



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



# ONE DAY SEMINAR

**13** JANUARY 2025  
MONDAY

02.00 p.m. to 08.00 p.m.

Venue:

Gokulam Convention Centre  
Kaloor, Ernakulam

CPE  
Credit

**6**  
Hours

AUDITING  
STANDARDS-  
THE  
PAST/PRESENT/  
FUTURE

## THE SECTIONS

- (9) Every auditor shall comply with the auditing standards.
- (10) The Central Government may prescribe the standards of auditing or any addendum thereto as recommended by the Institute of Chartered Accountants of India constituted under Section 3 of the Chartered Accountants Act, 1949 in consultation with and after examination of the recommendations made by the National Financial Reporting Authority
- **Provided** that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

## 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



NFRA





# WHAT DO THEY DO?

- Orders and debarments
- FRQR reports
- AQR reports
- Circulars
- Consultation Papers
- Inspections
- Reports and Publication

SI No	Type	Number
1	Orders	79
2	FRQR	4
3	AQR	6
4	Circulars	4
5	Consultation Papers	11
6	Inspections	7
7	Reports and Publication	7

DATA

## AUDITING STANDARDS

DHFL	2017-18	210
DHFL	2017-18	230
DHFL	2017-18	700
DHFL	2017-18	300
DHFL	2017-18	315
DHFL	2017-18	330
DHFL	2017-18	320
DHFL	2017-18	450
DHFL	2017-18	510
DHFL	2017-18	520
DHFL	2017-18	530
DHFL	2017-18	580

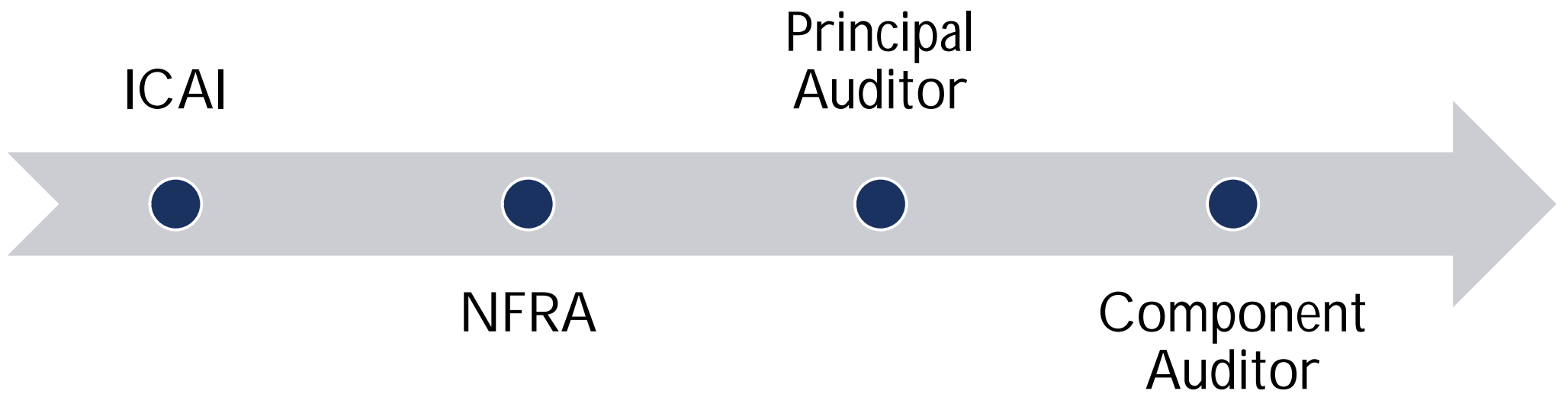
## ONE STATEMENT, MANY IMPLICATIONS

- 19<sup>th</sup> August 2024
- On being questioned about these advances to group entities, the EP has stated that they were the Auditors of CDEL and not for the subsidiaries, and they relied upon the audit work and the audit reports issued by other statutory auditors of CDEL group entities as permitted by SA 600 (Using the Work of another auditor).

