

Guidance Notes on ICSI Auditing Standards

(CSAS-1 to CSAS-3)



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

GUIDANCE NOTES ON ICSI AUDITING STANDARDS



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PREFACE

ICSI Auditing Standards aims to support the Company Secretaries in developing auditing acumen, techniques and tools and inculcate best auditing practices while conducting the audit and promote standardisation and uniformity in the professional arena. The Institute of Company Secretaries of India has issued the first four Auditing Standards, i.e (i) Auditing Standard on Audit Engagement (CSAS-1) ;(ii) Auditing Standard on Audit Process and Documentation (CSAS-2) ;(iii) Auditing Standard on Forming of Opinion (CSAS-3) and (iv) Auditing Standard on Secretarial Audit (CSAS-4), which are applicable mandatorily on the audit assignments accepted by the auditor on or after 1st April, 2020.

The adoption of Auditing Standards will bring substantial impact on the quality of audits performed by Company Secretaries and bring uniformity and consistency.

These Guidance Notes on Auditing Standards have been formulated to set out the explanations, procedures and practical aspects of various provisions contained in ICSI Auditing Standards [CSAS-1 to CSAS-3] to facilitate compliance thereof by the stakeholders. The text of the Guidance Note is written in italics, while the text of the Standards is in normal font.

I place on record my sincere thanks to CS Vineet K. Chaudhary, Council Member and Chairman, Auditing Standards Board (ASB), CS Manish Gupta, Vice Chairman, and all the members

of the ASB for their tireless efforts in preparation and finalisation of the Guidance Notes.

I also commend the dedicated efforts of CA Hema Babbar, Assistant Director under the leadership of CS Banu Dandona, Joint Director, Directorate of PMQ, Boards and Certificate Courses under the overall guidance of CS Ashok Kumar Dixit, Officiating Secretary of the ICSI, put in during the course of preparation of this Guidance Note.

Furthermore, inevitably, in any publication, there is always scope for further improvement. I would personally be grateful to users and readers for offering the suggestions/comments for further refinement of the contents of the publication.

Date: 10th January, 2020

Place: New Delhi

CS Ranjeet Pandey

President, ICSI

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Guidance Note on Audit Engagement

The Auditing Standard on Audit Engagement (CSAS-1), formulated by Auditing Standards Board (ASB) of the Institute of Company Secretaries of India (ICSI) and issued by the Council of the ICSI, is effective from 1st July, 2019 on a recommendatory basis and mandatory with effect from 1st April, 2020.

This Guidance Note sets out the explanations, procedures and practical aspects in respect of the provisions contained in CSAS-1 to facilitate compliance thereof by the stakeholders.

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit Engagement under any statute. The Standard deals with the Auditor's roles and responsibilities with respect to an Audit Engagement and process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

The Auditing Standard on Audit Engagement (CSAS-1) is applicable to the Practicing Company Secretaries (PCS) as defined in the Company Secretaries Act, 1980, who undertake the audit assignment envisaged under the Companies Act, 2013 or Securities and Exchange Board of India Act, 1992 or any other law prevailing in India.

CSAS-1 is not applicable for Audits entrusted on a voluntary basis by the Auditee to the Auditor. However, adherence to the Standard is recommended in respect of Audits entrusted on voluntary basis also.

In case of appointment by Court, Tribunal or Regulatory Authority, CSAS-1 shall apply to the extent possible, since the manner of appointment and terms of engagement in such cases shall be as per the directions of the Court, Tribunal or Regulatory Authority.

Following is an illustrative list of Audits which may be undertaken by a Company Secretary under various Statutes:

Type of Audit	Act/ Regulation	Section/ Regulation	Auditee
<i>Secretarial Audit</i>	<i>Companies Act, 2013</i>	<i>204</i>	<i>Company</i>
<i>Secretarial Audit</i>	<i>SEBI (LODR) Regulations 2015</i>	<i>24A</i>	<i>Listed Entities</i>
<i>Internal Audit</i>	<i>Companies Act, 2013</i>	<i>138</i>	<i>Company</i>
<i>Audit of Depository Participants</i>	<i>SEBI (Depositories and Participants) Regulations 2018 read with SEBI circular no. SEBI/ HO/MRD/ DOP2-DSA2/ CIR/P/2019/22 dated January 23, 2019</i>	<i>76</i>	<i>Sole Proprietorship, Partnership Firm, LLP, Company</i>

<i>Internal Audit of Stock Brokers</i>	<i>SEBI (Stock and sub-broker) Regulations 1993</i>	<i>SEBI circular no. MIRSD/DPSIII/ Cir-26/08</i>	<i>Sole Proprietorship, HUF, Partnership Firm, LLP, Company</i>
<i>Internal Audit of Investment Advisors</i>	<i>SEBI (Investment Advisors) Regulations 2013</i>	<i>19(3)</i>	<i>Sole Proprietorship, Partnership Firm, LLP, Company</i>
<i>Internal Audit of Portfolio Managers</i>	<i>SEBI (Portfolio Managers) Regulations 1993</i>	<i>SEBI circular no. IMD/PMS/CIR/1/21727/03 dated November 18, 2003</i>	<i>Body Corporate</i>
<i>Internal Audit of Credit Rating Agencies</i>	<i>SEBI (Credit Rating Agencies) Regulations 1999</i>	<i>SEBI circular no.MRD/CRA/ CIR-01/2010 dated January 06, 2010</i>	<i>Public Financial Institution, Scheduled Commercial Bank, Foreign Bank operating in India with RBI approval, Foreign Credit Rating Agency recognised by or under any law, Company, Body Corporate</i>

Internal Audit of Research Analysts	SEBI (Re-search Analysts) Regulation 2014	25(3)	Sole Proprietorship, Partnership Firm, LLP, Company
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While auditing under any of the statutes, the Auditors are required to examine the Records, documents and information from the Auditee to express an independent opinion. Therefore, it becomes very important to understand the scope of audit.

This Guidance Note on CSAS-1 deals with the Auditor's responsibilities while agreeing to the terms of Audit Engagement and entering into an agreement with the Management or those charged with governance. This includes principal contents of an Audit Engagement Letter and also the duties and responsibilities of the Auditor and the Auditee in case of a change in terms of engagement, if any.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2020.

Objective

The objective of the Standard is to prescribe for the Auditor, principles and procedures to be followed while accepting or continuing with an Audit Engagement by agreeing to the terms of engagement with the Appointing Authority or any changes therein and matters relating thereto.

This Standard is applicable on the Auditor in all of the following situations:

New Audit Engagement – Covers an audit being conducted first time and therefore the appointment of the Auditor is an initial appointment. It will also cover the situations where the audit for the previous period was conducted by another Auditor.

Recurring Audit Engagement – Covers the situation where the Auditor had conducted the audit for the previous period and is requested to conduct the audit for the subsequent period as well. In such a case, the Auditor should obtain fresh Audit Engagement Letter if the period of engagement has expired, including revised terms if the circumstances so require Auditor shall adhere to the Standard even if the Audit Engagement is a continuing one.

Changes in terms of Audit Engagement – Whenever there is a change in the terms of Audit Engagement in the middle of an ongoing audit, the Auditor shall adhere to the Standard and initiate a revised Engagement Letter in terms of this Standard.

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India (ICSI), the following terms shall have the meaning attributed as below, unless specified otherwise:

(1) "Appointing Authority" means any person having authority to appoint the Auditor.

The Auditee under the Statute could be a company or any other form of entity. Appointing Authority will depend upon the type of the Auditee. In case the Auditee is a company, the Appointing Authority would be the Board of company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing

Authority may also include Court, Tribunal or Regulator or any officer thereof.

For example, in case of Secretarial Audit under Section 204 of Companies Act, 2013 or Clause 24A of the SEBI (LODR) Regulations, 2015 and Internal Audit under Section 138 of Companies Act, 2013, the Appointing Authority would be the Board of the Company.

In case, the Auditee is under Corporate Insolvency Resolution Process, the Appointing Authority shall be the Resolution Professional.

In case of Audit of Depository Participants, the Appointing Authority may depend upon the type of Auditee, e.g. if the Depository Participant is a company then the Appointing Authority will be the Board or in case of an LLP it could be the designated partner or any other partner as may be authorised to appoint the Auditor. Similarly in case of Internal Audit of Stock Brokers, Internal Audit of Investment Advisors, Internal Audit of Portfolio Managers, Internal Audit of Credit Rating Agencies and Internal Audit of Research Analysts, the Appointing Authority would depend upon the type of Auditee.

(2) "Audit Engagement" means detailed terms of reference of appointment including scope of audit, remuneration and limiting conditions, if any.

(3) "Auditee" means a person subject to audit.

(4) "Auditor" means a Company Secretary who is deemed to be in practice under sub-section (2) of Section 2 of the Company Secretaries Act, 1980 and includes a firm or Limited Liability Partnership (LLP) registered with ICSI, undertaking the Audit.

Auditor means a member of the ICSI who holds a valid Certificate of Practice under Section 2(2) of the Company

Secretaries Act, 1980. It includes a firm or Limited Liability Partnership (LLP) registered with ICSI and whose partners are members of the ICSI.

(5) "Management" includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee.

In case of Companies

The term "persons who have been entrusted with the responsibility of governance and compliances of the Auditee" include the Key Managerial Personnel as defined under Section 2(51) of the Companies Act, 2013 and senior Management as defined under SEBI (LODR) Regulations, 2015 and the explanation given in Section 178 of the Companies Act, 2013.

As per Section 2(51) of Companies Act, 2013: "Key Managerial Personnel", in relation to a company, means –

- (i) the Chief Executive Officer or the Managing Director or the Manager;*
- (ii) the Company Secretary;*
- (iii) the whole-time Director;*
- (iv) the Chief Financial Officer;*
- (v) such other officer, not more than one level below the directors who is in whole-time employment, designated as Key Managerial Personnel by the Board; and*
- (vi) such other officer as may be prescribed*

As per Regulation 16(1)(d) of SEBI (LODR) Regulations, 2015 : "Senior Management" shall mean officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this

shall comprise all members of Management one level below the Chief Executive Officer/Managing Director/whole time Director/ Manager (including Chief Executive Officer/Manager, in case they are not part of the board) and shall specifically include Company Secretary and Chief Financial Officer:

Explanation to Section 178 of the Companies Act, 2013, describes that "Senior Management" means personnel of the company who are members of its core Management team excluding Board of Directors comprising all members of Management one level below the Executive Directors, including the functional heads.

In case of Auditee other than companies, the term "persons who have been entrusted with the responsibility of governance and compliances of the Auditee" shall include any person or employee of the Auditee as may be authorised. For example, in case of an LLP, Management includes the partners or designated partners or any officer of the LLP entrusted with such responsibility.

In case of a Proprietorship, Management means the proprietor or any officer authorised by him.

(6) "Predecessor or Previous Auditor" means an Auditor who has conducted the most recent audit assignment of the Auditee and submitted report thereon prior to the incumbent Auditor or was engaged but did not complete the audit assignment due to his resignation, termination or otherwise.

An Auditor who has completed the assignment and has not been reappointed or an Auditor who had been appointed but has not completed the assignment due to resignation, termination or otherwise, shall be deemed to be a "Predecessor or Previous Auditor" for the same assignment.

1. Audit Engagement Process

The Auditor shall undertake the following steps with respect to the Audit Engagement:

Pre-Engagement Meeting

Before accepting the Audit Engagement, the Auditor should have a pre-engagement meeting with the Auditee. The meeting may inter-alia include discussion about the terms of engagement, prior year audit findings and conclusions, appropriateness of reporting framework, understanding Auditee's business operations and environment including internal control system, commercial terms of the audit and the timelines and milestones, if any, for conducting the Audit and submission of the Audit Report. Auditor shall disclose in the pre-engagement meeting conflict of interest, if any, with the Auditee.

