



The Institute of Chartered Accountants of India
(Set up by An Act of Parliament)



Two Days **National Conference**

1st & 2nd September 2023

Organised by:
**Continuing Professional Education
Committee of ICAI**

Hosted by:
Ernakulam Branch of SIRC of ICAI

12 HOURS
CPE CREDIT



WHY THIS SESSION?

- Defending the audit

AUDITING STANDARDS- INDIA

SI No	Area	No of Standards
1	Quality Control	1
2	General Principles and Responsibilities	9
3	Risk Assessment and response to assessed risks	6
4	Audit Evidence	11
5	Using the work of others	3
6	Audit Conclusions and reporting	6
7	Specialised Areas	3
8	Standards on Review Engagements	2
9	Other Assurance Engagements	5
	Total	46

LIST OF STANDARDS

- 100-199 Introductory Matters
- 200-299 General Principles and Responsibilities
 - SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
 - SA 210, Agreeing the Terms of Audit Engagements
 - SA 220, Quality Control for an Audit of Financial Statements
 - SA 230, Audit Documentation
 - SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
 - SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
 - Revised SA 260, Communication with Those Charged with Governance
 - SA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
 - Revised SA 299, Joint Audit of Financial Statements
- 300-499 Risk Assessment and Response to Assessed Risks
 - SA 300, Planning an Audit of Financial Statements
 - SA 315, Identifying and Assessing the Risks 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 402, Audit Considerations Relating to an Entity Using a Service Organisation
 - SA 450, Evaluation of Misstatements Identified During the Audit

LIST OF STANDARDS

- 500-599 Audit Evidence
 - SA 500, Audit Evidence
 - SA 501, Audit Evidence-Specific Considerations for Selected Items
 - SA 505, External Confirmations
 - SA 510, Initial Audit Engagements – Opening Balances
 - SA 520, Analytical Procedures
 - SA 530, Audit Sampling
 - SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
 - SA 550, Related Parties
 - SA 560, Subsequent Events
 - Revised SA 570, Going Concern
 - SA 580. Written Representations

LIST OF STANDARDS

- 600-699 Using Work of Others
 - SA 600, Using the Work of Another Auditor
 - Revised SA 610, Using the Work of Internal Auditors
 - SA 620, Using the Work of an Auditor's Expert
- 700-799 Audit Conclusions and Reporting
 - Revised SA 700, Forming an Opinion and Reporting on Financial Statements
 - SA 701, Communicating Key Audit Matters in the Independent Auditor's Report
 - Revised SA 705, Modifications to the Opinion in the Independent Auditor's Report
 - Revised SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
 - SA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements
 - Revised SA 720, The Auditor's Responsibilities Relating to Other Information
- 800-899 Specialized Areas
 - SA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
 - SA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
 - SA 810, Engagements to Report on Summary Financial Statements
- 2000-2699 Standards on Review Engagements (SREs)
 - SRE 2400 (Revised), Engagements to Review Historical Financial Statements
 - SRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"

LIST OF STANDARDS

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- 3000-3699 Standards on Assurance Engagements (SAEs)
- 3000-3399 Applicable to All Assurance Engagements
- 3400-3699 Subject Specific Standards
 - SAE 3400 "The Examination of Prospective Financial Information"
 - SAE 3402, "Assurance Reports on Controls At a Service Organisation"
 - SAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

Related Services

- 4000-4699 Standards on Related Services (SRSs)
 - SRS 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information"
 - SRS 4410 (Revised), Compilation Engagements

General Clarifications issued

- General Clarification (GC)-AASB/2/2004 on SA 210
- General Clarification (GC)-AASB/1/2002 on SA 620



AUDITING STANDARDS- IN PRACTICE - REGULATORS OBSERVATIONS



WHY?

- Active Regulators
- Normal Auditors
- Worried Investors

REGULATORS



ICAI VS NFRA?

