

The Chamber of Tax Consultants

## Changing Audit Landscape – Learnings from Regulatory Reviews of NFRA, QRB

### **Key Changes in Last 10 years & Expectations of Regulatory Agencies**

CA Nilesh Vikamsey

28 March 2023



## Accounting Review - POEM

The poem reproduced below is taken from a 1951 edition of The Accounting Review. It is said to originate from the 1930s, and demonstrates how many of the same criticisms have been levelled against audit for more than 80 years:

### The Accountant's Report

We have audited the balance sheet and here is our report:

The cash is overstated, the cashier being short;  
The customers' receivables are very much past due,  
If there are any good ones there are very, very few;

The inventories are out of date and practically junk,  
And the method of their pricing is very largely bunk;  
According to our figures the enterprise is wrecked....

**But subject to these comments, the balance sheet's correct**

# Setting the Context


## LATEST ADDITION TO THE GROWING LIST



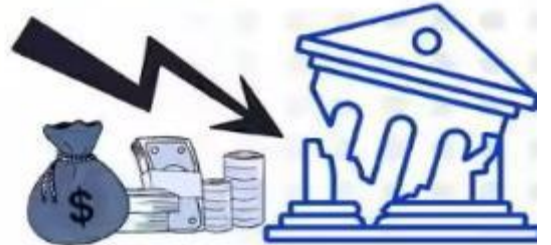
**moneycontrol**

# A BANK GOES KAPUT

Silicon Valley Bank, which benefitted hugely in the era of easy monetary policy, went under as central banks across the world began to tighten monetary policy and inflation spiralled out of control because of the Ukraine war



### THE TIMELINE OF SVB'S FAILURE



On Wednesday, March 8, reports claimed that one of the funds run by leading VC Peter Thiel had asked to withdraw deposits from SVB. On the same day, the bank clarified that it had sold government bonds to shore up its capital base. By Friday, 10th March, the bank was declared bankrupt.





## SAME OLD STORY !

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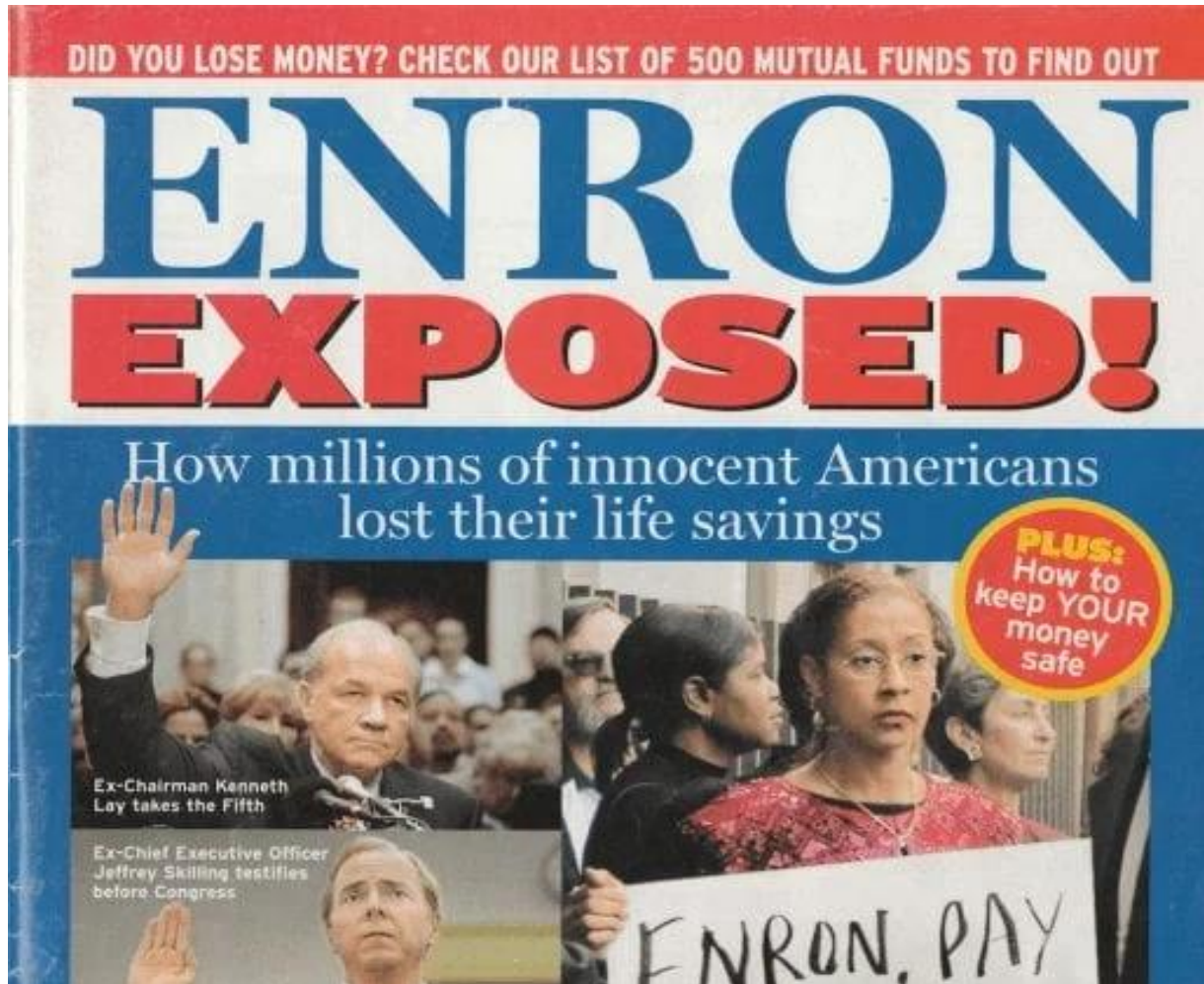
MARKETS | FINANCE

# KPMG Gave SVB, Signature Bank Clean Bill of Health Weeks Before Collapse

Accounting firm faces scrutiny for audits of failed banks



## FROM WHERE IT ALL STARTED !



- Enron Corporation, an American energy company based in Houston, Texas declared **bankruptcy in 2001**
- Shareholders filed a \$40 billion lawsuit after the company's stock price, which achieved a high of US\$90.75 per share in mid-2000, plummeted to less than \$1 by the end of November 2001
- Enron's \$63.4 billion in assets made it the **largest corporate bankruptcy in U.S. history** until the WorldCom scandal the following year
- **Arthur Andersen** – then one of the five largest audit and accountancy partnerships in the world – was effectively dissolved
- Led to Emergence - **Sarbanes-Oxley Act - PCAOB**