The Auditor shall be under Confidentiality obligation with respect to the information obtained during the pre-engagement meeting.

1.1 Appointment

1.1.1 The appointment of Auditor shall be made in the manner prescribed in the applicable laws, act, rules, regulations, standards and guidelines and in case no such manner has been prescribed, such appointment shall be made in the manner determined by the Appointing Authority.

Illustration:

Section 179(3)(k) of Companies Act, 2013 read with Rule 8(4) of Companies (Meeting of Board and its Powers) Rules, 2014 requires that the Internal Auditor and Secretarial Auditor of the company shall be appointed by passing a resolution at a duly convened meeting of the Board.

Therefore, the appointment of Internal Auditor/Secretarial Auditor cannot be made by passing a resolution by circulation.

Further, the said appointment cannot be made by Key Managerial Personnel or Senior Management, even if authorised by the Board in this regard.

1.1.2 The Auditor shall submit a Certificate to the Appointing Authority confirming eligibility for appointment as Auditor.

Before accepting an audit, the Auditor shall furnish a certificate to the Appointing Authority that:

- a. The number of audits are within the ceiling prescribed by the ICSI as specified in para 2 of CSAS 1.*
- b. No substantial conflict of interest as defined in para 3 of CSAS-1 exists with the Auditee.*
- c. There is no restriction to render the professional services under ICSI Guidelines.*
- d. He is not debarred to undertake such audit under any law or under the disciplinary mechanism of the ICSI.*

A Specimen Eligibility Certificate is placed at **Annexure A**

1.1.3 The Auditor shall obtain an Audit Engagement Letter along with a copy of the resolution, if any, passed by the Appointing Authority and shall provide acceptance to the Appointing Authority.

The Auditor may give his acceptance to undertake the audit either on the copy of the Audit Engagement letter or through a separate letter. The acceptance may also be communicated through an email.

1.2 Audit Engagement Letter

The Audit Engagement Letter shall *inter alia* include:

- a. The objective and scope of the audit;
- b. The responsibilities of the Auditor and the Auditee;
- c. Written representations provided and/or to be provided by the Management to the Auditor, including particulars of the Predecessor or Previous Auditor;
- d. The period within which the audit report shall be submitted by the Auditor, along with milestones, if any;
- e. The commercial terms regarding audit fees and reimbursement of out of pocket expenses in connection with the audit; and
- f. Limitations of audit, if any.

Where the objective and scope of the audit and responsibilities of the Management and of the Auditor have been established by law, the Audit Engagement Letter shall give a reference to the provisions of the relevant law along with a statement that the Management acknowledges and understands its responsibilities for preparation and maintenance of records and for devising proper systems to ensure compliance with the provisions of applicable laws, act, rules, regulations and standards for the time being in force.

The Auditor shall agree upon the terms of Audit Engagement with the Appointing Authority which shall be documented in an Audit Engagement letter.

The engagement letter provides the opportunity to detail the scope of the Audit Engagement and to define the responsibilities between the Auditor and the Auditee.

It clarifies under which laws, act, rules and regulations the audit is being carried out and provides the reference of the format of the report, if any, specified by the statute or by ICSI.

It documents the terms of Audit Engagement agreed between the Auditor and the Appointing Authority with reference to scope of audit, responsibilities of Auditor and Auditee, remuneration and limiting conditions, if any.

The Responsibilities of Auditor inter alia include the following:

- To take up the audit as per the terms of the engagement.*
- To depute personnel who have the knowledge of the laws under which the audit is being carried out, subject to his overall supervision.*
- To observe and ensure observance of highest standards of ethics and maintain utmost professionalism at all times by the employees, staff and other team members involved in the Audit and persons engaged by him to provide advice or assistance for the conduct of audit.*
- To maintain and ensure confidentiality by the employees, staff and other team members involved in the audit and persons engaged by him to provide advice or assistance for the conduct of audit as mentioned in Para 4 of this Standard.*
- To not trade in securities relating to which unpublished price sensitive information has come to his/her knowledge during the course of audit, which*

responsibility shall extend to the employees, staff and other team members involved in the audit and persons engaged by him to provide advice or assistance for the conduct of audit also.

Responsibilities of Auditee inter alia include:

- To provide access to premises of the Auditee and timely access to Records, documents, legal opinions, show cause notices, inspection reports and other information, explanations and reports as may be necessary in connection with the audit.*
- To identify and depute a responsible official to timely provide relevant documents, information and explanations required by the Auditor.*
- To provide written Management representations, if any, to the Auditor during the course of audit, which shall provide the Auditor a substantive evidence of important assertions and the Management's primary responsibility for the assertions and its accuracy.*
- To provide details of the Predecessor or Previous Auditor, so as to enable proposed Auditor to communicate with the Predecessor or Previous Auditor.*

Audit remuneration and expenses may depend on several factors including:

- Size of the organisation;*
- Location of business and its branches;*
- Type of company (Listed/Unlisted);*
- Sector to which company belongs*
- Nature of business;*

- *Internal control mechanism;*
- *Scope of Audit Engagement;*
- *Frequency of audit, whether monthly, quarterly, yearly*
- *Type of audit, whether sole, joint or concurrent audit*
- *The experience of the Auditor in conducting audits;*
- *Estimated man-hours required to complete the assignment;*
- *Guidance/Advisory issued by the ICSI, if any*
- *Any other term or a combination of any of the above.*

Audit fees should be a fair reflection of the value of the work performed for the Auditee, considering the above factors.

Quantum of fees, billing arrangement and terms of payment shall be mentioned in the Audit Engagement letter.

The Audit fee shall not be contingent upon findings or results of the audit. However, fees shall not be regarded as being contingent if fixed by a court or other public authority.

The Auditor is not permitted to pay a commission to obtain an audit nor shall he accept a commission for referral of an Auditee to a third party. He shall not accept a commission for the referral of the products or services of others.

As per Clause 2 of Schedule I of the Company Secretaries Act, 1980: A Company Secretary in Practice shall be deemed to be guilty of professional misconduct, if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional work to any person, other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.

As per Clause 9 of Schedule I of the Company Secretaries

Act, 1980 : A Company Secretary in Practice shall be deemed to be guilty of professional misconduct, if he charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings, or result of such employment, except as permitted under any regulation made under this Act.

Auditor should include a statement in the Audit Engagement Letter that because of inherent limitations of an audit, inherent limitations of internal control, an unavoidable risk exists that some material non-compliance may not be detected, even though the audit is properly planned and performed in accordance with the applicable Auditing Standards.

Audit Engagement Letter should also specify that arrangements concerning the involvement of third party and experts in some aspects of the Audit.

If the Appointing Authority has imposed a limitation on the scope of the Auditor's work in the terms of engagement and the Auditor believes that such limitation will result in lower level of assurance than what is required under law, the Auditor shall not accept such an engagement, unless required by law or regulation to do so.

*Specimen Audit Engagement Letter is placed at **Annexure B***

1.3 Communication to the Predecessor or Previous Auditor

The Auditor shall communicate in writing to the Predecessor or Previous Auditor, if any, before accepting the Audit Engagement.

There should be an effective communication with the Predecessor or Previous Auditor, if any. Auditor should communicate with the Predecessor or Previous Auditor in such manner as to retain positive evidence of the delivery

of the communication. Communication by a letter sent by Registered Acknowledgement Due or by courier or by hand against the written Acknowledgement or through an email would be in the normal course provide such evidence. The Auditor shall wait for a period of 7 days from the date of communication before accepting the audit.

In case any information is provided by the Predecessor Auditor, the Successor Auditor shall take cognizance of the same. The information obtained from the Predecessor may be useful in undertaking the audit. Such information shall remain confidential.

The Council of the Institute has resolved that it shall be mandatory for every Company Secretary in Practice, before accepting any of the following assignments, to communicate to the previous incumbent, in terms of terms of clause (8) of part I of the First Schedule to the Company Secretaries Act, 1980 :

- (i) Signing of Annual Return in Form MGT-7 under Section 92(1) of the Companies Act, 2013 and rule 11(1) of the Companies (Management and Administration) Rules, 2014.
- (ii) Certification of Annual Return in Form MGT-8 under Section 92(2) of the Companies Act, 2013 and rule 11(2) of the Companies (Management and Administration) Rules, 2014.
- (iii) Issuance of Secretarial Audit Report in terms of Section 204 of the Companies Act, 2013.
- (iv) Issue of Secretarial Audit Report to material unlisted subsidiaries of Listed entities (whose equity shares are listed) under Regulation 24A of SEBI (LODR) Regulations, 2015.
- (v) Issue of Annual Secretarial Compliance Report to

Listed entities (whose equity shares are listed) under Regulations 24A of SEBI (LODR) Regulations, 2015.

- (vi) Certification under SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 that none of the directors on the board of the company have been debarred or disqualified from being appointed or continuing as directors of companies by the Board/ Ministry of Corporate Affairs or any such statutory authority under Schedule V, Part C, Clause (10)(i).
- (vii) Certification under Regulation 40(9) of SEBI (LODR) Regulations, 2015 certifying that all certificates have been issued within thirty days of the date of lodgement for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/ allotment monies.
- (viii) Conduct of Internal Audit of Operations of the Depository Participants registered with NSDL & CDSL under the provisions of the Depositories Act, 1996 read with SEBI (Depositories and Participants) Regulations, 1996.
- (ix) Certificate of Reconciliation of Share Capital Audit Vide Circular No. D & CC/FITTC/CIR-16/2002 Dated December 31st 2002 (Amended Vide Circular No. CIR/ MRD/DP/30/2010 Dated 06-09-2010) Issued By SEBI.
- (x) Acting as Compliance Auditor under Third Party Certification/ Audit Scheme (Amendment), 2018 in the State of Haryana.
- (xi) Issuance of Audit Report as provided under Regulation 76 the SEBI (Depositories and Participants) Regulations, 2018, by the unlisted public companies, to be submitted on a half-yearly basis to the ROC, under whose jurisdiction the registered office of the company is situated, under the provisions of the Rule 9A(8) of

the Companies (Prospectus & Allotment of Securities) Rules, 2014.

- (xii) Diligence Reporting for Banks in case of multiple banking/consortium lending arrangements in terms of the circular issued by RBI.
- (xiii) Conduct of Internal Audit of Depository Participants.
- (xiv) Conduct of Internal Audit of stock brokers/sub brokers under SCRA, 1956 and Rules and Regulations made thereunder.

Further, Council of ICSI has prescribed the following format to be issued by Company Secretaries under Clause 8 of the First Schedule of the Company Secretaries Act, 1980 :

CS.....

Address Dear Sir / Madam,

Sub.: Intimation in terms of Clause 8 of the First Schedule to the Company Secretaries Act, 1980

I, CS /We, M/s....., Company Secretary in Practice / Firm of Company Secretaries have been approached by the Management of M/s..... Limited to..... (list of professional services) for the FY vide their letter No. dated We understand that earlier the abovementioned professional services were being rendered by your goodself/ firm to M/s. Limited during the Financial Year

I / We request you to kindly take this communication as an intimation to be given to the previous incumbent in terms of Clause 8 of the First Schedule to the Company Secretaries Act, 1980.

Regards,

CS Membership No. ACS / FCS CoP
No.....

