CORPORATE GOVERNANCE AND AUDIT QUALITY –NFRA OVER YOUR SHOULDERS

Bhavani Balasubramanian


Good governance is the art of
putting wise thought into prudent
action in a way that advances the
well-being of those governed.

GOOD CORPORATE GOVERNANCE

- For the entity:
  - about promoting corporate fairness, transparency and accountability
  - labeled as the processes and operating relationship that best achieve organizational goals
- For the society :
  - encompasses the interest of not only the shareholders but also many stakeholders.
  - succeeded in attracting a good deal of public interest because of its importance for economic health of corporations and the welfare of society.
- For the market :
  - will shape the future of any capital market, and that is the reason why there is increasing acceptance of this particular concept in industry as well as financial markets.
  - is indispensable to effective market discipline, rating relationship that best achieve organizational goals.

KEY PRINCIPLES OF CORPORATE GOVERNANCE

- Transparency- open and clear communication on activities , performance and financial status
- Accountability –Holding individuals and boards responsible for their decisions and actions
- Fairness –Equitable treatment of all stakeholders including wider community
- Responsibility- Acknowledging and fulfilling obligationsof the company , stakeholders and society

CORPORATE GOVERNANCE AS A FOUNDATION FOR QUALITY FINANCIAL REPORTING

- Reduced Information Asymmetry
- Minimizing Earnings Management
- Enhancing Transparency and Accountability



"Don't worry if you don't know the rules – we're making it up as we go along ..."

KEY MECHANISMS OF CORPORATE GOVERNANCE INFLUENCING FINANCIAL REPORTING:

- Board of directors - composition, experience,diversity, knowledge
- Audit committees -qualification, industry knowledge, , risk management
- Internal Controls- control environment , business processes, controls, monitoring
- Internal audit- structure, level of expertise, independence , scope and coverage
- External Auditing- professional standards , industry knowledge, experience and skepticism

- Regulatory agencies should ensure that companies have competent and experienced directors on their board.
- Stakeholders to verify the appointment of non-executive directors so that grey directors do not form part of the board of firms in the industry.
- The non-executive directors should possess the technical skills and experience necessary to ensure that the high quality reporting system

WORLD WIDE STUDIES ON CORRELATION BETWEEN CORPORATE GOVERNANCE AND QUALITY OF REPORTING



TO STALL THE" CONVENIENCE GOVERNANCE".....

- "Audit committees cannot escape responsibility for inaccuracies in financial statements by blaming the auditors. They are equally accountable for ensuring accurate disclosures," stated Ajay Bhushan Pandey, NFRA chairman.
- "The National Financial Reporting Authority (NFRA) has transformed from a predominantly enforcement-driven regulator in its early days to one with a judicious approach towards both enforcement and supervision, says Ajay Bhushan Pandey, NFRA chairman.