## MEASURES – BY INDIA

- Committee set up by the Central Government under chairmanship of Naresh Chandra - it was represented and decided that India did not require a Separate Regulator apart from ICAI
- **Peer Review Board (PRB) constituted in March 2002** – to ensure that in carrying out their professional attestation services assignments, members of ICAI (a) comply with Technical Standards laid down by the ICAI and (b) have in place proper systems (including documentation systems) for maintaining quality of attestation services work they perform
- **Financial Reporting Review Board (FRRB) constituted in July 2002** - to bring improvement in financial reporting practices and thereby promote investors' confidence in audited financial statements
- **Quality Review Board constituted in 2006 (Amendment to CA ACT)** - evaluate and review the quality of work and services provided by the members of the Institute - 6 Govt nominees and 5 ICAI nominees with Chairman being from Govt. though part of 2006 amendment to Act the QRB took few years to kick off



# **Glance at the Decade – Key Changes**



# ANATOMY OF A FRAUD

The genesis of the fraudulent financial engineering at Satyam Computer Services goes back 7 yrs but the facts started tumbling out after the company's aborted bid to buy Maytas Infrastructure and Maytas Properties, which itself was a trough of sorts in India's corporate governance history

### CRACKING THE CODE

► It all began around 7 years ago. Satyam Computer Services began inflating its profits and revenues to show better-than-actual performance. The objective, analysts now say, was to prop up share prices and boost market capitalisation. The promoters' quietly began to dilute shares at prices that reflected inflated profits.

► It now appears this was part of a comprehensive plan. The promoters' stake was gradually reduced from 25.6 per cent in March 2001 to 8.74 per cent in March 2008 (see attached table).

### THIS CONTRADICTS

► B.Ramalinga Raju's claim that the promoter family "did not sell any shares in the last eight years - excepting for a small proportion declared and sold for philanthropic purposes."

► The cash so raised, industry insider said, was used to

purchase several thousands of acres of land across Andhra Pradesh to ride a booming realty market. The transactions were allegedly made through Maytas Properties and Maytas Investors, companies that are controlled by the Raju itself.

► Meanwhile, Satyam's scale of operations began to grow manifold. For the company, it presented a complex problem as it had to misrepresent facts to keep on showing healthy profits. What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years.

► It has attained unmanageable proportions as the size of the company operations grew significantly. Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance

would result in the takeover, thereby exposing the gap.

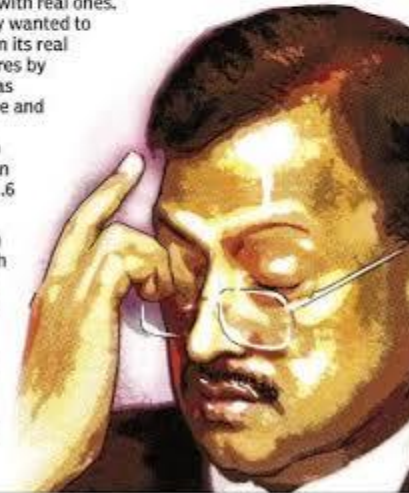
► As Raju put it, "it was like riding a tiger, not knowing how to get off without being eaten."

► The aborted Maytas acquisition deal was the last attempt to replace the fictitious assets with real ones. The company wanted to cash out from its real estate ventures by selling Maytas Infrastructure and Maytas Properties to Satyam for an estimated \$1.6 billion.

► Did Satyam have so much cash? It did not, but analysts said this deal would have helped Satyam clean up its books and show real

assets. Things did not go to plan. Investors sniffed something amiss and the plan had to be aborted next morning, and the game was up.

Text: Gaurav Choudhury  
Imaging: Sebastian



### THE FIGURES SAY IT ALL

**The Balance Sheet** as on September 30, 2008 shows cash and bank balances of **Rs 5,361 crore**. Of this Rs 5,040 crore is "fictitious".

**Accrued interest** of **Rs 376 crore** is also non-existent.

**Promoters reportedly** brought in **Rs 1,230 crore** to shore up Satyam's finances. This is a liability that is not reflected in its books of accounts.

**Over-stated** debtors position of **Rs 490 crore**, and, thus, its assets by this amount.

- On 7 January 2009, the chairman of Satyam, Byrraju Ramalinga Raju, resigned, confessing that he had manipulated the accounts of **Rs 7,000 crore** in several forms.
- The **Indian arm of auditors was fined \$6 million by the SEC** for not following the code of conduct and auditing standards in the performance of its
- SEBI barred auditors from auditing any listed company in India for 2 years**, saying that the firm was complicit with the main perpetrators of the Satyam fraud and did not comply with auditing standards.
- 14 January 2009, Auditors, announced that its reliance on potentially false information provided by the management of Satyam may have rendered its audit reports "inaccurate and unreliable"

## NEW COMPANIES ACT

- Companies Act, 2013 replaced Companies Act, 1956 (in a partial manner) after receiving the assent of the President of India on 29 August 2013
- Introduced with **29** Chapters | **470** Sections | **7** Schedules
- 98 Sections came into force on 12 September 2013
- 183 Sections came into force on 01 April 2014
- Introduced significant changes in the provisions related to Governance, management, mergers **disclosure requirements** and **auditors**
- NFRA provisions were brought into the Companies Bill at later stages after the introduction of the Bill without public debate as was the case with most other sections

