



Compliance with Technical Professional Standards and Compliance with Framework of Quality Control

March 15, 2026

Training Programme for Peer Reviewers

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- A presentation is not a replacement for a formal opinion on a point of law which may require to be addressed.
- The information and views contained in this presentation are to be viewed with caution and should be appropriately considered.
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- Understanding Technical, Professional and Ethical Standards
- Guidance in Peer Review Manual
- Peer Review Board – Activity Book 2025-26
- Standards on Audit: Expectations based on Peer Review Manual + FRRB/QRB Observations
- Audit Report
- Accounting Standards: Expectations from Peer Review Manual + FRRB/QRB Observations



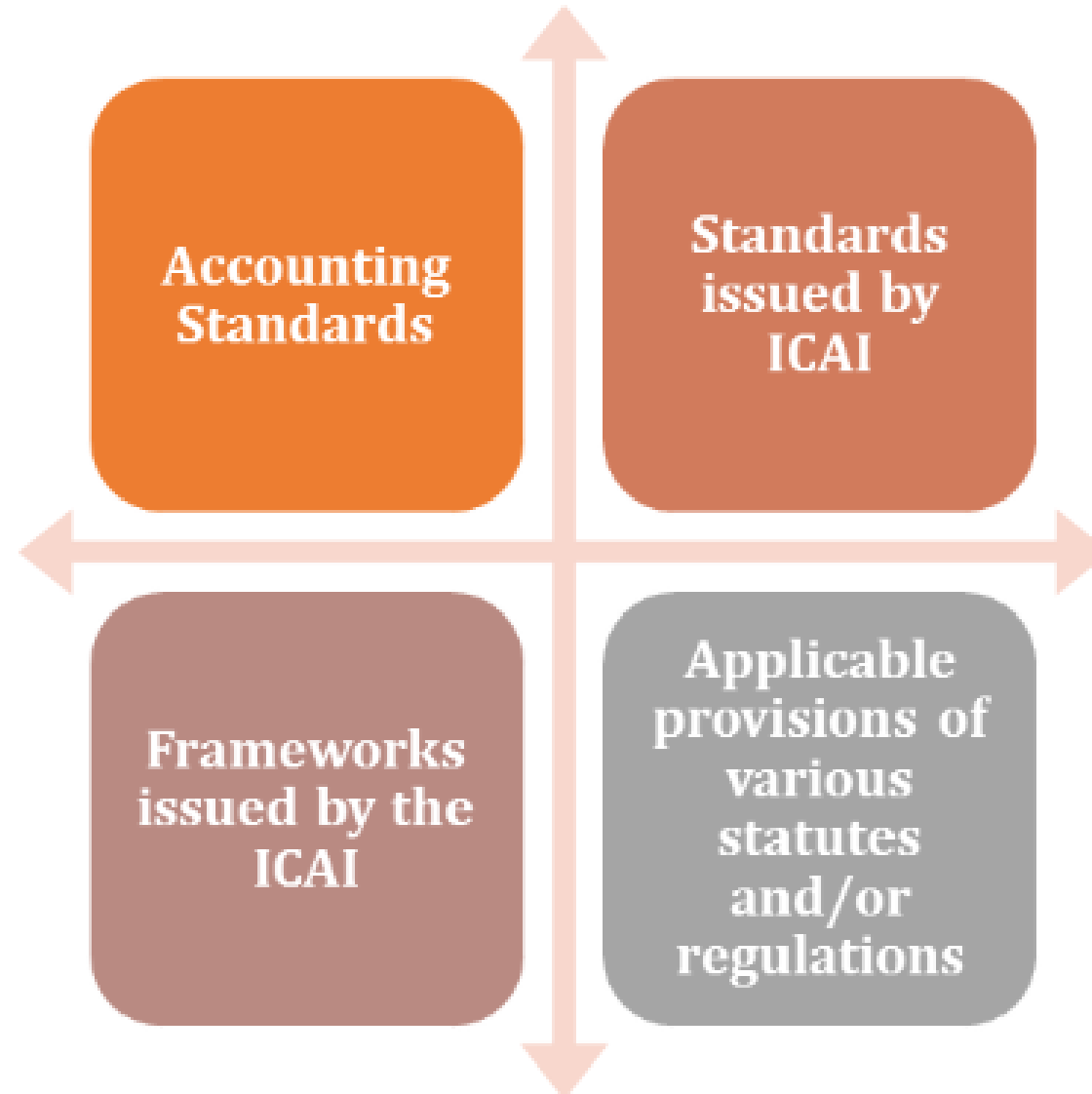
*Technical, Professional and Ethical
Standards*

Technical, Professional and Ethical Standards

As defined under Peer Review Guidelines, 2022:

- Accounting Standards issued by ICAI (other than Companies) + prescribed under section 133 (Companies)
- Indian Accounting Standards prescribed under section 133
- Standards issued by the Institute of Chartered Accountants of India including
 - Engagement and Quality Control Standards
 - Statements
 - Guidance notes
 - Standards on Internal Audit
 - Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees;
- Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;
- Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements

Technical and Professional Standards



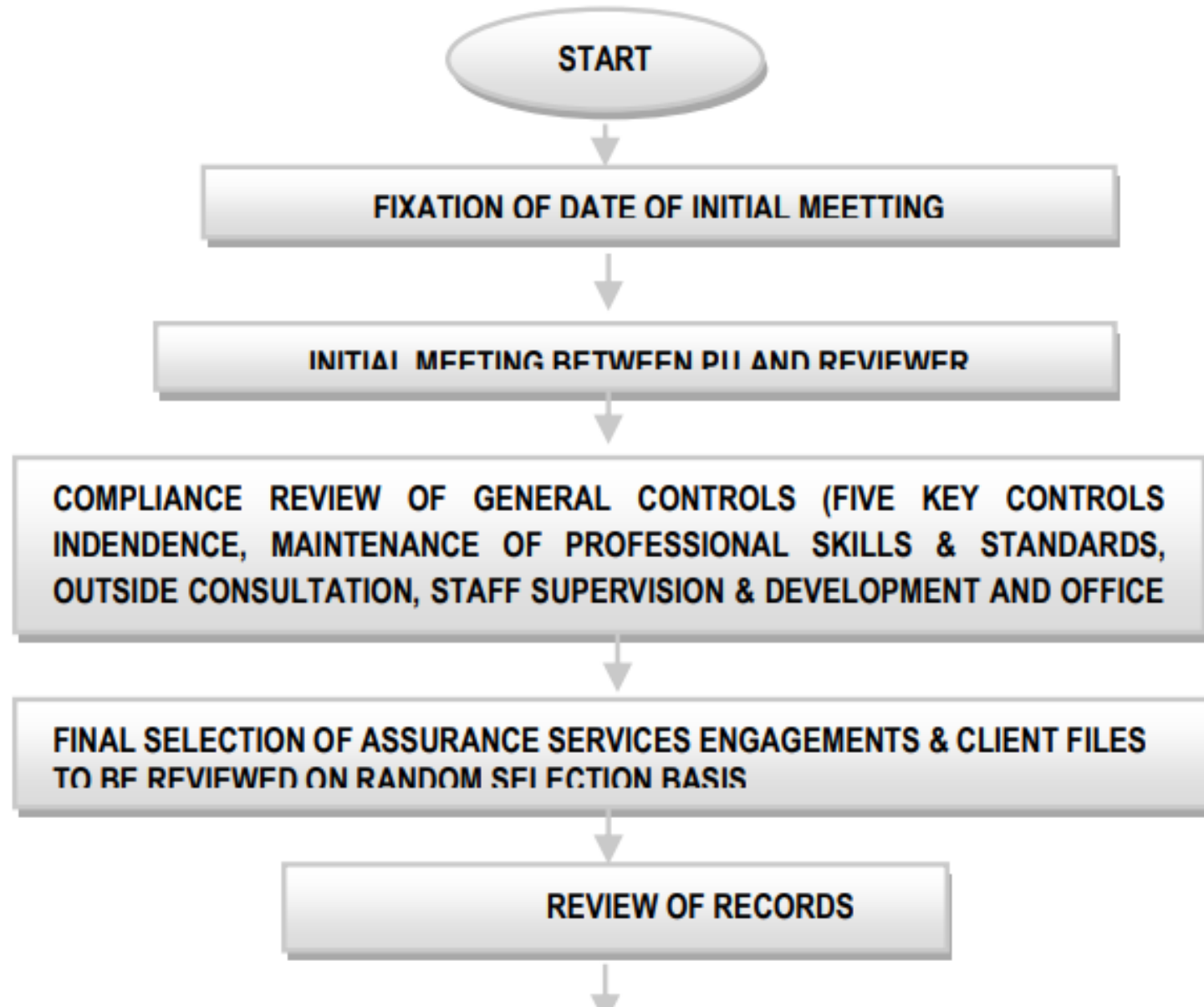


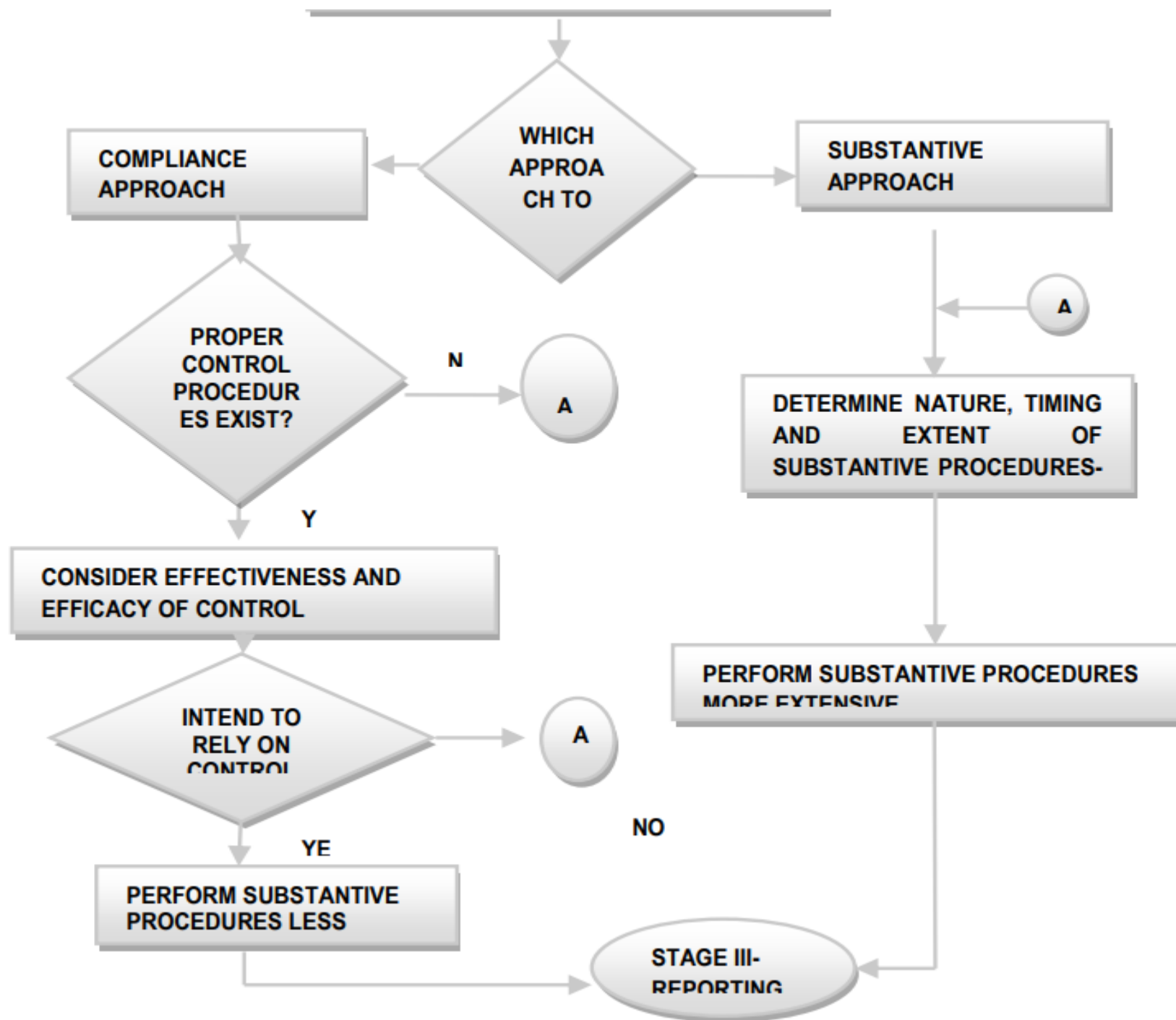
Guidance in the Peer Review Manual

Stages of Peer Review:

3 stages of Peer review:

- Stage 1: Planning
- Stage II: Execution
- Stage III: Reporting





Sample
Checklist
under AS

Key
Checkpoints
for SA's

IndAS
Checklist



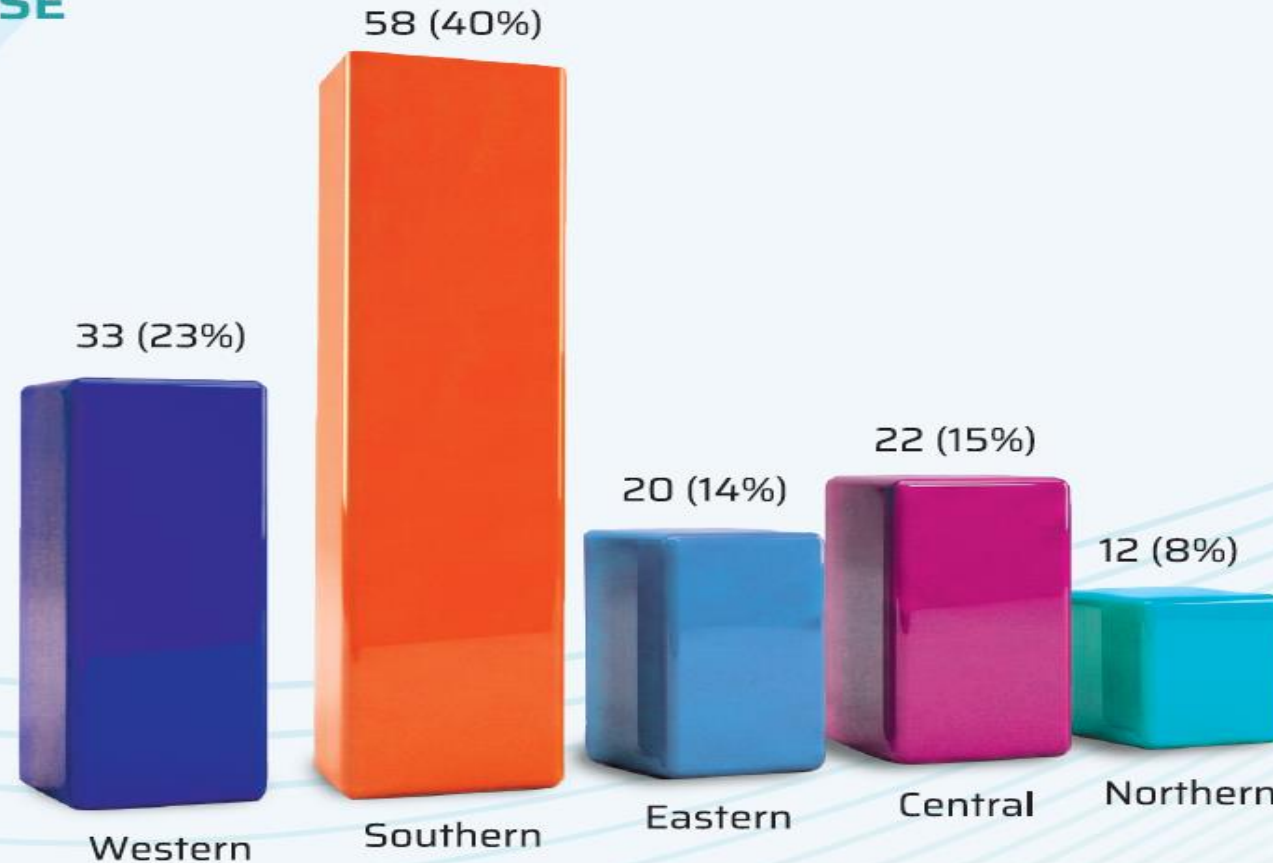
Peer Review Board – Activity Book 2025-26

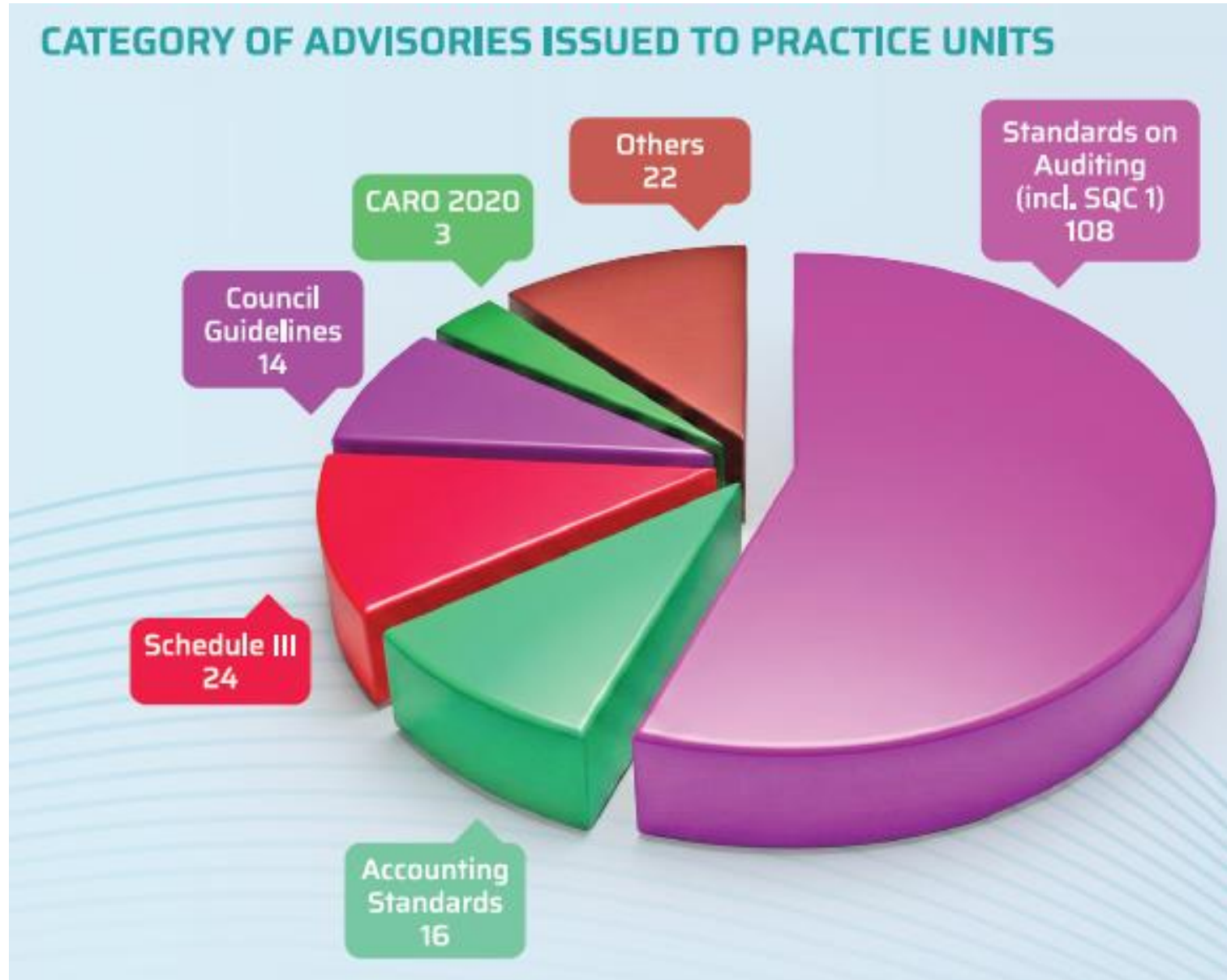
ADVISORIES ISSUED DURING THE COUNCIL YEAR 2025-26

During the Council Year 2025-26, 145 Practice Units were also issued advisories on various areas for compliance in future for issues observed during the process of Peer Review. The Statistical data of Advisories issued during the Council Year 2025-26 is depicted below:

PROFILE OF PRACTICE UNITS TO WHOM ADVISORIES ISSUED

REGION-WISE





NUMBER OF PRACTICE UNITS HAVING OBSERVATIONS ON STANDARDS ON AUDITING (SA)



MAJOR OBSERVATIONS ON STANDARDS ON AUDITING

SQC-1 Standard on Quality Control -1

- QC Manual not maintained / updated
- Annual Independence Declaration not obtained
- Absence of policies for outside consultation

SA 210 Agreeing the Terms of Audit Engagements

- Appointment Letters/ Engagement Letters not obtained for initial engagements/ recurring audits

SA 230 Audit Documentation

- Audit documentation not as per the requirement of Standards on Auditing
- No formal system for noting unusual areas & query discussion
- Supporting Documents/working papers not on record

SA 260 Communication with Those Charged with Governance

- No documentation with respect to Discussion with Those Charged with Governance

SA 300 Planning an Audit of Financial Statements

- Audit Plan not documented or not as per the requirements

SA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

- Procedures for identification and assessment of Risk of Material Misstatements not performed
- No sufficient and appropriate documentation has been maintained for risk assessment procedure

SA 320 Materiality in Planning and Performing an Audit

- Materiality assessment/levels are not documented
- Checklist does not contain procedures as required

SA 505 External Confirmations

- External confirmations were not obtained directly from external sources
- Appropriate controls over external confirmations were not maintained

SA 530 Audit Sampling

- Audit Sampling methodology not documented
- Samples selected are not free from bias
- Checklist does not contain procedures as required

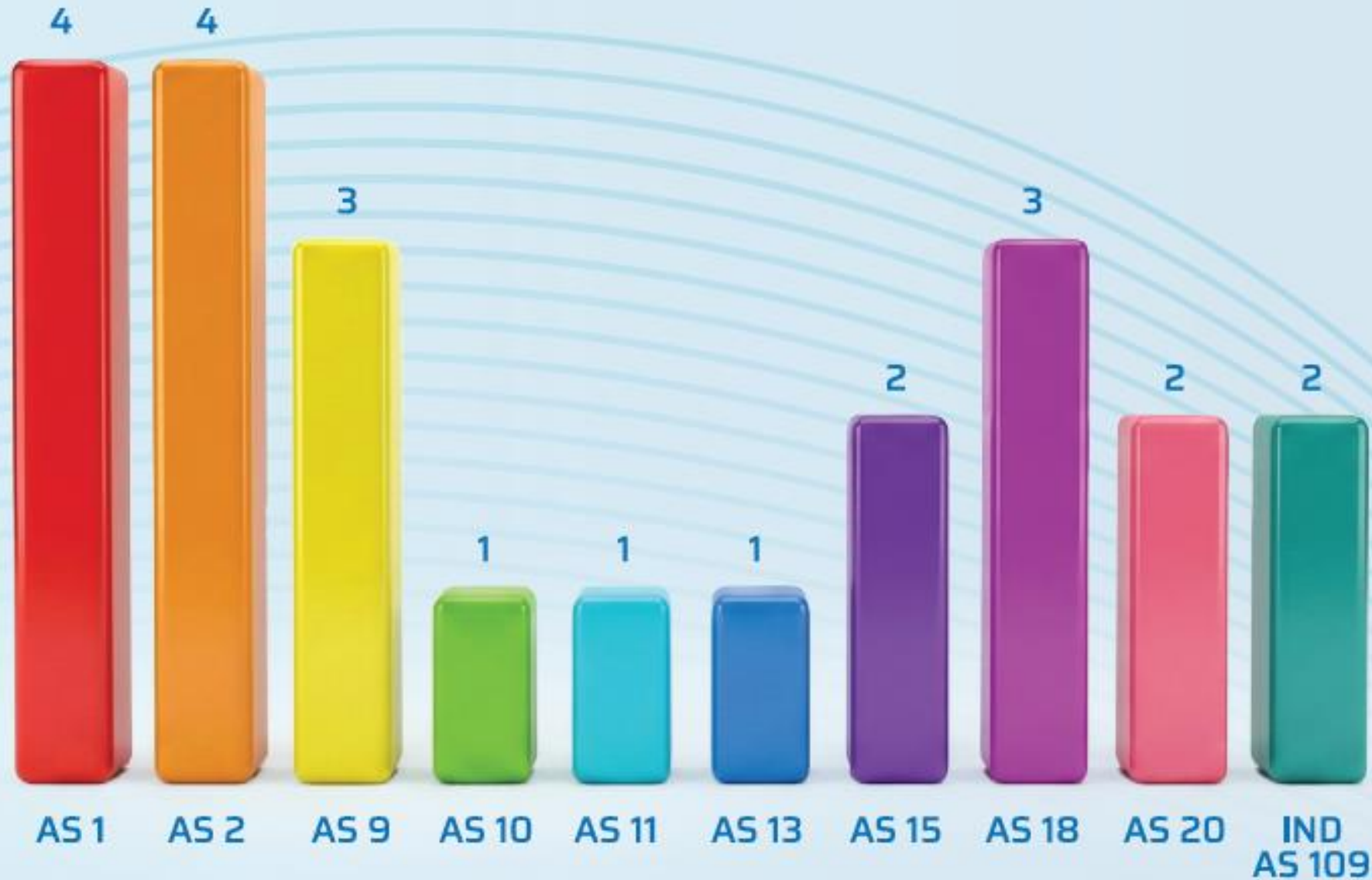
SA 580 Written Representations

- MRLs or supporting documents in support of MRLs not obtained

SA 700 Forming an Opinion and Reporting on Financial Statements

- Audit Report was not in the required format

NUMBER OF PRACTICE UNITS HAVING OBSERVATIONS ON ACCOUNTING STANDARDS (AS)



MAJOR OBSERVATIONS ON ACCOUNTING STANDARDS

AS-1 Disclosure of Accounting Policies

- Significant accounting policies were not disclosed in notes to financial statements

AS-2 Valuation of Inventories

- Disclosures were not given as required in the Accounting Standards
- Inventory valuation methodology not followed

AS-9 Revenue Recognition

- Accounting policy for revenue recognition not disclosed/not disclosed properly

AS-15 Employee Benefits

- Provision for retirement benefits have not been made

AS-18 Related Party Disclosures

- Related party disclosures were not made

AS-20 Earnings Per Share

- Nominal value of share was not disclosed in EPS and Diluted EPS both on the face of statement of P&L & notes to accounts