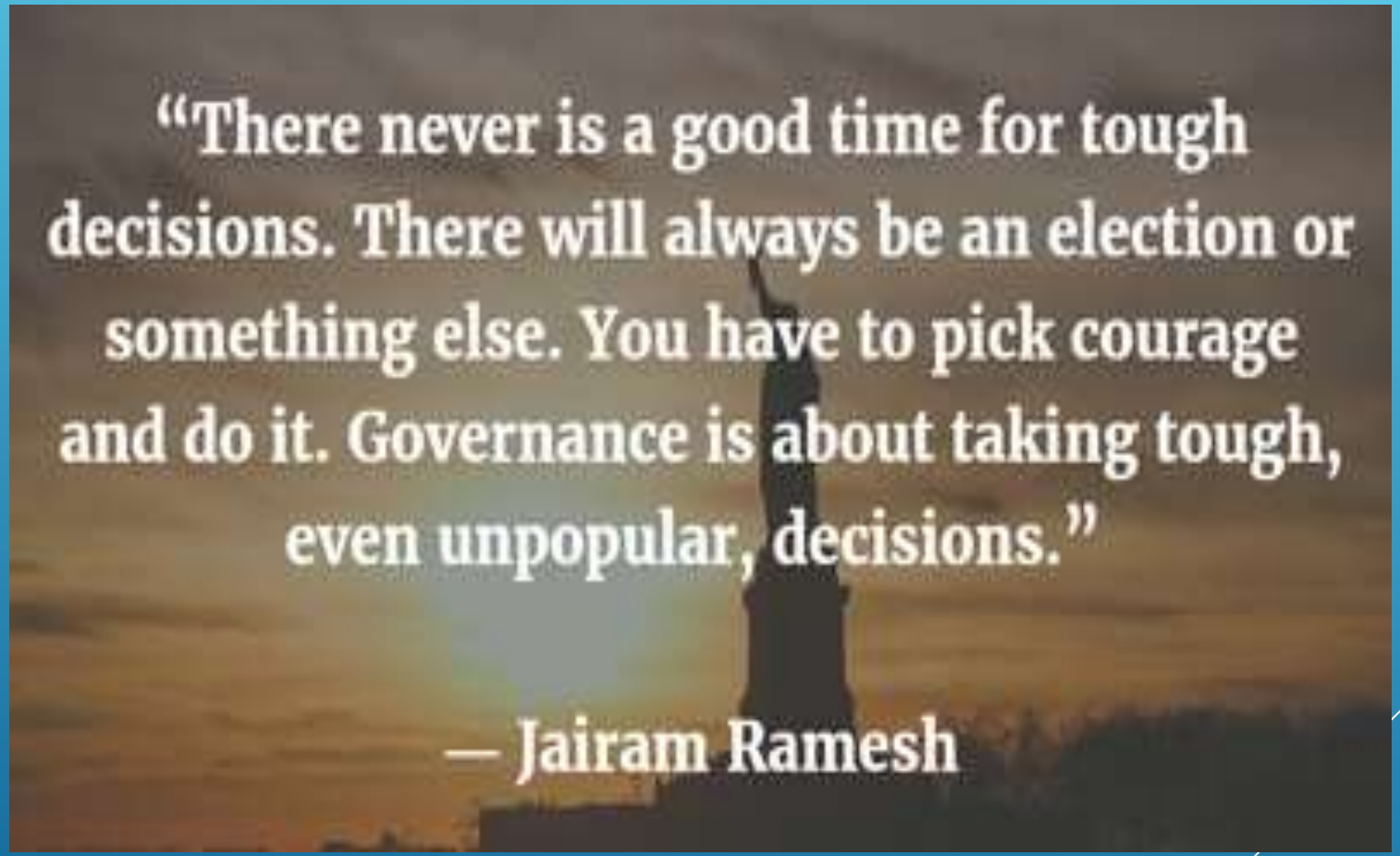
NFRA PROCLAMATION…

FUNCTIONS OF NFRA

- Setting and enforcing standards- recommendation, monitoring ,standardisation
- Overseeing audit quality- auditors, other professionals, measures for quality improvement , accuracy and transparency of financial statements
- Investigating misconduct- investigate , penalise , debar
- Strengthening investor confidence-improve quality of reporting, reliable financial information, trust of stakeholders
- Impact on audit committees-Focus on audit quality, active role in financial reporting process oversight , culture of accountability in companies

PURPOSE OF NFRA

- Crucial role in corporate governance :
- Overseeing A&A , ensuring compliance , promoting transparency in financial reporting
- Independent watchdog,enhancing investor confidence and contributing to the overall stability of the financial system


"There never is a good time for tough decisions. There will always be an election or something else. You have to pick courage and do it. Governance is about taking tough, even unpopular, decisions."
— Jairam Ramesh

NFRA ORDERS AND RELEASES

- 73 orders, 103 debarments,
- Audit quality review reports 7
- Financial reporting quality reports 4
- Inspection reports 12
- Consultation papers 11