Mandatory CSR

Enhanced Accountability on Corporates

Independent Directors – Detailed Provisions & Code of ID

Restriction on Inter-Corporate Loan/Investments

Class Action Suits & NCLT – Enhanced Suits

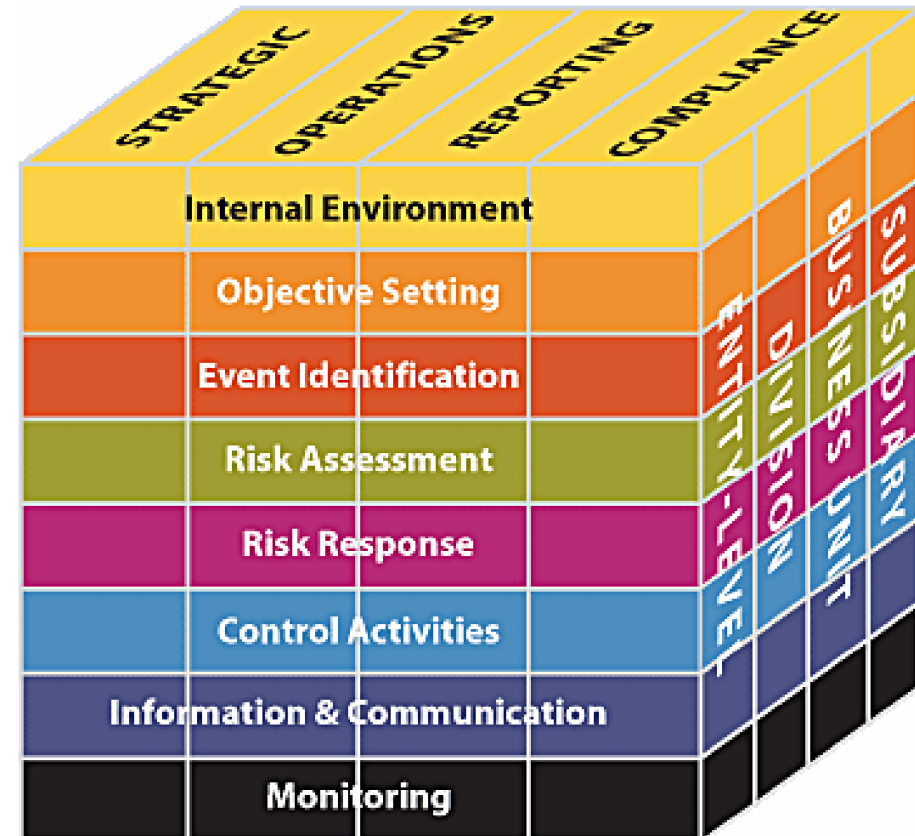
Financial Reporting – Schedule III

Depreciation – Schedule II

OPC & Small Companies

# ICOFR

- Section 143(3) (i) was effective – **01 April 2014**
- **Required the auditors of the companies to report as whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.**
- Casted onerous responsibilities on the statutory auditors because reporting on internal financial controls was not covered under the Standards on Auditing issued by the ICAI.
- Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by ICAI in 2014 and 2015 (Revised)



## CARO 2015 & 2016

- **CARO 2015 effective from 10 April 2015**
- CARO 2015 replaced CARO 2003. New CARO **had only 12 clauses against requirement of 21 clauses** in erstwhile CARO
- Included reporting on Fraud
- On 29 March 2016, **CARO 2016 replaced CARO 2015**
- CARO 2016, required reporting on **16 clauses**
- Brought in change in Applicability, required reporting on managerial remuneration, related party transactions, non-cash transactions, etc.

### Difference Between CARO 2015 & CARO 2016

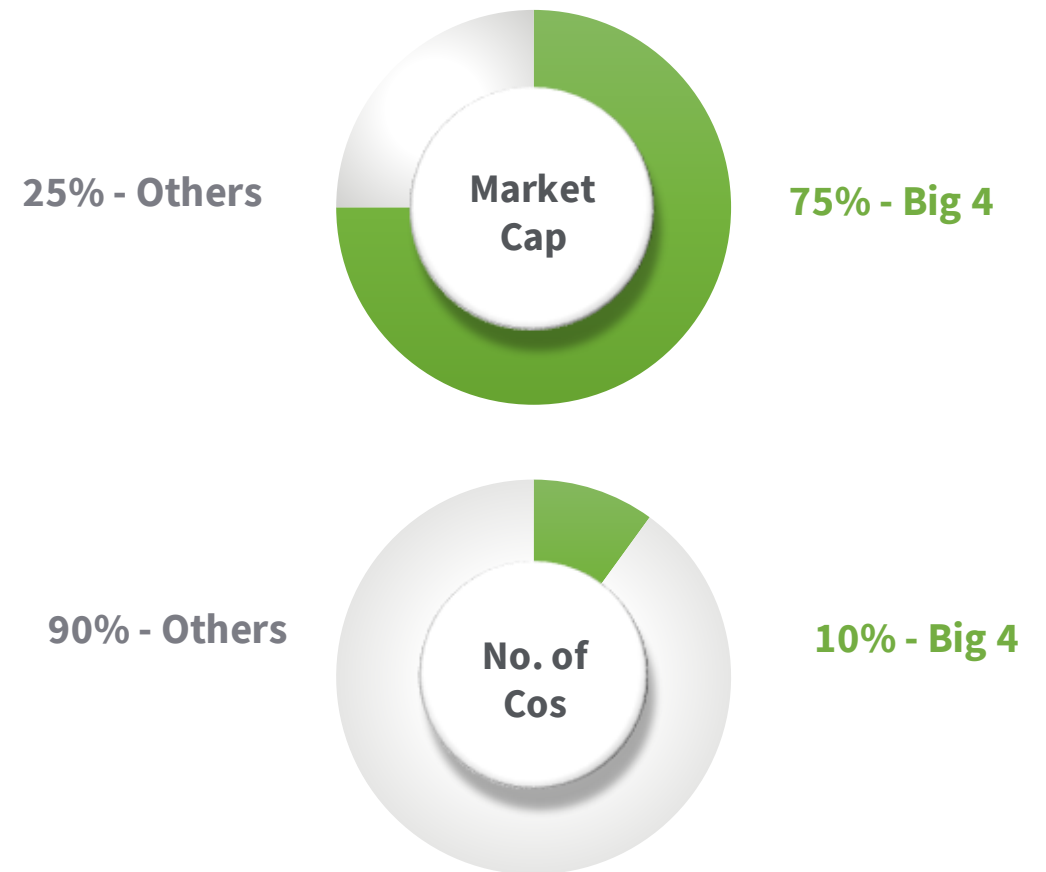
CARO 2015	CARO 2016
Fixed assets	Retained with some changes
Inventory	Retained with some changes
Loans to related parties (Sec. 189)	Retained with some changes
Adequate internal control	Deleted
—	Loan Guarantee Security
Deposits	Retained
Cost records	Retained
Statutory dues	Retained with some changes
Accumulated losses	Deleted
Repayment of loan	Retained with some changes
Guarantees	Deleted
Term loans	Retained with inclusion of IPO & FPO
Fraud reporting	Retained with some changes
—	Managerial Remuneration
—	Nidhi company
—	Related party transaction
—	Private placement
—	Non cash transaction
	NBFC



## AUDITOR'S ROTATION

- The Companies Act 2013 mandates audit firm rotation after a maximum of two five-year terms if the audit firm is a partnership and after one five-year term if the audit firm is a proprietorship
- No common partners in the outgoing and incoming audit firms.
- Appointments for a fixed five-year term.
- The requirement took effect from April 1, 2014, with a three-year transition., enabling companies to implement for rotation for fiscal year ending March 31, 2015, 2016 or 2017.
- Later on, **Resignations** because of the difference in acceptance of Risk levels by incoming firms – SEBI brings in Guidelines on Auditor's Resignation for Listed Entities