SEBI



SEBI ORDER

- No qualification in Audit report despite non-compliance with Accounting Standards
- Subsidiaries/ Branch Audit reports as per SA 700

SEBI ORDER

- Bank Balance confirmations?

BRIGHTCOM

- Auditor rotation
- Stay against NFRA investigation



NFRA



SUMMARY

- 2020-2023
- 26 orders against Audit firms
- 25 Debarments

THE BIG ONES



IL & FS

- Partners had direct access to the top management?

IL & FS

- Independence
- Non-Audit Services

DEPENDENCE?

Sl No	Assignment	Fee
1	Advice on any issues identified by the client in terms of automation of data flow from ERP Systems	15
2	Advisory services relating to growth strategy for IFIN Understanding of goals and aspirations	1.5
3	Ind AS conversion	44
4	Advising on applicability of withholding tax queries ITAT Assistance Analysing computation of income	55
5	TP Services	25
6	Integrity due diligence on the target companies and key principal	37
		178

FEES AGAIN

2017-18	0	28,21,882	1,72,25,672	2,00,47,554
2018-19	15,71,128	10,43,284	6,68,15,108	6,94,29,520
Total	22,34,371	39,05,900	10,87,84,846	11,49,25,117

It may be noted that this revenue does not include services provided by BSR & Affiliates to other group companies of the Auditee Company. This brings out the financial interest of the **Audit Firm** in the client group and also showcases the dependence of the **Audit Firm** on total fees generated from the client group. The **Audit Firm's** compliance with the fundamental principles of independence was completely compromised by the self-interest threat which occurred due to the financial interest and dependence on fees as stated above.