NFRA ACTIONS

- Auditor-Audit Committee Interactions Series-
- Releasing Guidance Papers for Stakeholders-
- Collaboration with External Auditors
- Impact on Corporate Oversight
- Improved Audit Quality
  - Detailed Audit Engagement
  - Enhanced Communication
  - Guidance and Training
  - Increased Accountability

FINANCIAL REPORTING QUALITY REVIEW- SCOPE

- (a) review working papers (including audit plan and other documents) and communications related to the audit;
- (b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
- (c) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate
  Sec 132(2) (b) of Companies Act 2013 and Rule 8 of NFRA rules 2018

THREE THEMES EMERGING FROM REVIEWS IN SOME KEY AREAS RELATING TO GOVERNANCE AND AUDIT QUALITY

IA.SERVICES PROVIDED TO AUDITED ENTITY

- The firm's network entities provided prohibited services to the group and also had a business relationship with the auditee group. The total non-audit fees of xxx Crore earned by network entities, including audit firm, from company and its group entities was much more than the Audit fee of xxx Crore from the company
- Such services resulted in the loss of independence and violation of Sections 141(3)(e), 141(3)(i), 141(4) and 144 of the Companies Act 2013
- Non-audit services provided by either of the Affiliates Network entities, or member entities, would come within the meaning of "indirectly" under Section 144 .

- "Independence is a condition of mind as well as personal character and should not be confused with the superficial and visible standards of independence which are sometimes imposed by law. These legal standards may be relaxed or strengthened but the quality of independence remains unaltered
- Independence is:
- i. Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
- ii. Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised." (IFAC)
- The five categories of threats to independence, as explained by the Code of Ethics, need to be kept in mind.

I B.INDEPENDENCE IN PROFESSIONAL SERVICES

OUTCOME

- Separation of audit services from others in an professional services firm
- Careful screening of fees for non audit services
- Submission of fee proposals to audit committees for prior approvals

- The Audit Firm ignored the visible impairment indicators such as insolvency proceedings, permanent decline in the market value of investments, the negative net worth of component entities, etc. This has resulted in not testing the provision of impairment loss on investments made by the Company, leading to the Audit Firm's non-reporting of inflated profits
- Failed to obtain the board approved investment policy as important audit evidence to understand and verify whether the investments made by the company were as per the company's policy or not.
- No evidence in the audit file which shows that the Audit Firm had verified if the management had tested EACH investment for impairment. Thus, the Audit Firm did not bother to check whether the management had complied with its accounting policy. Further, there is no evidence available in the audit file to show that the Audit Firm had communicated anything related to the non-performance of impairment testing by the management to the TCWG, based on its examination.
- Audit Firm has used the work of a management expert for the valuation of investment and impairment analysis for a total investment of ₹xxxcrore (forms 27% of total investment) in component entities
- The evidence shows only a paperwork formality done by the Engagement Team led by the Engagement Partner without performing relevant and required audit procedures according to the prevailing law and standards.

II A. LAPSES INVESTMENTS

- Deficiencies are observed in the areas of use of valuation experts, fair valuation, and impairment loss evaluation. Also, there are certain investments (₹xxx Crore) for which no evidence of verification is available in the audit documentation.
- There is no evidence that the Audit Firm has ensured that the management had tested each investment individually for impairment
- The Audit Firm's assertion that post-facto approval is sufficient because the word 'prior approval' is not mentioned in the law is misplaced
- The claims/assertions made by the Audit Firm without support from the audit file (in the form of supporting documentation) are unacceptable and NFRA discards the same as afterthoughts and false claims.

II B.LAPSES IN INVESTMENTS

- Management Specialist -However, there are no Engagement Letters or written agreements in the audit file to understand the nature, scope, and objective of the expert's work as required in Para A46 of SA 500.
- There is no documentation providing for the objectives and scope of the expert's work, methods and assumptions used, as mentioned in their own "applicable methodology" to understand the work of the expert.