### Listed Entities – FY 2019 [Source: Livemint.com]



# DAWN OF NEW FINANCIAL REPORTING REGIME

- **Indian Accounting Standard Rules notified in 2015.**
- Converged with the globally followed International Financial Reporting Standards
- voluntary basis from **1st April 2015**, and were made mandatory from 1st April 2016 & for **NBFC's from 1st April 2017**
- shift to make Indian corporate accounts **comparable internationally and transparent. Largely, based on Fair value Approach**
- **Division II – Schedule III also introduced**
- Banks, Insurance kept out of the Purview
- Ind AS 115 - 2018 ; Ind AS 116 - 2019
- **Division III for NBFC introduced in 2019**

## CHANGING FINANCIALS

No. of accounting adjustments by firms to their reported profits

For the quarter ended June 30, 2015



### Top 10 adjustments

(% of companies)



### Sectors that made most adjustments (%)\*

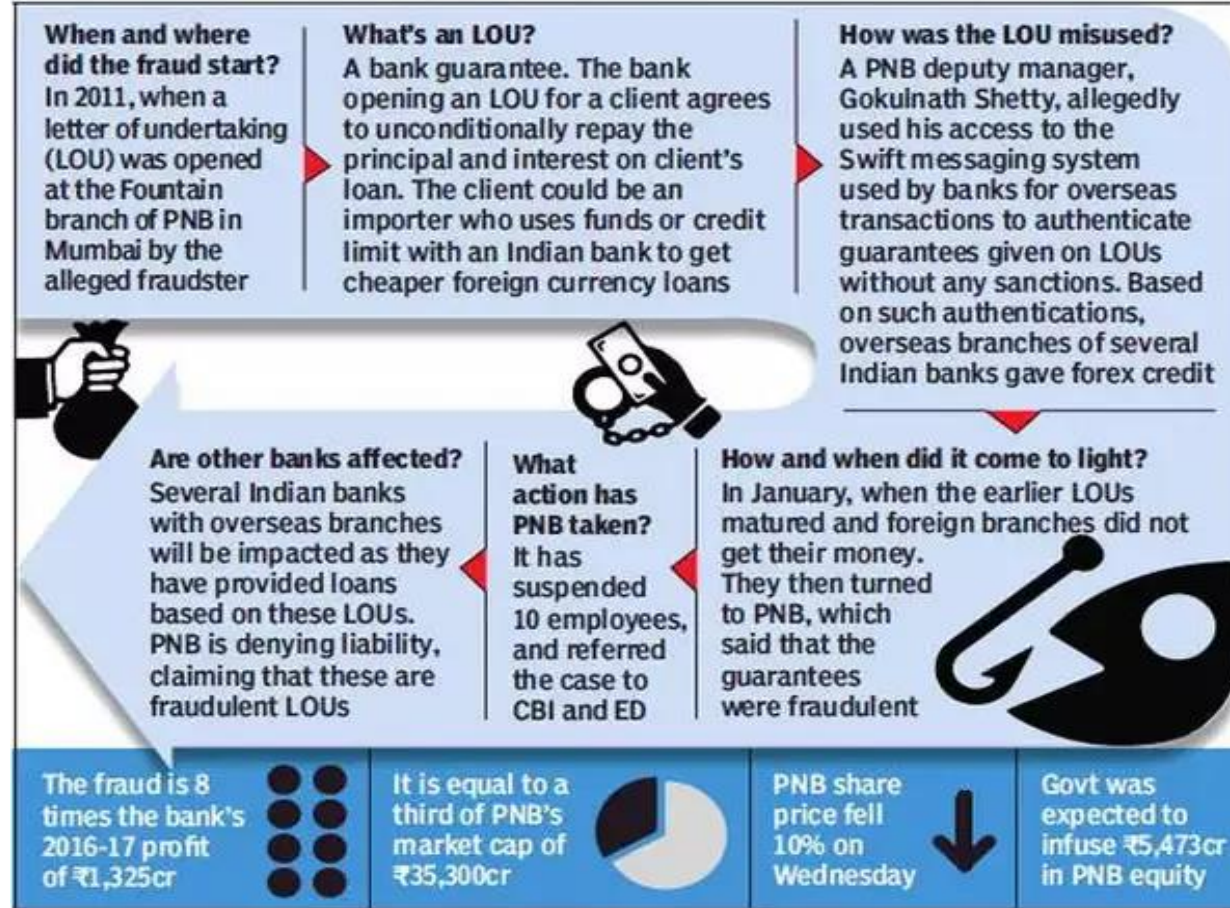


\*Figures are in absolute value

Source: Protiviti

# PNB DEBACLE

## HOW MONEY VANISHED FROM ONE ACCOUNT



- **Fraudulent letter of undertaking worth ₹11,356.84 crore** (US\$1.4 billion) issued by the Punjab National Bank at its Brady House branch in Fort, Mumbai
- Bank's core banking **system was bypassed** when the corrupt employees issued LOUs to overseas branches of other Indian banks, including Allahabad Bank, Axis Bank, and Union Bank of India, using the international financial communication system, SWIFT.
- As of 18 May 2018, the scam has **ballooned ₹14,356.84 crore** (US\$2.1 billion)
- **On 1 March 2018, the government approved the Fugitive Economic Offenders Bill.**
- Idea of 'Independent Audit Regulator' spikes up—**NFRA activated**



## FALL OF INFRA GAIANT

- **September 2018, IL&FS had defaulted on its debt obligations**, triggering a liquidity crisis in the financial services market.
- IL&FS and its subsidiaries owe **₹99,354 crore**
- **SFIO** probe revealed that there were **major lapses in audit** of the IL&FS
- Government makes moves to ban auditors
- On August 16, 2019, the Enforcement Directorate filed its first chargesheet in the IL&FS money laundering case.

