowing	
	Existing	Revised		Existing	Revised
I	> 50 Cr	> 250 Cr		> 10 Cr	> 50 Cr
II	1-50Cr	50-250 Cr		1-10 Cr	10-50 Cr
III	< 1 Cr	10-50Cr		< 1 Cr	2-10Cr
IV		< 10 Cr			< 2 Cr

# AS Applicability

AS No.	Short Title	Companies		Non - Corporates			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
1	Accounting Policies	Y	Y	Y	Y	Y	Y
2	Inventories	Y	Y	Y	Y	Y	Y
3	Cash Flow	Y	N/Y	Y	N	N	N
4	Events after Balance Sheet date	Y	Y	Y	Y	Y	Y
5	Prior Period Items & Policies	Y	Y	Y	Y	Y	Y
6	Depreciation (Omitted w.e.f. 30.3.16)	NA	NA	NA	NA	NA	NA
7	Construction	Y	Y	Y	Y	Y	Y
9	Revenue	Y	Y	Y	Y	Y	Y
10	Property, Plant & Equipment	Y	Y	Y	Y	Partly	Partly
11	Foreign Exchange	Y	Y	Y	Y	Partly	Partly
12	Government Grants	Y	Y	Y	Y	Y	Y
13	Investments	Y	Y	Y	Y	Y	Y
14	Amalgamations	Y	Y	Y	Y	Y	N
15	Employee Benefits	Y	Partly	Y	Partly	Partly	Partly



# AS Applicability

AS No.	Short Title	Companies		Non - Corporates			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
16	Borrowing Cost	Y	Y	Y	Y	Y	Y
17	Segment	Y	N	Y	N	N	N
18	Related Party	Y	Y	Y	Y	N	N
19	Leases	Y	Partly	Y	Partly	Partly	Partly
20	Earning Per Share	Y	Partly	N	N	N	N
21	Consolidation	N/Y	N/Y	(listed)	N	N	N
22	Deferred Taxes	Y	Y	Y	Y	Y	Partly
23	Consolidated Statements	N/Y	N/Y	(listed)	N	N	N
24	Discontinuing Operation	Y	Y	Y	Y	N	N
25	Interim Reporting	Y (listed)	N**	N**	N**	N**	N
26	Intangible Assets	Y	Y	Y	Y	Y	Partly
27	Interest in Joint Ventures	N/Y	N/Y	(listed)	N	N	N
28	Impairment	Y	Partly	Y	Partly	Partly	N
29	Contingency	Y	Partly	Y	Partly	Partly	Partly