II C.LAPSES IN INVESTMENTS

Observed deficiencies in implementing the provisions of Ind AS 109 Financial Instruments relating to impairment loss allowance (provisioning) for some of the financial assets viz. Trade Receivables and other financial assets.

The company did not evaluate impairment loss allowance on 'Unbilled Revenue1 ' (under Other Current Asset) despite it being a contract asset for which the company was required to evaluate impairment loss in accordance with the requirements of Ind AS 109. (Para 2.2)

The Company did not make the required disclosure for Employee Benefits-Pensions in accordance with Para 135 of Ind AS 193 regarding defined contribution plans. The note provided by the Company lacks clarity on whether the employee benefit of Pension is a defined benefit plan or a defined contribution plan

II D.LAPSES IN INVESTMENTS

- a. to report material misstatement of ₹xxx crore on the classification of unquoted debentures as investments;
- b. to identify investment in unquoted debentures as loss assets;
- c. to report material misstatement on the inadequacy of provision on loss assets of ₹xxx crore in the financial statements; and
- d. to provide an adverse opinion pursuant to SA 705 (Revised)

II E LAPSES IN REPORTING ON INVESTMENTS

- Appropriateness of ECL recognition and measurement approach adopted by the management for different classes of financial assets
- Changes and trends thereof, in the opening and closing balances, and reversals and charges to P&L on account of ECL.
- Examination of any unusual movements
- Classification of the different classes of financial assets and applied tests specific to each class?
- Evaluation of in the internal control systems including credit risk management system to meet requirements of Ind AS 109 for material amount of loans and advances or investments that management estimates of ECL and related judgments
- Changes in business terms that had or could have a significant impact on such ECL Verification of accuracy and proper recording of ECL and elimination of biasis

NFRA GUIDANCE SERIES -ECL

- Assessment the recoverability of such outstanding balances and the adequacy of ECL (impairment loss) allowance for these balances
- Appropriateness of the stratification or disaggregation/aggregation of the data for determining ECL and stratification according to industry, the geographic location (for overseas debtors especially), number of years in business stage in the business life cycle, nature of goods and services provided etc.) before ECL is recognized and measured
- Evaluation of the design and operating effectiveness of control mechanism over recognition and measurement of ECL allowance for the three stages of significant class of financial assets viz. customer loans, investments
- Examination of the entity's approach for ECL recognition and measurement meet the fundamental principles of the Ind AS 109 i.e., unbiased probability-weighted outcome, time value money, supportable information/data based on historical events, current conditions as well as forecast of future economic conditions?
- Assessment of appropriateness of exclusion of category of the financial instruments from the applicability of ECL are as per Ind AS 109

NFRA GUIDANCE SERIES -ECL

OUTCOME

- Discussions on investment proposals
- Valuation and legal requirements
- Approvals to meet applicable laws
- Review of net worth on annual basis for unquoted investments
- Careful understanding and analysis of ECL estimates
- Asking auditors about their comfort on carrying values and ECL provisions

III A LAPSES IN RELATED PARTY TRANSACTIONS AUDIT

- Neither had the Audit Firm obtained sufficient appropriate audit evidence to conclude that the transaction was in ordinary course of business and at arm's length, nor had it obtained audit committee approval, that was required prior to the transaction either individually or in omnibus manner, as audit evidence to conclude that the transaction was in compliance with section 177 and 188 of the Companies Act, 2013.
- The Audit Firm did not even obtain a list of all the related parties or documented the nature of the related party relationships (Para 28 of SA 550). Also, there was no audit evidence to support the Audit Firm's assertion that they have checked MBP-1 of all the Directors of the Company, ITRs of Directors and KMPs of the company or the register prepared by the Company as per the requirements of Section 189 of Companies Act, 2013 (Para 49 (j) of Guidance Note on CARO, 2016).