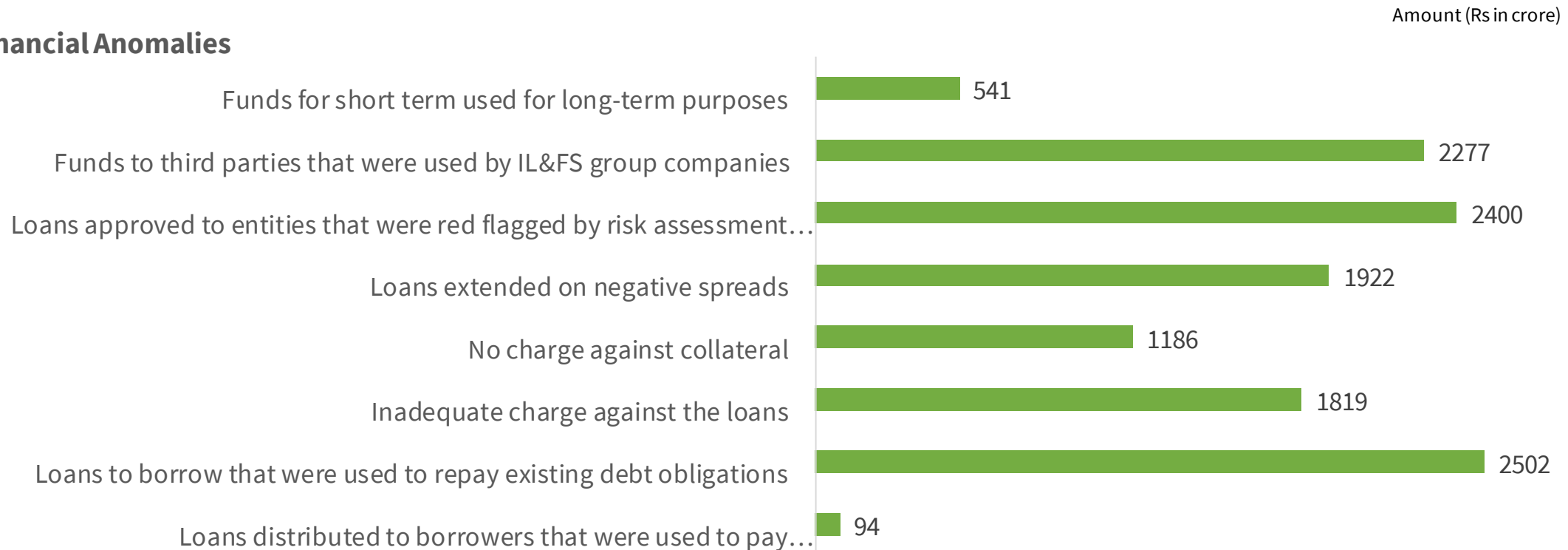




## FALL OF INFRA GAIN

On 20 February, Grant Thornton India LLP submitted report to the Uday Kotak led IL&FS board, which highlight many anomalies in the books of IL&FS & its group companies

### Financial Anomalies



## EMERGENCE OF NEW AUDIT REGULATOR

National Financial Reporting Authority (NFRA) was constituted on **01st October, 2018** by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013

As per **Sub Section (2) of Section 132 of the Companies Act, 2013**, the duties of the NFRA are to:

- Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;
- Monitor and enforce compliance with accounting standards and auditing standards;
- Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service
- Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

# NFRA



**National Financial Reporting Authority**  
Government of India

## NEW REPORTING REQUIREMENTS – STANDARD ON AUDITING

- SA 701 Communicating **Key Audit Matters** in the Independent Auditor's Report – Introduced in 2018
- SA 720 - The Auditor's Responsibilities Relating to **Other Information** – Introduced in 2018
- SA 700 Forming an Opinion and Reporting on Financial Statements - Amended
- SA 705 Modifications to the Opinion in the Independent Auditor's Report – Amended
- SA 570 (Revised) Going Concern – Amended

# AQRR

Release of 1<sup>st</sup> AQRR : 12 December 2019

Auditor : Auditee : IL&FS Financial Services Limited | Financial Year : 2017 - 2018

## Key Issues Noted:

- Independence
- Violation to ICAI Code of Conduct
- Failure of Engagement Partner to direct / supervise / review almost all the important work of audit, i.e., independence evaluation, risk assessment, audit plan, audit procedures, audit evidence, communications with management or those charged with governance (TCWG)
- Professional Skepticism
- Going Concern Assumption

## KEY CONCLUSIONS OF NFRA

- Initial appointment and continuation of IL&FS as statutory auditor illegal
- ITNL's financial exposure to its subsidiaries, JVs not properly valued
- Company's losses during 2017-18 were understated by at least ₹2,021 crore
- Audit firm failed to appropriately evaluate the use of the going concern basis of accounting
- Integrity of the audit file found to be questionable due to tampering





## COVID-19: PANDEMIC STRIKES !

- Disrupted most professions across the globe with accounting and auditing being no exception
- Revision of Risk Assessment
- Enhanced Skepticism
- Remote Auditing
- Use of New-Age Technology – Obtaining Audit Evidence
- Accounting Estimates – Challenges
- Going Concern and Subsequent Event Issues

### Testing Times

#### WHAT AUDITORS ANTICIPATE

- ▶ **Impairment** resulting from financial losses
- ▶ **Breach** in bank covenants
- ▶ **Impact** on the company as a going concern



**Say as much of the virus-related disruptions took place after Dec, cos will need to revisit balance sheets**

## CARO 2020 & Amendment in Schedule III

### Companies (Auditors Report) Order, 2020 ('CARO 2020')

**Effective:** FY 2021 – 2022 (Order Release: 25 February 2020)

**Objective:** Aim of CARO 2020 is to enhance the overall quality of reporting by the company auditors.

#### Key Amendments:

- Efficiency and effectiveness of Internal Controls
- Whistleblower policies & Willful Defaulter
- whether funds raised on short term basis have been utilized for long term purposes
- Reporting on Fraud, Internal Audit, Cash losses, Unrecorded Income, Auditor's resignation, Financial Position, CSR Compliance, Going concern assumption. Consolidated Financial Statements: reference to negative remarks in Subsidiary CARO
- **21 clauses to be reported (16 clauses in CARO 2016)**

### Amendments in Schedule III

**Effective:** FY 2021 – 2022 (Order Release: 24 March 2021)

**Objective:** Increase transparency and provide additional disclosures to users of financial statements

#### Key Amendments:

- Relationship with Struck off Companies
- Registration of charges or satisfaction with Registrar of Companies
- Compliance with number of layers of companies
- Compliance with approved Scheme(s) of Arrangements
- Borrowings from Banks & Financial Institution
- Details of Benami Property held & Undisclosed Income
- Disclosure of Ratios
- Crypto Currency or Virtual Currency
- Willful Defaulter & End Use of Funds

