



REGULATORY ACTIONS AUDIT QUALITY

CA Padmashree Crasto



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CURRENT REGULATORY SCENARIO

NFRA levied a penalty of Rs 60 lakh on audit firm & its partner for professional misconduct, EP debarred for a for 5 years.

NFRA levied a penalty of Rs 5 lakh on CA and debarred him for 5 years for substantial deficiencies in audit.

NFRA levied a penalty of Rs 1.11 cr. on audit firm & its partner for abdication of responsibility and inappropriate conclusion, firm and partners debarred.

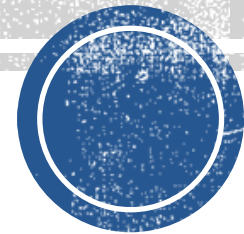
NFRA levied a penalty of Rs 1.15 cr. on audit firm & its partner for non-compliance with SA, firm & partner debarred for 2 & 5 years respectively.

NFRA levied a penalty of Rs 1 lakh on CA for not gross negligence & lack of diligence.

PC



**MCA INSPECTION &
INVESTIGATION U/S
206, 207 & 210 OF
COMPANIES ACT, 2013**



MCA INSPECTION & INVESTIGATION U/S 206, 207 & 210 OF COMPANIES ACT, 2013

- Opinion of the Registrar
 - On scrutiny of any document filed by the Company ;or
 - on any information received by him

Registrar can call by written notice:

- to furnish in writing such information or explanation
- to produce such documents

Within the time and to the extent specified in notice [Section 206(1)]

- Company and its officers are duty bound to furnish information and to produce documents.
- Past employees are also duty bound if so, called by Registrar by notice in writing. [Section 206(2)]
- If information is not furnished or information furnished is incomplete or an unsatisfactory state of affairs exists.
Registrar after recording reasons can by further written notice:
 - Call for information: or
 - to produce record for inspection.

- Registrar or inspector during such inspection or inquiry can:
 - make copies of books of account and other books and papers.
 - place any marks of identification in such books in token of the inspection having been made.
- Registrar or inspector making an inspection or inquiry have the powers as vested in a civil court while trying a suit in respect of the following matters
 - discovery and production of books of account and other documents
 - summoning and enforcing the attendance of persons and examining them on oath.
 - inspection of any books, registers and other documents of the company at any place.
- If directors or officers of company disobeys the direction of Registrar or inspector, they shall be punishable with imprisonment of 1 year and fine of Rs. 25 Thousand to 1 Lakh.
- In case directors or officers of company has been convicted of an offence they shall on & from date of conviction be deemed to have vacated his office and will be disqualified from holding an office in any company.



MCA INSPECTION & INVESTIGATION U/S 206, 207 & 210 OF COMPANIES ACT, 2013

❑ Report on Inspection (Section 208)

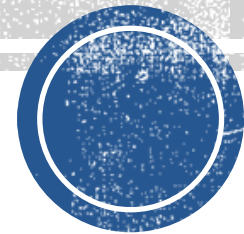
Registrar or inspector after an inquiry (Section 206) or inspection of the book of account or other books and papers (Section 207) shall submit a report to CG, which shall include recommendation for further investigation into the affairs the Company (if necessary) with reasons.

❑ Investigation into Affairs of Company (Section 210)

1. If Central Government is of the opinion, that it is necessary to investigate into the affairs of a company :-
 - (a) on the receipt of a report of the Registrar or inspector under section 208 ;
 - (b) on intimation of a SR passed by a company that the affairs of the company ought to be investigated;
or
 - (c) in public interestit may order an investigation into the affairs of the company.
2. If an order is passed by court or Tribunal in any proceeding before it that affairs of company ought to be investigated, CG shall order an investigation.