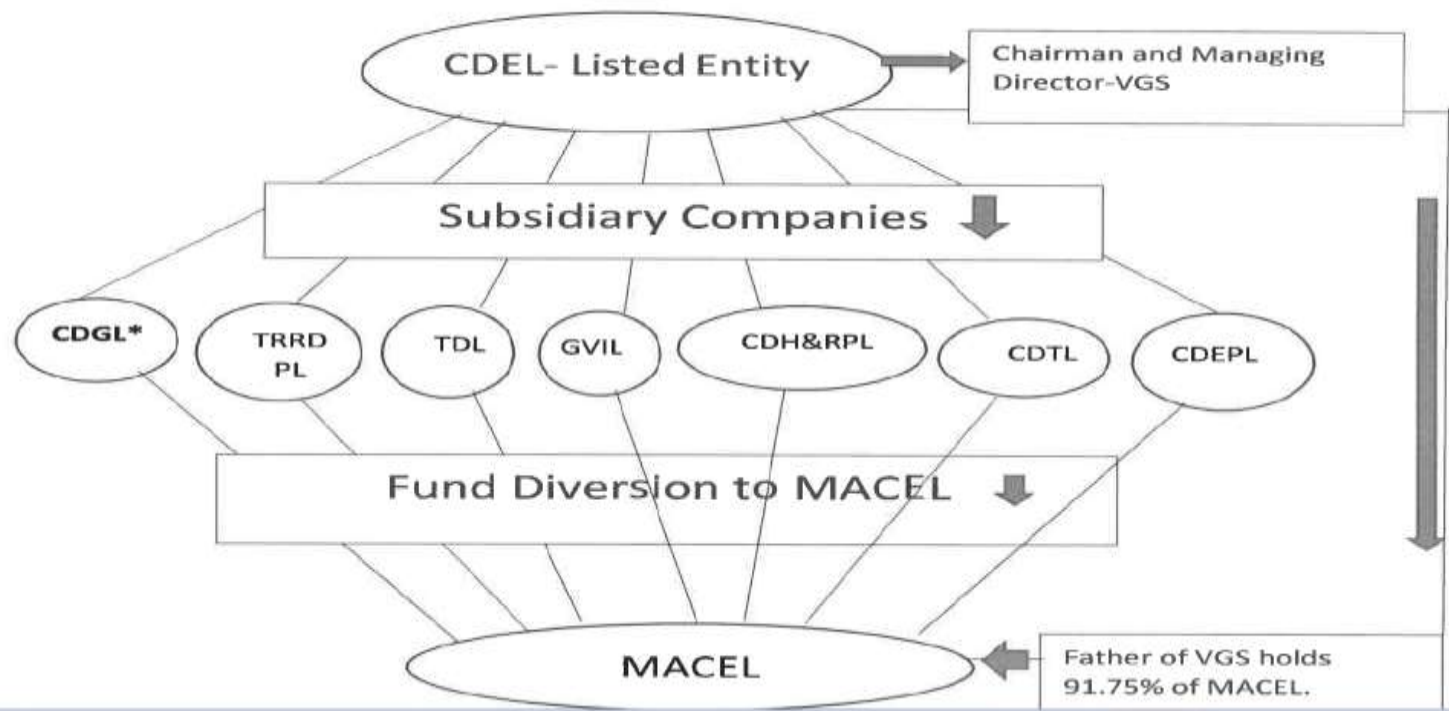


BACKGROUND

- July 2019- A suicide
- CBI enquiry
- Financial statements for 2019-20

DIVERSION

Chart-1



INVESTIGATION

As per the Financial Statements ('FS' hereafter) of MACEL, Rs 3,535 crore was further transferred from MACEL to the personal accounts of VGS, his relatives and entities controlled by him and/or his family members, whose outstanding balances payable to MACEL were Rs 3,401.66 crores as on 31-03-2020. On examination of FS of MACEL, it transpired that MACEL did not have any business transactions with the 6 of the 7 subsidiary companies (the 7th company is CDGL) and MACEL was used as a conduit to transfer funds from CDEL's subsidiaries to the personal accounts of VGS, his relatives and entities controlled by him and/or his family members, as loans and advances that were never returned to MACEL/CDEL.

AUDIT REPORT

- Disclaimer of Opinion

In respect of compliance with accounting standards, they reported that “We are unable to comment whether the standalone Ind AS financial statements comply with the Accounting Standards specified under Section 133 of the Act, because of the matters described in the Basis for Disclaimer of Opinion section above” .

LAPSES OBSERVED

- Continuation of audit disregarding independence requirements
- Two Audit firms provided audit and non-audit services to over 56 firms of the group
- Fees received was well in excess of 40% of total fees

NON-COMPLIANCES

- SQC-1
- SA- 200- Overall Objective
- SA-220- Quality control

NON-COMPLIANCES

- Tampering with Audit File
- Violation of SA 230 – Documentation
- Out of 97 Excel files, 74 were modified between the date NFRA called for the file and the date of submission

AUDIT FILE

The Auditors were charged for not maintaining the audit documentation with due diligence. The audit work paper, 'Audit procedure' is a list of audit procedures claimed to have been performed for the period ended 31.03.2020. A plain reading of this audit work paper shows that this work paper was prepared by copying the audit work papers of the previous FY 2018-19, as at many places reference of one year old reporting date i.e., 31.03.2019 (instead of 31.03.2020) is given, such as:-

- a) At serial no. 1, it is recorded "requested for balance confirmation certificate as on **31.03.2019**",
- b) At serial no. 2, it is recorded "Obtained cash certificate stating balance as on **31-3-19** for all divisions",
- c) At serial no. 4 & 5 , it is recorded that rate prevailing as on **31.03.2018/31.03.2019** were taken for closing stock,
- d) At serial no. 5 -FNG closing stock & sr. no 8 -closing stock Xpress- quantity of closing stock is same as in FY **2018-19**,
- e) At serial no. 6 - PPE division closing stock -it is mentioned that the physical verification of these stocks was conducted on the **30th of March 2019** in locations of Chikkamagaluru and Hassan,