## RBI Auditors Appointment Changes 2021

- On April 27, the RBI had released new guidelines for statutory auditors of financial entities to enhance the independence of auditors and tackle concentration issue
- Guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs
- Guidelines require mandatory rotation of auditors after three years with a six-years cooling off period, and appointment of joint auditors in entities having asset size of Rs.15k crores +
- Tenure and Rotation and Restriction brought in
- Statutory Audit Policy

### New auditors: RBI clarifies on tenure, eligibility norms

3 min read . Updated: 14 Jun 2021, 07:15 PM IST


PTI





# MEANWHILE, SAGA CONTINUES

## RISHI AGARWAL THE RISE AND FALL



**1985**  
Rishi Agarwal buys Musudulu Shipyard in Gujarat for a reported Rs 8 lakh

**2000**  
ABG Shipyard issues order to build two Inceptor boats for Coast Guard

**2009**  
Agarwal loses bid for control of offshore driller Great Offshore to Bharati Shipyard

**2011**  
I receives licence to build ships, including submarines, for Indian defence sector

**2013-14**  
The decline begins: company makes a loss of Rs 159 crore

**March 2016**  
Losses balloon to Rs 3,704 crore; revenues fall to Rs 87 crore as new ship orders are cancelled

**July 20, 2016**  
SBI says ABG Shipyard accounts buried NPA with effect from November 30, 2013

**Jan. 18, 2019**  
FY submits forensic audit report of ABG Shipyard's bank account detailing irregularities between April 2012 and July 2017

**Feb. 17, 2022**  
CBI questions Rishi Agarwal

**Feb. 7, 2022**  
CBI files FIR against ABG Shipyard and its board of directors

**Aug. 25, 2020**  
SBI files another complaint against ABG Shipyard

**Jun. 4-Aug. 13, 2020**  
SBI seeks consent from other banks of the consortium to file a complaint against ABG Shipyard

**Mar. 12, 2020**  
CBI seeks clarifications and makes observations pertaining to weak evidence to corroborate the allegations against Agarwal and his company

**Nov. 8, 2019**  
SBI complains to CBI against ABG Shipyard, alleging criminal conspiracy causing wrongful loss of Rs 22,842 crore to a consortium of banks

**June 6, 2019**  
SBI's fraud identification committee submits report declaring ABG Shipyard accounts as fraud

## PMC BANK SCAM WHAT THE WHISTLEBLOWER SAID



Many large borrowers are NPAs, but the bank issues fresh loans in the name of the relatives of the directors or partners of the borrower NPA company

The NPA loans are closed by diverting these fresh loans towards settlement of NPAs

PMC Bank manipulated its net time and demand liabilities (deposits) using HODIL, DHFL cheques

As against the actual NPAs of **9%**, PMC Bank showed NPAs of **1%**

**₹ 250 crore** worth of fake deposits were shown in the system

## FUND DIVERSION

Total estimated diversion is ₹5,050 crore

- YES Bank bought DHFL debenture worth ₹3,700 crore
- Deposits of people's money in bank being used to purchase these debt papers
- In exchange, DHFL gave ₹600 crore to Dolt Ventures without adequate collaterals
- Rana Kapoor's daughters were directors on Dolt Ventures, controlled by Kapoor
- YES Bank also sanctioned loan of ₹750 crore to RKW developers (owned by DHFL promoter)
- Kapoor allegedly diverted ₹2,185 crore to Morgan Credit, one of its holding company
- Besides, the bank's dividends of ₹125 crore and ₹1,100 crore from Nippon MF borrowing also being diverted



## FINANCIAL TIMES

Ministers seek to reassure staff as Carillion collapse sparks anger

As against the actual NPAs of 9%, PMC Bank showed NPAs of 1%

₹ 250 crore worth of fake deposits were shown in the system



## DHFL HOUSE OF CARDS

CRISIL has downgraded DHFL's paper to D from A4+, while Ica cut its rating to D from A4.

DHFL is likely to default on ₹750 crore of commercial paper due on Friday, says Crisil.

MFs have already written down the value of DHFL securities based on valuations by independent agencies.





# **National Financial Reporting Authority**

## NFRA - REVIEW

### **Audit Quality Review Report (AQRR):**

Quality of Auditing is reviewed with respect to the applicable Standards on Auditing

- 22 June 22 | AQRR of audit of IL&FS 2017-18
- 23 September 21 | AQRR of audit of IL&FS ITNL 2017-18
- 27 August 21 | AQRR of audit of JAL 2017-18
- 9 December 2020 | SAQRR of audit of IFIN 2017-18
- 17 August 2020 | AQRR of audit of IFIN 2017-18
- 12 December 2019 | AQRR of audit of IFIN 2017-18

### **Financial Reporting Quality Review Report (FRQRR):**

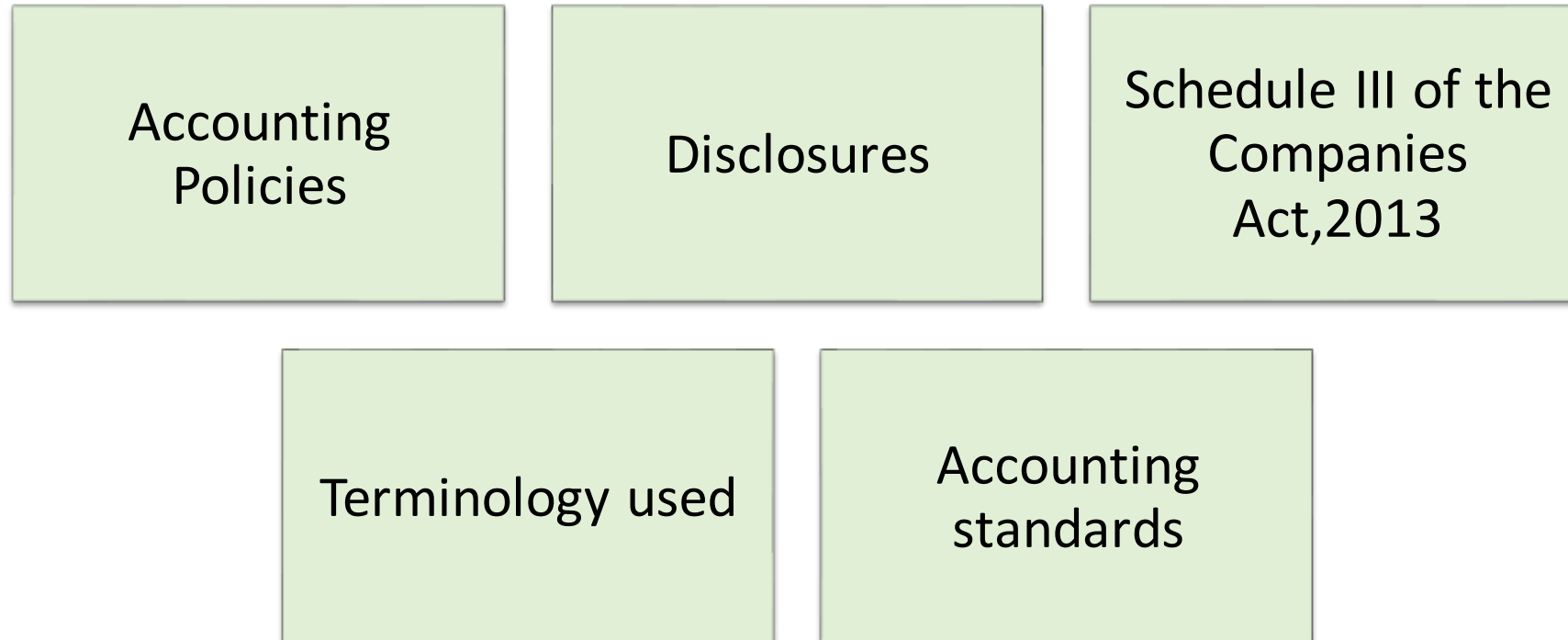
The adequacy and quality of the reporting in financial statements is reviewed with respect to the requirements of the Companies Act, 2013 and accounting standard