**RELATED PARTY**

**Accounting Standards**

**AS 18**

**Companies Act**

**S. 2(76)**

**S. 184**

**S. 188**

**Income Tax**

**40A(2)(b)**

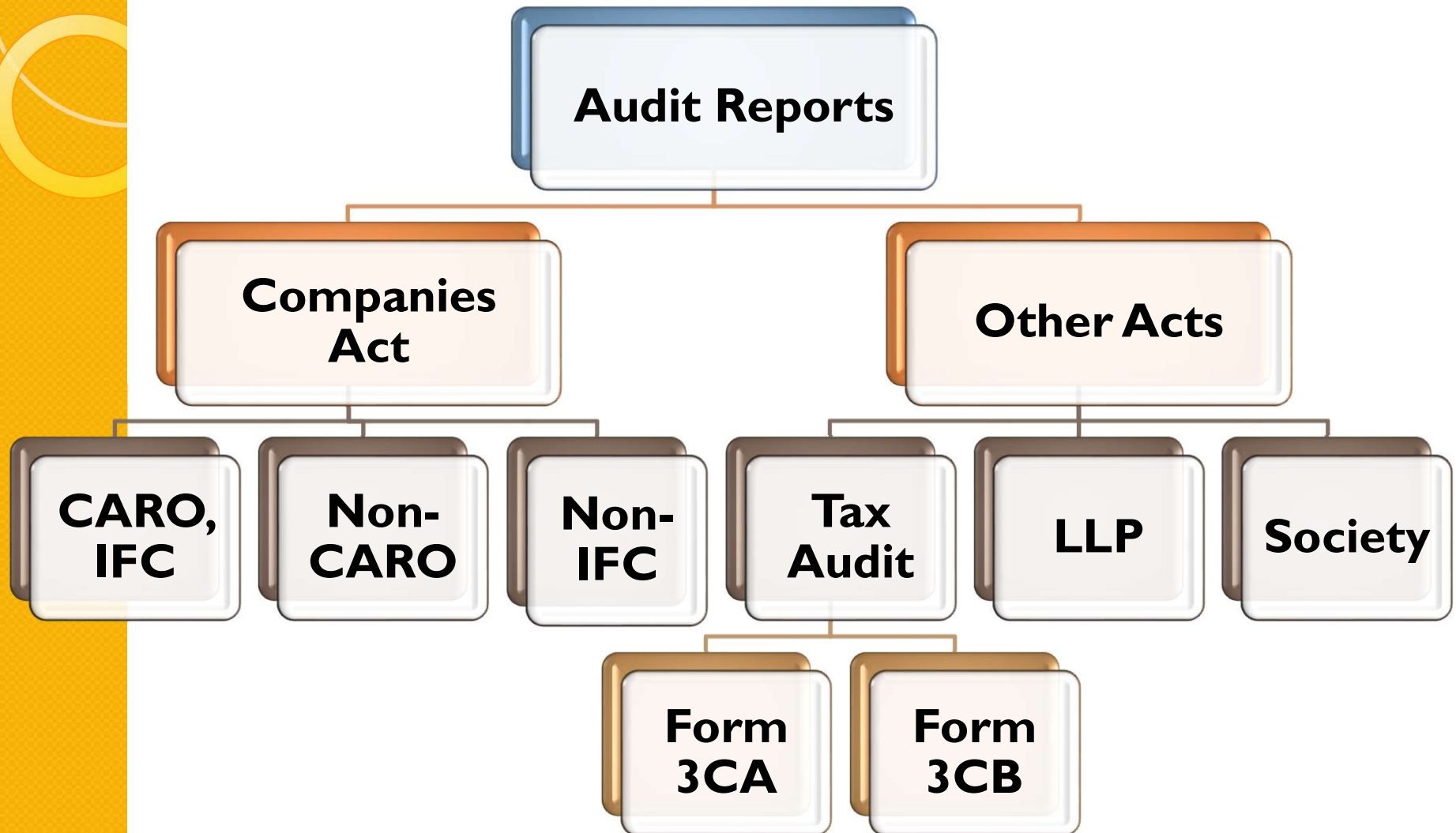
# AS- Classification

- Disclosure
  - AS 1, 3, 17, 18, 20, 21, 23, 24, 27
- Recognition & Measurement
  - AS 2, 10, 12, 13, 16, 26, 28
- Capital or Revenue
- Expenses/ Income relating to which year- Principle of prudence applied
  - AS 4, 5, 9, 11, 15, 22, 29
- Specific
  - AS 7, 14, 19, 25

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# AUDIT





# Company's Audit report

➤ **Inquiry u/s 143(1) – 6 points**

➤ **To be reported when comments required**

➤ **Report to also include:**

➤ **Matters specified u/s 143(3) - 9 points**

➤ **Matters specified in Rules - 3 points**

➤ **Any order made u/s 143(3) for specified Companies in consultation with NFRA – CARO 2016 – 16 points**

# IFC Applicability w.e.f. 13.7.2017

- **Not applicable to Pvt. Company which:**
  - **Is OPC; or**
  - **Is Small Company; or**
  - **Has:**
    - **Turnover less than Rs. 50 crores as per latest audited financial statement ;and**
    - **Aggregate borrowings at any point of time during the FY less than Rs. 25 crore from:**
      - **Banks or**
      - **Financial Institutions or**
      - **Any body corporate**