OBSERVATIONS

- Fraudulent diversion of funds to *MACEL*
- Lapses in Audit

The Auditors were also charged for non-compliance with para 5 of SA 315, whereby the Auditors were required to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statements and assertion levels. There was no evidence in the Audit file that they had performed such procedures to identify risk of material misstatement due to suspected fraudulent diversion of funds to MACEL. SA 240 prescribes the Auditor's responsibilities relating to fraud in audit of financial statements. Para 10 of SA 240 provides that the objectives of auditor are to identify and assess the risk of material misstatement in the financial statements due to fraud, obtain audit evidence and respond to identified or suspected risk. Para 12 of SA 240 requires the auditor to maintain

EVERGREENING

C.4 Failure to detect evergreening of loans through structured circular transactions of funds

81 The Auditors were charged with failure to perform risk assessment procedure to identify, assess and respond to Risk of Material Misstatements in the Financial Statements due to fraud, in relation to evergreening of loans through structured circular transactions of funds. MACEL had issued several cheques in March 2019 for repayment of supplier advance of Rs 222.50 crores to CDGL. These cheques remained unrealised on 31.03.2019 and were cleared in the next FY i.e., 2019-20, by evergreening of loan through structured circulation of funds among Coffee Day Group companies. The same modus was found to exist in the earlier year too when the Audit firm was the Statutory Auditor.

LAPSES

- Fraudulent repayment of loan of Rs 130.55 crores
- Repayment of loan between group companies

LAPSES

- Sale of F & G business resulting in misstatement of sale price
- Diversion of funds

LAPSES

- Deferred tax of Rs 244 crores

DEFERRED TAX

The SCN pointed out that the Auditors had recorded in the Audit File that *“The projected profit & loss, balance sheet and cash flows were obtained and verified. Further actual sales achieved post lock down during FY 2020-21 is verified. As per the same the company will be able to realise the deferred tax assets in couple of years. Hence deferred tax assets is recognised in the light of reasonable certainty of realizing the same”*. However, on examination of the Audit file, projected balance sheet, projected statement of profit and loss and projected cash flow statements were not found in the Audit File. As per para 6 of SA 500 ‘Audit Evidence’, the Auditors were required to design and perform appropriate audit procedures to obtain copy of projected Financial Statements as audit evidence. As a matter of prudence, the Auditors were also required to evaluate the

LAPSES

- Provisions made for supplier advances, doubtful debts and doubtful advance

OTHER LAPSES

OTHER NON-COMPLIANCES WITH LAWS AND STANDARDS

In addition to the major lapses covered under section C of the order, the Auditors were also charged with following lapses in the audit:

- a) Lapses in audit relating to Consolidated Financial Statements of CDGL
- b) Failure to report non compliances with section 134(1) of the Act.
- c) Failure to comply with SA 700, Forming an Opinion and Reporting on Financial Statements.
- d) Failure to comply with SA 260, Communication with Those Charged With Governance (TCWG) & SA 265, Communicating deficiencies in Internal Control to Those Charged With Governance and Management.
- e) Failure to comply with SA 300, Planning an audit of Financial Statements.

Table-8

Sr No	Name	Role assigned
1	CA Sundaresha A S	Signing Partner
2	CA Pradeepa Chandra C	External Reviewer
3	CA Madhusudan	Engagement Partner
4	X	Article Assistant

- 129** Para 42 of SQC 1 requires the Audit Firm to assign responsibility for each engagement to ‘an engagement partner’, identify his role, clearly define his responsibilities and communicate the same to the key members of the client’s management and those charged with governance. The Audit Firm should ensure that the engagement partner has the appropriate capabilities, competence, authority, and time to perform this role.
- 130** The Audit firm had bifurcated the responsibility of one engagement among two partners (one signing partner and one engagement partner), which is not in line with the principle embodied in SQC 1. Besides, there is no term like ‘signing partner’ in any of the SAs. The role and responsibilities of each of these partners and the team, have not been clearly defined in the Audit Plan. The Audit Firm was charged for not clearly assigning the Audit Engagement and defining the responsibilities among engagement team members, thereby laying a weak foundation for the engagement.