Ind AS-109 Financial Instruments

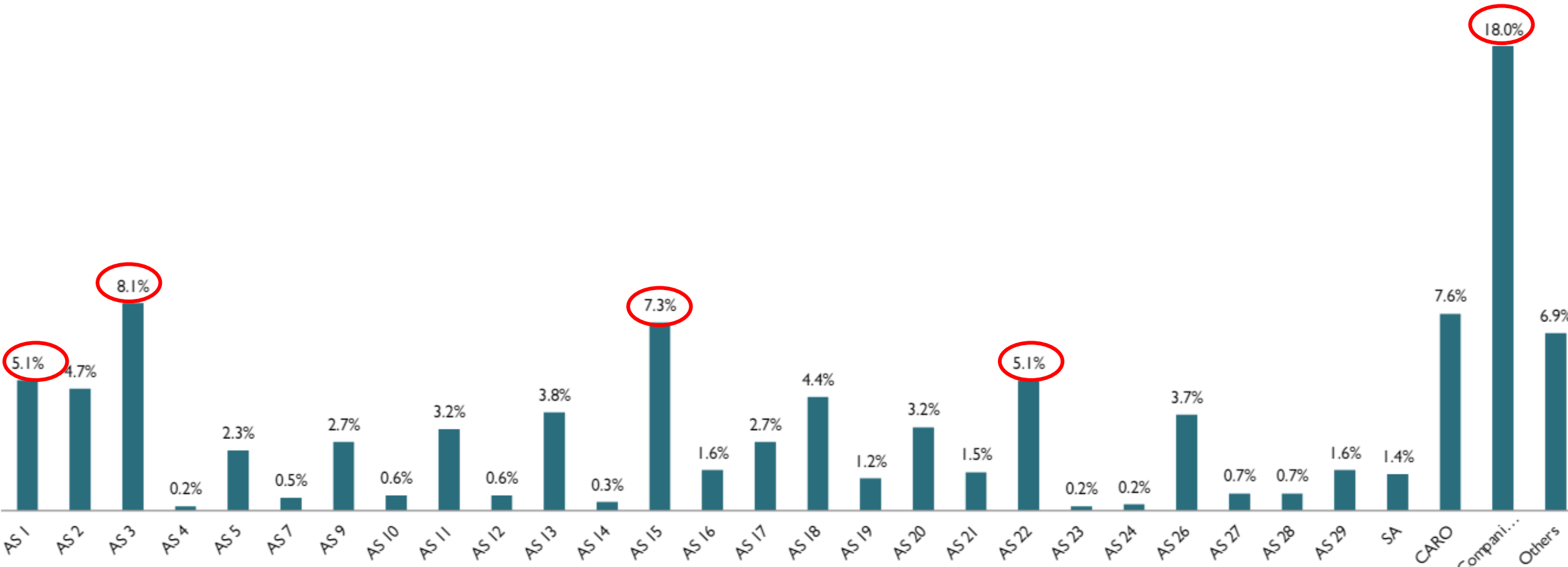
- Expected Credit Loss (ECL) provision not provided or disclosed



Accounting Standards

FRRB Accounting Standards Non Compliance

➤ Non-Compliances Observed:





AS 1: Disclosure of Accounting Policies

AS 1: Disclosure of Accounting Policies

- Not disclosing the accounting policy for the following being significant accounting policies adopted in the preparation and presentation of financial statements:-
- Basis for Preparation
 - Revenue recognition
 - Revenue recognition of chit accounting
 - Interest earned, dividend and revenue from wind mills
 - Other income for income from Lorries
 - Property Plant and Equipment
 - Impairment of Assets
 - Investments
 - Borrowing Costs
 - Leases
 - Use of estimates
 - Cash flow statement
 - Provisions and Contingent liabilities (Para 24 & 25).

Checklist for Accounting Standards

SAMPLE CHECKLIST UNDER EACH OF THE ACCOUNTING STANDARD			
	AS-1 - Disclosure of Accounting Policies		
1	Whether all the significant accounting policies have been disclosed at one place and as a part of the financial statements.		
2	If there is any change in the accounting policies whether it has been disclosed separately with quantification of its impact on financial statements.		
3	Whether the fundamental accounting assumptions i.e. going concern, consistency or accrual been followed.		
4	If not, has the fact been disclosed.		

AS 3 : Cash Flow Statements

- Wrong amount was stated for purchase of fixed assets disclosed as cash flows from investing activities in the cash flow statement (Para 15)
- Not separately disclosing cash repayment of loan as cash flows from financing activities in the cash flow statement (Para 17c).
- Movement in long term borrowings and short term borrowings were reported on net basis in Cash Flow Statement instead of on gross basis (Para 21).

AS 3 : Cash Flow Statements

Sr No	Particulars	Matter contained in the FS	Relevant Para of Ind AS 7	Observation
1	Repayment of External Commercial Borrowings (ECBs)	In the CFS of a company, certain amount was reported as repayments of ECBs under the head 'Cash Flow from Financing Activities'. It was noted that the balances of ECBs reduced from previous year to current year.	Para 43– Non-cash transactions	If the difference in the amounts reported in the CFS and what should have been reported as per the notes to the FS were due to any repayment in a mode other than cash then the same should have been disclosed separately as required in para 43 of Ind AS 7 but no such disclosure was made.
2	Taxes on Income	In the Statement of PL, income tax expense relating to current year and tax adjusted for earlier years was shown. Exact amount was disclosed by the company as income tax paid in its CFS.	<ul style="list-style-type: none"> • Para 35 – Taxes on income • Para 36 	Considering the balances of provision for taxation and advance tax appearing in balance sheet, it was viewed that both the amounts could not be same. In the CFS, actual amount of income tax paid by the company should have been disclosed.

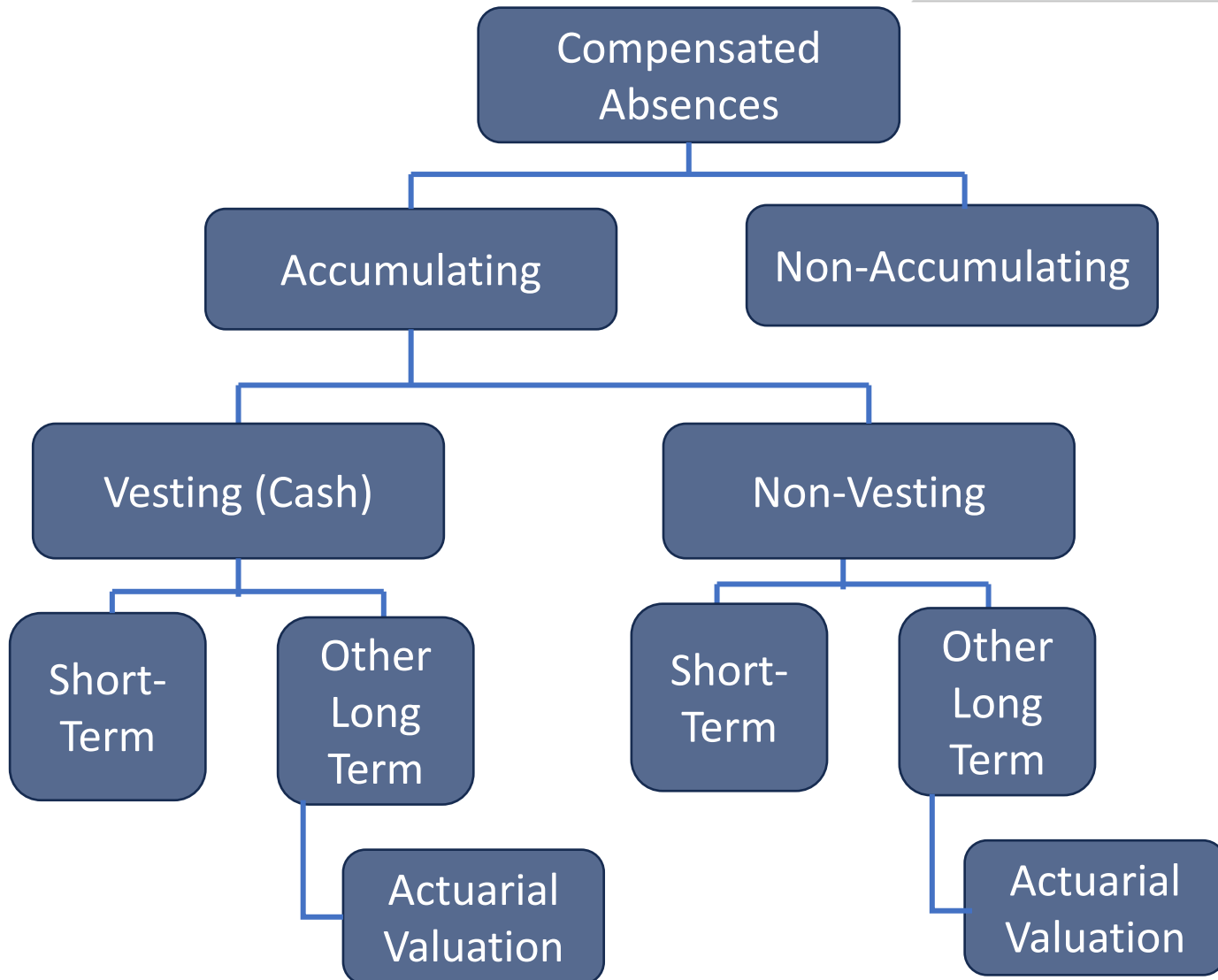
Checklist for Accounting Standards

	AS-3 - Cash Flow Statements		
1	Ensure that a cash flow statement of the current year is prepared and cash flows are classified as operating, investing and financing activities.		
2	Whether the enterprise has reported cash flows from operating activities using direct or indirect method.		
3	Whether cash flows from transactions in a foreign currency recorded by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow. (A rate that approximates the actual rate may be used if the result is substantially the same as would arise if the rates at the dates of the cash flows were used.)		
4	Check whether the cash flows associated with extraordinary items been classified as arising from operating, investing and financing activities as appropriate and separately disclosed.		
5	Whether non cash investing and financing transactions been excluded from cash flow statement.		

AS-15 Employee Benefit Expenses

Types of Benefits	Provision Required	Provision as per AV = PUCM Method	Detailed Disclosure in Notes to Accounts
a. Short Term	✓	✗	✗
b. Post Employment			
Non-SMC	✓	✓	✓
SMC	✓	i. upto 50 employees- Provision arithmetic/discontinuance basis ii. more than 50 -AV	✗
c. Other Long Term	✓	✓	✗
Non-SMC	✓	✓	✓
SMC	✓	i. upto 50 employees- Provision arithmetic/discontinuance basis ii. more than 50 -AV	✗

AS 15: Employee Benefit Expenses



How many leaves do you get in a year

How many of it can you carry forward to the next year?

How many years can you carry forward your leaves?

Can you encash your unutilized leaves

How do you account for such leaves?

Average number of employees more than 50 during the year

Case:

- The accounting policy on gratuity states that “Provision for gratuity is made in the accounts, considering the Balance sheet date as the notional date of retirement”.

Observation:

- It has been noted that as per AS 15 the provision for gratuity should be determined through actuarial valuation which should be based on assumption that are not excessively conservative and should reflect the economic relationship considering the factors.
- It was viewed that the policy adopted by the company indicates that while making provision, it is assumed that each of its employee retire on the balance sheet date which is an excessively conservative assumption and also does not reflect the economic relationship between factors such as inflation, salary increase, the return on plan and discount rates.
- Since it does not consider actuarial risk while valuing its liability towards gratuity, it was viewed that actuarial valuation is not followed by the company. It is against the requirements of AS 15

AS-15 Employee Benefit Expenses

- Not accounting defined benefit plan for gratuity on actuarial basis (Para 51a).
- Not making provision for gratuity (Para 53).
- Not disclosing the information required by Para 119 and 120 for defined benefit plan in the financial statements.

AS 22: Accounting for Taxes on Income

- Not accounting for the deferred tax in the determination of the net profit or loss for the period (Para 9).
- Not measuring deferred tax using the tax rates that have been enacted by the balance sheet date (Para 21).
- Not disclosing the break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances (Para 31).

Companies Act, 2013

- Not disclosing the fact that internal auditor is not appointed by the company though required to be appointed (Sec. 138).
- Not disclosing full particulars of the loan including the purpose for which the loan is proposed to be utilized by the recipient of the loan (Sec. 186(4)).
- Not disclosing the purpose for which the guarantee was to be utilized in respect of a guarantee issued in favour of a Bank for the loan taken by a related party (Sec. 186(4)).

Companies (Audit and Auditors) Rules, 2014

- Disclosing that there was no delay in transferring amount required to be transferred to the Investor Education and Protection Fund (IEPF) by the Company though there was no amount required to be transferred to IEPF as no dividend was declared (Rule 11c).

Schedule II of Companies Act, 2013

- Not adopting useful lives of Buildings other than Factory Buildings, Roads and Servers as specified in Part C of Schedule II of Companies Act, 2013 and also not disclosed the difference and not provided justification duly supported by technical advice (Part A, Para 3)

Division I – Non Ind AS

- Showing Provision for tax as a negative figure under assets side instead of showing under Short term provisions (Note No. 3(c) and 6H).
- Not disclosing in the notes to accounts the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital (Note No. 6A(e)).
- Not disclosing in the notes to accounts shares in the company held by each shareholder holding more than 5 per cent shares specifying the number of shares held (Note No. 6A(g)).
- Not making security wise sub classification of Long term borrowings (Note No. 6C(ii)).
- Not stating in the notes to accounts the terms of repayment of term loans and other loans (Note No. 6C(vi)).
- Not disclosing the terms of repayment of long term loans in the financial statements (Note No. 6C(vi)).
- Wrongly using the term Fixed Assets instead of Property, Plant and Equipment (Note No. 6I).
- Not using the correct nomenclature for classifying under Property, Plant and Equipment in the Balance Sheet.
- In the Notes to accounts, the title “Details of Consolidated Block Asset” was not as per Schedule III in view of the fact that it is a standalone financial statement.

Checklist for Accounting Standards

	AS-2 - Valuation of Inventories		
1	Check whether accounting policies adopted in measuring the inventories, including the cost formulae used have been disclosed.		
2	Whether all inventories been valued at the lower of cost and NRV.		
3	Does the financial statements disclose the following: (a) the accounting policies adopted in measuring inventories, including the cost formula (e.g., FIFO) used; and (b) the total carrying amount of inventories and its classification appropriate to the enterprise.		