For & Co./ & Associates, Company Secretaries
Firm Unique CodeDate:

Place:

Illustration

Mr. P was appointed as the Secretarial Auditor of ABC Ltd. for the F.Y. 2019-20. However, during the course of audit, he intimated the Appointing Authority his inability to complete the audit of ABC Ltd. and therefore cannot give audit report thereon. ABC Ltd. accepted the request of Mr. P and approached Mr. Q to become the secretarial Auditor for F.Y. 2019-20.

In such case, Mr. Q has to first communicate to the Predecessor Auditor i.e. Mr. P of his intention to accept the secretarial audit assignment of ABC Ltd. and wait for 7 days from the date of intimation to Mr. P, before accepting the secretarial audit of ABC Ltd. for F.Y. 2019-20.

2. Limits on Audit Engagements

The Auditor shall accept Audit Engagements within the limits of number of audits, if any, as may be prescribed under any law for the time being in force or by the ICSI from time to time.

To uphold the quality of services rendered by members of the Institute, the Institute has issued the following guidelines:

Guidelines	Guidelines Issued at
<p>Limits for the issue of Secretarial Audit Reports:</p> <ul style="list-style-type: none"> • 10 Secretarial Audits per partner/ PCS, and • an additional limit of 5 Secretarial Audits per partner/PCS in case the unit is peer reviewed. <p>The limits will be applicable for the Secretarial Audit Reports issued for the FY 2016-17 onwards)</p>	<p>235th meeting of the Council held on 11th February, 2016</p>
<p>Number of Annual Secretarial Compliance Reports to be issued by PCS are 5 (five) reports individually / per partner in each financial year w.e.f. 1st April, 2020 and an additional limit of 5 (five) ASCR individually/ per partner in case the unit has been Peer Reviewed.</p>	<p>260th meeting of the Council held on 4-5 May, 2019</p>
<p>In case of the following, Secretarial Audit/ Secretarial Compliance Report to be done by Peer Reviewed Units only:</p> <ul style="list-style-type: none"> • Top 100 companies as per market capitalization w.e.f April 1, 2020 • Top 500 companies as per market capitalization w.e.f April 1, 2021 • All listed companies w.e.f April 1, 2022 • All companies w.e.f April 1, 2023 	<p>259th meeting of the Council held on 16th March, 2019</p>

3. Conflict of Interest

The Auditor shall not have any substantial conflict of interest with the Auditee. Any conflict of interest, other than substantial conflict of interest, must be disclosed by the Auditor before accepting the Audit Engagement or as soon as the Auditor becomes aware of the same, as the case may be.

The term conflict of interest term is defined below. It is expected that the Auditor shall not have any conflict of interest with the Auditee. If the Auditor has any such interest, it is the duty of the Auditor to disclose such interest/ conflict of interest to the Auditee before accepting the Audit Engagement.

The conflict of interest with the Auditee explained below shall not be construed as a substantial conflict of interest:

- Auditor holding not more than 2% paid up share capital or shares of nominal value of Rs. 50,000
- Auditor indebted to the Auditee for an amount not exceeding Rs. 5,00,000
- Auditor was in employment of the Auditee more than 2 year ago

In above cases, the Auditor shall be eligible for undertaking the Audit Engagement only if he discloses such fact in writing before accepting the Audit Engagement or as soon as he becomes aware of the same, as the case may be.

In following cases, it shall be construed that the Auditor has a substantial conflict of interest with that of the Auditee and he shall not accept any Audit Engagement from the Auditee:

- Auditor holds more than 2% paid up share capital or shares of nominal value of Rs. 50,000

- Auditor indebted to the Auditee for an amount exceeding Rs. 5,00,000
- Indebtedness that may seriously impair the independence of the Auditor, irrespective of the amount.
- Auditor was in employment of the Auditee during immediately preceding 2 years

In above mentioned cases, the Auditor is debarred from accepting such Audit Engagement.

Explanation:

Substantial Conflict of Interest means:

Holding of more than 2% in the paid up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power, as the case may be, by the Auditor singly or along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

Before accepting the audit, the Auditor shall disclose that there is no conflict of interest of ownership as specified in this Standard or prescribed in any law, act, rules and regulations under which the audit is being carried on.

Where there exists a substantial conflict of interest in the Auditee organisation, the Auditor cannot accept the Audit Engagement.

The limit of holding of more than 2% in the paid-up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power shall be applied based on combined holding of the Auditor along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

Illustration 1

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. B holds 1% paid-up share capital in a company XYZ Ltd. Wife and daughter of Mr. A, who are financially dependent on him hold 1% paid-up share capital in XYZ Ltd. each.

Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, Mr. A is not directly holding any interest in XYZ Ltd. However according to para 3.1 of CSAS-1, Mr. A is having a substantial conflict of interest in XYZ. Ltd. as the aggregate value of paid-up share capital held by his wife, daughter and partner in XYZ Ltd. is 3%. Hence, he is not eligible to become Secretarial Auditor of XYZ Ltd.

Illustration 2

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries . Mr. A holds 1% paid-up share capital in a company XYZ Ltd. and Mr. B holds shares of nominal value of Rs. 60,000 in XYZ Ltd.

Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, though Mr. A holds only 1% of the paid up share capital in XYZ Ltd. But according to para 3.1 of CSAS-1, he is having a substantial conflict of interest in XYZ. Ltd. as his partner Mr. B is having a share capital of nominal value of more than Rs.50,000 in XYZ Ltd. and therefore Mr. A is not eligible to become Secretarial Auditor of XYZ Ltd.

Illustration 3

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A & Mr. B each holds 0.5% paid-up share capital in a company XYZ Ltd. Nominal value of such shares held by each of them is Rs. 20,000. Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, though Mr. A is having a conflict of interest in XYZ Ltd. The same will not be considered as a substantial conflict of interest. Therefore, Mr. A can accept the Secretarial Audit of XYZ Ltd. In this case he shall disclose to the Appointing Authority the fact that he has a conflict of interest with the company, but the same is not substantial conflict of interest in accordance with CSAS-1.

Illustration 4

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A holds 1% of the paid-up share capital in company XYZ Ltd. Nominal value of such shares is Rs. 60,000. The market value of the shares held by Mr. A is Rs. 40,000. Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, there will be a substantial conflict of interest between Mr. A and the company XYZ Ltd. as the nominal value of shares held by Mr. A is more than Rs. 50,000, therefore he cannot accept the Secretarial Audit of XYZ Ltd. The market value of the shares is irrelevant while deciding the conflict of interest based on ownership in accordance with CSAS-1.

Illustration 5

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A holds 1% of the paid-up share capital in company XYZ Ltd. Nominal value of such shares is Rs. 60,000. XYZ Ltd. wants to give its Internal Audit assignment to ABC, LLP.

In this case, there exists a substantial conflict of interest of ABC, LLP with the company XYZ Ltd. due to the fact that one of the partners of the LLP is holding shares of a nominal value of more than Rs. 50,000 in XYZ Ltd. Therefore, it will not be eligible to undertake the internal audit assignment of XYZ Ltd. as per CSAS-1.

Indebtedness of the Auditor for an amount exceeding rupees five lakh other than that arising out of ordinary course of business of the Auditee:

Provided that any indebtedness that may seriously impair his independence shall also be considered as substantial conflict of interest.

Before accepting the audit the Auditor shall disclose that there is no conflict of financial interest as specified in this standard or prescribed law under which the audit is carried on.

The limit of rupees five lakh as specified shall be applicable to the combined indebtedness of the audit firm including indebtedness by the partners in their individual capacity.

The term "ordinary course of business" has not been defined. An assessment of whether a transaction is in "ordinary course of business" can be subjective and may vary on case-to-case basis.

For example, a banking company which in ordinary course of business provides loan or gives guarantees/ securities for the due repayment of any loan and in respect of such loans an interest is charged at a rate not less than the prevailing lending rate, may extend loan to its Auditor as per the terms and conditions of the company and such loan shall not be treated as conflict of financial interest.

Illustration 1

Mr. A is a Practicing Company Secretary. He has taken a personal loan of Rs. 5,00,000 from a XYZ LLP wherein Mr. B, who is the designated partner is friend of Mr. A. The payment of such loan is still outstanding in full. Mr. A has been offered to undertake the Internal Audit of XYZ, LLP.

In the given case, Mr. A has a conflict of interest in XYZ LLP, but it doesn't debar Mr. A from undertaking the Internal Audit of XYZ LLP. Mr. A shall disclose the fact to the Appointing Authority before accepting such Audit.

Illustration 2

Mr. A is a Practicing Company Secretary. He had taken a personal loan of Rs. 5,00,000 from XYZ Ltd. wherein his uncle is Managing Director. Mr. A has been offered to undertake the Secretarial Audit of XYZ Ltd.

In the given case, Mr. A has conflict of interest with the Auditee, as the amount of indebtedness is Rs. 5,00,000, but the same is not considered as substantial conflict of interest. In this case, he is required to make disclosure of the fact to Appointing Authority.

Illustration 3

Mr. P is a Practicing Company Secretary and is offered to conduct the Secretarial Audit of ABC Ltd. Mr. P is indebted to the Director of the company for an amount Rs. 6,00,000. Whether he can accept the Secretarial Audit Engagement of ABC Ltd.

In the given case, Mr. P has a substantial conflict of interest in ABC Ltd. And therefore he can't accept the secretarial audit assignment.

Illustration 3

Mr. A is a Practicing Company Secretary. He had taken a personal loan of Rs. 25,00,000 from XYZ Ltd.. He has used such loan towards purchase of his house which has been mortgaged with XYZ Ltd. Due to some financial crisis, Mr. A has not been able to repay any amount towards the loan since past 2 years. Mr. A has been offered to undertake the Secretarial Audit of XYZ Ltd.

The circumstances of the case suggest that indebtedness of Mr. A towards XYZ Ltd. is such that , if he accepts the Audit of XYZ Ltd., it may substantially impair the independence of Mr. A while forming an opinion on the basis of his audit findings and therefore considered as substantial conflict of interest . Therefore in this case, Mr. A shall be debarred from accepting the Secretarial Audit assignment of XYZ Ltd.

Where an Auditor was in employment of the Auditee, its holding or subsidiary company and 2 (two) years have not lapsed from the date of cessation of employment, the same shall be considered as substantial conflict of interest.

A PCS or member/partner of a PCS firm cannot undertake the audit of that undertaking where the member was in employment prior to holding the Certificate of Practice, unless two years have lapsed from the date of cessation of employment. The PCS shall disclose the fact that two years have not lapsed from the date of cessation of his employment to the Auditee.

Holding and Subsidiary company shall have the same meaning as defined under section 2 (46) and 2(87) of the Companies Act, 2013.

Illustration 1

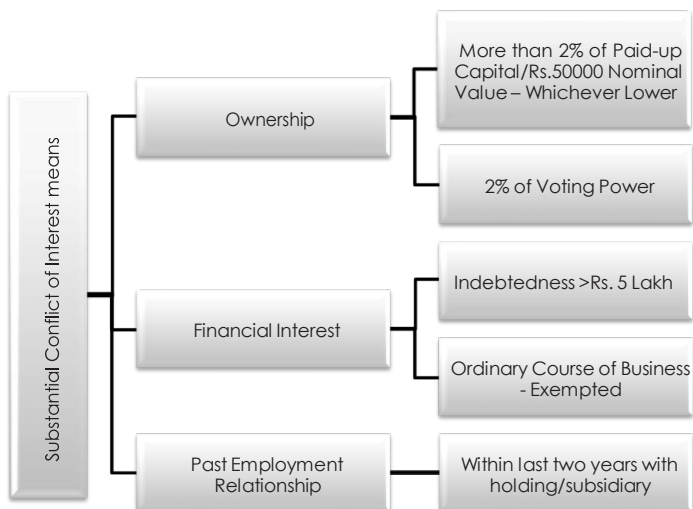
Mr. A was the Company Secretary of PQR Ltd. from 1st October, 2015 till 31st May, 2018. He left the job w.e.f. 31st May, 2018 and joined in ABC and Associates (CS Firm) as a partner. On 1st January 2020, ABC and Associates has been offered to conduct Secretarial Audit of ST Ltd. for the F.Y. 2020-21. ST Ltd. is the wholly owned subsidiary of PQR Ltd.