BARTRONICS

- Failure to maintain audit file and cooperate with NFRA
- Misuse of EOMs for issuing a modified audit opinion

CASE LAWS

- In the case of R.C. Dutta vs. Kailash C. Mishra , a Chartered Accountant was held guilty of professional misconduct under clause 7 of Part I of Second Schedule and other misconduct under Section 22 of the Chartered Accountants Act 1949 (the CAs Act, hereafter) for his failure to appear before Tax Authorities.
- CA Gora Chand Mukherjee was also held guilty of Professional Misconduct falling within the meaning of Clause 7 of Part I of the Second Schedule to the Chartered Accountants Act 1949 for delay in submission of information to RBI and for not submitting appropriate information

BARTRONICS

- Waiver of principal amount of Rs 9.74 crores
- P & L account or Reserves?
- AS 5

GOING CONCERN

- Net loss of Rs 12.67 crores for 31.3.2019
- Accumulated loss of Rs 115.64 crores
- Net worth= - Rs 13.07 crores
- Negative working capital= - Rs 241.46 crores
- Total Debt= 83.19% of total assets
- Debt payment defaults of Rs 234.15 crores

THE CHARGE

- The SCN stated that in view of Para 6 and 12 of SA 570 the Auditors were required to obtain a representation from the management of BCL and other evidence in support of the use of going concern basis and had to evaluate the same to conclude if any material uncertainty existed. However, the SCN noted that the audit file neither contained any representation from the management on the use of going concern basis, nor did it have any working by the Auditors regarding testing of appropriateness of such basis

THE CHARGE

- **Non-planning of Audit**
- The Auditors were charged with:
 - (a) failure to perform the procedures as required by Para 6 of SA 210, which deals with ensuring the existence of pre-conditions for an audit;
 - (b) non-compliance of the procedures relating to the acceptance of the audit of BCL as required by Para 12 of SA 220, which requires an auditor to obtain information before accepting an engagement with the new client, to ensure:
 - Integrity of the principal owners, key managers of the entity.
 - Competence of the engagement team to perform the audit engagement including time and resources.
 - Compliance of ethical requirement by the firm and the engagement team

THE CHARGE

- non-compliance with Para 11 of SA 315, according to which the Auditors were required to understand the nature of the business of BCL by gaining understanding of relevant industry, applicable regulatory structure etc. at macro level and gaining an understanding of nature of the entity, its operations, its ownership, its governance & capital structure, and applicable financial reporting framework etc. at the entity level.

FRAUD DETECTION?

- SA 240 -The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements elaborately deals with the auditor's responsibilities relating to fraud in an audit of financial statements. The SA requires the auditor to maintain professional skepticism throughout the audit and states: " In accordance with SA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance."

THE DIKTAT

- Statutory Auditors are under a mandatory obligation to report fraud or suspected fraud if they observe suspicious activities, transactions or operating circumstances in a company that indicate *reasons to believe* that an offence of fraud is being or has been committed against the company by its officers or employees.
- ADT-4 as per Section 143(12)
- Resignation does not absolve the auditor of his responsibility

WHAT SHOULD AUDITORS DO?

- Defend the audit

HOW?

- Documentation, Documentation, Documentation
- Correspondence, Correspondence, Correspondence

STEP I

- Assess the degree of risk
- *Control environment*

STEP 2

- Build a complete Audit file

COMPLETE AUDIT FILE

Engagement Documentation

Audit Planning Documentation

Internal Control Evaluation

Audit Evidence and Working Papers

Specialist reports

Adjustments and misstatements

Audit Completion

Communication and Reporting

Archived Correspondence and Notes

Post-Audit Documentation

COMPLETE AUDIT FILE

- Independence confirmation of the audit team.
- Quality control checks.
- Any consultation documentation (if there were issues the audit team needed additional help with)

STEP 3

- Get a few Complete Audit Files reviewed independently

STEP 4

- Remember the risk-reward relationship

STEP 5

- Do these Steps every year

THANK YOU!

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