Checklist for Accounting Standards

	AS-10 - Property, Plant and Equipment		
1	Is there a list of fixed assets. If so, is there is a fixed asset register. Is the register updated. Ensure that the items included in the register are the assets of the company and not for sale		
2	Have the stand-by equipment and servicing equipment been capitalized		
3	Check whether the following been included in the cost of fixed assets: (a) Purchase price (including import duties and other non-refundable taxes or levies and excluding trade discounts and rebates); and (b) any attributable cost of bringing the asset to its working condition for its intended use		
4	Check whether the following fixed assets been eliminated from the financial statements: (a) those disposed of; and (b) those from which no further benefit is expected from use and disposal		
5	Check whether revaluation is justified. Is it applied to the entire lot of assets. If not, is the selection systematic. The basis should be disclosed		

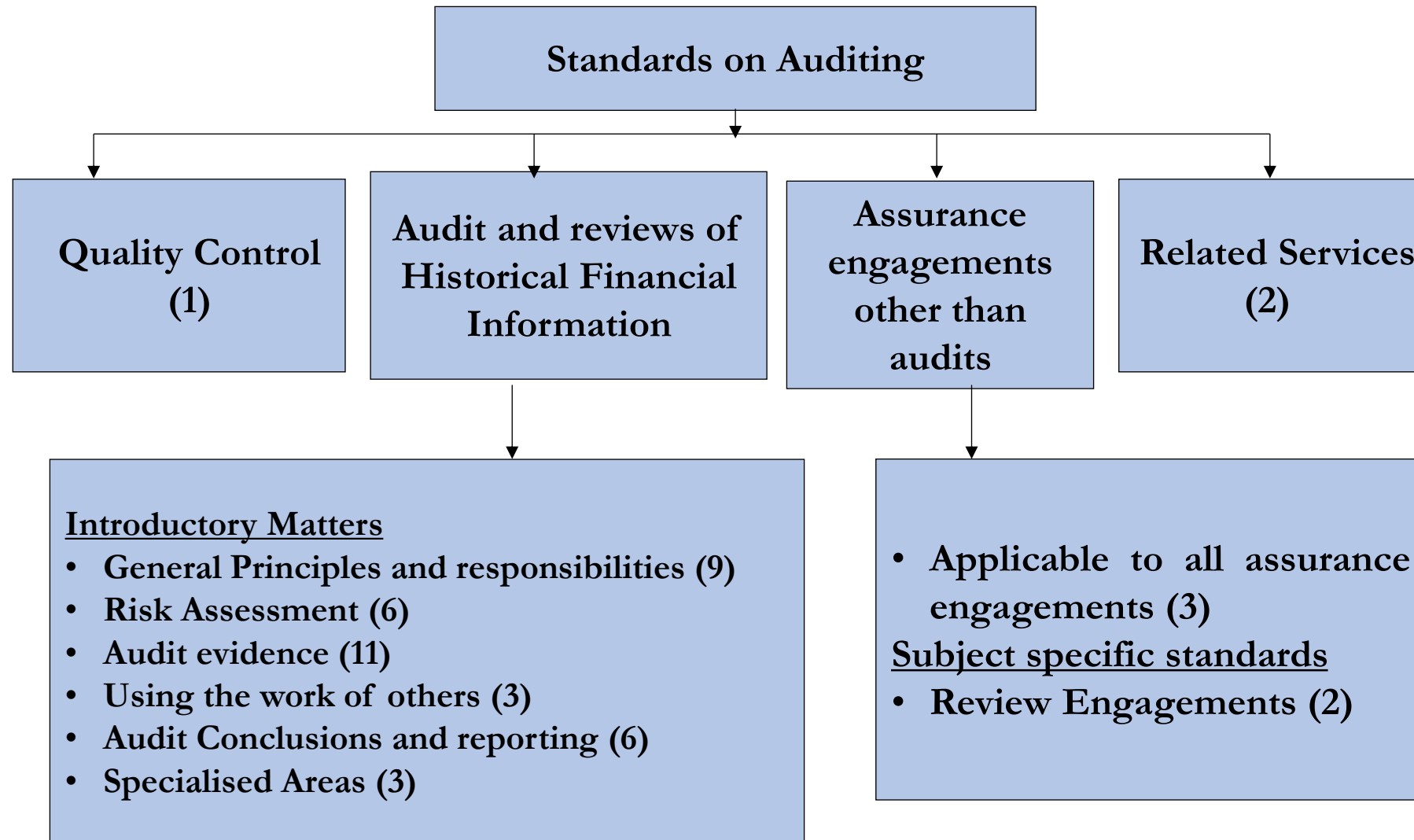
Checklist for Accounting Standards

	AS-20 - Earnings per Share		
1	Whether the PU has applied due care in verifying weighted average number of shares for the purpose of determining EPS		
2	Whether basic and diluted EPS has been presented on the face of Statement of Profit and Loss account and the figures are appropriate		
3	In case of dilutive EPS, whether adjustments to the net profits have been properly considered		



Standards on Auditing

Standards of Auditing issued by AASB of ICAI



How many Standards of Auditing are issued by ICAI?

- Standards on Quality Control (SQC) – SQC 1
- SA 100- SA 199 Introductory Matters
- SA 200-SA 299 General Principles and Responsibilities
- SA 300- SA 499 Risk Assessment and Response to Assessed Risks
- SA 500-SA 599 Audit Evidence
- SA 600- SA 699 Using Work of Others
- SA 700-SA 799 Audit Conclusions and Reporting
- SA 800- SA 899 Specialized Areas
- SREs 2000-SREs 2699 Standards on Review Engagements (SREs)
- SAEs 3000- SAEs 3699 Standards on Assurance Engagements (SAEs)
- SAEs 3000-SAEs 3399 Applicable to All Assurance Engagements
- SAEs 3400- SAEs 3699 Subject Specific Standards
- SRSs 4000-SRSs 4699 Standards on Related Services (SRSs)

Covered in detail in this presentation

- Standards on Quality Control (SQC 1)
- SA 100- SA 199 Introductory Matters
- SA 200-SA 299 General Principles and Responsibilities
- **SA 300- SA 499 Risk Assessment and Response to Assessed Risks**
- **SA 500-SA 599 Audit Evidence**
- SA 600- SA 699 Using Work of Others
- **SA 700-SA 799 Audit Conclusions and Reporting**
- SA 800- SA 899 Specialized Areas
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- SAEs 3000-SAEs 3399 Applicable to All Assurance Engagements
- SAEs 3400- SAEs 3699 Subject Specific Standards
- SRSs 4000-SRSs 4699 Standards on Related Services (SRSs)

SA 315	Identifying and Assessing the Risk of Material Misstatement through understanding the entity and its environment
SA 320	Materiality in planning and performing an audit
SA 330	The Auditor's Responses to Assessed Risks
SA 505	External Confirmations
SA 700(R)	Forming an opinion on the Financial Statements



Audit Reporting

List of Standards on Auditing of Reporting

SA 700-799 “Audit Conclusions and Reporting”	
SA 700(R)	Forming an opinion on the Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor’s Report
SA 705(R)	Modifications to the Opinion in the Independent Auditor’s Report
SA 706(R)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
SA 710	Comparative Information- Corresponding Figures and Comparative Financial Statements
SA 720(R)	The Auditor’s Responsibility in Relation to Other Information in Documents containing Audited Financial Statements

Revised SAs effective for audits of FS for periods beginning on or after 1st April 2018.

(ICAI has issued Implementation Guide for 700, 701, 705, 706)

SA 700: Forming an Opinion and Reporting on Financial Statements

Format of Audit Report

1. Title
2. Addressee
3. Auditor's Opinion
4. Basis for Opinion
5. Going Concern, **where applicable**
6. Emphasis of Matter, **where applicable**
7. Key Audit Matters (**for listed companies**)
8. Other Information, **applicable to all companies**
9. Responsibilities of Management for the Financial Statements
10. Auditor's responsibilities for the audit of the Financial Statements
11. Other Matter
12. Other Reporting Responsibilities (**Report on other Legal and regulatory requirements**)
13. Signature of the Auditor
- 14. UDIN**
15. Place of Signature
16. Date of the auditor's report



Format of Report



SA 505 – “External Confirmations”

- Procedure and manner of obtaining external confirmations, its correctness, maintenance of adequate records, control over confirmations and obtaining direct confirmation from the external parties was not there.
- Confirmations were not sent under the control of the firm as it is a mandatory audit procedure.
- Log were not maintained of what confirmations have been sent, received, not received, undelivered, or unreconciled as in few cases it was observed that no documentary evidences were available for the list of cases selected for external confirmation and evidence of sending letters to any of parties.
- External confirmations were not obtained for trade receivables and payables. Alternate procedures were duly applied but the sample selected for conducting alternate procedures was too small.
- External confirmations received from bank branches could not be verified in respect of bank balance as there were no documents evidencing the same in the audit file.
- The external confirmation response was not directly received by the audit firm as required by Para 7 of SA 505 (External Confirmation).



*SA 320 – “Materiality in Planning and
Performing an Audit”*

Include following amounts and the factors considered in their determination :

Materiality level for class of transactions /
account balances / disclosures

Materiality for FS as a whole

Performance materiality

Any revision to any of above

- The **basis of** considering the **benchmarks** for determining the materiality were not documented
- Revised performance materiality and the nature, timing and extent of the further audit procedures in case the revised materiality was lower than that initially determined by the auditor was not documented.
- There were no documents on record determining the materiality for the report and for assessing the RMM.
- Audit firm had not determined materiality for the report as a whole and performance materiality as per SA 320
- No evaluation had been done to determine materiality level for particular class of transactions, account balances or disclosures.

Which Benchmark to be selected?

- For Profit oriented entities → PBT from Continuing operations
- Entities where PBT is Volatile → Gross Profit / Turnover
- Not for Profit entities → Total expenses or Total Revenue
- Startup Entities → Turnover
- Debt Financed → Total Assets / Net Assets

SA 320: Materiality in Planning And Performing an Audit

Range of % to be applied to Benchmarks:

Benchmark	Range of %
Profit before Tax	5% to 10%
Revenue from Operations	0.5% to 1%
Total Expenses	0.5% to 1%
Net Asset Value	0.5% to 2%
Gross Profit	1% to 2%

Percentages as indicators of materiality, **other than those specified by law**, should be used with care → Still requires judgment