According to para 3 of CSAS-1, Mr. A or ABC and Associates, in which he is a partner cannot undertake any audit assignment in PQR Ltd. and/or its holding or subsidiary companies till 31st may, 2020, i.e. two years from the date of cessation of his employment in PQR Ltd. Therefore, ABC and associates cannot undertake the Secretarial Audit assignment of ST Ltd. for the F.Y. 2020-21.

Illustration 2

Mr. A was the Company Secretary of PQR Ltd. from 1st October, 2015 till 31st May, 2018. He left the job w.e.f. 31st May, 2018 and joined ABC and Associates (CS Firm) as an employee. On 1st January 2020, ABC and Associates has been offered to conduct Secretarial Audit of ST Ltd. for the F.Y. 2020 -21. ST Ltd. is the wholly owned subsidiary of PQR Ltd.

Since Mr. A has joined ABC and Associates in the capacity of an employee, ABC and associates can undertake the Secretarial Audit assignment of ST. Ltd. for the F.Y. 2020-21.



4. Confidentiality

4.1 The Auditor shall not disclose the information obtained during the course of Audit without proper and specific authority or unless there is a legal obligation or duty to disclose.

Clause (1) of Part I of the Second Schedule to the Company Secretaries Act, 1980 provides that a Company Secretary in practice shall be deemed to be guilty of professional misconduct, if the member – “discloses information acquired in the course of professional engagement to any person other than the Auditee so engaging him, without the consent of the Auditee, or otherwise than as required by any law for the time being in force.”

The word ‘information’ here implies any information which is not available in public domain.

During the course of audit, Auditor receives, verifies and inspects various audit documents, evidence, representation etc. to form an opinion or to give a report. These may be confidential and privileged information that remain in possession of the Auditor and shall not be disclosed without the express authority of the Auditee.

Herein the term proper and specific authority implies the Appointing Authority or any other person or committee as may be entrusted by the Appointing Authority to look after the conduct of Audit. It is the inherent duty of the Auditor to maintain the confidentiality of any information about the Auditee or his business that came to his knowledge as a result of performing the audit work. However, if permitted by the Auditee, Auditor may disclose or share such information with any other person as may be specifically allowed by Auditee. Since there may be different types of Auditee, the authority to give such permission to the Auditor may be different in each

case. For example, in case of a company, the Secretarial Auditor is appointed by the Board and therefore it may be authorised by the Board whether the Auditor can disclose any confidential information to anyone. In another case, it may be possible that the Board has authorised a director in this regard to give such authorities and permissions to the Auditor and therefore that director will become the specific authority. Likewise in case of an LLP, it may be a designated partner or any other person as may be authorised by the LLP in this regard.

4.2 The Auditor shall not use or share with any person any information obtained except for the purposes of audit.

An Auditor shall maintain confidentiality even in a social environment. The Auditor shall be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a relative or friends etc.

However, if the Auditor gives any reference of the audit evidence or documents while forming the opinion in the audit report, it will be deemed to be the disclosure of information under the legal obligation or in the performance of the duty.

If during the course of audit and forming opinion, the Auditor uses the decisions of the judicial authority, it will not be treated as use or sharing of confidential information.

4.3 The Auditor shall take all reasonable steps to ensure that employees, staff and other team members of the Auditor and persons engaged by the Auditor to provide advice or assistance during the conduct of audit, shall also adhere to the Auditor's duty of confidentiality.

The Auditor shall educate his employees, staff and other team members about the importance of the confidentiality

of the information available to them during the course of audit. The Auditor shall ensure that reasonable procedures have been followed to maintain the confidentiality of the information. The Auditor shall also take a duly signed Non Disclosure Agreement (NDA) from such personnel who may have access to such confidential information.

The Auditor shall also ensure that reasonable procedures and safeguards are being followed to prevent unauthorised access to such confidential information.

5. Changes in terms of engagement

5.1 The Auditor shall not agree to a change in the terms of the Audit Engagement where there is no reasonable justification for doing so.

5.2 If before completion of the assignment, the Auditor is requested by the Appointing Authority to change the scope of engagement, resulting in a lower level of assurance, the Auditor shall consider the appropriateness of carrying out the same.

5.3 If the terms of the Audit Engagement are changed, the Auditor and the Appointing Authority shall agree on the new terms of the engagement by way of a supplementary/revised engagement letter or any other suitable form in writing.

A request from the Appointing Authority to change the terms of Audit Engagement may result from a change in circumstances affecting the need for the service or a restriction on the scope of Audit Engagement, whether imposed by Management or caused by other circumstances. The Auditor shall consider the justification given for the request, particularly the implication of a restriction on the scope of the Audit Engagement.

A change in circumstances that affects the Auditee's

requirements may be considered a reasonable basis for requesting a change in the Audit Engagement.

A change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. For example, where the Auditor is unable to obtain sufficient appropriate audit evidence regarding labour law compliance by the company and the Appointing Authority asks for the Audit Engagement to be changed to a review engagement to avoid a modified opinion or a disclaimer of opinion.

With mutual consent the terms of the Audit Engagement may be changed. When such changes are there, the Auditor shall obtain the supplementary/revised engagement letter with a justification for the change and it shall be duly signed by the Appointing Authority. The impact of such change on the level of assurance shall be ascertained before accepting the same. If such change is likely to result in a lower level of assurance, then the Auditor may accept such change only if such change can adequately be covered by way of modified report.

However, the Auditor should take the following precautions while accepting the change:

1. The Auditor should not agree to a change in the terms of the Audit Engagement which restricts the scope of audit provided under any statutes.
2. If the term of the Audit Engagement is changed when it is expected that Auditor may have to issue a modified report, such type of changes should be resisted.
3. Any request to change to avoid or circumvent unfavorable Auditor's report is also unjustified and should not be accepted.

4. *If the terms of the Audit Engagement are changed before the completion of the audit, the Auditor should not disregard the evidences obtained prior to the change in scope of audit.*

Annexure A**Specimen Certificate of Eligibility as Secretarial Auditor**

Date: _____

To

The Board of Directors, Dear Sir,

Sub: Proposed Appointment as Secretarial Auditor

I/We thank you for your communication dated _____2019 seeking my/our consent to act as the Secretarial Auditor of your company for the financial year _____. I/We give my/our consent for being appointed as Secretarial Auditor of the company.

I/we hereby confirm that:

- 1) I am/we are eligible for appointment and not disqualified for appointment as per the Companies Secretaries Act, 1980 and rules and regulations made thereunder and ICSI Auditing Standards;
- 2) The proposed appointment is within the limits, if any laid down by ICSI ;
- 3) I/We do not have any substantial conflict of interest in terms of ICSI Auditing Standard on Audit Engagement (CSAS 1)
- 4) I/We do not have any conflict of interest in terms of ICSI Auditing Standard on Audit Engagement (CSAS 1)

Or

I/We do have conflict of interest other than substantial conflict of interest which are as below :

Thanking you,

Yours sincerely,

Annexure B**Specimen Audit Engagement Letter**

To,

ABC & Associates (name of Audit firm)

Company Secretaries (Address)

Dear Sir,

This engagement letter is provided in connection with (type of audit) of XYZ Ltd.

I. Scope of work

The scope of the Audit shall include.....
(For example, in case of Secretarial Audit , the scope of audit shall be as specified in Section 204 of the Companies Act, 2013)

II. Responsibilities of Auditor

The Auditor shall carry out the audit with utmost integrity in terms of this Audit Engagement Letter adhering to the highest level of ethics and standards. The Audit shall be conducted in accordance of the requirements of the _____ Act.

III. Duties of Auditee

Auditee acknowledges its responsibility for maintenance of Records and compliances under the applicable laws, acts, rules and regulations.

Auditee acknowledges its responsibility to provide the Auditor access to Records and documents of the Auditee, reports of third party and information as may be sought by the Auditor. The Auditee shall be responsible for the correctness and appropriateness of the Records, documents and information of the Auditee.

IV. Timeline

The Auditor shall submit the Audit Report for the F.Y. 20XX-XX within _____ days of the end of the financial year.

Auditor may also submit a quarterly/half-yearly review report in which the audit observations of the Auditor made during the quarter for timely redressal.

V. Commercial Terms

Audit fees for the F.Y. 20XX-XX is fixed at Rs. XXXXXXXX plus applicable taxes. Fees will be billed as the work progresses.

Out-of-pocket expenses by the Auditor shall be reimbursed on actual basis.

VI. Confidentiality

The Auditor shall not disclose the information obtained during the course of Audit without proper and specific authority or unless there is a legal obligation or duty to disclose.

VII. Indemnity

During and after the term of this Engagement, both Parties agree to protect, indemnify, defend and hold harmless other Party, and to extent required from time to time non defaulting party, its officers, agents, and employees, from and against any and all expenses, damages, claims, suits, losses, actions, judgments, liabilities, and costs whatsoever (including legal fees on a full indemnity basis) arising out of, connected with, or resulting from, defaulting Party's negligence, misrepresentation or the breach of any obligations to be performed by the other party and/or its representatives under this Engagement. In no event will either party's liability towards other party arising from the terms of this Engagement exceed the total sum of fees paid under this Engagement.

VIII. Any other term as may be agreed between the Auditor and the Auditee, if any

For XYZ Limited Date

Place

Director

Director

Guidance Note on Audit Process and Documentation

The Auditing Standard on Audit Process and Documentation (CSAS-2), formulated by Auditing Standards Board (ASB) of the Institute of Company Secretaries of India (ICSI) and issued by the Council of the ICSI, is effective from 1st July, 2019 on a recommendatory basis and shall be mandatory with effect from 1st April, 2020.

This Guidance Note sets out the explanations, procedures and practical aspects in respect of the provisions contained in CSAS-2 to facilitate compliance thereof by the Auditor.

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit under any statute. The Standard deals with responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper Audit documents.

The Auditor has the responsibility to plan and perform the audit to obtain reasonable assurance as to the compliances by the Auditee with the applicable laws or processes as may be covered under the scope of audit, based on the relevant records. The Audit process includes planning, execution and documentation.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 01st April, 2020.

Objective

The objective of the Standard is to prescribe principles for an Auditor:

- (i) to conduct audit as per the specified audit process;
- (ii) to maintain documentation that provide:
 - (a) sufficient and appropriate record to form the basis for the Auditor's Report; and
 - (b) evidence that the audit was planned and performed in accordance with the applicable Auditing Standards and statutory requirements.

The Auditor must plan and perform audit procedures to obtain sufficient and appropriate audit evidence to have a reasonable basis for Auditor's opinion.

Sufficiency is the measure of the quantity of audit evidence and depends on various factors including internal controls systems and risk involved. As the risk increases, the amount of evidence that the Auditor should obtain also increases. However, as the quality of the evidence increases, the need for additional corroborating evidence decreases. Increase in the quantum of poor quality of evidences cannot compensate for the requirement of sufficiency of evidence.