# **Types of Audit Reports**



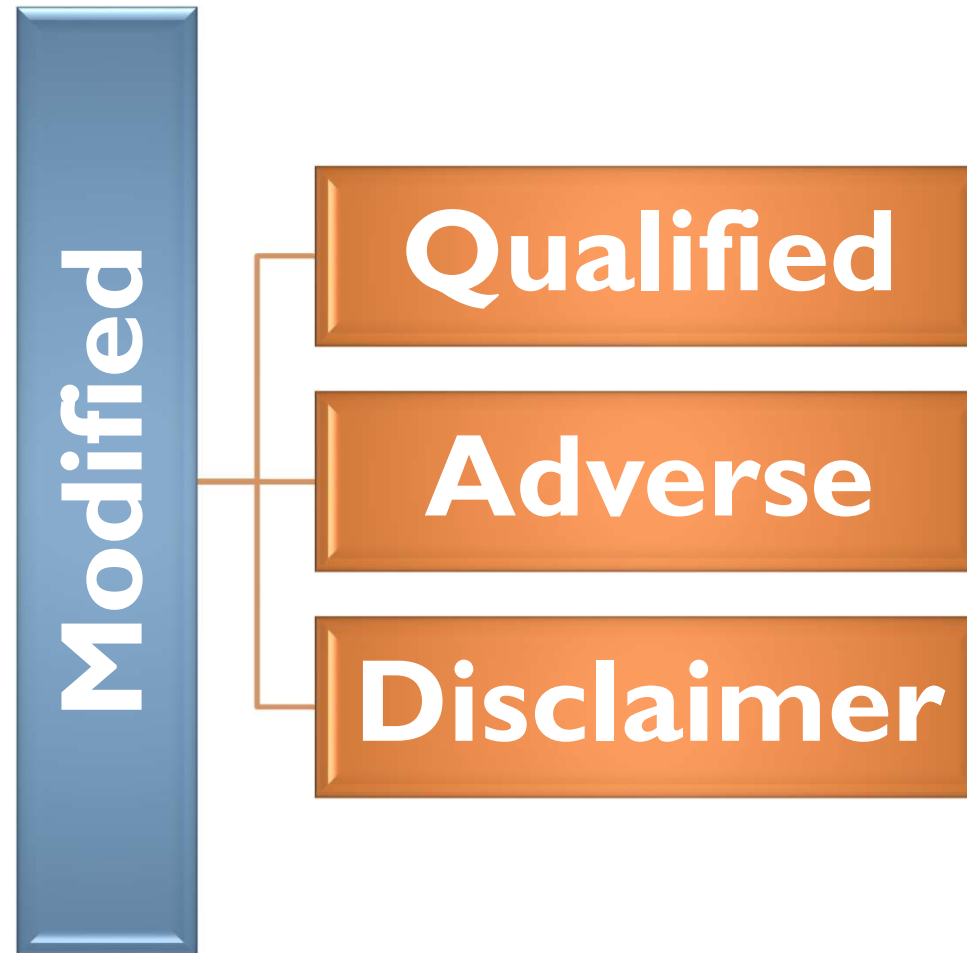
**Unmodified**



**Modified**



# Modified Audit Reports



# Modified Audit Reports

	Auditor's judgment about Pervasiveness of the matter	
Nature of Matter	Material but NOT Pervasive	Material AND Pervasive
Financial statements are Materially misstated	Qualified Opinion (...except for...)	Adverse Opinion (...do not present true & fair...)
Unable to obtain Sufficient Appropriate Audit Evidence	Qualified Opinion (...except for...)	Disclaimer of Opinion (...we do not express an opinion...)



# No. of Standards

Type of Standards	Abbreviation	Numerical Series	Nos.
Standards on Quality Control	SQC	01-99	1
Standards on Auditing	SA	100-999	38
Standards on Review Engagements	SRE	2000-2699	2
Standards on Assurance Engagements	SAE	3000-3699	3
Standards on Related Services	SRS	4000-4699	2

# Standards on Auditing

<b>SA. No.</b>	<b>Sub-division</b>	<b>No.</b>
<b>100-199</b>	<b>Introductory Matters</b>	<b>0</b>
<b>200-299</b>	<b>General Principles &amp; Responsibilities</b>	<b>9</b>
<b>300-499</b>	<b>Risk Assessment and Response to Assessed Risks</b>	<b>6</b>
<b>500-599</b>	<b>Audit Evidence</b>	<b>11</b>
<b>600-699</b>	<b>Using Work of Others</b>	<b>3</b>
<b>700-799</b>	<b>Audit Conclusions and Reporting</b>	<b>6</b>
<b>800-899</b>	<b>Specialized Areas</b>	<b>3</b>

# General Principles & Responsibilities - 9

<b>SA. No.</b>	<b>Sub-division</b>
<b>200</b>	<b>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing</b>
<b>210</b>	<b>Agreeing the terms of Audit Engagement</b>
<b>220</b>	<b>Quality Control for an Audit of Financial Statements</b>
<b>230</b>	<b>Audit Documentation</b>
<b>240</b>	<b>The Auditor's Responsibility to consider Fraud in an Audit of Financial Statements</b>
<b>250</b>	<b>Consideration of Laws and regulations in an Audit of Financial Statements</b>
<b>260</b>	<b>Communications with Those Charged with Governance</b>
<b>265</b>	<b>Communicating Deficiencies in Internal Control with Those Charged with Governance &amp; Management</b>
<b>299</b>	<b>Responsibility of Joint auditors</b>

## **Risk Assessment & Response to Assessed Risks - 6**

<b>SA. No.</b>	<b>Sub-division</b>
<b>300</b>	<b>Planning an Audit of Financial Statements</b>
<b>315</b>	<b>Identifying and assessing the Risks of Material Misstatement through understanding the entity and its Environment</b>
<b>320</b>	<b>Materiality in Planning and Performing an Audit</b>
<b>330</b>	<b>The Auditor's Response to Assessed Risks</b>
<b>402</b>	<b>Audit consideration relating to entities using Service Organisations</b>
<b>450</b>	<b>Evaluation of Misstatements identified during the Audit</b>