III B LAPSES IN RELATED PARTY TRANSACTIONS AUDIT

- Audit Firm had failed to discuss with the management or TCWG any observations related to RPTs as required by Para A6 read with Para 5 of SA 550,even when:
  - Facility management services income from subsidiaries increased, by approximately 1190%, and
  - 2. Revenue from the Power division, that was entirely recognized from related parties, increased by 44.2%,
- The Audit Firm had not performed any procedures to confirm the management representation obtained for the related parties, which stated transactions with the related parties, which are true and correct. 2. Related party transactions are in ordinary course of business and at arm's length. 3. The Company has not entered into any non-cash transactions with directors or persons connected with them
- Provided a certificate of compliance with the provisions of the Companies Act, 2013 pertaining to RPTs as required under clause 3(xiii) of CARO, 2016 without due diligence and without obtaining sufficient appropriate audit evidence.

- NFRA notes that there are no audit procedures performed or conclusions drawn, noted by the Audit Firm. This WP is simply a collection of audit evidence received for four RPTs from the Company. The audit committee meeting extracts states, for each approval, that the transaction is in ordinary course of business and at arms' length, however no work is performed by the Audit Firm to verify the appropriateness of the basis of such conclusions.
- It was noted in the minutes that three bids were received for the contracts. NFRA notes that copies of the proposals received are placedin the audit file . However, there is no note of the audit procedures performed by the Audit Firm

III C LAPSES IN RELATED PARTY TRANSACTIONS AUDIT

- 1. Considering the appropriateness of management's process for supporting the assertion.
- 2. Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance
- 3.Evaluating the reasonableness of any significant assumptions on which the assertion is based.

III D ARMS LENGTH CONFIRMATION: MANAGEMENT AND AUDITORS DUTY

- 1. Whether the transaction is covered in the objects of the company as envisaged in the Memorandum of Association;
- 2. Whether a transaction is usual or unusual, both from the company and its line of business perspective;
- 3. Frequency: If a transaction is happening quite frequently over a period of time, it is more likely to be treated as an ordinary course of business. However, the inverse does not necessarily hold true; 4. Whether transaction is taking place at arm's length;
- 5. Business purpose of the transaction;
- 6. Whether transaction is done on similar basis with other third parties; and
- 7. Size and volume of transaction

III E ORDINARY COURSE OF BUSINESS: MANAGEMENT AND AUDITORS DUTY

- Para A6 read with Para 5 of SA 550 states that Related parties, by virtue of their ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management and hence, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by SA 240 because fraud may be more easily committed through related parties. However, the replies of the Audit Firm, proves that the Audit Firm had failed to consider one or more fraud risk from related party transaction. The Audit Firm had only performed audit procedures, limited to obtaining audit committee approval for few of the transactions and noting the variance for various type of RPTs (Construction, Sale of Cement, Hotel Revenue, Sale of Plot, etc.).

III F RISK OF FRAUD IN RELATED PARTY TRANSACTIONS

NFRA GUIDANCE RELATED PARTY TRANSACTIONS –MANAGEMENT PROCESSES

- Management processes on Related Party Transactions:
- Identification of, nature of relationship and type of transactions with related parties
- Management process of identification, data collection and assurance on completeness including indirect transactions
- Internal control processes established to verify the group structure (for any changes therein) on a periodic basis
- Management reviewed all shareholders' agreements and relevant contracts to identify entities that it has control on and those that control the entity and Management validation of the information declared by directors or promoters
- Confirmations from the promoters at the beginning of each financial year to identify their related entities (declarations including direct and indirect holdings (indirect holdings include holdings through layers of subsidiaries) of the promoters) and notification of change in interest