Appropriateness is the measure of the quality of audit evidence, i.e. its relevance and reliability. To be appropriate, audit evidence must be relevant and reliable in providing support for the conclusions on which the Auditor's opinion is based.

Definitions

For the purpose of Auditing Standards (CSAS) issued by the Institute of Company Secretaries of India ('ICSI'), the

40 GUIDANCE NOTE ON AUDIT PROCESS AND DOCUMENTATION

following terms shall have the meaning attributed as below, unless specified otherwise:

- (1) "Audit Documents" means the working papers prepared or records obtained by the Auditor in connection with the audit.

The audit documents may be in physical and/or electronic mode.

Working papers include the audit plan, letters of representation and/or confirmation, abstracts of Auditee's documents, records kept by the Auditor of the procedures applied, the tests performed, the information obtained, analyses and the conclusions reached in the process of audit.

- (2) "Audit Evidence" refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.

The audit evidence is fundamental and important part in the audit process. The auditors need audit evidence to form and conclude their audit opinion.

The sources of the audit evidence may be internal to the auditee or from external sources. These may include the company's record, data, disclosures in financial statements, company's website, website of various Govt. authorities like SEBI, Stock Exchange, etc.

- (3) "Management" as defined in CSAS-1.

1. Audit Planning

1.1 The Auditor shall make audit plan to conduct audit as per the terms of Audit Engagement.

Audit plan is very crucial and should be designed with due

care. *Audit plan addresses the specifics of what, where, who, when and how : Such as.*

- *What are the audit objectives?*
- *Where will the audit be done?*
- *Whether there will be audit visits to other locations of the company?*
- *When will the audit(s) occur? (how long?)*
- *Who constitute the audit team?*
- *How will the audit be done?*

The Auditor should prepare an audit plan, which shall include detailed layout for conducting audit procedures, timing, sample sizes, basis of selection of sample, etc.

The basic purpose of an audit plan is:

- *to develop an audit process which ensures that sufficient and appropriate evidence is gathered to support the audit opinion;*
- *the audit should be planned in a manner which ensures that the audit is carried out in an efficient and effective way in a timely manner;*
- *the audit plan should be documented and kept as audit working paper;*
- *the audit planning process should be framed on a thorough understanding of the Auditee, its business, sector in which it functions and its operation;*
- *to determine the materiality for the audit.*

1.2 Audit planning means establishing and developing an overall audit process, including but not limited to:

- a. Identification of broad audit areas;

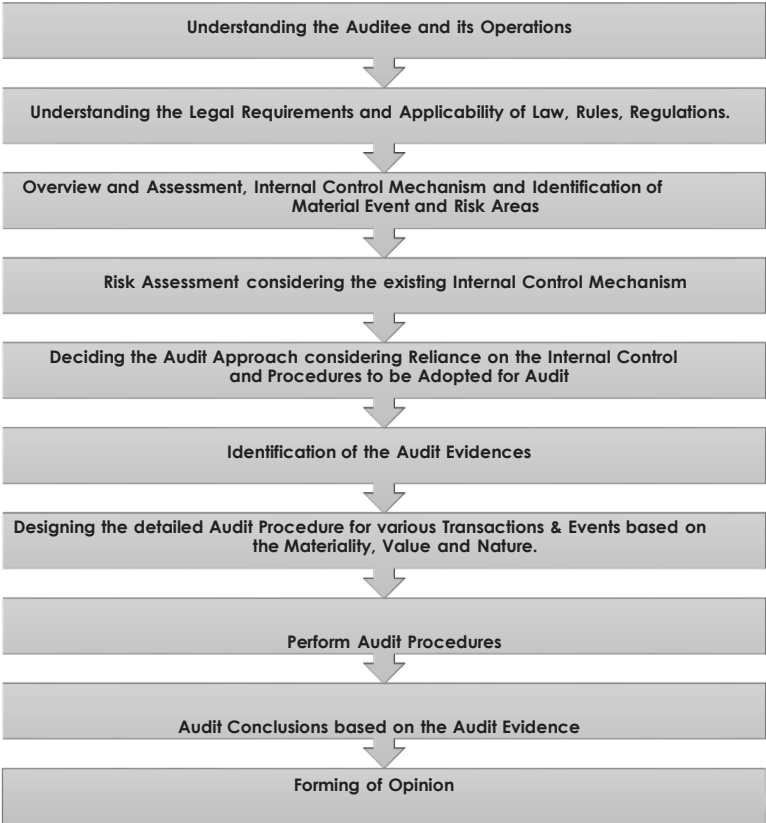
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- b. Seeking previous audit findings and observations from the Management and the Predecessor or Previous Auditor, in case of change of Auditor;
- c. Determination of subject matters and audit areas requiring special attention, when considered necessary;
- d. Risk Assessment and Materiality;
- e. Audit technique;
- f. Allocation of audit resources for the audit; and
- g. Preparation of audit schedule.

Audit planning involves establishing the overall audit strategy for the engagement and development of audit plan. Adequate Audit planning benefits the Auditor in several ways, which includes the following:

- *identification of audit area requiring special attention;*
- *identification and timely resolution of potential challenges;*
- *organising and managing the audit process to perform audit in an effective and efficient manner;*
- *selection of audit team with appropriate levels of capabilities and competence to respond to anticipated challenges and allocating responsibilities;*
- *direction and supervision of audit team and the review of their work, and*
- *coordination of work done by third party and specialists.*

The overall audit process can be depicted as under:



The audit approach may be a reliance or systems-based approach where the preliminary assessment has shown that controls are robust and proper procedures have been followed; or a substantive approach where the preliminary assessment shows controls to be poor, or where testing shows that the controls have not operated continuously and effectively during the period being audited, or where controls (even if deemed to be good or excellent) are not tested (whether due to lack of resources, expertise, etc.)

Materiality, together with the Auditor's assessment of

inherent risks and the Auditor's preliminary assessment of internal controls, provide the basis for the appropriate audit approach. The combined assessment of inherent risk and evaluation of internal control helps to determine the nature and extent of the audit procedures to be designed and performed.

1.3 The audit shall be planned in a manner which ensures that qualitative audit is carried out in an efficient, effective and timely manner. Audit planning shall ensure that appropriate attention is accorded to crucial areas of audit and significant issues are identified in a timely manner.

Benefits of Audit Plan

- *It helps the Auditor obtain sufficient and appropriate evidence for the circumstances.*
- *It helps to keep audit costs at a reasonable level.*
- *It helps to avoid misunderstandings with the Auditee.*
- *It helps to ensure that potential problems are promptly identified.*
- *It helps to carry out the audit work smoothly and in a well defined manner.*

However, the audit plan should not be followed rigidly and it should be changed according to the circumstances to effectively conduct the audit.

Developing the Audit Plan

The Auditor establishes the overall audit strategy, which sets out the scope, timing and direction of the audit and guides the development of the more detailed audit plan which should include the following:

Introduction – *a short introduction about the audit;*

Audit field – A description of the audit field, including the regulatory framework for the audit where relevant and recent significant changes and developments that may affect the audit;

Audit objectives – The audit objectives depend on the type of audit to be conducted;

Audit coverage – The audit coverage periods to be covered and locations to be visited; control systems to be tested and sample to be audited;

Materiality – Identification of materiality in terms of value, nature and context;

Risks – A preliminary assessment of risks (e.g. changes in the regulatory environment or internal control systems and evaluation of inherent and control risk);

Audit approach – The audit approach, including the audit procedures to be carried out in order to provide the necessary audit evidence. This identifies the extent of planned reliance on control systems and the extent of substantive procedures;

Organisation – Organisation of audit work: resources (including recourse to the work of other Auditor and experts), timetable (including the reporting objectives of the audit), documentation in electronic audit support system.

1.4 The Auditor shall plan the audit with professional scepticism so that it is possible to exercise professional judgment in an objective manner.

It is the duty of the Auditor to maintain professional scepticism throughout the audit. A belief that Auditee and those charged with governance are honest and have integrity does not relieve the Auditor of the need to maintain professional scepticism or allow the Auditor to

be satisfied with less than persuasive audit evidence when obtaining reasonable assurance. He should observe things closely and take on record anything which is contradictory or contravenes the provisions contained in the law under which the audit is being carried out.

While making risk assessment an Auditor should be sceptical and should not completely rely on Management's explanations at face value, but should obtain corroboratory evidence for the explanations offered. While obtaining audit evidence the professional scepticism requires an Auditor to challenge Management, especially on complex and subjective matters and matters where a degree of judgement has been exercised by Management. There may also be specific issues arising during an audit which impacts on professional scepticism. For example, if management refuses the Auditor's request to obtain evidence from a third party. The Auditor will have to consider how much trust can be placed on evidence obtained from management – for example, evidence in the form of enquiry with management or written representations obtained from management.

Similarly, while evaluating audit evidences, the Auditor should critically assess audit evidence and be alert for contradictory evidence that may undermine the sufficiency and appropriateness of evidence obtained. The Auditor should also apply professional scepticism when forming the opinion, by considering the overall sufficiency of evidence to support the audit opinion, and by evaluating whether the records as a whole are a fair presentation of underlying transactions and events.

The application of professional scepticism enhances the effectiveness of applied audit procedures and reduces the risk and possibility that the Auditor will reach an inappropriate conclusion when evaluating the results of audit procedures.

1.5 The Auditor shall adhere to the audit plan. The audit plan may be modified, if circumstances so warrant.

The audit plan should be documented in audit file, including significant changes made during the course of the audit and the reasons for such changes. The audit plan should be updated and modified as may be necessary during the course of the audit, whether due to unexpected events, changes in conditions or audit evidence obtained. This may have an impact on the planned nature, extent and timing of planned audit procedures.

Updation of audit plan may be carried out in the circumstances such as change in business plan, changes in the regulatory environment, changes in management, etc.

2. Risk Assessment

2.1 Risk assessment of the Auditee with respect to and connected/relevant to the Audit Engagement shall be done considering industrial & business environment, organisational structure and compliance requirements.

The industrial & business environment includes the regulatory changes & judicial orders, compliance and disclosure requirements, etc.

2.2 The Auditor shall evaluate high risk areas and activities of the Auditee relating to:

- a. Internal control systems and processes of the Auditee for adherence to the constitutional documents, applicable laws, act, rules, regulations and standards;
- b. Transparency, prudence and probity; and
- c. Changes or Attrition in the compliance team and frequency of such changes and attrition.

The Auditor shall endeavor to make assessment of risk and

shall identify critical and high risk areas; the risk assessment by Auditor can be made:

- *by considering the underlying risk assessed by Management or internal and/or specific expert/agencies and analysis thereof;*
- *by reviewing policies and procedures put in place to mitigate risk;*
- *by having insight into the objectives, key performance indicators, risks and control measures, holding meetings with key executives of the Auditee.*

3. Information about the Auditee

The Auditor shall obtain sufficient information about the Auditee that is relevant for conduct of audit and forming an opinion and its expression.

It should inter-alia cover the following details:

- *Nature of the business of the Auditee;*
- *Sector in which the Auditee operates and how Government / Regulatory policies have evolved specific to such sector;*
- *Size of the business of the Auditee including geographical locations;*
- *Organisation structures including Directors and KMPs;*
- *Corporate structure, associates, joint ventures, subsidiaries;*
- *Laws applicable to business of the Auditee;*
- *Registrations and permissions obtained;*
- *Court & regulatory orders enforced;*
- *Media Reports.*

4. Audit Check-lists

The Auditor shall use systematic and comprehensive audit checklists for carrying out the audit and to verify the compliance requirements.