CAQ Materiality Template

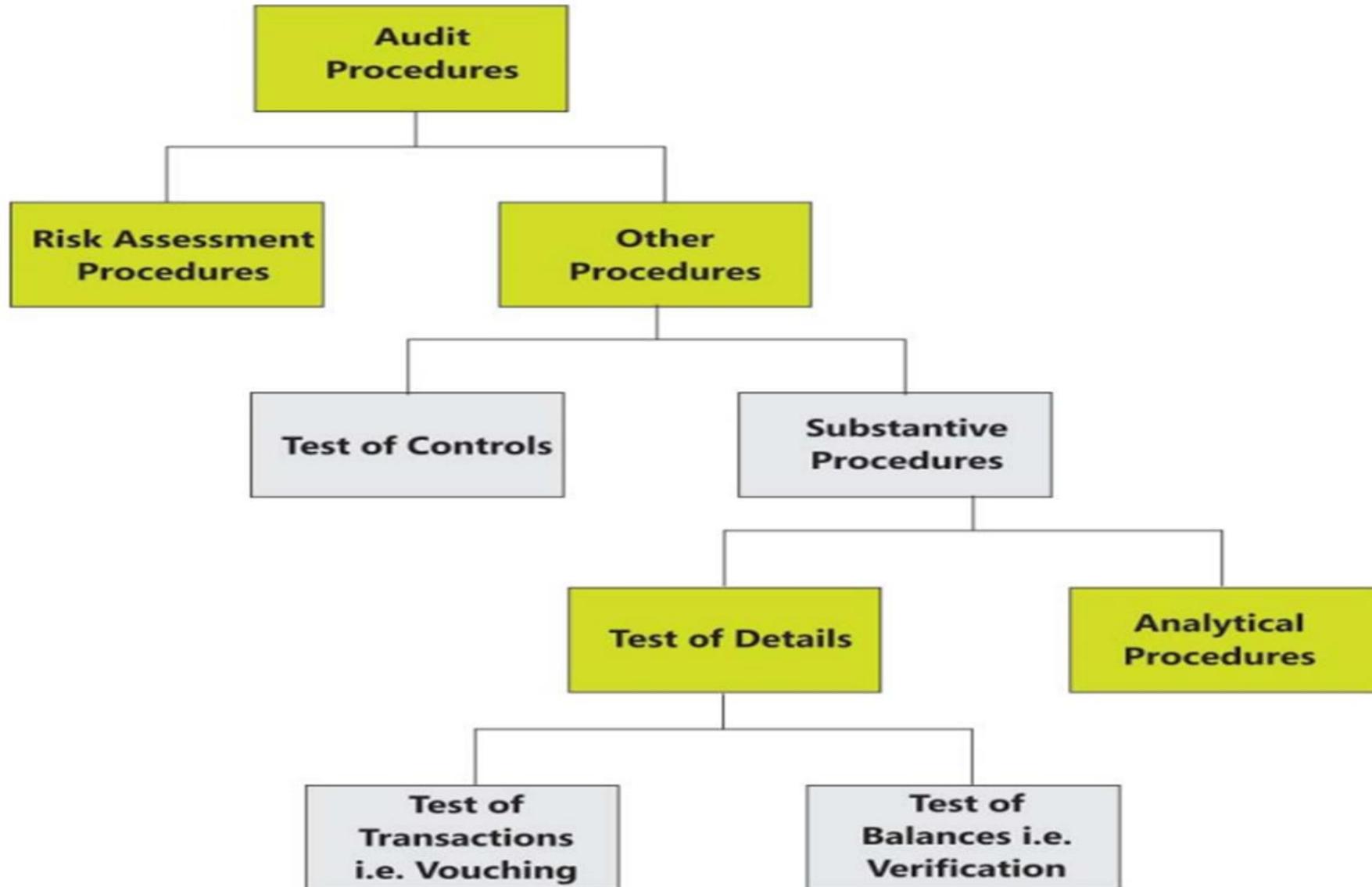


*Standards related to Risk Assessment and
Response to Assessed Risks*

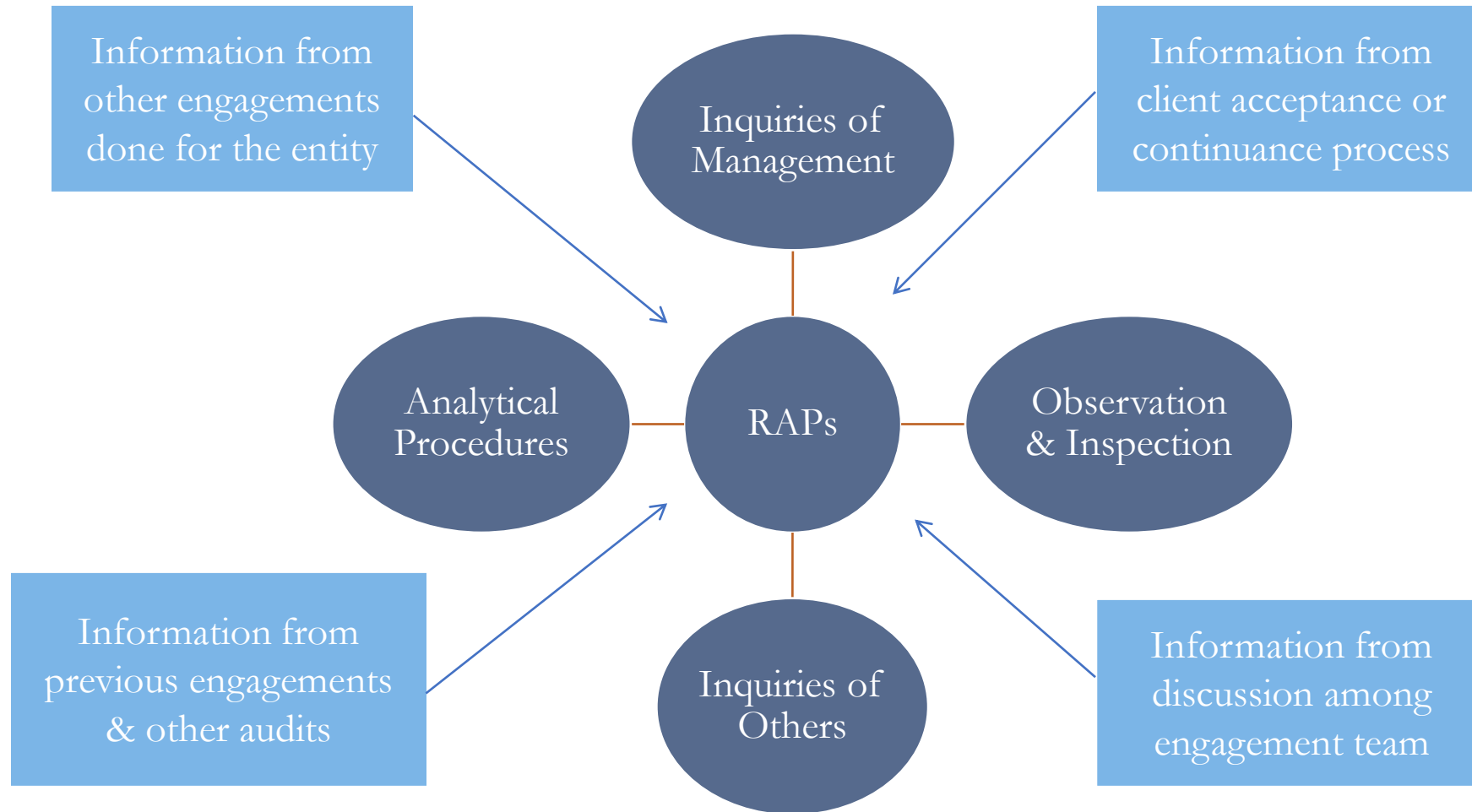


*SA 315: ‘ Identifying And Assessing The Risks Of
Material Misstatement Through Understanding The
Entity And Its Environment’*

SA 330 Auditor's Responses to assessed risks



Risk Assessment Procedures (RAPs)



SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

- Risk Assessment Procedures – **Inquiry of Management:**

Source	Information obtained
Those Charged with governance	Understand environment in which financial statements are prepared
Employees	Appropriateness of selection, application of certain accounting policies
Marketing personnel	Changes in marketing strategies, sales trends, contracts etc
In-house legal counsel	Litigation, compliance with laws, Knowledge of frauds, etc.

SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

- Risk Assessment Procedures – Analytical Procedures
 - May identify aspects of entity of which auditor was unaware.
 - May assist in assessing the ROMM to provide basis for designing & implementing responses to assessed risks.
 - Identify unusual transactions/ relationships, etc. (possibility of fraud).
 - APs on data aggregated at high level gives only broad initial indication of material misstatement.
- Risk Assessment Procedures – Observation & Inspection
 - May support inquiries of management and others.
 - Provide information about entity/ its environment
 - Examples: Entity's operations, Documents, Management/TCWG reports, Premises & plant facilities

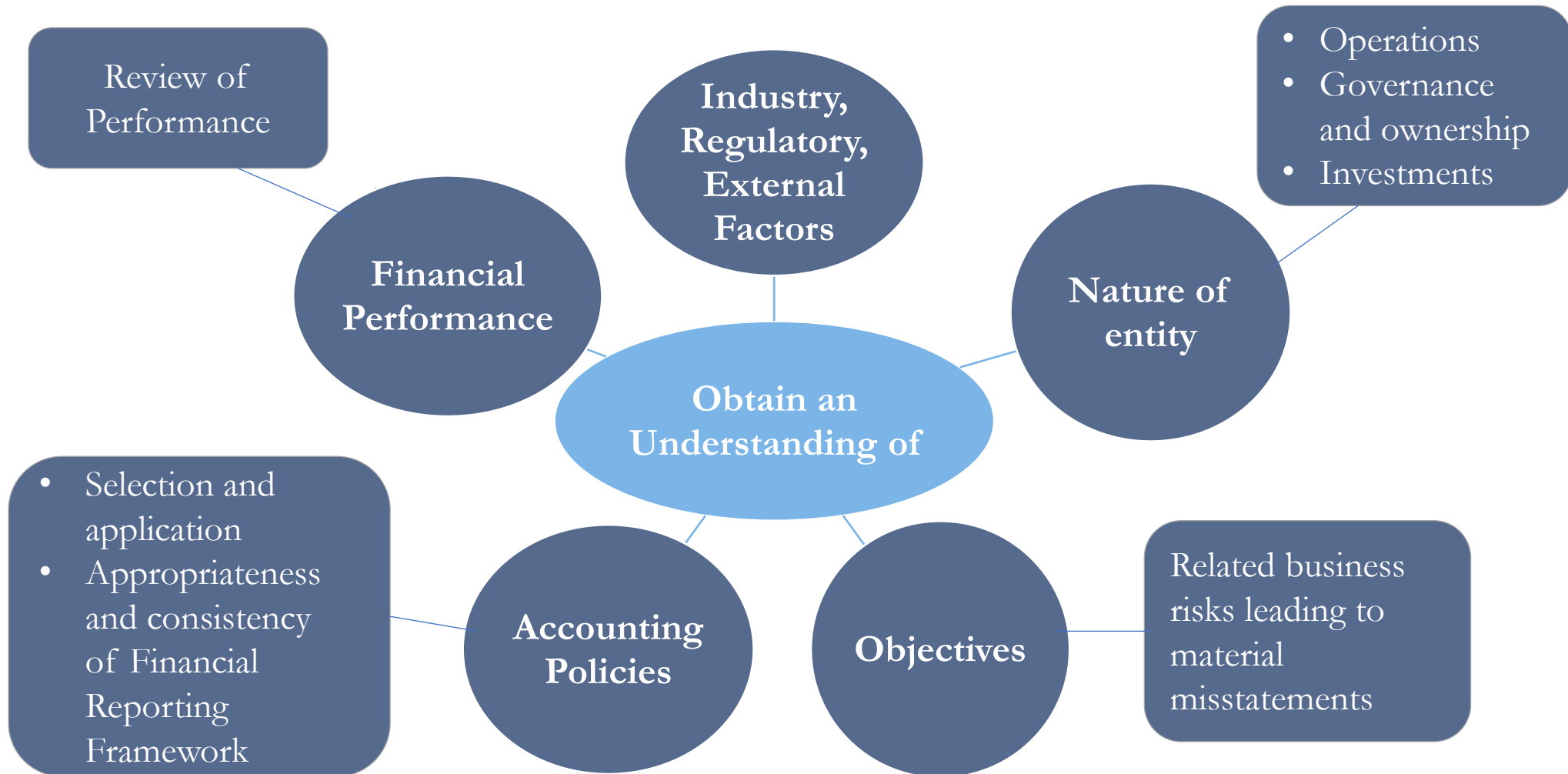
SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

- Risk Assessment Procedures – Inquiry of Internal Audit Function
 - useful to auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing ROMM at the FS and assertion levels.
 - Per SA 240, if IA function provides information to auditor regarding any actual, suspected or alleged fraud, auditor takes this into account in auditor's identification of ROMM due to fraud.

NFRA Observation:

- i) The **Audit Firm** has performed no Analytical Procedures as risk assessment procedure and have failed to comply with Para A13 to Para A15 of SA 315.

Understanding of the Entity and its Environment



- The risks of material misstatements (RMM) to the FS were not identified at the planning stage and there was insufficient documentation in case of rebuttals.
- No formal risks assessment had been done by the firm to provide the basis for the identification and assessment of RMM at financial report and assessment level.
- Audit risks analysis was not comprehensive to make it commensurate with size and nature of the business.
- The firm had not documented the audit procedures performed during the course of audit for identifying and assessing the RMM.
- Identification/assessment of risks was not found documented in the audit file.

Observations of QRB/FRRB

- Audit procedures responsive to assessed risks, were not found to be documented in the audit files and further there was no discussion paper held of possible discussions within the team regarding the susceptibility of the financial reports to material misstatements.
- The audit team had no evidences of any audit planning or risks assessment performed by the firm.

SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

Information about the entity and its environment can be obtained from both Internal and External sources:

	Internal Sources	External Sources
Financial Information	<ul style="list-style-type: none"> • Financial statements • Budgets • Reports • Financial performance measures/metrics • Minutes • Income tax returns • Decisions made on accounting policies • Judgments and estimates 	<ul style="list-style-type: none"> • Industry information • Competitive intelligence • Credit rating agencies • Creditors • Government Agencies • Franchisors • The media and other external parties
Non-financial Information	<ul style="list-style-type: none"> • Vision • Mission • Values • Objectives • Strategies • Organisation structure • Minutes • Job descriptions • Operating performance • Business drivers • Capabilities • Policy & procedure manuals • Non-financial performance measures/ metrics 	<ul style="list-style-type: none"> • Trade association data • Industry forecasts • Government agency reports • Newspaper/ magazine articles • Information on the internet

Work Paper Templates (CAQ):

Chapter	2.6		Name	Initial
Topic	Note on Understanding Client (KYC) Business, Key People	Prepared	C	
The client	XYZ Company Private Limited	Reviewed	T	
Task	Statutory Audit	Approved	A	
Period	for the year ended March 31, 2xx3			

(Following draft may be used)

Objective: - Understanding the entity

To gain an understanding of the client and its industry sufficient to form our own point of view on the risks in the business that may have a significant effect on the financial statements, and/or on the audit.

Work Paper Templates (CAQ):

A. The entity's business and its industry and environment

--

Legal and operating structure	XYZ Company Private Limited (“the Company”) was incorporated on July xx, 20xx. It is a wholly owned subsidiary of xxxxxxxx
Conduct of operations	The registered office of the Company is situated at xxxxx. The Company is engaged in the business of xxxxxx. The Company has manufacturing plant if any.....
Major Lenders	Major Lenders: 1. 2.
Major Customers	Major Customers: 1. 2. 3. 4. 5.
Related parties	1. 2. 3.

B. The entity's accounting policies and practices

Applicable financial reporting framework	
Accounting policies	

C. Understanding on maintenance of books of account and financial reporting:

The Ministry of Company Affairs (MCA) vide its notification dated March 24, 2021 and subsequent notification dated April 1, 2022, has made it mandatory for every company to fulfill the requirement of an audit trail feature in their accounting software from 1st April, 2023.

The objective of MCA for mandating the requirement of an audit trail feature in accounting software is to mitigate the chances of fraudulent transactions or manipulation in the books of account of the company and to bring in more transparency.

With the help of audit trail, an auditor can trace every step of, the financial data of a particular transaction right from the general ledger.

The accounting software used by companies will have to comply with the provisions of the Companies (Accounts) Rules, 2014.

Rule 3(1) of the Companies (Accounts) Rules, 2014 requires that from 1st April 2023, every Company which uses accounting software for maintaining its books of account, shall:

- a. Use only such accounting software which has a feature of recording audit trail of each and every transaction
- b. Creating an edit log of each change made in books of account along with the date when such changes were made
- c. Ensuring that the audit trail cannot be disabled

D. The entity's past financial performance

The Company's turnover for the year ended March 31, 2xx2, was INR xxxx million and Profit / (Loss) for the year ended March 31, 2xx2 was INR xxxx million.