NFRA GUIDANCE RELATED PARTY TRANSACTIONS –MANAGEMENT PROCESSES

- Management identification of individuals or entities that would be classified as ‘connected parties’ -identification, updating of the list for the purpose of identifying transactions the purpose and effect of which is to benefit a related party (indirect transaction)
- Maintain the database of related parties on a technology enabled platform and integrated with other databases of the company? (for example, the vendor master, customer master, etc.)
- Finance, legal and secretarial team perform a post-facto compliance of all transactions entered into during the year
- Appropriate controls, such that a particular defined department (say the legal/ secretarial/finance department) monitors changes in contracts, and evaluates: whether the change is a material modification (as defined by the Audit Committee) of an existing contract;
- Management engagement of any internal or external agency to evaluate the entire gamut of related parties like identification, transactions, approvals, disclosures and compliance with laws and regulations and auditor review the report of such an agency.
- Availability of a technology enabled database relevant systems, so as to generate an alert for Audit Committee’s approvals for all RPTs and shareholders’ approvals when the transaction with a related party crosses a particular threshold

NFRA GUIDANCE RELATED PARTY TRANSACTIONS –RISK ASSESSMENT PROCEDURES

- (a) Identify, account for, and disclose related party relationships and transactions;
- (b) Authorize and approve significant transactions and arrangements with related parties; and
- (c) Authorize and approve significant transactions and arrangements outside the normal course of business
- (d) Identify related party relationships and/or transactions which the management had not identified
- (e) determine significant risk in related party relationships and transactions

NFRA GUIDANCE RELATED PARTY TRANSACTIONS AUDIT PROCEDURES

- Newly identified related parties/transactions
- Significant related party relationships and transactions
- Significant related party transactions outside the normal course of business (management and auditor identified transactions)
- Evaluation that a related party transaction terms being equivalent to those prevailing in an arm's length transaction
- Evaluation of any significant variation between the value of proposed RPT approved by the Audit Committee and the actual value of RPT executed
- Evaluation of circumstances leading to necessity of obtaining ratification of related party transactions from the Audit Committee, if any

OUTCOME

- Discussion on related party information
- Understanding of regulatory requirements and disclosures
- Insisting on independent verification and certification of arms length basis
- Careful vigil on conflict of interest scenarios

- Consistency in judgements and estimates for both current tax and deferred tax
- Changes in previous estimations regarding the recoverability of DTA and robustness were the underlying assumptions used by the Company
- Tax disputes shown under “Contingent Liabilities” and determination that the treatment of such matters is consistent with the positions taken in recording DTA and DTL

NFRA GUIDANCE SERIES TAXATION

REVIEW OF AUDIT QUALITY

GENERAL COMMENT

- The Audit Firm had failed to prepare audit documentation that is sufficient, to enable an experienced auditor, having no previous connection with the audit, to understand:
- a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
- b) The results of the audit procedures performed, and the audit evidence obtained; and
- c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions (Para 8 of SA 230). Evaluating the reasonableness of any significant assumptions on which the assertion is based.

AUDITOR COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

- The objective of the SA 260 (Revised) is to provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. The Audit Firm has not been able to show a single communication with TCWG in this regard. Contrary to the claims of the Audit Firm, no document minuting discussions held with TCWG is available in the Audit File
- There is no evidence of the Audit Plan having been communicated to TCWG
- WP xx is the presentation to the Audit Committee on the date of signing the Audit Report.
- There were serious issues like non-compliance of RBI guidelines, issues relating to going concern, NPAs, etc. which were very significant and were mandatorily required to be communicated to TCWG as per SA 260 (Revised)

AUDITOR COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE DOCUMENTATION

- Documentation Para 23. Where matters required by this SA to be communicated are communicated orally, the Audit Firm shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the Audit Firm shall retain a copy of the communication as part of the audit documentation. (Ref: Para. A54) Para A54. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication

- The Audit Firm seems to imply that this communication of the regulator was not available to them.
- Had proper enquiries been made both with TCWG and the regulator , it is certain that this communication would have been formally made available to the Audit Firm. This is also specifically required by Para 18 onwards of SA 250.
- The Audit Firm's compliance with this seemed to have been limited only to inquiries with the management, with no attempt at independent corroboration of the position

SEEKING INFORMATION-ASKED THE MANAGEMENT

RISK OF MATERIAL MISSTATEMENT

- The Audit Firm had made several statements with reference to the assessment of fraud risk factors. There were significant contradictions in the assessment of ROMM which lead to the conclusion that the assessment had been carried out in so casual a manner as to result in a complete sham.
- a staggering conclusion that “No fraud risk factors or engagement risk have been identified”
- , it was observed that certain important issues having been identified from the whistle blower complaints and RBI inspection reports had not been considered at all for the purpose of evaluation of ROMM
- It was observed that the audit responses planned to reduce or mitigate the identified risks and the actions taken based on the audit responses to such identified risks were insufficient, improper and inadequately carried out.