The Auditor shall compile and validate the checklists for use in the audit process on the basis of information gathered about the Auditee and scope of the audit. It is a useful tool to ensure that no compliance point is missed or omitted while conducting audit. The Audit checklist should provide structure and continuity to an audit. Checklists provide a means of communication and a place to record data for use for future reference.

Ideally checklists should:

- promote overall planning and timelines of the audit;*
- ensure comprehensive, consistent and focussed audit approach;*
- avoid duplication of data verification and information;*
- ensure that audit scope is being followed;*
- serve as a memory aid and provide a repository for notes collected during the audit process.*

Audit checklists should be developed to provide assistance to the audit process and should be reviewed and updated from time to time to meet the scope of audit and its effectiveness. Audit team should be trained in the use of a particular checklist and be shown how to use it to obtain optimal information.

5. Collection and Verification of Audit Evidence

5.1 The Auditor shall verify compliance with applicable laws, act, rules, regulations and standards. Deviation, if any, shall be recorded.

The Auditor shall satisfy himself about compliance of the Auditee with the applicable laws, rules and regulations. If any deviation is observed, then the appropriate noting of the same shall be made.

5.2 The Auditor shall obtain complete, relevant and necessary evidence to support the opinion.

Audit evidence is obtained using a variety of techniques such as the following:

Documents/Records Scrutiny

This is predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents e.g. board resolutions, agenda and minutes, notices, registers, records, procedure manuals, reports, etc.

In auditing, it is often not possible, due to limited resources, to check every document or record. The Auditor, wherever necessary, may choose to sample a statistical representative number of documented results, such as monitoring big data or incident reports. An appropriate sampling method will manage any uncertainty to an acceptable level.

Testing, Interviews and Analysis

The Auditor should determine whether the controls identified during the preliminary review are operating properly and in manner described by the Auditee. Fieldwork typically consists of interviewing the staff of the Auditee whether formally or informally, reviewing procedure manuals and processes, testing and analyzing compliance with applicable policies and procedures and laws, rules, regulations and assessing the adequacy of controls. This exercise may result in significant findings, which the Auditor should consider while preparing the audit report.

Questionnaires

This involves seeking information from relevant persons within the Auditee through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.

Third Party Confirmation

Third party confirmation is a type of inquiry and involves obtaining, independently of the Auditee, a reply from a third party with regard to some particular information – for example Registrar and Transfer Agents or other third party agencies.

Analytical Procedures

Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent in various records.

5.3 The process of gathering and evaluating evidence shall continue until the Auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for formation of the Audit Opinion.

Audit evidence collected through above mentioned audit procedures is to be evaluated against the relevant, already identified criteria. This involves consideration of evidence collected vis-a-vis the subject matter information, as well as the written responses obtained from responsible officers of the Auditee under the scope of audit.

6. Third Party Confirmation

The Auditor shall obtain confirmations from third party(ies), wherever required, with respect to information which is related to such party(ies).

During the course of audit, if circumstances warrant, the

Auditor shall obtain the information from the third parties. In such cases, a written request should be made to obtain the information.

An external confirmation is audit evidence obtained as a direct written response to the Auditor from a third party in paper form, or through electronic or other medium. Requesting external confirmations is a commonly used audit procedure in an audit. It can be useful in obtaining audit evidence about significant transactions outside the normal course of business, and related party transactions.

Circumstances may exist where it may be difficult to obtain responses to external confirmation requests. The auditor should plan alternative or additional procedures.

7. Analysis of Audit Evidence

7.1 The Auditor shall evaluate the Audit Evidence to arrive at the conclusion.

The Auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any. Further, the Auditor has to obtain competent, relevant and reasonable evidence to support his judgment as well as conclusions relating to the audit.

The evidence gathering and evaluation is a simultaneous, systematic and an interactive process and involves:

- *Gathering evidence by performing appropriate audit procedures;*
- *Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality);*
- *Re-assessing risk and gathering further evidence as necessary.*

The evidence gathering and evaluation process should

continue until the Auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the Auditor's conclusion.

Audit evidence should be evaluated against the identified criteria. This involves consideration of evidence collected vis-à-vis the subject matter information as well as the written responses obtained from responsible officers of the Auditee. Auditor should check that the audit evidence is relevant and reliable.

7.2 While evaluating evidence, if the Auditor finds that Audit Evidence is conflicting, the Auditor shall assess the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

After evaluating the evidence and considering its materiality, the Auditor should decide how best to conclude in the light of the evidence collected, which would be the supporting key documents and arrive at audit conclusions. While evaluating evidence, Auditor can find that audit evidence is conflicting i.e. while some evidence supports the subject matter information other evidences seem to contradict it. In such circumstances, the Auditor needs to assess the extent and credibility of conflicting evidence, undertake alternate audit procedure to corroborate the evidences in hand for forming an appropriate opinion.

8. Documentation

8.1 The Auditor shall adequately document the Audit Evidence in working papers, including the basis and extent of planning, work performed and the findings of audit.

Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with scope of audit.

54 GUIDANCE NOTE ON AUDIT PROCESS AND DOCUMENTATION

The Audit documentation is important for several reasons including:

- *Confirm and support the Auditor's opinion and reports;*
- *Increase the efficiency and effectiveness of the audit;*
- *Serve as a source of information for preparing reports and or answering any enquiries from the Auditee or from any other party;*
- *Serve as evidence of the Auditor's compliance with applicable standards;*
- *Facilitate planning and supervision;*
- *Help the Auditor's professional development;*
- *Help to ensure that delegated work has been satisfactorily performed;*
- *Provide evidence of work done for future reference;*
- *The user of the audit report rely upon the audit report with proper documentation*
- *It confirms that the Auditor's report is in conformity with the applicable laws, rules, regulations and standards, etc.*

8.2 The Audit Documents shall contain sufficient information to enable an Auditor, having no previous connection with the audit, to ascertain from such documents the significant findings and conclusions of the Auditor.

Audit documents should be comprehensive, understandable with ease and contain all the significant information related to the scope covered under the audit.

8.3 Audit Documentation shall take place throughout the audit process. Working papers shall be complete and appropriately detailed to provide a clear trail of the audit.

Audit Documents shall be properly indexed, referenced with and supplemented by the set of working papers.

Some of the broad characteristics of Audit Documentation are set out below :

- *Completeness and accuracy: Provide support to audit conclusions.*
- *Clarity and conciseness: Facilitates understanding the entire audit process without need for any supplementary examination.*
- *Legibility and neatness: Applies particularly to photocopies.*
- *Relevance: Working papers should be restricted to matters, which are important, pertinent and useful for the intended purpose.*
- *Ease of reference: Working papers may be organised in volumes in a manner that facilitates easy reference. An omnibus, easy to follow, index may be created for all the volumes with a proper narration to broadly explain their contents. Each of the volumes may further be internally indexed.*
- *Ease of review: Working papers should contain cross references to audit plan, discussion papers, audit observations, field audit report and the compliance audit report, as the case may be, to enable Auditor to link the working papers to audit findings and conclusions.*
- *Complete audit trail of analysis: Working papers should provide a complete trail of the audit procedures performed, evidence that were gathered and evaluated, audit findings and conclusions that were drawn.*

Audit documentation may be divided into two categories:

Static and Current

Static audit documentation includes:

- ✓ *Auditor appointment letter;*
- ✓ *Record of communication with the previous Auditor and his resignation letter;*
- ✓ *Information pertaining to the legal aspects of the Auditee;*
- ✓ *Constitutional Documents - MOA, AOA, LLP Agreement, JV Agreement, Share Purchase Agreement etc.;*
- ✓ *Complete details of the management (list of directors, partners etc.);*
- ✓ *Copies of audited financial statements of the previous years;*
- ✓ *Details of holding, subsidiary, associate companies and joint ventures.*

Current audit documentation should cover:

- ✓ *Evidence that the work performed was supervised and reviewed;*
- ✓ *Audit review points and highlights;*
- ✓ *Major weakness in the internal control systems, if any;*
- ✓ *Confirmations, if sought, received from the Auditee*
- ✓ *Communication with the third parties*
- ✓ *Evidence of the audit planning process*

8.4 The Auditor shall also document discussions with the Management with respect to significant matters in respect of which written record is not available.

Relevant discussions with the Management should be recorded and documented. The Confirmations, if sought, received from the Auditee should be taken on record. Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with the scope of the audit. The Auditor should adequately document the audit evidence, including the basis and extent of planning, work performed and the findings of audit.

9. Record Keeping and Retention

9.1 The Auditor shall establish policies and procedures for retention of Audit Documents.

A well established policies and procedures should be in place for the documentation. Audit Documentation is essential for the following purposes:

- 1. To comply with legal duties and requirements, either statutory or regulatory;*
- 2. To avoid liability, the improper destruction or alteration of documents in a litigation situation;*
- 3. To support or oppose a position in an investigation or litigation;*
- 4. To protect from unnecessary expense and time during discovery;*
- 5. To maintain control over discovery and e-discovery; and*
- 6. To keep documents confidential and avoid leakage to attackers or competitors.*

9.2 The Audit Documents shall be collated for records within a period of 45 days from the date of signing of Auditor's Report.

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The documents should be maintained in a manner which is safe, secure and retrievable as and when required.

9.3 The Audit Documents shall be maintained in physical or electronic form and retained for a period of 8 years from the date of signing of Auditor's Report.

Guidance Note on Forming of Opinion

The Auditing Standard on Forming of opinion (CSAS-3), formulated by Auditing Standards Board (ASB) of the Institute of Company Secretaries of India (ICSI) and issued by the Council of the ICSI, is effective from 1st July, 2019 on a recommendatory basis and shall be mandatory with effect from 1st April, 2020.

This Guidance Note sets out the explanations, procedures and practical aspects in respect of the provisions contained in CSAS-3 to facilitate compliance thereof by the stakeholders.

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit under any statute. The Standard deals with basis and manner for forming Auditor's opinion on subject matter of the audit.

This standard aims to promote consistency in opinion forming and reporting thereof to enable users of the report to identify the audit findings.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 01st April, 2020.

Objective

The objective of the Standard is to enable the Auditor to lay

down the basis and manner for evaluation of the conclusions drawn from the Audit Evidence obtained and express the opinion through written report.

The objective is to standardise the process of analysis and evaluation of audit conclusions made during the audit process to form an opinion and express it in writing. The Standard lays down the principles that need to be applied while forming an opinion and expression thereof.

The evaluation under CSAS-2 refers to the evaluation of Audit Evidence to reach a conclusion, whereas this Standard deals with evaluation of conclusion(s) reached during audit process. This Standard also deals with the manner in which the opinion formed by the Auditor will be expressed in writing and circumstances and manner to disclaim the opinion and the reporting format.

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India ('ICSI'), the following terms shall have the meaning attributed as below, unless specified otherwise:

- (1) "Audit Evidence" as defined in CSAS-2.
- (2) "Misstatement" means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact.

Misstatement means when any written statement is found to be false, incorrect, incomplete, misleading, or which misrepresents or omits or suppresses any material fact from the given meaning of the stated sentence or paragraph or otherwise from the whole document, which in turn fails to portray a clear, true and fair meaning of the titled subject and ultimately

purpose of the given statement is not attained or understood in its correct sense.