E. Other relevant details may be provided here



Other Work Paper Templates - CAQ



SA 330 – “The Auditor’s Responses to Assessed Risks”

Auditor has to design and implement overall responses to address risk of material misstatement at financial statement level

Includes:

- Emphasizing on professional skepticism
- Assigning more experienced / skilled staff or experts
- More supervision
- Incorporate unpredictability elements in selection of audit procedures
- General changes to nature, timing and extent of audit procedures

- Nature, timing and extent of audit procedures to be based on identified risk:
 - Whether only **Test of Controls (ToCs)** would suffice?
 - Whether only **Substantive procedures** would suffice?
 - Whether **Combined approach** is needed?

Match between nature, timing and extent of audit procedures and assessed risk at assertion level links auditor's further procedures and risk assessment

Conclusions re operating effectiveness of controls tested in previous audits

Overall responses to address assessed risks of material misstatement at Financial Statement level

Linkage of those procedures to assessed risks at assertion level

Result of audit procedures & conclusions

- The RMM identified at FS level were not linked to the material class of transactions, account balances and disclosures. Similarly the audit procedures planned were not linked in the planning document.
- There were no working papers with regard to designing and performing the test of controls to obtain SAAE as to operating effectiveness of relevant controls.
- Documents relating to further audit procedures whose nature, timing and extent are based on and are responsive to the assessed RMM at the assertion level were not documented in file.
- The documentation in regard to the understanding of control activities necessary to assess the RMM at assertion level, and linking of such controls to the audit procedures were not clearly and comprehensively documented.
- Documentation was not maintained as required by Para 8 / 18 of SA 330

Illustration of Risk identification documentation in an ITES company

Description of Significant Risk	Significant Account	Assertions covered:	Estimate	Fraud	Audit Procedure followed	Remarks on the basis of verification
<p>Revenue Recognition: Accuracy of cut off / accruals at year-end, especially correct application of prescribed calculation of value adjustment for overdue trade receivable</p>	Revenues	Existence Completeness Accuracy	No	No	<p>1. Verified the agreement entered with _____.</p> <p>2.Verification of Invoices raised monthly as per the terms and conditions of the agreement.</p> <p>3.Verified the terms and conditions as mentioned in agreement regarding consideration, billing and payments ,indemnification etc. are followed.</p>	<p>On the basis of audit procedure followed and verification on test check basis, it was observed that :</p> <p>1. 99% of total sales are from the holding company.</p> <p>2. The booking of revenue is as per agreement and accounting policy followed by the company consistently.</p> <p>3. The cut off procedures are in place.</p>

Illustration of Risk identification documentation in an ITES company

Description of Significant Risk	Significant Account	Assertions covered:	Estimate	Fraud	Audit Procedure followed	Remarks on the basis of verification
<p>Payroll: Inaccurate Processing, incompleteness of process, cut off procedure, Accuracy</p>	Employee Benefit Expenses	Existence Valuation Rights and Obligation Allocation and completeness	No	No	<p>1.Contracts for salary are reviewed and reconciled with actual expenses booked.</p> <p>2.All employees are included in the Salary Sheet and same is updated on monthly basis.</p> <p>3.Salaries are accounted on the accrual basis.</p> <p>4.Statutory Liability to deduct PF ,PT Etc. are correctly calculated and deducted from the salary.</p>	<p>On the basis of audit procedure followed and verification on test check basis, it was observed that :</p> <p>1. Payroll is carried out by the company on monthly basis.</p> <p>2.Payroll is carried out for all employees for correct accounting period.</p> <p>3.Company has complied with all statutory requirements while payment of Salary.</p>

Illustration of Risk identification documentation in an ITES company

Description of Significant Risk	Significant Account	Assertions covered:	Estimate	Fraud	Audit Procedure followed	Remarks on the basis of verification
Lease Rent: Inaccuracy, Disbursements are not as per agreements or not recorded	Operating Expenses	Existence Rights and obligation Accuracy Existence	No	No	<p>1. All rent agreement entered for office premises and Guest House are checked.</p> <p>2. Expenses are recorded on accrual basis.</p> <p>3. Prepaid component included in the expenses are reduced and recorded as prepaid</p>	<p>On the basis of audit procedure followed and verification on test check basis, it was observed that ;</p> <p>1. The company has entered in to valid agreements for premises and Guest House taken on rent.</p> <p>2. Expenses accounted in current year is on straight line basis.</p>

Other Points/FRRB observations

- The auditor while signing the Balance Sheet, Statement of Profit & Loss and Cash Flow statement did **not mention his membership number and firm's FRN**
- The auditor has to mandatorily report the compliance of all the applicable Accounting Standards in its report; however, the audit firm had not reported it in its report
- According to SA 700, an audit report should be appropriately addressed as required by the circumstances of the engagement; however, the firm had not mentioned the addressee, to whom it was addressed in its report
- In the heading of auditor report for consolidated financial statement of the company the word “Independent” was not used. **It should have been “Independent Auditor’s report”**
- Annexure to audit report did not comprise comments on internal control system
- The firm had not reported in its auditor’s report that whether any fraud on company or by the company had been noticed or reported during the period of audit or not
- the auditor should not date the report earlier than that the date on which the Financial Statements are signed or approved by management
- Loss for the year was reported as profit in the opinion para (phase profit/loss has been used)

Other Points/FRRB observations

- “Cash Flow Statement” was missing from introductory para
- The FS & accounting policies & notes were printed on letterhead of auditor
- Date & Place of signature by management and auditor – mismatch
- Modification or EoM should be self explanatory (should also refer to the appropriate note in FS)
- In case of any modification in the AR, the portion on “Report on Other Legal and Regulatory Requirements” will also need to be appropriately modified
- CARO Reporting should be specific (and not vague)
- ICFR Reporting should be specific – cannot have EoM or OM but can be a modified report
- Signature of auditor after the Other notes at the end of the FS

Key Checkpoints for Reviewer

Standard on Audit	Key Checkpoint
SA 210 Agreeing the Terms of Audit Engagements	The reviewer should review the engagement letter and check whether the scope and roles and responsibilities have been clearly brought out.
SA 230 Audit Documentation	Review the working papers of the PU to establish compliance by the practice unit with the technical, professional and ethical standards and to evaluate the work done and the conclusions reached.
	Verify whether the working papers are maintained for the period as specified in SQC 1 read with SA 230.
	Ensure that the firm has adequate policies and procedures to ensure compliance with SA 230 in respect of assembly of file
	Verify whether the permanent file contains all the relevant information and whether the same is updated regularly to reflect the changes in the information contained in the file.

Key Checkpoints for Reviewer

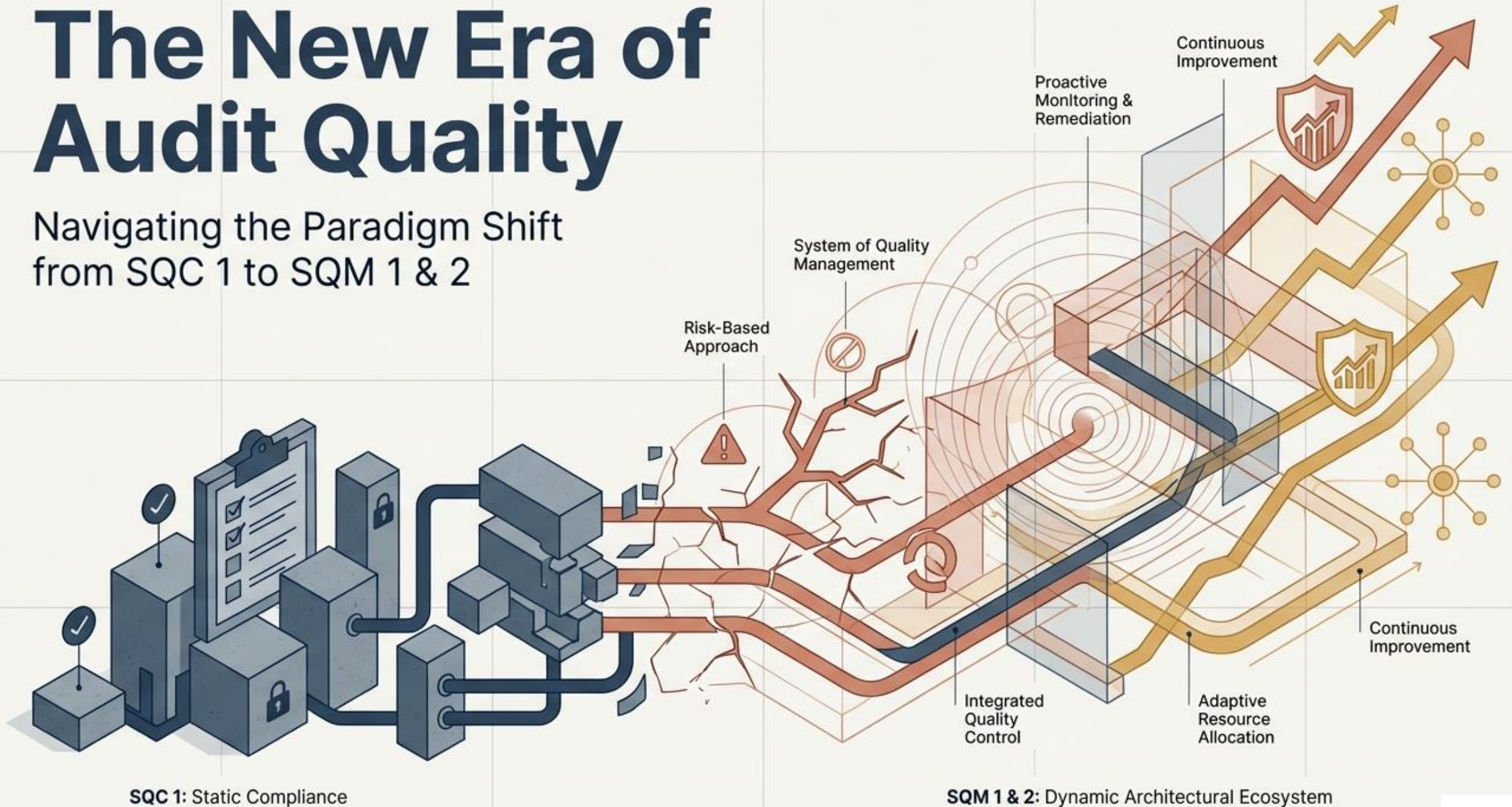
Standard on Audit	Key Checkpoint
SA 260 Communication with Those Charged with Governance	Verify whether significant findings from the audit have been communicated to those charged with governance.
	Verify whether the form, timing and expected general content of communications have been communicated to those charged with governance.
SA 450 Evaluation of Misstatements Identified During the Audit	Review whether the auditor has accumulated misstatements identified during the audit, other than those that are clearly trivial.
	Verify whether the auditor has documented the following <ol style="list-style-type: none">a) The amount below which misstatements would be regarded as clearly trivialb) All misstatements accumulated during the audit and whether they have been correctedc) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.