- NFRA notes that even through the very basic purpose of a walkthrough is to be able to identify important points at which a necessary control is missing or not designed effectively, the Audit Firm:
- a. Failed to exercise professional skepticism while performing the walkthrough and did not perform it in detail to understand every step of the transaction.
- b. Failed to note important areas in the credit appraisal process where a control is missing, and if credit worthiness/repayment capacity of the borrowers was appropriately considered before disbursal of loans.
- c. Did not document any understanding relating to whether there were appropriate controls to ensure that loans disbursed are not prejudicial to the interest of the Company.
- d. Did not even record any probing questions, or observations thereafter, to go beyond the narrow focus of the single transaction that was not a representative transaction. Further, the Audit Firm also did not verify/record any conclusion
- Therefore, NFRA concluded in the PFC that the entire loan walkthrough is a complete sham since the Audit Firm had failed to verify that they had identified the points within the company's credit processes at which a misstatement, including a misstatement due to fraud, could arise. The Audit Firm had failed to meet the requirements of the guidance note on ICFR.

WALK THRO

TEST OF CONTROLS

- The firm was required to verify and understand the effectiveness of the control design in a manner that indicates that the controls satisfy the company's control objectives and verify the operating effectiveness of the control. Nothing in this regard is documented in the Audit File. Thus the audit procedures documented by the Audit Firm in its WPs fall short of sufficient and appropriate evidence
- The Audit Firm failed to check the effectiveness of the design, and more importantly failed to check its operating effectiveness through a mix of inquiries of appropriate personnel, observation of the company's operations, an inspection of relevant documentation, and re-performance of the control.

EQCR

- There was no evidence to show that the Audit Firm's EQC Reviewer objectively evaluated the significant judgements and conclusions reached by the engagement team. The EQC Reviewer is required to discuss with the engagement partner the significant matters arising in the audit and is also required to independently evaluate the conclusions reached by the engagement team while conducting the audit. NFRA found that the EQC Reviewer had merely ticked a Yes/No checklist, which is claimed by the Audit Firm as evidence for the works done by the EQC Reviewer. In NFRA's view, this cannot be considered as compliance with the mandatory requirements of the SAs. The superficial nature of the work of the EQC Reviewer is amply demonstrated by the fact that the EQC Reviewer did not find a single issue despite many large-scale violations

LOANS GIVEN

- NFRA observes that the Audit Firm did not consider the financial standing of the borrowers
- The work procedures of the Audit Firm in these WPs (as stated in detail in the table in Para 3 – S.No. 3) were limited to verification of the uniformity of the dump with approved memorandums and agreements.
- The Audit Firm did not consider the fact that the majority of loans disbursed by the Company were to loss-making entities with net worth either near to, or far below, the loan exposure that the Company had in them
- The Audit Firm did not test the operating effectiveness of the control in place (CAM's) for the risk identified by the Audit Firm that the "Possibility of loans disbursed without adequate evaluation"

- Resources :
- 1.Evaluation of the nature and extent of resources including experts required?
- 2.Areas requiring specialized skill or knowledge
- 3.Reliance on work of internal auditors
- 4.Engagement Partner and/or Senior Members of the Engagement Team Time on the engagement
- Risk assessment:
- Risks emanating from operating structure and business strategy/philosophy of the entity
- Emerging areas of risks in the operating and regulatory environment
- Identification and assessment of risk of material misstatement(factors considered and level of risk)
- Audit of areas of ‘Significant Risk’ and ‘Higher Level of Assessed Risk’