Causes of misstatement may include :

- (a) an inaccuracy in gathering or processing data or information;*
- (b) an omission of a disclosure;*
- (c) an incorrect or clear misinterpretation of the facts; or*
- (d) Management's judgments that the Auditor considers unreasonable,*

For Example:

- 1. XYZ an Auditee company has stated in its Annual Report that company has complied with all regulations of SEBI during the Financial Years whereas the material non-compliances were not reported which impacts the Goodwill of the company , which can mislead the investors.*
 - 2. Company undertook a material related party transactions but it is not disclosed in the company's Annual Report.*
- (3) "Materiality" is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact.

The concept of Materiality is applied by the Auditor both in planning and performing the audit, and forming the opinion.

Materiality consists of both quantitative and qualitative

factors. Determining Materiality is a matter of professional judgment and depends on the Auditor's interpretation of the user's needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users.

Materiality is a relative concept. In practice, Auditors evaluate materiality on a standalone basis. What is material for one Auditee may not reach the Materiality threshold for another. Materiality is a matter of professional judgment of the Auditor and its teams' experience.

As mentioned above, Materiality is important while conducting the audit process and also while forming the audit opinion based upon the evaluation of conclusions drawn on the basis of the audit process. The parameters for application of Materiality could be different in forming of audit opinion when compared to application of Materiality while evaluating the Audit Evidences in accordance with CSAS-2. While CSAS-2 deals with collection and evaluation of Audit Evidence to draw conclusions, CSAS-3 deals with evaluation of such conclusions to form the opinion.

(4) "Records" include:

- (i) Memorandum and Articles of Association, by-laws or any other constitutional documents;
- (ii) Minutes, returns, forms, index and Registers;
- (iii) Books and papers include books of accounts, deeds, vouchers;
- (iv) Agreements, Memorandum of Understanding;
- (v) Other documents maintained by the Auditee either in physical or electronic form; and

(vi) Correspondence.

Generally the Records means the Records for the audit period, however if an opinion forming warrants the review of prior period Records, the same may also be considered as Records.

Generally the Records means the Records of an Auditee, however if an opinion forming warrants the Records of regulators, authorities and third parties may also be considered as Records.

- (5) "Third Party" means any person who does not have a direct connection with the audit but whose inputs or opinion might influence the audit conclusion and includes an expert.

Third party may include any person who has given inputs and opinion of the expert relevant for forming an opinion.

1. Process for forming of Opinion

Process for forming of Opinion

Forming of opinion based on the audit observations is an important part of any audit, as through this process the outcome of audit are presented in the form of Audit Report to the intended users. Audit inter alia involves reporting compliance of or deviations from the applicable laws.

1.1 The Auditor shall consider Materiality while forming his opinion and adhere to:

- a. The **principle of completeness** that requires the Auditor to consider all relevant Audit Evidence before issuing a report;

It requires that the Auditor should gather sufficient and appropriate Audit Evidences to provide the basis for the conclusion or opinion. An Auditor may collect

evidences regarding accuracy, completeness and validity of data. Through compliance procedure, Auditor may collect evidences regarding internal control system as used in the Auditee's organisation.

Auditor should not be selective in using the available evidence before forming opinion. Auditor cannot use the evidence that supports his surmises and discard other evidence. Auditor should use all the available evidence available to him, and only discard the contradictory information, if any, after applying principle of contradiction process.

- b. The **principle of objectivity** that requires the Auditor to apply professional judgment and skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;

The Auditor must remain objective throughout the whole process, such that his integrity must not allow any malpractice in the audit process. Objectivity is essential for any professional person exercising professional judgment. Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other. It is sometimes described as 'independence of mind'.

The need for objectivity is particularly evident in the case of the Auditor for carrying out an audit or some other reporting roles where their professional opinions can affect rights between parties and the decisions they take.

Professional skepticism is considered as corner stone of good auditing. Professional skepticism requires an Auditor to have an enquiring mind. Whatever

documents and information are produced before the Auditor by Management/Auditee should not be relied on the face of it. An Auditor should see to it that documents and information are reasonable, appropriate, in consonance with attending circumstances and knowledge of the Auditor from other sources as well. Auditor must obtain sufficient evidence from Auditee to support what Auditee says.

Threats to objectivity

Threats to objectivity can arise in a number of ways, some general in nature and some related to the specific circumstances of an assignment or role. Auditor should identify the threats and consider them in the light of the environment in which he is working; he should also take into account the safeguards which assist them to withstand threats and risks to their objectivity.

The easiest way of avoiding such threats would be for Auditor to decline to act in any circumstances where the slightest threat to objectivity might exist.

Threats to objectivity might include the following:

Self-interest threat – A threat to the Auditor's objectivity stemming from a financial or other self-interest conflict. This could arise, for example, from a direct or indirect interest in Auditee or from a fear of losing an audit work.

Self-review threat – The apparent difficulty of maintaining objectivity and conducting what is effectively a self-review, if any product or judgment of a previous audit assignment or a non-audit assignment needs to be challenged or re-evaluated in reaching audit conclusions.

Advocacy threat – There is an apparent threat to the Auditor's objectivity, if he becomes an advocate for (or against) the Auditee's position in any adversarial proceedings or situations. Whenever the Auditor takes a strongly proactive stance on the Auditee's behalf, this may appear to be incompatible with the special objectivity that audit requires.

Familiarity or trust threat – A threat that the Auditor may become over-influenced by the personality and qualities of the directors and Management, and consequently too sympathetic to their interest. Alternatively, the Auditor may become too trusting of Management representations so as to be inadequately rigorous in his testing of them – because he knows the Auditee too well or the issue too well or for some similar reason.

Intimidation threat – The possibility that the Auditor may become intimidated by threat, by dominating personality, or by other pressures, actual or feared, by a director or manager or by some other party.

Each of the above threats may arise either in relation to the Auditor's own person or in relation to a connected person such as a member of his family or a partner or a person who is close to him for some other reason, such as past or present association or obligation or indebtedness.

Auditors should always consider the use of safeguards and procedures which may negate or reduce threats.

An exhaustive list of countervailing factors is not possible, but Auditors should strive to develop the following characteristics in their audit firms, wherever possible to provide safeguards against these threats :

- *Auditors should behave with integrity in all their professional and business relationships and to strive for objectivity in all professional and business judgments. These factors rank highly in the qualities that Auditors have to demonstrate the same. They should therefore be well used to setting personal views and inclinations aside.*
 - *Within every audit firm there should be strong peer pressure towards integrity. Reliance on one another's integrity should be the essential force which permits partners to entrust their public reputation and personal liability to each other.*
 - *Audit Firms of all sizes should establish strong internal procedures and controls over the work of individual Auditors, so that difficult and sensitive judgments are reinforced by the collective views of other Auditors, thereby also reducing the possibility of litigation.*
- c. The **principle of timeliness** that implies preparing the report in due time;

Auditor must adhere to timeline agreed at the time of engagement for issuing the report and milestones to be achieved, if any. Deviations, if any, from agreed timeline must be recorded with reason for such deviation.

- d. The **principle of a contradictory process** that implies checking the accuracy of facts and incorporating responses from concerned persons.

When two contradictory facts emerge on same subject matter of audit, Auditor must strive to find additional evidence/material which supports or negates one of the facts. This process of finding

additional evidence/material must continue till one of the facts is eliminated. In case Auditor is unable to find further evidence/material and contradiction continues to persist, Auditor should bring out that fact clearly in his report and if circumstances warrants, disclaim opinion on that particular subject matter.

The Principle of contradictory process also implies checking the accuracy of facts with the Auditee and incorporating responses from responsible officials as appropriate. The Auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions. Thus, during the conduct of an audit, the Auditor should consider all relevant evidential matter even though it might contradict or be inconsistent with other conclusions. Audit documentation must contain information or data relating to significant findings or issues that are inconsistent with the Auditor's final conclusions on the relevant matter.

After completing the audit procedures the Auditor reviews the Audit Evidence in order to draw a conclusion, issue an opinion or describe the findings. The Auditor should evaluate whether the evidence obtained is sufficient and appropriate so as to reduce audit risk to an acceptably low level. The evaluation includes considerations of evidence that both supports and seems to contradict the audit report, conclusion or opinion on compliance/non-compliance. The evaluation further includes considerations of Materiality. After evaluating the sufficiency and appropriateness of evidence to determine the assurance level of the audit, the Auditor should consider which conclusion is appropriate in light of the evidence obtained. After evaluation, Auditors

need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict in such situations, Auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

Audit conclusion should clearly bring out the nature and extent of non-compliance, cause of such non-compliance, its Materiality and also the effect of non-compliance, if possible. The audit conclusions in case of regularity issues should also indicate whether non-compliance is a solitary one-off case, or wide spread systemic issue in the Auditee.

1.2 Judgment, Clarification and Conflicting Interpretation

The Auditor may consider various judgments, clarifications and opinion, conflicting interpretations while framing the opinion to the best of his professional acumen.

While forming an Audit opinion the Auditor may consider or refer the decided case laws or judgments, clarifications issued, opinions formed in similar type of audits while framing the final audit opinion.

Judgments

*For example, while interpreting the issue of loans given by the Auditee company in terms of Section 185, the Auditor may refer to the decided case laws in this respect, e.g in Dr. Fredie Ardeshir Mehta v. Union of India, the terms “**indirectly**” and “**loans**”, has been explained as below :*

- *The word “**indirectly**” means providing loan through agencies or any other medium but does not include converting anything which does not qualify to be loan or loan represented by book debt or security or*

guarantee into loan, any loan represented by book debt or guarantee or security.

- The word **“Loan”** was defined by the court as 'a thing lent; something the use of which is allowed for a time, on the understanding that it shall be returned or an equivalent given; esp., a sum of money lent on these conditions and usually with interest'. The essential requirement of a loan is the advance of money (or of some article) upon the understanding that it shall be returned, and it may or may not carry interest.
- The phrase **“any loan represented by book debt”** is inserted in order to plug the loophole used in the case of “Dr. Freddie Ardeshir Mehta v. Union of India” where court took the view that book debt can't be treated as loan and since the earlier Section 295 of Companies Act, 1956 does not explicitly include the phrase “any loan represented by book debt” hence any kind of credit facility extended by company to directors will not cover under the “Loan to director”.

Therefore, while auditing, the Auditor may refer to the interpreted words given in court judgments so as to interpret the meaning of the legal terms correctly and in their true sense and can frame the opinion accordingly and accurately.

Clarifications in respect of forming the audit opinion implies that in case the true or clear sense of law cannot be interpreted by the Auditor or if it was so interpreted, then contradictory interpretations amongst various Auditors or professionals seem to exist; in such a case Auditor may refer to the clarifications issued by various authorities e.g. Ministry of Corporate Affairs, Institute of Company Secretaries of India, CBDT, or any other Govt. body etc., to frame a reliable and accurate opinion.

Opinions formed by other Auditors, in similar types of Audits may also be referred by the Auditor to form a judgment and frame its opinion. Similar type of Audit may also depend on nature of business, transactions occurred and operation of scale of Auditee, etc.

Conflicting Interpretations may be sorted out by again referring to the decided judgments, clarifications issued by the Govt. Authorities, Regulators, etc.

2. Precedence and Practices

The Auditor shall adhere to generally accepted precedence and practices in relation to forming of an opinion as may be available from historical perspective of any kind of audit.

Precedence and Practice in context of Auditing implies that Auditor shall evaluate on the basis of general or ongoing practices or procedures that whether the Records maintained, statements prepared in all material respects, in accordance with the requirements of the applicable laws, rules and regulations. This evaluation shall include consideration of the qualitative aspects of the Auditee's compliance practices, including indicators of possible bias in Management's judgments.