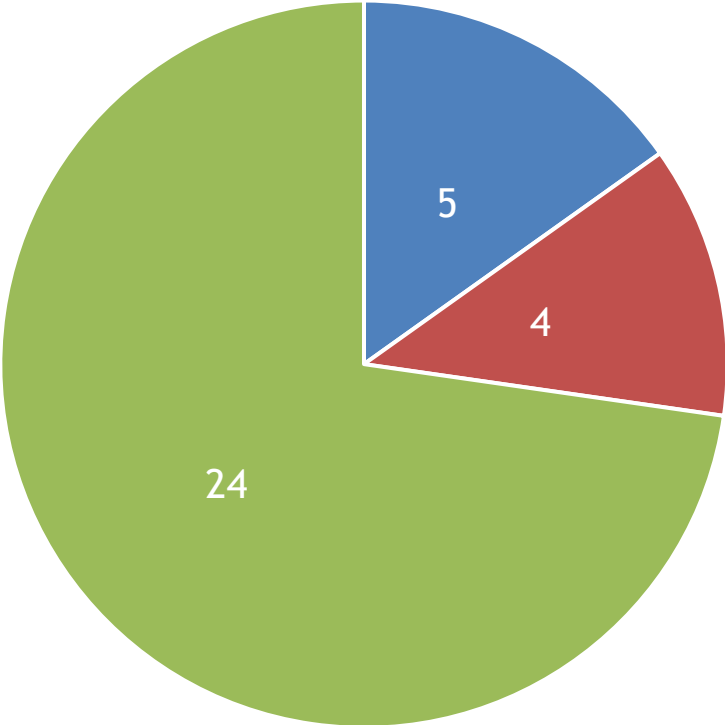


OBSERVATIONS FROM NFRA ORDERS & REVIEWS



INSPECTIONS

No. of Inspections & Review



■ Audit Quality Review ■ Financial Reporting Quality Review ■ Other Inspections



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Establish policies & procedures to comply with relevant **ethical requirements** in accordance with **SQC 1**.
- Quality Control Policy to mention - Compliance with **Prohibition on audit services under section 144** of Companies Act, 2013, **Consultation, EQCR, periodic inspection**.
- In establishing policies and procedure of the audit firm, **Indian laws, rules and regulations should be considered**.
- Auditors should **perform audit planning & establish overall strategy** that guides the development of audit plan in compliance with SA 300 and also **document the same**.
- Auditor shall **identify IRMM through UIC** including assertion level risk, **discuss the same with management** and plan audit **adequately to respond IRMM** to bring it up to acceptable level.
- Auditors to **perform risk assessment procedure** and plan responses to those risk by performing walkthrough, test, inspection, inquires with management to **understand the design and operations of various control & processes**.
- Rationale for determining materiality like **factors considered, judgement used to arrive at materiality shall be documented**.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Auditor to **design and perform** sufficient and appropriate audit procedures to mitigate the risks, including risks of management override of internal controls.
- **Obtain Sufficient & Appropriate** audit evidence in respect of material FSAs.
- Audit workpapers shall be **adequate and should not be undated or blank**.
- Audit firm to maintain audit documents in such a manner that **integrity and reliability** of the Audit File is **not questionable** due to inconsistencies arising out of lack of documentation.
- **Determine TCWG and communicate** with them about **responsibilities as auditor** like overview of planned scope, timing of audit and deficiencies in internal control and auditor's independence, relationships & other matters between the firm, network firms.
- **Obtain external confirmations** of outstanding trade receivables to **ascertain accuracy, genuineness & recoverability** of these balances.
- Obtain SAAE in respect of **substantial amounts of bad debts written off**.
- Auditor should **use due diligence and professional skepticism** in evaluating the Accounting Policy of the company and shall question the accounting policies of the company, wherever necessary.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Ensure **proper disclosure and report non-disclosure** of credit risk profile of trade receivables by the Company.
- Auditor should **verify the underlying** documents.
- Auditor shall **obtain the understanding of recognition and measurement requirements** of applicable financial reporting framework **to challenge management decision for recognizing Impairment loss.**
- **Evaluate and justify the reversal of ECL** (if any) on loan and trade receivable **to avoid understatement of loss.**
- **Identify and report,** non-disclosure of outstanding Capital Advance to related party.
- Ensure that **approval of audit committee** is taken before **conversion of loan to related party into capital advance .**