NFRA GUIDANCE SERIES AUDIT PLAN AND STRATEGY

NFRA GUIDANCE SERIES -AUDIT PLAN AND STRATEGY:

- Internal controls:
- Evaluation of internal control system and environment
- Design and/or operating effectiveness of internal controls (including those that are applied to the transactions processed by the service organisation)
- Evaluated the Information Technology Systems and Processes -evaluation of any material or significant risks
- Audit procedures :
- Audit of opening balances
- Use information technology tools (Computer-assisted audit techniques)
- Approach to audit sampling
- Use of analytics (databases and coverage)
- Auditors Report :
- Areas requiring significant attention
- Potential key audit matters

PROFESSIONAL SKEPTICISM

- Para A18 of SA 200 states that “Professional skepticism includes being alert to, for example:
- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the SAs.”

- Being anxious or fearful about potential threats or consequences often having a sense of paranoia or being hunted.It suggests a constant state of vigilance and worry of what is coming from behind

LOOKING OVER YOUR SHOULDERS……

OUR ASSUMPTIONS OF THE PAST

- Business decisions not to be questioned
- Governance nil or ill is not for us as long as there are records
- Business failure is managements responsibility
- The transactions between entities in a group have a proper rationale
- Estimates if supported with valuations or workings are acceptable
- An investigator is seeing thro a microscope whereas I see through normal eyes unless something looks weird

EXPECTATIONS OF THE REGULATOR

- Documentation of all micro and macro processes followed in the audit
- Initial to final conclusions track of further work done
- Record of formal and informal conversations with client on audit issues
- Display of skepticism in every step in the audit process ie execution of each paragraph in the SAs –yes , no and not applicable
- Rationale for each audit tests and explicit demonstration of work done
- Challenging Q&A on major items interse team members and with client
- Verification of corroborative and independent evidences evidenced in work done with supports
- Partner and EQCR discussions copiously documented
- Experts employed and consultations done to be clearly documented in accordance with requirements
- Demonstration of compliance with laws, standards, guidances and circulars

A SPEAKING AUDIT FILE

- It has to be noted that SA 230 lays down that the Audit File should be capable of speaking for itself without the need for any other aids to interpretation. What has been claimed to have been done by way of audit procedures, or what has been claimed to have been gathered as audit evidence, should be attested/supported by the audit file. No claim that is not so supported can be taken into consideration. Given this position in the SAs, there is virtually no scope for purely oral submissions or discussions. All oral representations have also to be reduced to writing so as to form part of the record, and to eliminate the scope for disputes.

- Is there anything new as an ask?
- Is there anything which is not done ?
- Is there anything which has been presumed?
- Is materiality absolute or relative ?
- Is not stating the obvious, a case of gross negligence?
- Is a missing signature in a work paper a crime in a proper true and fair opinion?
- Is a valid explanation an after thought?
- Is a work paper documenting minimum information at a point in time a sham?
- Should every work paper talk about a possible fraud ?

THE UNANSWERED QUESTIONS OF A PROFESSIONAL WHO IS AWAKE IN THOSE THAT SLEEP…


We cannot be mere consumers of good governance, we must be participants; we must be co-creators.
Rohini Nilekani
BrainyQuote

- India’s accounting and auditing standards regulator National Financial Reporting Authority (NFRA) has served notice to the existing and former auditors of IndusIndBank asking details related to the lender's audit, according to the Economic Times.
- Sources close to the matter said NFRA is trying to determine whether auditors failed to detect or reported misleading accounting related to forex derivatives—an area that allowed the bank to either inflate profits or conceal losses depending on currency movements
- A number of major firms, may be required to defend their audit methodologies. In 2024, auditors even removed “valuation of derivatives” from the list of key audit matters in the annual report—raising questions about intent and diligence.
-

THE MISSION CONTINUES ……