- 23 February 22 | FRQRR respect of PSP Projects Limited for the FY 2019-20
- 20 July 22 | FQRR respect of ISGEC Heavy Engineering Limited for the FY 2019-20
- 14 February 22 | FRQRR respect of Prabhu Steel Industries Ltd for the FY 2019-20
- 29 September 21 | FRQRR in respect of KIOCL Ltd for the FY 2019-20

## NFRA – REVIEW: AQRR – KEY ISSUES



## NFRA – REVIEW: FQRR – KEY ISSUES





# **Regulator's Expectation**

## EXPECTATION

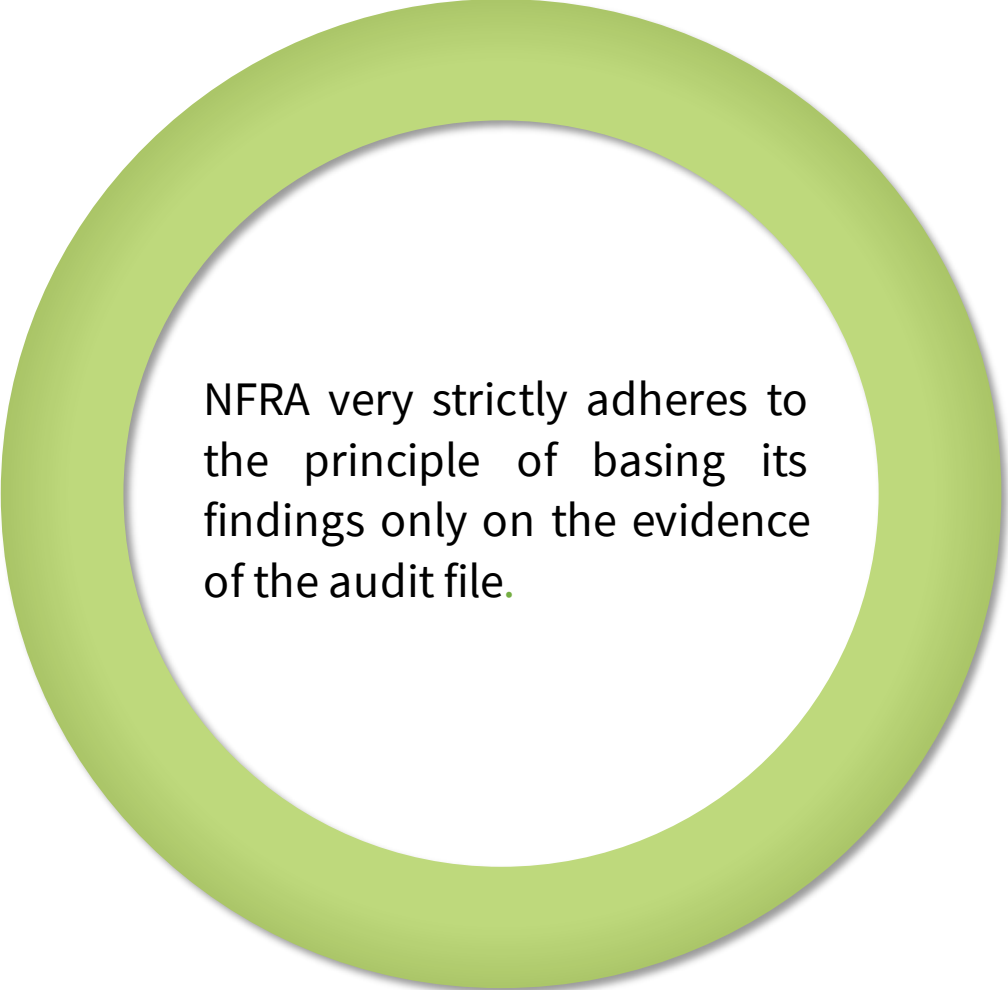
- Crowdsourcing efforts to identify risks as that will help auditors in meeting stakeholders' expectations as well as in looking at new risk areas
- Expectations of stakeholders to be rightly addressed
- Avoid Delivery GAP
- Evolve suitable mechanisms and means for the 'two way' communication between the stakeholders and auditors,
- Leveraging of technology in audit
- Developing global sustainability reporting standards in other areas of environmental and social risks to the business and industry.

# NFRA chairperson says there is a "grave delivery gap" in audits

*One another area where the scope and extent of auditing need to undergo a paradigm shift is in relation to the understanding of business risks, says Ajay Bhushan Pandey.*

## EXPECTATION

- Literal Application of Standards on Auditing
- Work paper to thoroughly demonstrate audit procedure performed
- Use of extensive data analytical tools and other procedures for testing fraud risk
- Evaluation of underlying basis of accounting estimates in very detailed and diligent manner
- Continuous dialogue with TCGW on audit matters including discussion on significant matter
- Proper and structured maintenance of audit evidences
- Strengthen Quality Controls.



NFRA very strictly adheres to the principle of basing its findings only on the evidence of the audit file.