# PRESENT CONTROVERSY

- SA 600
- Revised SA 600
- ISA 600

# THE PLAYERS



## SA 600

- Using the work of another Auditor
- April 1, 2002
- 6 pages
- 26 paras

## SA 600

- When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.



## TASK

- the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.
- When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.

## TASKS

- The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.
- areas requiring special consideration, procedures for the identification of intercomponent transactions that may require disclosure and the time-table for completion of audit;
- The principal auditor should consider the significant findings of the other auditor

## SA 600

- Coordination and Liaison between the auditors

## SA 600

- When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

## FINALLY

- The auditing standards established in this Standard on Auditing (SA) are generally consistent, in all material respects, with those set out in ISA 600 "Using the Work of Another Auditor".

# PRINCIPAL AUDITOR/COMPONENT AUDITOR

- Variance Analysis

Particulars	31/3/24	31/3/23	Variance	Reasons
Revenue				
PPE				
Employee Benefits				

# QUESTIONNAIRE

- **This Questionnaire has been divided in 4 parts as below:**
- Part A – Quality control firm wide
- Part B – Planning the audit
- Part C – Execution and wrap-up of the audit
- Part D – Audit procedures for material account balances

# QUESTIONNAIRE

	with the applicable laws and regulations		
C – 1.3	Describe the procedures you performed regarding minutes.	SA 501.9	
C – 1.4	Describe the procedures you performed to obtain and review information about important contracts, agreements and similar documents and consider their accounting or auditing implications?	SA 315.11	
C – 1.5	Describe the procedures you performed to: <ul style="list-style-type: none"><li>• Obtain sufficient appropriate audit evidence regarding the completeness of litigation and claims involving the component</li><li>• Identify litigation and claims that may give rise to a risk of material misstatement</li></ul> Did you seek direct communication with the component's external legal <u>counsel</u> and did you obtain responses?	SA 501	



## THE SITUATION

- Subsidiaries gave loans of huge amounts to another subsidiary which did not have much business. The subsidiary which took the loan issued cheques near the end of the financial year as repayment. Cheques were accounted and parked in the BRS. In the subsequent financial year, more loans were given and the cheques presented.

# EVERGREENING?

Table 3:

(Date = 04.04.2019)

Particulars	Rs in crores		
	Payment	Receipt	Balance
Receipt from MACEL		24.50	-50.48
Payment to MACEL	21.90		-72.38
Receipt from MACEL		23.90	-48.48
Payment to MACEL	24.01		-72.49
Receipt from MACEL		17.10	-55.39
Payment to MACEL	19.59		-74.98
Total	65.50	65.50	

# COMPONENT AUDITOR AUDIT REPORT

- Disclaimer in a few companies
- Diversion of funds can emerge only from an investigation of all group companies and are not capable of being detected in the scope of a statutory audit

## PRINCIPAL AUDITOR

- Relied upon the work of the component Auditors
- Recoverability of loans was based on net worth certificate of a non-promoter given by one of the auditors of the subsidiary company
- Did not visit the component despite such large numbers
- 19<sup>th</sup> August 2024

# NFRA

- September 17 2024
- Revised SA 600
- Audit of group financial statements ( including the work of component auditors)

## SA 600 (REVISED)

- Revised SA 600 introduces significant changes to enhance audit quality and clarify the responsibilities of group and component auditors. The main changes include a proactive risk-based approach, strengthened communication, greater focus on professional skepticism, and improved scalability.

## REVISED SA 600

- 74 pages
- 59 Paras of the standard
- 182 Paras of Application Guidance
- 35 paras of Public Consultation

# ISA 600

- Issued in 1983
- Revised in 2007
- Revised in 2022



## PROACTIVE RISK-BASED APPROACH

- The revised SA 600 emphasizes a proactive risk-based approach for group audits.
- Focus on identifying and assessing the risks of material misstatement and planning the audit accordingly.
- This approach replaces the procedural methodology of the old standard.



## ENHANCED COMMUNICATION AND COORDINATION

- Improved two-way communication between group and component auditors.
- Clarifies roles and responsibilities to ensure alignment and flow of information.

