

Appointment of Auditors Under Various Types of Entities

**Presented by
CA. Amit Hundia**

17th June, 2023

❖ Non Government Company (i.e. Private Sector Companies) :

➤ Appointed of first auditors:

- by Board of Directors within 30 days from the date of registration

- by Shareholders within 90 days, if BOD does not appoints in 30 days

➤ Subsequent auditors:

- By Shareholders in the AGM, unless there is a casual vacancy

A) Listed Company : Maximum for Two Terms – $5 + 5 = 10$ years

B) Unlisted Company : Public / Pvt.

Appointment under various entities

➤ RBI Regulated Entities

A) Banks

- ✓ Maximum 3 years
- ✓ Concept of Joint Audits
- ✓ Maximum 4 (across the network)

B) NBFCs (including HFCs)

- ✓ Maximum 3 years
- ✓ Concept of Joint Audits to specified set of entities
- ✓ Maximum 8 NBFCs (across the network)

➤ Insurance Companies

- ✓ General Insurance
- ✓ Life Insurance
- ✓ Maximum 3 Insurance Companies (with a cap of either of category to two)

- LLP

- Partnership Firm – no compulsion
 - A) Appointment may be needed from Tax Audit perspective
 - B) Appointment may be needed, if it's a Real Estate Developer (under RERA)
 - C) Appointment may require from the perspective of Consolidation of FS

- Trust

❖ Government Company :Appointed by CAG

➤ Appointment of first auditor

- by CAG within 60 days from the date of registration

- if not done by CAG in 60 days, then by Board in next 30 days

- Even if not done by Board in 30 days timeframe then by members within 60 days at EGM

➤ Subsequent auditors

- By CAG within 180 days from 1st of April.



An Insight to -

(Standard on Auditing - SA 210)

Agreeing the Terms of Audit Engagements

Presented by
CA. Amit Hundia

17th June, 2023

Effective From:

1st April 2010

Objective:

The objective of the auditor is **to accept or continue** an audit engagement only when the **basis upon which it is to be performed has been agreed**, through:

- (a) **Establishing** *whether the preconditions for an audit are present*, and
- (b) **Confirming** *that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.*

Definition:

❖ *“Preconditions for an audit:*

The ***use by management of an acceptable financial reporting framework in the preparation*** of the financial statements ***and***

the agreement of management and, where appropriate, those charged with governance ***to the premise on which an audit is conducted.***

- Preparation of financial statements in accordance with applicable financial reporting framework
- Internal control exists to enable the preparation of FS that are free from material misstatement

Definition:

➤ To provide the auditor with:

i) Access to all information

ii) Additional information that auditor may request from management for audit purpose:

From CFS perspective also, about



✓ Subsidiaries

✓ Associates

✓ Joint Ventures

❖ **Agreement on Audit Engagement Terms shall include:**

- Objective and scope of audit of financial statements.
- Responsibilities of auditor.
- Responsibilities of management.
- Identification of applicable financial reporting framework for the preparation of financial statements.
- Reference to the expected form and content of reports which the auditor might issue and exceptions if any to it
- Access to details / information's / documents

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- In case of **recurring audits**, assess if there is any requirement for revision of the audit engagement terms **and wherever required remind the entity of existing terms.**
 - The auditor **shall not agree to a change in the terms** of the audit engagement where there is no reasonable justification for doing so.
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Additional Considerations in Engagement Acceptance

(i) If Financial Reporting Standards are supplemented by Law or Regulation:

➤ In the **event of any conflicts** between financial reporting standards (established by an authorized or recognized standards-setting organization) and the supplementing law or regulation, **the auditor shall discuss with management and agree whether:**

a) The additional requirements can be met **through additional disclosures in the financial statements**

b) The **description** of the applicable financial reporting framework in the financial statements **can be amended accordingly**

➤ If ***neither of above actions is possible***, consider effect on auditor's opinion in accordance with SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

(ii) If the Financial Reporting Framework prescribed by Law or Regulation is not acceptable:

Then the auditor can accept the audit engagement only if:

- Management provides additional disclosures in the financial statements to avoid any misleading fact
- It is recognized in the terms of the audit engagement that:
 - The auditor's report to incorporate an EOM paragraph, drawing attention to the additional disclosures, in accordance with SA 706.
 - Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects", or "give a true and fair view", **the auditor's opinion on the financial statements will not include such phrases.**

Illustrative Clauses:

- ❖ **Illustrative Clauses which should be considered in the Engagement Letter:**
- First Time Appointment
- Continuing Appointment – no ratification required as per Co's Act, 2013
- Reference to reliance of other auditors if any – like for branch auditors / subsidiaries / associates / joint ventures
- Reference to matters to be communicated to Those Charged with Governance
- Seeking Other Information – under SA 720
- Reference to Protective clauses on data transfer,workpapers etc.
- Key Audit Matters

Illustrative Clauses:

- Reference to complete set of financial statements when entity is listed entity
 - Regulation 33 and / or 52 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is mandatory

- Terms of the engagement **for each of the other attest services** which would be provided in addition to the audit of the aforesaid financial statements:
 - A) Corporate Governance Report