The Practices and precedence used by Auditor for forming the Audit opinion may be as per the historical perspective i.e., methods used hitherto or generally used methods or practices or procedures be implemented for framing the opinion. Like, one of the method involves selecting a sample size of total work and activities of a firm for conducting the audit process, which simultaneously depends upon the firm's size, operation of work and no. of branches, etc., or another practice includes having an unbiased approach while conducting the audit process in order to frame the honest and unbiased opinion.

3. Third Party Report or Opinion

Sometimes due to circumstances like geographical constraints or want of expertise on any specific subject matter an Auditor may be required to rely on the Third Party reports. The Third Party reports may be arranged by the Auditee or Auditor directly. Third Party Report or Opinion is used as one of the external source of obtaining the Audit Evidences that would help in building the strong and quality Audit Opinion.

The Auditor shall adhere to the following while forming an opinion based on Third party reports or opinions:

- a. The Auditor shall indicate the fact of use of Third party report or opinion and shall also record the circumstances necessitating the use of Third party report or opinion;
- b. The Auditor shall indicate the fact if Third party report or opinion is provided by the Auditee;
- c. The Auditor shall consider the important findings/ observation of Third party;
- d. The Auditor shall, if necessary and feasible, carry out a supplemental test to check veracity of the Third party report or opinion.

While using the work of Third Party, the Auditor should:

- *Consider the independence and objectivity of the Third Party;*
- *Take account of the Third Party's professional competence for the specific audit;*
- *Consider the scope of the Third Party's work;*
- *Determine the cost-effectiveness of using such work;*

- *Perform procedures to obtain sufficient appropriate Audit Evidence that the work of the Third Party is adequate in the context of the specific audit (which may require access to the Third Party's working papers); and*
- *Consider the significant findings of the other Auditor when analysing and interpreting the results of that work. Where these findings are significant to the opinion, Auditor should discuss these findings with the Third Party and consider whether it is necessary to carry out additional audit testing him.*
- *When using the work of Third Party, Auditor should carefully consider that, the Third Party may only recognise a duty of care to the addressee of the audit report.*

4. Form of an Opinion

4.1 Unmodified Opinion

The Auditor shall express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- a. *there is due compliance with the applicable laws in terms of timelines and process; and*
- b. *the Records as relevant for the audit verified by him as a whole are free from Misstatement and maintained in accordance with applicable laws.*

An unmodified opinion is an audit report that has been issued with no reservations or qualifications regarding the state of compliances of all the applicable laws, rules and regulations of the Auditee's business activities, documents, or statements etc. In this opinion, the Auditor follows a standard opinion format to state that all the statements, documents or other business procedures are a fair representation of the

condition of the Auditee's business, and in accordance with the applicable Laws.

In order to form unmodified opinion, Auditor shall conclude as to whether he has obtained reasonable assurance about whether the documents, books or statements as a whole are free from material misstatement, whether due to fraud or error.

An unmodified opinion is formed when based on all the Audit Evidences the Auditor states that there is due compliance of all the applicable laws, or any other law for the time being in force, or any rule or regulation in terms of timelines and process.

Compliance in terms of timelines: *Compliance in terms of timelines implies that when the adherence of the applicable laws, act, rules or regulations are made within the specified time limits as provided in the law for the particular task or completing any business procedure etc.*

For Example: As per law the due date of filing the Annual returns, say, MGT-7 of the company with Registrar of Companies is given as sixty days from the date of Annual General Meeting of the company and company has also filed the said return within the prescribed limit of 60 days, that means company has adhered to the applicable laws properly and within the given timelines.

Compliance in terms of process: *Compliance in terms of process means that, when the business activities, say documentation, or any other transaction has been made, complying with the applicable laws and as per the procedure or process given for performing that activity/procedure or transaction etc.,. The process of doing or performing the task as per the given procedure in the applicable laws is known to be compliances made in "in terms of process".*

Example: If a company is required to shift its registered office from one place to another within same state and RoC, then a whole set of procedures given in Companies Act, 2013 is required to be followed e.g conducting a Board Meeting for approval of shifting of Registered office, intimation to Registrar of Companies in Form INC-22 along with various documents as attachment within 15 days of passing the Board Resolution.

4.2 Modified Opinion

4.2.1 The Auditor shall express modified opinion when the Auditor concludes that:

- (a) based on the Audit Evidence obtained, there is non-compliance with the applicable laws in terms of timelines or process; or
- (b) based on the Audit Evidence obtained, the Records as a whole are not free from misstatement; or are not maintained in accordance with applicable laws; or
- (c) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that there is due compliance with the applicable laws in terms of timelines and process; or
- (d) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that the Records as a whole are free from misstatement; or are maintained in accordance with applicable laws.

4.2.2 Whenever the Auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

When the Auditor expresses a modified opinion, the Auditor

shall state in opinion paragraph that, in Auditor's opinion, because of the significance of the matter(s) described in the basis for modified opinion paragraph and then continue with the opinion and describe reasons in the basis for modified opinion paragraph.

When the Auditor disclaims an opinion, he shall state in the opinion paragraph that the opinion is disclaimed because of the matter(s) described in the basis for disclaimer of opinion paragraph and then continue with the opinion and describe reasons in the basis for disclaimer of opinion paragraph.

4.3 Limitation

- 4.3.1** If, after accepting the Audit Engagement, the Appointing Authority imposes a limitation on the scope of the audit which, in the opinion of the Auditor, is likely to result in the need to express a modified opinion or to disclaim an opinion, the Auditor shall request the Appointing Authority to remove the limitation.
- 4.3.2** If the Appointing Authority refuses or fails to remove the limitation, the Auditor shall communicate the matter to the Management and determine whether it is possible to perform alternative procedure to obtain sufficient and appropriate Audit Evidence.
- 4.3.3** If the Auditor is unable to obtain sufficient and appropriate Audit Evidence, the Auditor shall determine the implications as follows:
- a. If the Auditor concludes that the possible effects of unavailable Audit Evidence could be non-material, the Auditor shall modify the opinion; or
 - b. If the Auditor concludes that the possible effects of unavailable Audit Evidence could be material, the Auditor shall express disclaimer of opinion.

Limitation on the scope of audit means when the Auditor appointed for performing the Audit will not be able to obtain appropriate or complete Audit Evidences due to the restrictions or limitations imposed on the process of Audit which ultimately affects the Auditor's opinion.

The Auditor's inability to obtain sufficient and appropriate Audit Evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the Auditee;*
- (b) Circumstances relating to the nature or timing of the Auditor's work;*
- (c) Limitations imposed by Management.*

An inability to perform a specific procedure does not constitute a scope limitation if the Auditor can obtain sufficient appropriate Audit Evidence by performing alternative procedures. Limitations imposed by Management may have other implications for the audit, e.g. for the Auditor's assessment of fraud risks.

If after obtaining the Audit engagement, the Appointing Authority imposes a limitation on the scope of Audit, which is likely to affect the Auditor's opinion, the Auditor shall request the Authority to remove the limitation.

If Management refuses the Auditor's request to remove a limitation that Management has imposed on the scope of the audit, the Auditor should communicate the matter with those charged with governance. When a limitation on the scope of the audit imposed by Management is not removed, the Auditor should determine whether it is possible to perform alternative procedures to obtain sufficient appropriate Audit Evidence on which to base an unmodified opinion.

If the Auditor is unable to obtain sufficient appropriate Audit

Evidence, the Auditor should determine the implications as follows:

- *if the possible effects of the scope limitation are material but not pervasive to the business procedures, documents, or underlying transactions, the Auditor should modify the opinion;*
- *if the possible effects of the scope limitation are both material and pervasive to the compliance of laws, rules and regulations or underlying transactions or other business procedures/activities so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the Auditor should disclaim an opinion.*

5. Auditor's Responsibility

5.1 The Auditor's Report shall include a section with the heading "Auditor's Responsibility". Auditor's Report shall state that the responsibility of the Auditor is to express the opinion on the compliance with the applicable laws and maintenance of Records based on audit. The Auditor's Report shall also state that the audit was conducted in accordance with applicable Standard. The Auditor's Report shall also explain that those Standards require that the Auditor comply with statutory and regulatory requirements and plan and perform the audit to obtain reasonable assurance about compliance with applicable laws and maintenance of Records.

5.2 Auditor's Report shall state that due to the inherent limitations of an audit including internal, financial and operating controls, there is an unavoidable risk that some Misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed in accordance with the Standards.

The Auditor has a responsibility to perform procedures

to identify, assess and respond to the risks of material misstatement or non-compliance arising from the Auditee's failure appropriately to account for or disclose an event or transaction.

Auditor's Report includes a separate section with heading "Auditor's Responsibility" that will state or express the opinion of the Auditor about the following:

- Whether the audit has been conducted as per the applicable Auditing Standards.*
- Whether the Auditor has obtained reasonable assurance about whether the statements prepared, documents or Records maintained by the Auditee are free from misstatement.*
- That Auditor has the responsibility to only express his opinion on the evidences collected, information received and Records maintained by the Auditee or given by the Management.*
- Whether the Auditee has followed applicable laws, act, rules or regulations in maintaining their Records, documents, statements, or have complied with applicable laws or rules while performing any corporate action*

6. Format of Report

6.1 *The report shall be addressed to the Appointing Authority unless otherwise specified in Audit Engagement Letter or provided in the applicable law. The report shall be detailed enough to serve its intended purpose. Where specific formats are prescribed, those formats shall be followed for reporting. If any information cannot be appropriately placed within the paragraphs of the report, it shall be given in form of annexure(s).*

6.2 Signature block shall mention the name of the audit firm along with the registration number, if any, the name of the Auditor, certificate of practice number, the membership number of the Auditor specifying whether associate or fellow member, as applicable. The Auditor shall clearly mention date and place of signing the report, in case report is signed by two different persons on different dates or different places; same shall be mentioned in the report.

Audit report is the result of the audit performed in as per its scope and objectives. It includes a summary of information and can consist of further observation. In case of an audit of compliances, Audit Report may point out areas of compliance and non-compliance, as well as areas for improvement. The report is addressed to the Appointing Authority or otherwise, as may be prescribed in applicable law, acts rules or regulations. The Appointing Authority would be the Board of company, in case Auditee is a company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulators or any officer thereof, depending upon the type of Auditee's entity as explained in the Guidance Note on CSAS-1.

The Audit Report must be prepared in detail so that the purpose of preparing the report and showcasing the true state of affairs of the Auditee can be attained. Furthermore, the Audit Report prepared must be precise, accurate, clear and should be unbiased with suggestions and opinions. The detailed Audit Report means that Auditor must try to explain and point out each and every minute compliance, non-compliance or any improvement in the business procedures, documents, statements or any transactions or any other area that has been audited so as to form an accurate audit opinion and in case the provided format of Audit report as

per the laws, rules or regulations is not enough to provide detailed statement, the Auditor shall attach additional annexures or pages to give full disclosures and opinions thereon

The Audit Report must be signed by one or more Auditors as the case may be at the end of the audit report along with the name of their Firm, Firm's Registration No., Designation of the Auditor in the Firm (like partner, proprietor etc.), Certificate of Practice No. and Membership No. of the Auditor, whether the Auditor is a Fellow or Associate member of the Institute. The report must mention the correct date and place of signing and if two Auditors are signing the same report at different date and place then, the same shall be mentioned.

Further, as per Peer Review Guidelines of the ICSI, it is mandatory to mention the Peer Review Certificate Number in Secretarial Audit Report/Annual Secretarial Compliance Report and the signature of the PCS should be in following format :

	For XYZ & Associate Company Secretaries
	Name
	FCS
Date:.....	CP.....
Place:.....	PR 123/2018