Compliance with Framework of Quality Control

The New Era of Audit Quality

Navigating the Paradigm Shift from SQC 1 to SQM 1 & 2

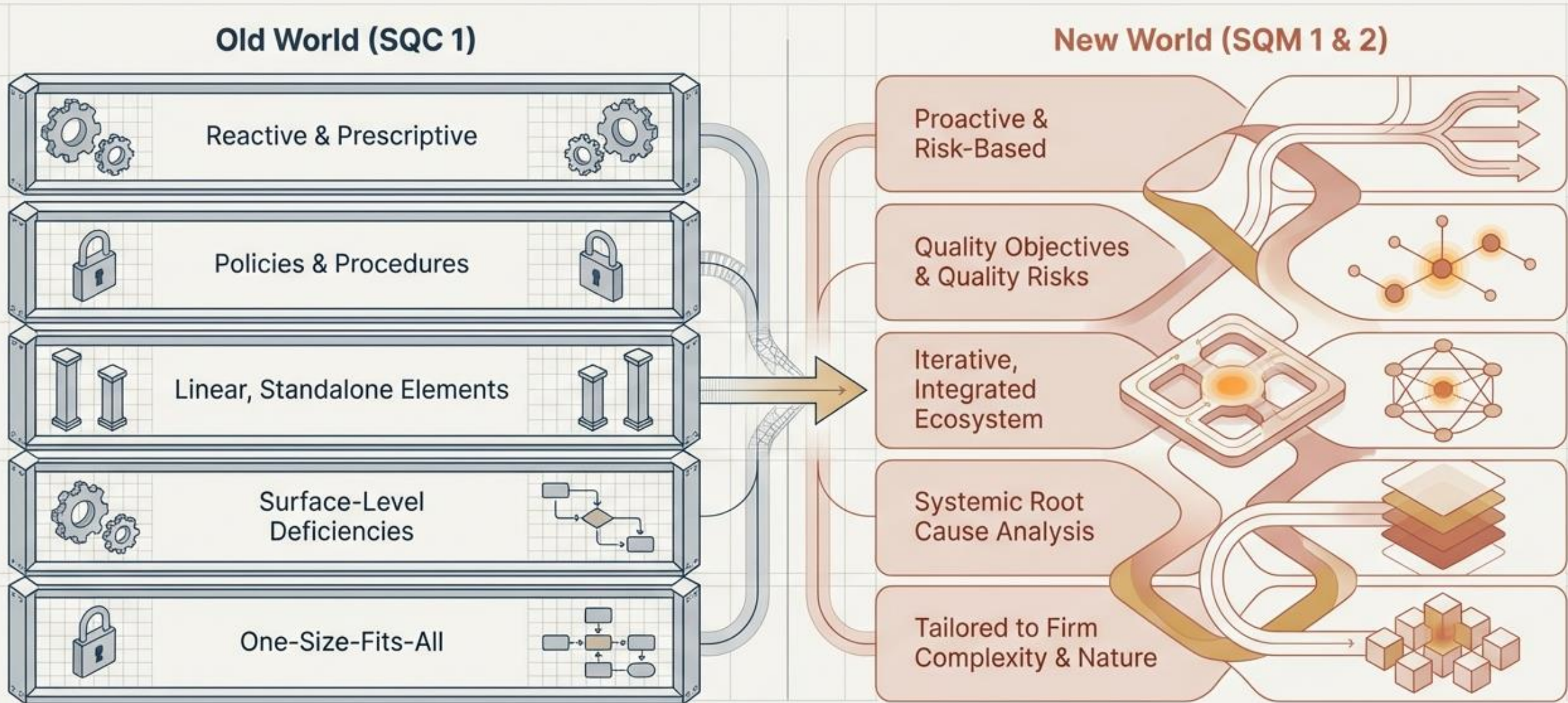


The Timeline: Mandatory Effective Dates

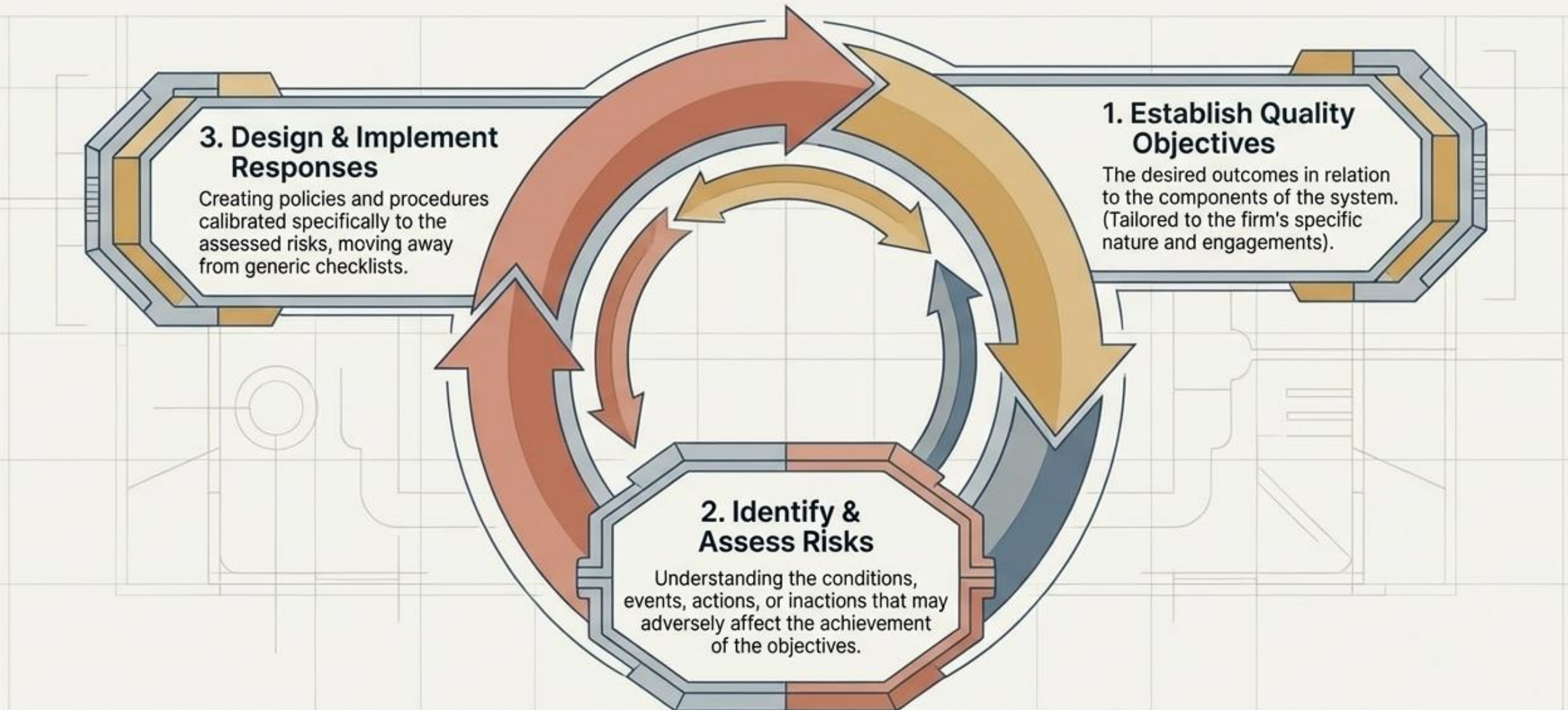


The clock is ticking. Transitioning to SQM 1 requires fundamental shifts in firm culture, IT infrastructure, and resourcing. It cannot be done overnight.

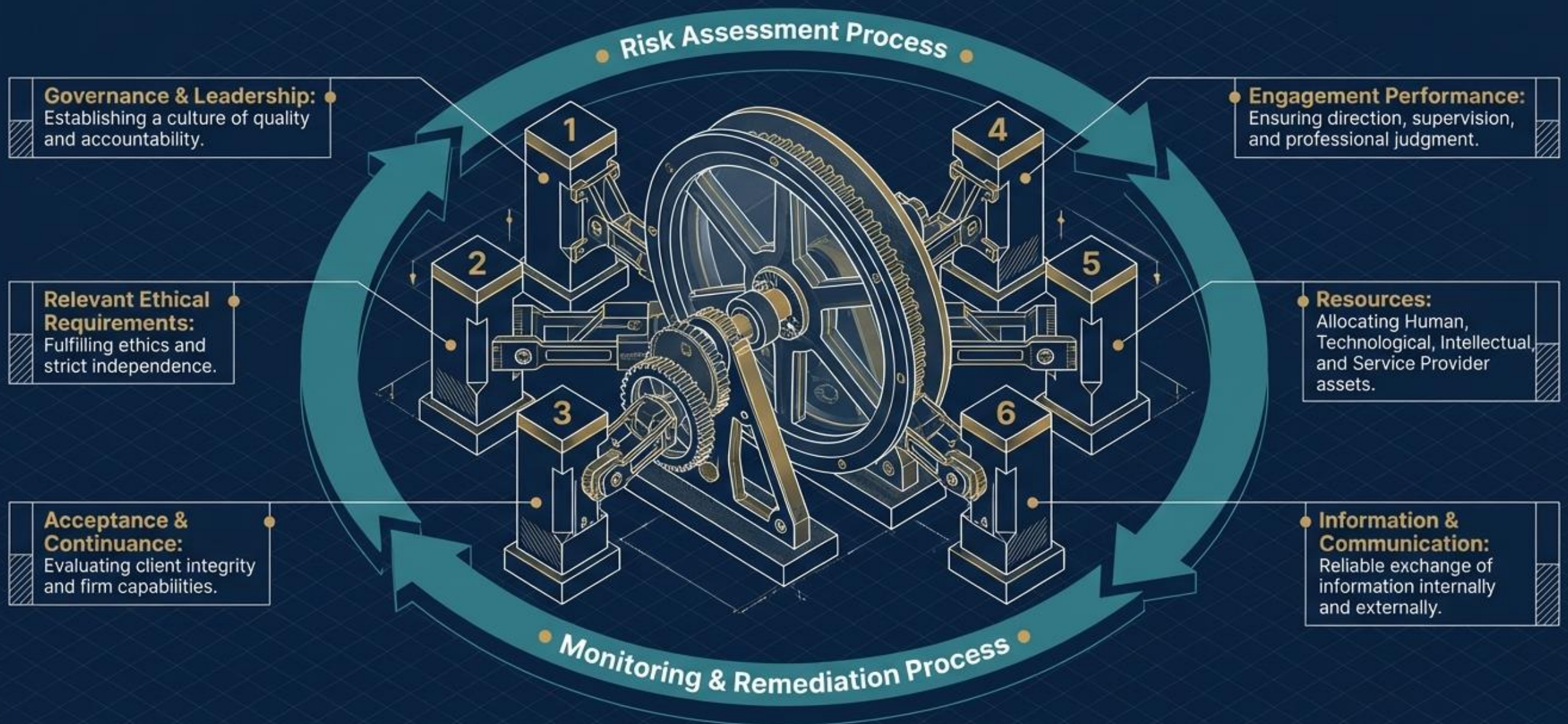
The Paradigm Shift: From Control to Management



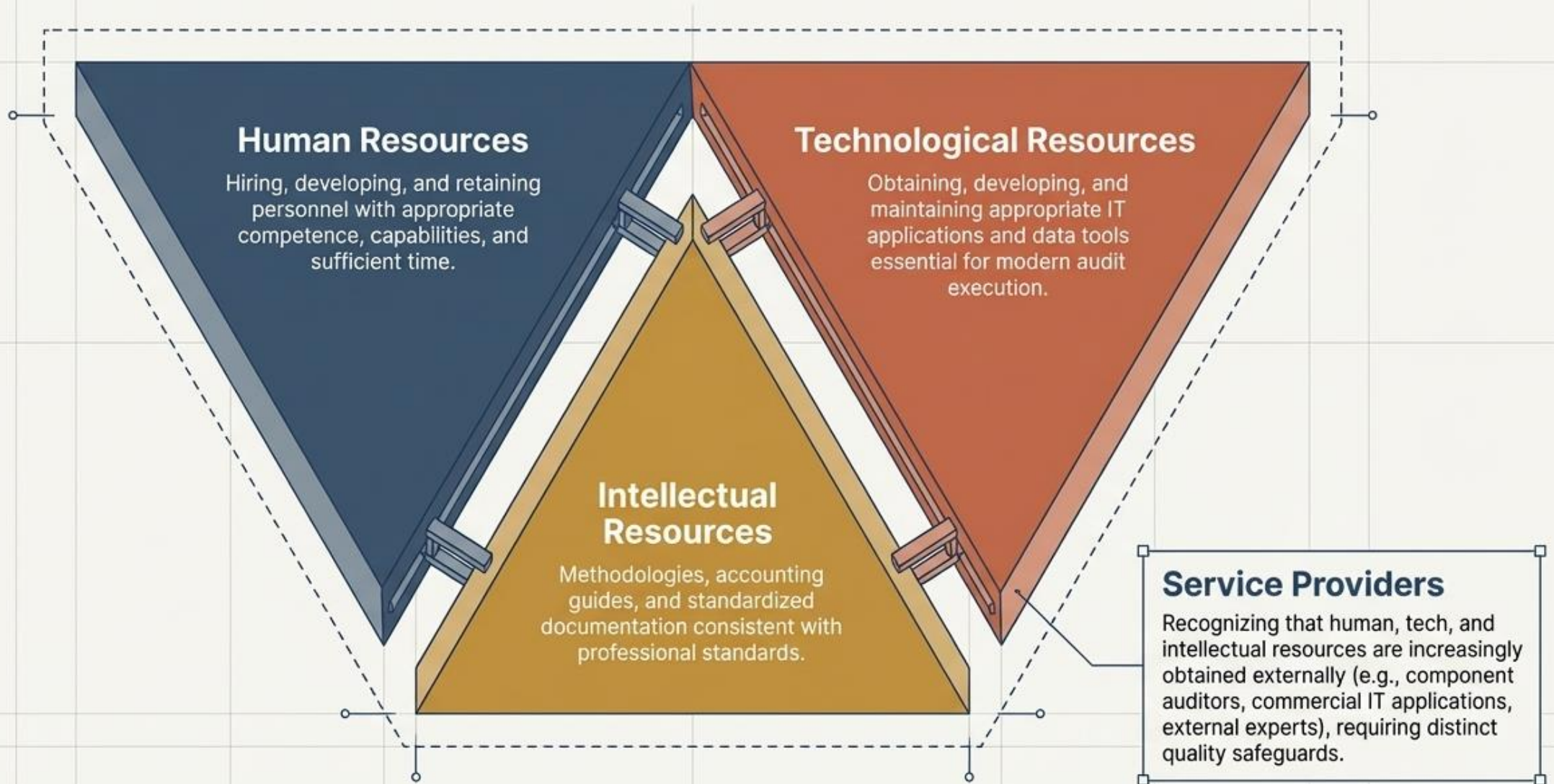
The Engine of Change: The Risk-Based Approach