- Auditors shall be **present at physical count** of inventory.
- Auditor shall **visit the premises of company** during the audit and shall **interact with directors/management** during the audit.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- The auditor work should not degenerate into simply collecting and filling **reams of photocopy**, he should **exercise application of professional skill and care**.
- Foreign currency item shall be **stated at closing rate** in accordance with the requirements of AS 11. In case of non-compliance by company, **auditor shall report in AR**.
- Auditor shall **report improper accounting** of assets given on lease.
- Accounting treatment in respect of Non-Current Assets held for sale shall be **in accordance with the accounting standards**, as applicable.
- Investment in subsidiaries, associates and JVs shall be **valued as per the applicable Accounting Standards** and auditor shall obtain sufficient appropriate **evidence on correct valuation** of investment.
- **Incorrect disclosure** of loan and advances under cash flow from operating activates instead of investing activates **shall be reported in AR**.
- **Disclosures** regarding **credit risk exposures** of trade receivables required by Ind AS 107 **shall be adequate**.
- Auditor shall **report non-compliance** by company with requirements of **Schedule III**.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Auditor to ensure that transactions with Related Party are **approved by Audit Committee prior to transaction.**
- Ensure that material information in the Financial Statements is **not obscured through vague and misleading disclosures** by the management regarding ECL reversal.
- Auditor shall **report non-disclosure** by the company of full **particulars of the purpose & utilization of loan** to related party in accordance with requirement of section 186(4) of Companies Act, 2013
- **Raise questions to the management**, if all components **not included** while preparing CFS and also regarding the discrepancies in the total number of components.
- **Disclosure of loan** to subsidiary and its repayment shall be on **gross basis** in accordance with requirement of IND AS 24.
- **Report non-disclosure** by the company in respect of **pledging of equity shares** of its subsidiary for obtaining letter of credit facilities from Bank.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Auditor shall **report fraudulent diversion of funds, understatement of related party loan and evergreening of loans.**
- Auditor to ensure that company has complied with requirement of 179(3) **regarding approval of BOD** for taking and disbursing loans.
- Auditor shall **appropriately and sufficiently evaluate the use of going concern** basis of accounting by the Management and its implication on Audit Report.
- Auditor shall **evaluate the work done by Management's Expert** while adopting the Expert's opinion.
- Shall **not provide non-audit services** (not allowed u/s 144) directly or indirectly.
- It shall be ensured that receipt of non-audit (allowed u/s 144) fee **is less than audit fee to avoid doubts over the Independence** of the Audit Firm.
- Auditor shall **exercise professional skepticism** and should not merely accept the Management reply without any due diligence/inquiry.
- The documents **shall not be modified** after the completion of audit.