# COMMUNICATION

- Clarity of instructions
- Mutual understanding of relevant issues
- Mutual understanding of work to be performed
- Action taken report by component auditor

## CLARIFICATION OF COMPONENT AND GROUP AUDITOR ROLES

- The revised SA 600 explicitly defines the roles of group and component auditors.
- Group auditor takes overall responsibility for managing audit quality.
- More robust definition of the term 'component' to ensure consistency.

## STRENGTHENED FOCUS ON PROFESSIONAL SKEPTICISM

- The revised standard reinforces the need for professional skepticism throughout the audit process.
- Helps in reducing the risk of overlooking material misstatements.
- Emphasizes maintaining a critical mindset during evaluation.

## SCALABILITY AND FLEXIBILITY

- The revised SA 600 adopts a principles-based approach for scalability and flexibility.
- Tailors the audit process based on size, complexity, and nature of group entities.

## REVISED DOCUMENTATION AND REPORTING REQUIREMENTS

- Enhanced documentation requirements for considerations of component auditors' work.
- Group auditors must document direction, supervision, and review more comprehensively.
- Aimed at ensuring transparency and accountability.

## EXAMPLE

- In applying SA 220 (Revised), the group engagement partner *shall take responsibility* for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account:
  - (a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with SA 315 (Revised); and
  - (b) Areas in the audit of the group financial statements that involve significant judgment.



## EXAMPLE

- The group auditor shall determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor shall consider:
  - (a) The nature, timing and extent of the work performed by the component auditor;
  - (b) The competence and capabilities of the component auditor ; and
  - (c) The direction and supervision of the component auditor and review of their work.
- If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

# NFRA

भारत सरकार / Government of India  
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण / National Financial Reporting Authority  
\*\*\*\*\*

7<sup>th</sup> Floor, Hindustan Times House,  
Kasturba Gandhi Marg, New Delhi

NF- 25013/2/2023-O/o Secy-NFRA

Dated 3.10.2024

**Circular under Section 132(2) (b), (c), and (d) read with Rule 4(1), 4(2)(e) and Rule 9 of NFRA  
Rules 2018**

**To**

- 1. Auditors of the entities under the purview of Rule 3 of NFRA Rules 2018**

**Subject: Responsibilities of Principal Auditor and Other Auditors in Group Audits**

## NFRA CIRCULAR

- Applying SA 600 selectively
- Should be applied along with other standards including SA 200

## NFRA CIRCULAR

- 'When the principal auditor uses the work of another auditor, the Principal Auditor **should** determine how the work of the other auditor will affect the audit.
- Should= May or Shall?

## WORKING PAPERS

- Sharing of work papers by the Component Auditors with the Principal Auditor will be permissible in such cases and the above provision of the Chartered Accountants Act, 1949 will not come in the way because such sharing is required for the lawful discharge of duties of the Principal Auditor

## CONCERNS OF ICAI

- Assessment of component auditor competence
- Definition of component
- Consolidated financial statements
- Complex regulatory landscape

## COMPONENT/AUDITOR

- Component – An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.
- Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team<sup>10</sup> for a group audit.

## WHAT WILL HAPPEN?

- SA 600 will be revised
- Component auditors need to 'mimic' the processes and documentation of the principal auditor
- Ind SA's will be issued



# COMPONENT AUDITORS

- Assess the risk-reward ratio
- Communicate/Communicate/Communicate
- Document/Document/Document

## WHAT WOULD YOU DO?

- FD with bank pre-closed and used to pay off loans of subsidiary companies. Management override of controls.
- Subsidiaries returned the funds to the company after some time.
- Could be circular routing of funds?

## WHAT WOULD YOU DO?

- Disclaimer of Opinion in LRR?
- Qualified Audit Report?
- EOM?
- Going Concern?
- 143(12) and ADT-4?

# AUDITOR

- Reason to believe that fraud has been or is being committed by its officers or employees....

# NFRA

- 26<sup>TH</sup> June 2023
- Don't resign, report

---

# THANK YOU!

[MOHAN.LAVI@GMAIL.COM](mailto:MOHAN.LAVI@GMAIL.COM)

+ 91 99000 22040