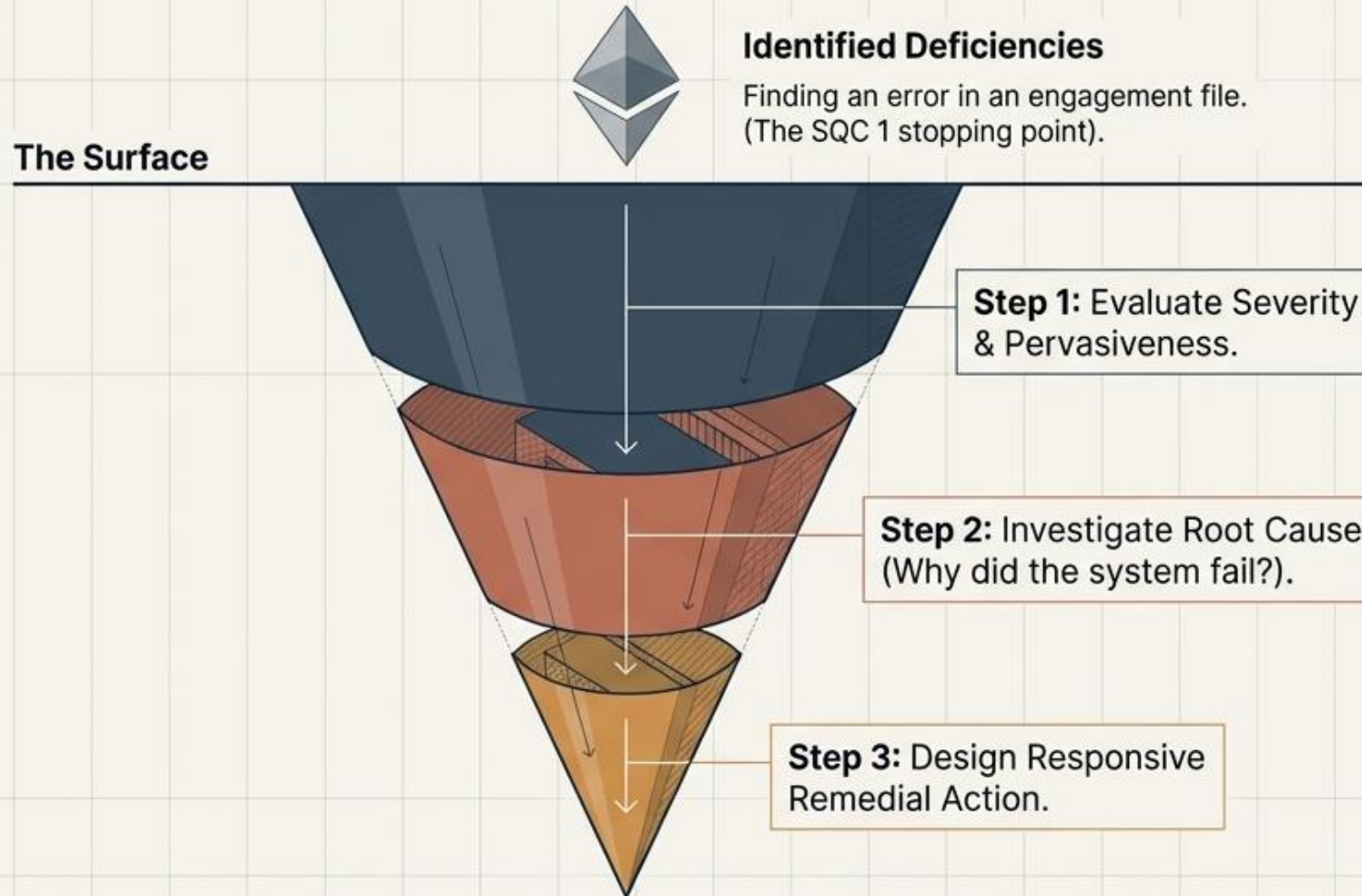
The New Quality Ecosystem: Eight Components of SQM 1



Expanding the Definition of Resources



The Evolution of Monitoring: Root Cause Analysis

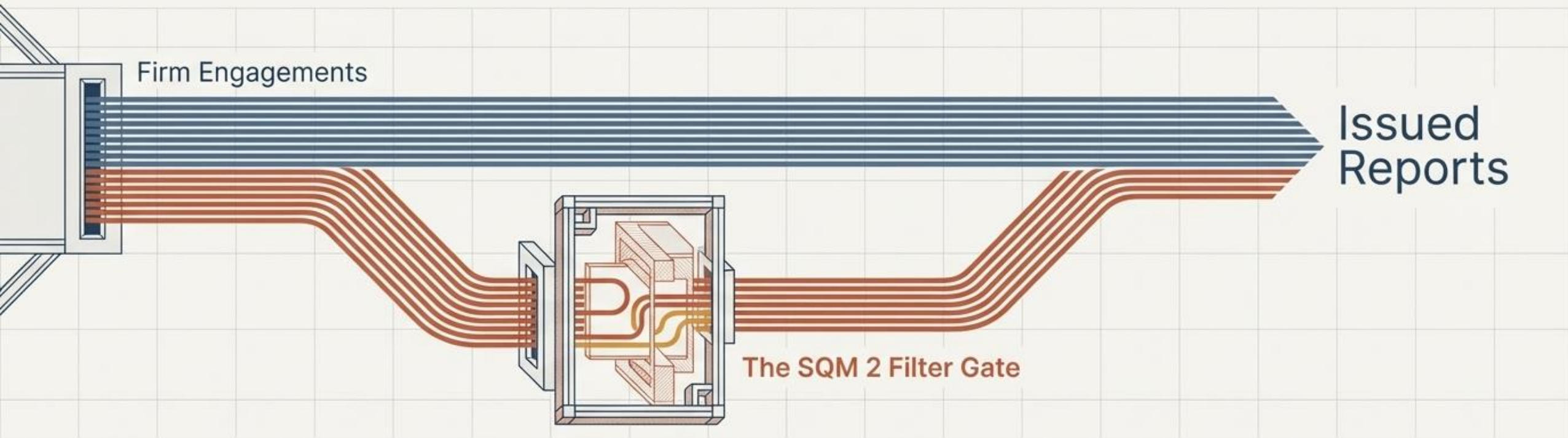


Key Insight

Identifying a deficiency is no longer a failure; it is vital data for the system.

Remedial actions must fix the underlying systemic issue, not just the surface-level symptom.

Introducing SQM 2: The EQR Safeguard



The Mandate

SQM 2 isolates the Engagement Quality Review (EQR) from the general standard, demanding dedicated focus.

The Scope

Mandatory for audits of listed entities, engagements required by law/regulation, and engagements where an EQR is an appropriate risk response.

The Function

An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

The Rule

The engagement partner is strictly precluded from dating the engagement report until the EQR is complete.

Defining the Reviewer: Appointment, Eligibility, and Distance

Eligibility Profile Matrix



Competence & Capabilities

Technical expertise and specific industry knowledge.



Sufficient Time

Documented bandwidth to perform a thorough, rigorous review.



Appropriate Authority

Firm standing to challenge the engagement partner without intimidation.



Ethical Compliance

Uncompromised objectivity and strict independence.



A previous engagement partner is strictly prohibited from assuming the EQ reviewer role for that client for at least two years to mitigate self-review threats.

Executing the Review: The Performance Pathway



01

Understand

Read and obtain an understanding of information communicated by the engagement team regarding the entity's circumstances. Note any firm-wide monitoring deficiencies that might impact the engagement.

02

Discuss

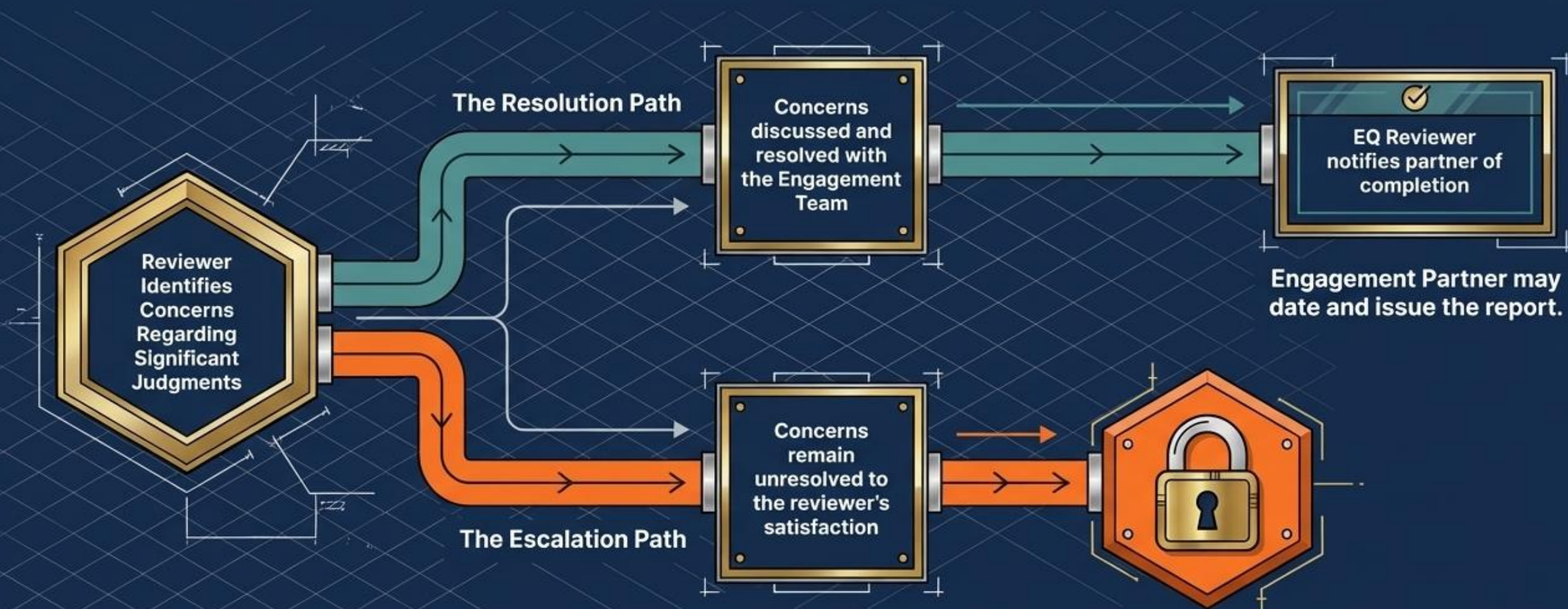
Engage directly with the engagement partner to discuss significant matters and significant judgments made during the planning, performing, and reporting phases.

03

Review

Review selected engagement documentation. Evaluate the basis for judgments, the exercise of professional skepticism, and whether the documentation genuinely supports the final conclusions.

Navigating Roadblocks: Responsibilities & Unresolved Concerns



Hard Stop. The Engagement Partner is strictly precluded from dating the report until the matter is entirely resolved through the firm's formal differences-of-opinion procedures. Reviewer formally notifies firm leadership.

The Final Ledger: SQM 2 Documentation Requirements



Personnel Roster

Explicitly list the names of the Engagement Quality Reviewer and any specialized assistants who participated in the review.



Scope Identification

Provide precise identification of the specific engagement documentation that was selected and reviewed to evaluate the significant judgments.



Basis of Determination

Document the explicit basis for the reviewer's determination that the review is complete, confirming no unresolved concerns remain.

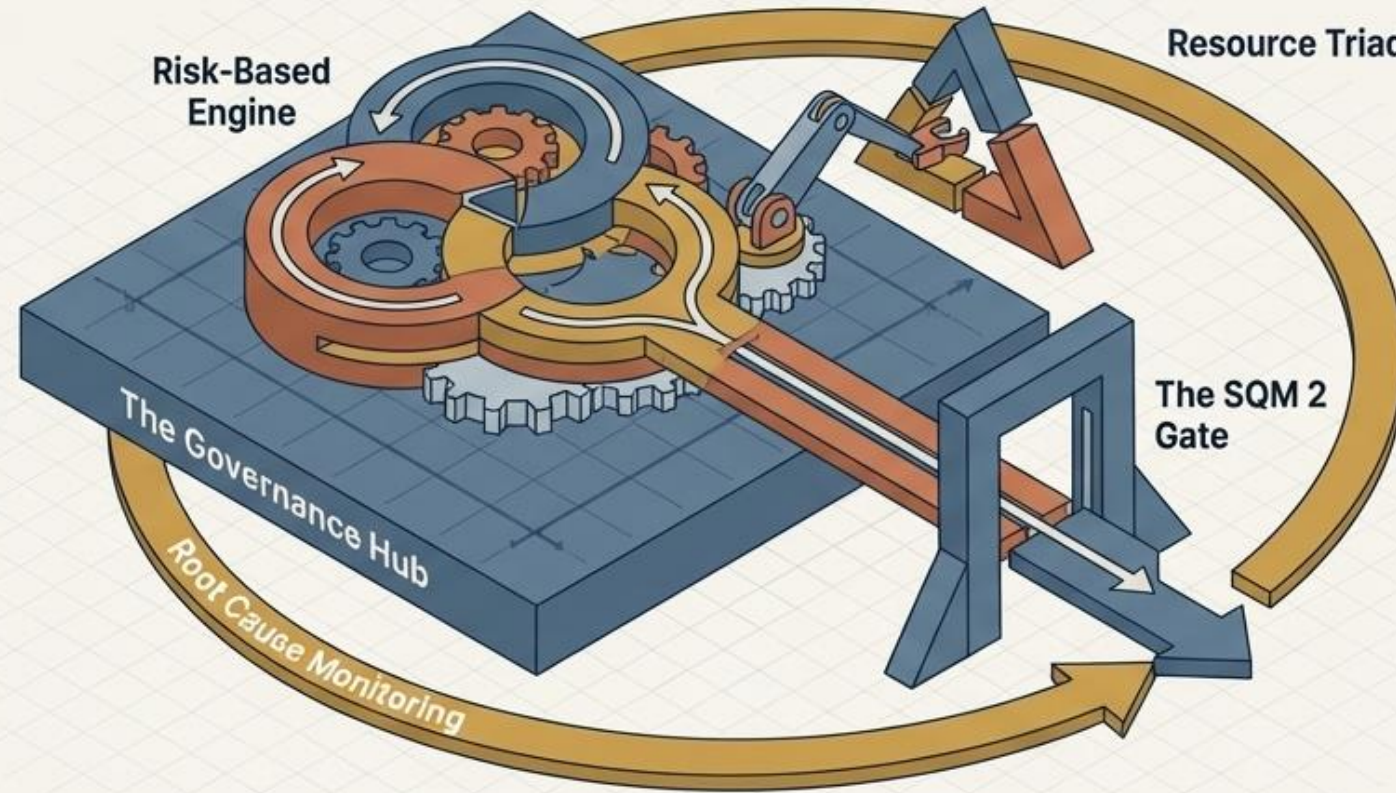


Chronological Proof

Record the exact date of completion of the engagement quality review.

Absolute Rule: This date must be on or before the date of the final engagement report.

Synthesis: Future-Proofing the Firm



1. Philosophy

Quality is no longer a checklist; it is a proactive, risk-based ecosystem.

2. Architecture

The 8 components of SQM 1 must be highly integrated, driven by strong governance.

3. Protection

SQM 2 serves as the ultimate, objective safeguard for significant judgments.

4. Continuous Improvement

Robust Root Cause Analysis ensures the system gets stronger every day.

“Embrace the transition not as a compliance exercise, but as a strategic advantage to drive consistent, uncompromising audit quality.”



Thank You

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