OBSERVATIONS FROM NFRA ORDERS & REVIEWS

- Appointment of EQR should be made as per requirement of SQC1.
- Same person **shall not be appointed** as Engagement Partner & EQCR.
- The EQR shall **exercise due diligence** to obtain sufficient information to objectively **evaluate the significant judgements** of the Engagement Team and conclusions reached by them.
- Ensure that “Basis of opinion” section of Independent Auditors Report is **not false and misleading**.
- **Appropriately modify the opinion** as per SA 705 (Qualification vs Adverse), where the impact on FS is **material & pervasive**.
- Auditor shall **avoid widespread use of EOM paragraphs**. Further, he shall obtain sufficient appropriate audit evidence for providing EOMs.
- Auditor to **ensure the due diligence** is exercised on matters that are reported as KAM..
- **Results of test of Controls performed**, based on which the adequacy and operating effectiveness of ICoFR has been concluded shall be **appropriately documented**.

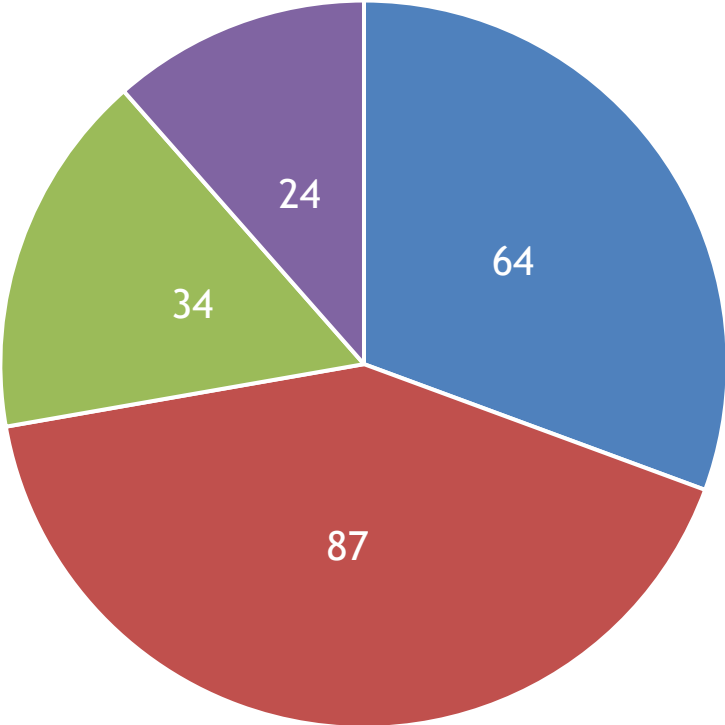


STATISTICS FROM QRB 2022



STATISTICS FROM QRB REPORT 2022

No. of Audit Engagements Reviewed

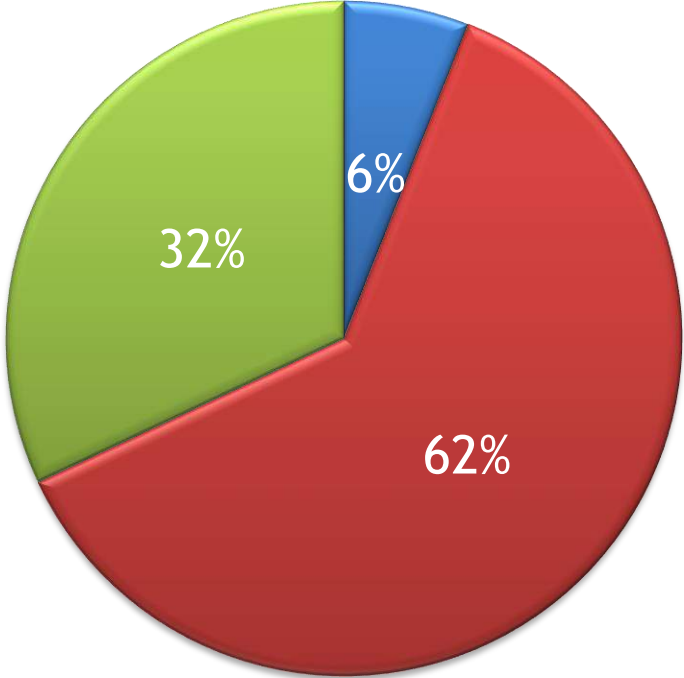


■ 2018-19 ■ 2019-20 ■ 2020-21 ■ 2021-22



STATISTICS FROM QRB REPORT 2022

Findings of Audit Engagements Reviewed

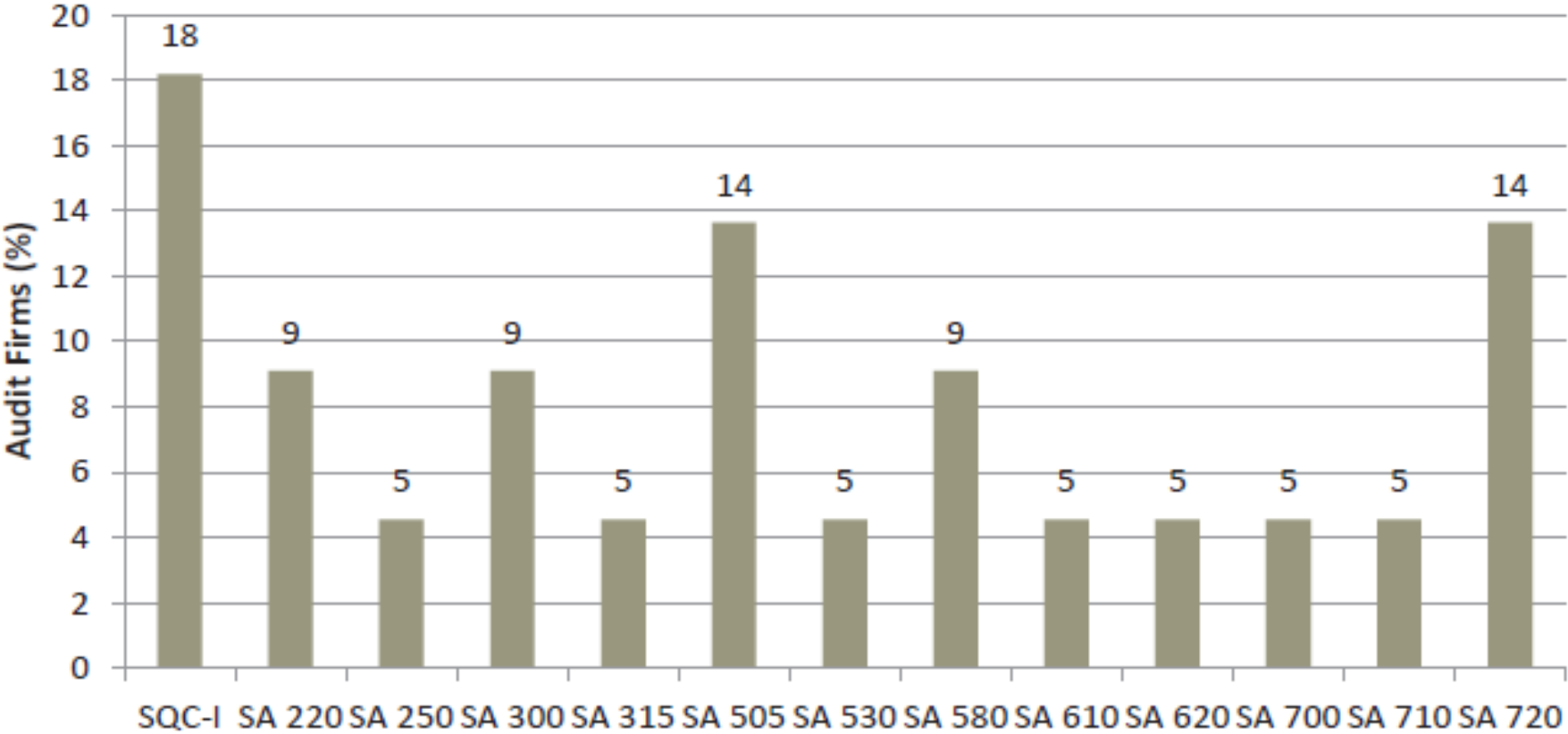


■ Significant Improvements Required ■ Improvements Required
■ Generally Acceptable



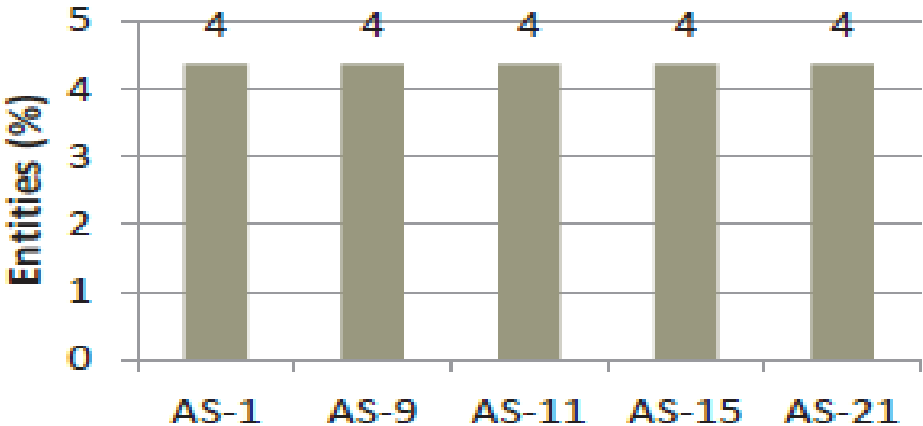
STATISTICS FROM QRB REPORT 2022

% of Reviewed Audit Firms having Observations on Standards on Auditing (SA) for Reviews conducted during FY 2021-22