 - B) Limited Reviews on Standalone / Consolidated FS

 - C) Tax Audit

 - D) Transfer Pricing Audit

 - E) Certification – as per Guidance Note

Illustrative Clauses:

- Reporting on IFC
- UDIN generation – certain details to be shared while generating UDIN on the portal
- NFRA – Updating certain details in Form 2 getting filed with NFRA
- Independence Matters
- Fees & Billing
- Confidentiality Matters
- Prevention of Corruption Act, 1988 – Prohibition of bribery

Illustrative Clauses:

- **Terms of Resignation** – for listed entities and their material subsidiaries as per SEBI Circular dated 18th October 2019 on Resignation of statutory auditors **from listed entities and their material subsidiaries**
- Involvement of specialists from the firm / affiliated network firms
- Reference on approval of non-audit services
- Sharing the corporate tree that identifies the legal names of the Co's related entities
- Access to reports on Frauds / Vigil Mechanism etc..
- Obtaining written representations
- Limitation on Damages

FAQ's:

1. In case of recurring audits, whether there is need of new audit engagement letter each period?
2. Should a separate engagement letter be sent to component when the auditor of parent entity is also the auditor of component? (For example, branch or a subsidiary)
3. With whom should the terms of the audit engagement be agreed with? – in case of Companies / Partnership Firm / Trust etc..
4. Is it mandatory to get the engagement letter signed / acknowledged by the management of the entity?
5. Who can acknowledge the engagement letter on behalf of the entity?

FAQ's:

6. If the objective and scope of the engagement and the auditor's obligations **are not laid down in the applicable statute or regulations**, is it required to get the engagement letter signed/ acknowledged by the management of the entity?
- 7 . What should be the form and content of an audit engagement letter?
8. In case more than one auditor are appointed **to conduct the audit jointly** and report on the financial statements of the entity, **should each of the auditor enter into a separate engagement letter?**

Key pointers for consideration:

- In case of Companies where Audit Committees exists, EL is also required to be shared with Audit Committee Chairman.
- Reference about sharing of the workpapers / details at the time of Peer Review / QRB / NFRA inspection
- Segregation of the roles and responsibilities of Joint Auditors in case of Joint Audit – with a detailed understanding on the line items of FS
- NOCLAR (for listed entities)
- Illustrative format of the Engagement Letter is given in this SA.
- ICAI has issued an Implementation Guide on SA 210 in January 2022.

Other relevant Standards on Auditing:

- **SA 200**, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”
- **SA 220**, “Quality Control for an Audit of Financial Statements”
- **SA 260 (Revised)**, “Communication with Those Charged with Governance”
- **SA 580**, “Written Representations”.
- **SA 600**, “Using the Work of Another Auditor”

Other relevant Standards on Auditing:

- **SA 700 (Revised)**, “Forming an Opinion and Reporting on Financial Statements”
- **SA 701**, “Communicating Key Audit Matters in the Independent Auditor’s Report”
- **SA 705 (Revised)**, “Modifications to the Opinion in the Independent Auditor’s Report”
- **SA 706 (Revised)**, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”
- **SA 800**, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks “



An Insight to -

(Standard on Auditing - SA 510)

Initial Audit Engagements – Opening Balances

Presented by
CA. Amit Hundia

17th June, 2023

Effective From: 1st April 2010

Scope:

Describes about the auditor's responsibilities relating to opening balances when conducting an **initial audit engagement**.

Objective:

In conducting an initial audit engagement, the **objective** of the auditor with respect to opening balances **is to obtain sufficient appropriate audit evidence about whether:**

- (a) Opening balances contain misstatements that materially affect the current period's financial statements; and
- (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed.

Definition:

- ❖ *Initial audit engagement* – An engagement in which either:
 - (i) The financial statements for the prior period were not audited; or
 - (ii) The financial statements for the prior period were audited by a predecessor auditor.

❖ Audit Procedures of *Opening Balances*

- Auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, including disclosures.
- **If audit evidence is obtained that the opening balances contain misstatements *that could materially affect the current period's financial statements*,**
 - ✓ additional audit procedures should be performed as are appropriate in the circumstances
 - ✓ ***to determine the effect on the current period's financial statements.***
- If the auditor concludes that misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance.

❖ Audit Conclusions and Reporting

- If the auditor concludes that the ***opening balances contain a misstatement that materially affects the current period's financial statements, and***
 - ✓ *the effect of the misstatement is not properly accounted for OR*
 - ✓ *not adequately presented or disclosed,*
 - ✓ ***the auditor shall express a qualified opinion*** or an adverse opinion.

❖ *Modification to the Opinion in the Predecessor Auditor's Report*

- If the predecessor auditor's opinion regarding the prior period's financial statements **included a modification to the auditor's opinion** that remains
 - ✓ **relevant and**
 - ✓ **material to the current period's** financial statements,
 - ✓ the auditor shall modify the auditor's opinion on the current period's financial statements.

- ❖ Previous auditor's report was not modified, paragraph on similar lines should be inserted under the category of "Other Matters" in the audit report:

- **Other Matter:**

"The financial statements of the entity for the year ended March 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 2022."

- ❖ *Reporting about Opening Balances in case of change of one of the joint auditor.*

Q & A

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ThanQ

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