# Audit Evidence - I I

<b>SA. No.</b>	<b>Sub-division</b>
<b>500</b>	<b>Audit Evidence</b>
<b>501</b>	<b>Audit Evidence – Specific Considerations for Selected Items</b> (Inventory, Litigation & Claims, LT Invt , Segment)
<b>505</b>	<b>External Confirmations</b>
<b>510</b>	<b>Initial Engagements – Opening Balances</b>
<b>520</b>	<b>Analytical Procedures</b> (Ratios & Trends, Investigation of fluctuations)
<b>530</b>	<b>Audit Sampling</b>



# Audit Evidence - I I

<b>SA. No.</b>	<b>Sub-division</b>
<b>540</b>	<b>Auditing accounting estimates, including Fair Value Accounting estimates, and related disclosures</b>
<b>550</b>	<b>Related Parties</b>
<b>560</b>	<b>Subsequent Events</b>
<b>570</b>	<b>Going Concern</b>
<b>580</b>	<b>Written Representations</b>

# Using Work of Others - 3

<b>SA. No.</b>	<b>Sub-division</b>
<b>600</b>	<b>Using the Work of Another Auditor</b>
<b>610</b>	<b>Using the Work of Internal Auditors</b>
<b>620</b>	<b>Using the Work of an Auditor's Expert</b>

# AUDIT CONCLUSIONS & REPORTING - 7

<b>SA. No.</b>	<b>Sub-division</b>
<b>700</b>	<b>Forming an Opinion and Reporting on Financial Statements</b>
<b>701</b>	<b>Communicating Key Audit Matters in the Independent Auditor's Report</b>
<b>705</b>	<b>Modifications to the Opinion in the Independent Auditor's Report</b>
<b>706</b>	<b>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor</b>
<b>710</b>	<b>Comparative Information—Corresponding Figures and Comparative Financial Statements</b>
<b>720</b>	<b>The Auditor's Responsibility in relation to other information in Documents containing Audited Financial Statements</b>

# SPECIALIZED AREAS - 3

<b>SA. No.</b>	<b>Sub-division</b>
<b>800</b>	<b>Audits of Financial Statements Prepared in Accordance with Special Purpose Framework</b>
<b>805</b>	<b>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</b>
<b>810</b>	<b>Engagements to Report on Summary Financial Statements</b>

# Standards on Review Engagements

SRE No.	Sub-division
2400	<b>Engagements to Review Financial Statements</b>
2410	<b>Review of Interim Financial Information Performed by the Independent Auditor of the Entity</b>

# Standards on Assurance Engagements

SRE No.	Sub-division
3400	<b>The Examination of Prospective Financial Information</b>
3402	<b>Assurance Reports on Controls at a Service Organisation</b>
3420	<b>Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus</b>

# Standards on Related Services

<b>SRE No.</b>	<b>Sub-division</b>
4400	<b>Engagements to Perform Agreed-upon Procedures regarding Financial Information</b>
4410	<b>Engagements to Compile Financial Information</b>

# SQC

- **Only I - Quality control for Firms that perform Audits and Reviews of Historical Financial Information, & Other Assurance and related Services Engagements**
- **Mandatory - For all engagements relating to accounting periods beginning on/after 1.4.09**
- **Objective - To provide guidance regarding a firm's responsibilities for its system of quality control for:**
  - **Audits of historical financial information**
  - **Reviews of historical financial information**
  - **For other assurance**
  - **For related services engagements**
- **Peer Review after 1.4.2014**



## **QC to Include Policies for**

- **Leadership responsibilities for quality within the firm**
- **Ethical requirements**
- **Acceptance and continuance of client relationship and specific engagements**
- **Human resources**
- **Engagement performance**
- **Monitoring**

# **Quality Controls**

- **Code of Conduct**
- **Documentation**
- **Maintenance of Professional Skills & Standards**
- **Staff Supervision & Development**
- **Independence Policies & its Communication**
- **Outside Consultation**
- **Review & Evaluation of Internal Controls**
- **Substantive Tests**