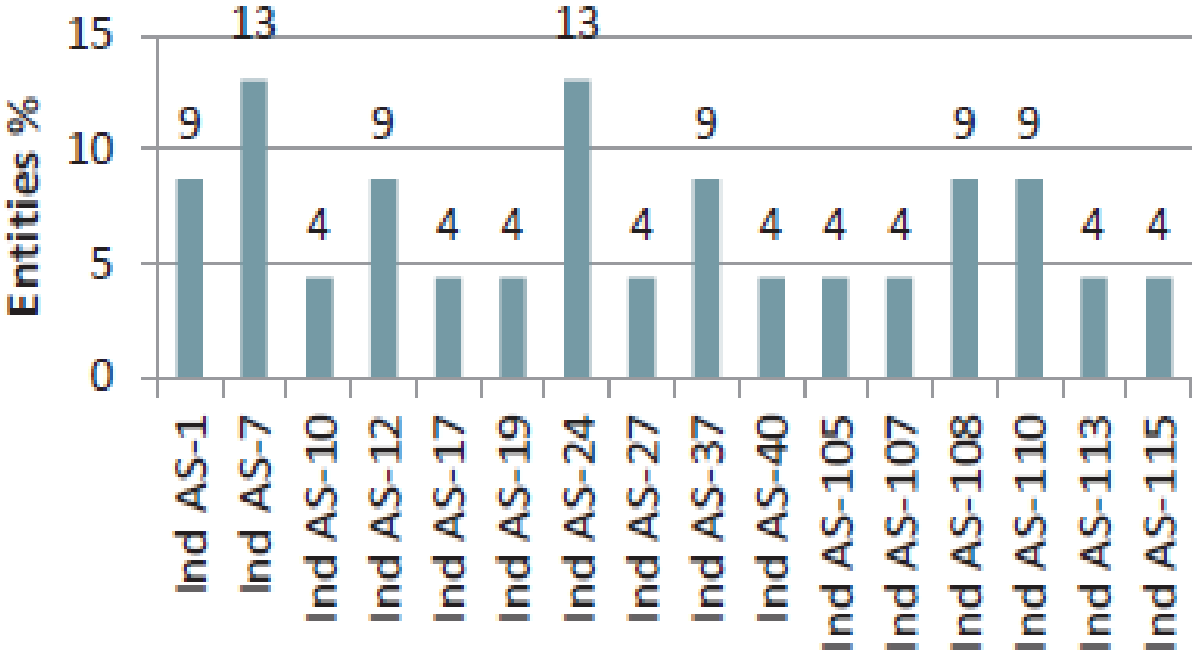


STATISTICS FROM QRB REPORT 2022

% of Entities having Observations on Accounting Standards (AS) for Reviews conducted during FY 2021-22