# **Code of Conduct**

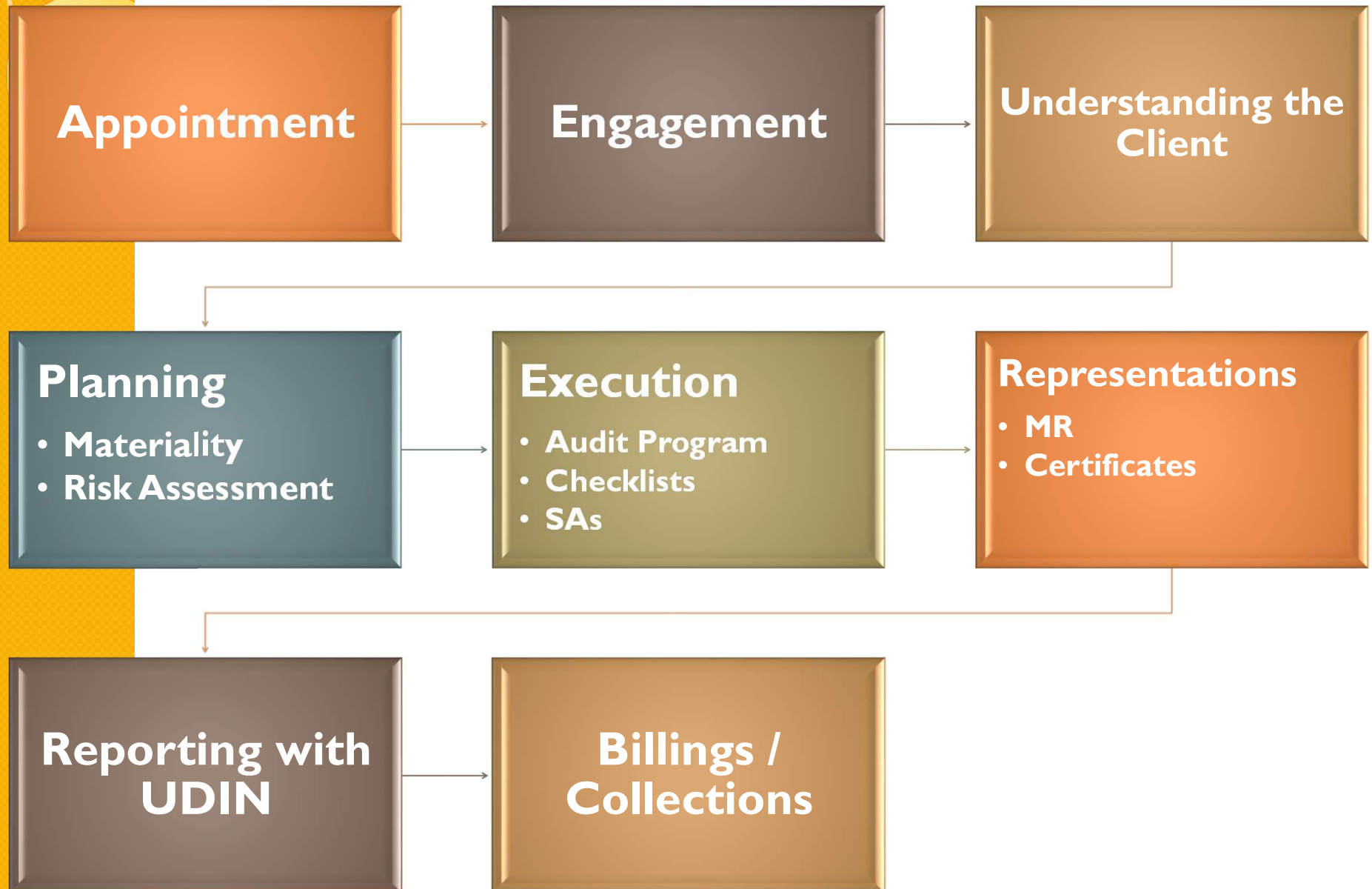
- **Integrity**
- **Independency**
- **Objectivity**
- **Professional competence and due care**
- **Confidentiality**
- **Professional behaviour**

# Documentation

- **Have checklists, tell articles to cross verify**
- **Seniors to cross verify**
- **Take necessary certificates / representation from management**
- **External Confirmations**
- **Ensure Compliance of ASs**
- **Ensure all applicable regulatory compliances including Companies Act, 2013**
- **Comply with SAs**
- **Work not documented is work not done.**



# Audit Procedure in Brief



## **Do's**

**As per Applicable Law**

**Comply with AS**

**Comply with SAs**

**Document Well**

**Generate UDIN**

**Inform Client in advance**

**Conduct Audit in time**

**Issue Report in Hard copy  
too in case of Tax Audits**

**Billing & Collection in  
Time**

**Enjoy life too – Sundays off**

## **Don'ts**

**No Wrong Advice**

**No Compromise**

**No Wrong Facts**

**No STRESS**

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