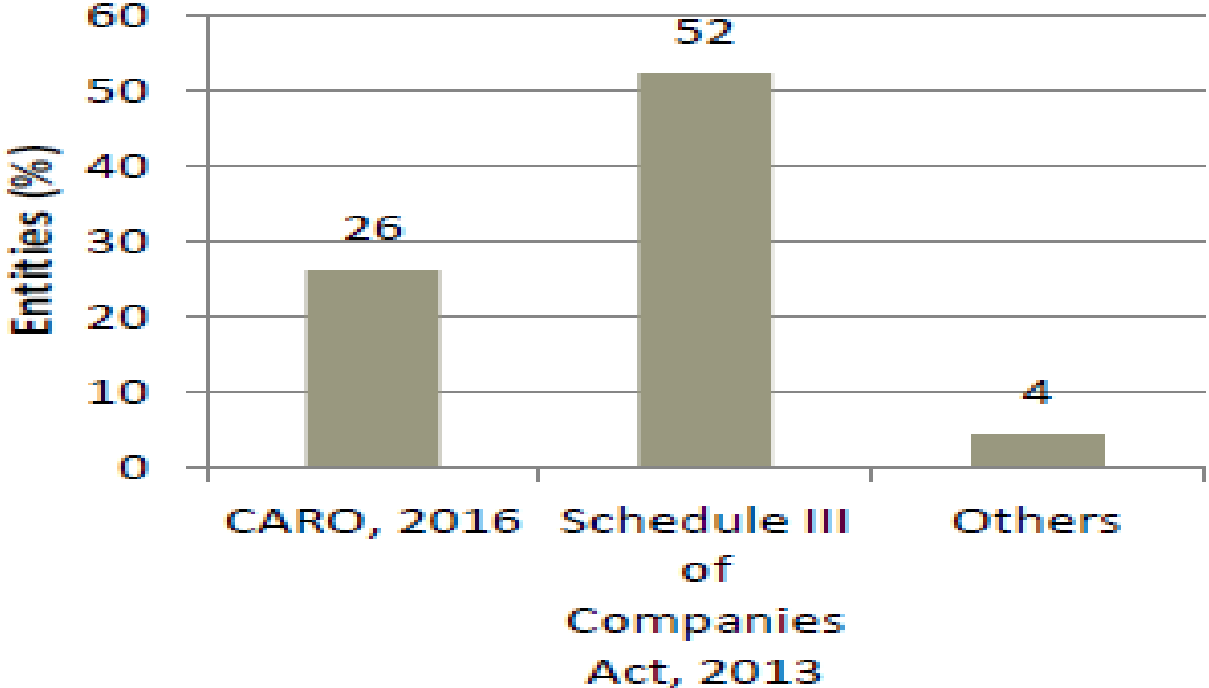


% of Entities having Observations on Indian Accounting Standards (Ind AS) for Reviews conducted during FY 2021-22



STATISTICS FROM QRB REPORT 2022

% of Entities having Observations on Other Relevant Laws and Regulations for Reviews conducted during FY 2021-22



AUDIT QUALITY & ITS IMPORTANCE



AUDIT QUALITY & ITS IMPORTANCE

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.

Why is audit quality important ?

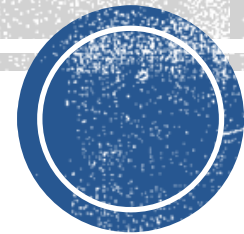
- a. Stakeholders rely on audited financial statements to gauge how well a company is performing.
- b. Plays key role in accurate presentation of Information in FS.
- c. Create trust in the external stakeholders and users of the financial information.
- d. Helps in sound financial accounting, reporting, and effective financial management.

NFRA Chairman on Audit Quality

- a. Audit Quality will be achieved when the expectations of stakeholders are met.
- b. Problem is not one of expectations, rather there is a grave 'delivery gap' when it comes to audit.
- c. Auditors should Identify and Report on Frauds to prevent corporate failures.
- d. Auditor should understand the entity's industry environment, its strategies, business model and business risks from the perspective of viability or survival of the entity at least in the foreseeable future.



INITIATIVE FOR ENHANCING AUDIT QUALITY



INITIATIVES FOR ENHANCING AUDIT QUALITY


Center of Audit Quality




- Developing Framework for Audit Quality.



- Developing Audit Quality Maturity Model.



- Conducting contemporary Education and Training in area of audit and allied areas for continuous improvement of Audit Quality.



- Conducting CPD specialized training programmes for Professional Accountants to enable them to perform audit in full compliance with principles of Audit standards.



- Pursuing research and Innovation in area of audit for improving Audit Quality



- Deliberating on the experience of Audit Committees for improving Audit Quality



- Developing and promote Audit Quality Indicators



- Invest and enable access to cost effective Digital and online Resources for accountants /accounting firms for high Audit quality.



INITIATIVES FOR ENHANCING AUDIT QUALITY

Audit Quality Maturity Model (AQMM)

- AQMM v1.0 has been developed after deep international research on systems to enhance audit quality.

- AQMM's Evaluation Matrix will help the firms to be able to self-evaluate their current level of audit maturity.

- AQMM will address the weaknesses and will help in identifying areas where audit firms are good or lacking.

- Develop roadmap for upgrading to a higher level of audit maturity.

- It will bring competition between audit firms and create market demand for audit quality.

- The scores and the level arrived through self evaluation by the firms shall be subject to review by a peer reviewer.

- Level of firm will be hosted on the website of the ICAI alongside the details of the peer review certificate.



INITIATIVES FOR ENHANCING AUDIT QUALITY

International Standard on Quality Management (ISQM) - Draft SQM

- ❑ IAASB has issued ISQM, a standard on quality management of the firm.
- ❑ This has replaced the existing standard on quality control i.e., ISQC 1. ISQM is quality management standard as opposed to its predecessor standard which had its focus on quality control.
- ❑ ISQM requires the firms to establish SQM to create an environment that enables and supports engagement teams in performing quality engagements.
- ❑ ISQM focus on the following :-
 - integrated and proactive approach
 - achieving quality objectives through identifying quality risks and responding to the quality risks.
 - enhanced expectation from firm governance and leadership in respect of commitment towards quality.
 - monitoring quality from a firm level perspective rather than the engagement level perspective.