## REVIEW TERMS



- Use of Hindsight Wisdom
- Professional Judgement Questioned
- Malafide Issues vs Bonafide Issue – No Difference
- Surprise element in Audit
- Equal or more importance to compliance with SA as for AS
- Demonstrable Audit Evidence



## Remarks of R. Sridharan, Ex-Chairperson NFRA at WIRC Regional Council



The expectation gap must not be allowed to mask the serious failure of audit to deliver on its own current terms. If auditor delivered on the existing regime reliably and well, the expectation gap would shrink greatly. The delivery gap is far wider than the expectation gap and that is what must be fixed as soon as possible.

The Companies Act, 2013, has built in substantive provisions regarding audit and auditors into the statute. All accounting and auditing standards are now part of subordinate legislation. The auditor's duties are now comprehensively detailed in the law. This includes responsibilities to obtain reasonable assurance (defined as a high, but not absolute, level of assurance) that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

For those who would nevertheless recall the watchdog metaphor with something like nostalgia, I would recommend a read of the Sherlock Holmes short story Silver Blaze. Holmes draws attention to the curious incident of the dog in the night-time, a dog that did nothing, because of the identity of the criminal.



## NFRA's Proposal

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### **E-Locker**

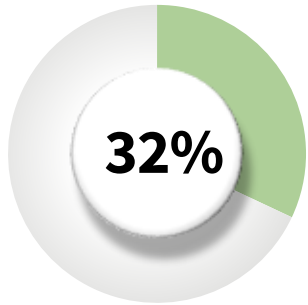
- Contemplating to implement a mechanism for auditors that could help them to keep their files safe in a tamper-proof way.
- similar mechanism like Digi Locker which caters to individuals.
- contemplating the use of technology to curb possible manipulation of records by auditors. Auditors to complete their audit files and bars them from tampering with them in any form later.

### **Annual Transparency Report**

- To enhance the transparency about management and governance of audit firms and their internal policy framework
- To ensure high quality audits and preventing conflict of interest by maintaining independence
- ATR requirements on lines of contemporary international best practices implemented by Independent Audit Regulators in other jurisdiction
- ATR contains critical information about auditors' operational activities, management, governance and ownership structure, and policies and procedures necessary to deliver high-quality audits etc
- ATR information useful to Investors, Audit Committees, Independent Directors and public
- Applicability: Statutory Auditors of Top 1000 Listed Companies (By Market Capitalization) w.e.f FY Ending 31 March 2023
- Publishing : Within 3 month from end of each FY

# **Quality Review Board (2021-22)**

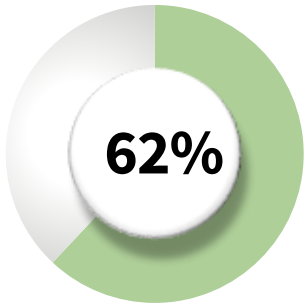
## Overall Trend (FY 2012-13 to FY 2021 -22)



**Generally Acceptable**



**Cases Closed**



**Improvements Required**



**Advisories were issued by QRB**



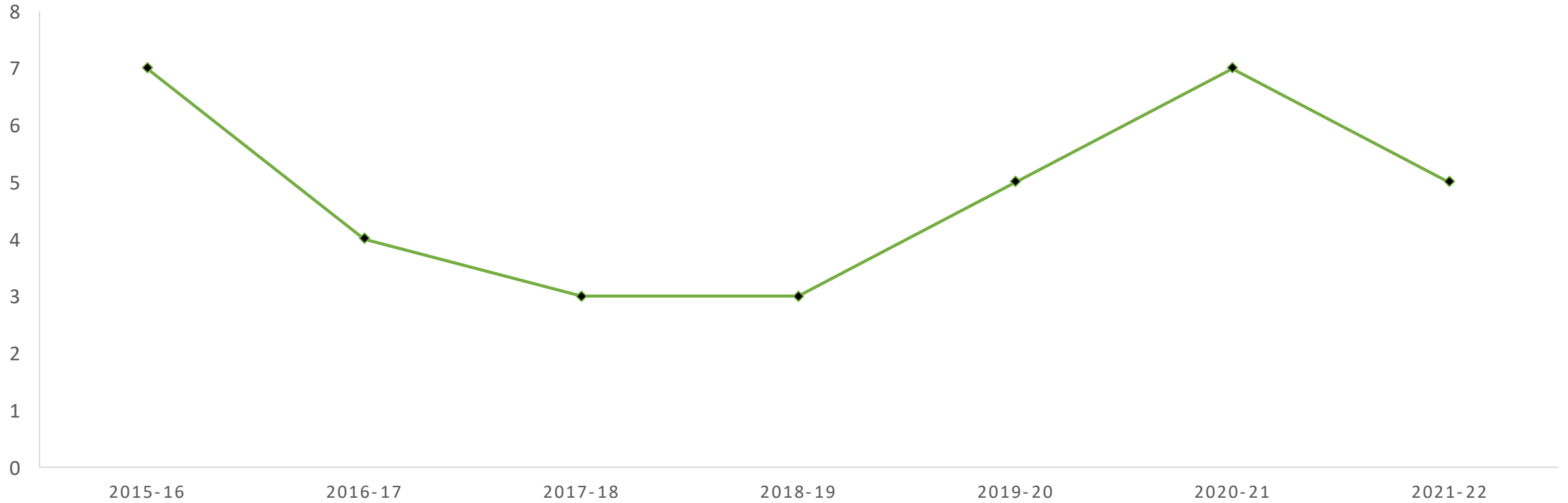
**Significant  
Improvements Required**



**Recommended to ICAI for necessary  
actions**

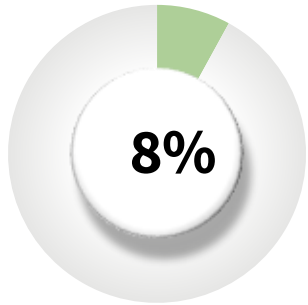
## Overall Trend (FY 2012-13 to FY 2021 -22)

**AVERAGE NO. OF OBSERVATIONS**





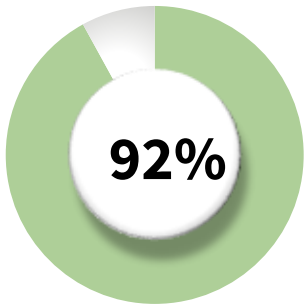
## Key Highlights: FY 2021-22



**Generally Acceptable**



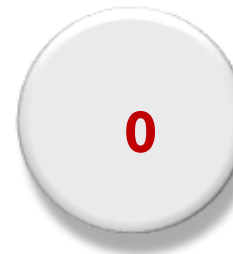
**Cases Closed**



**Improvements Required**



**Advisories were issued by QRB**



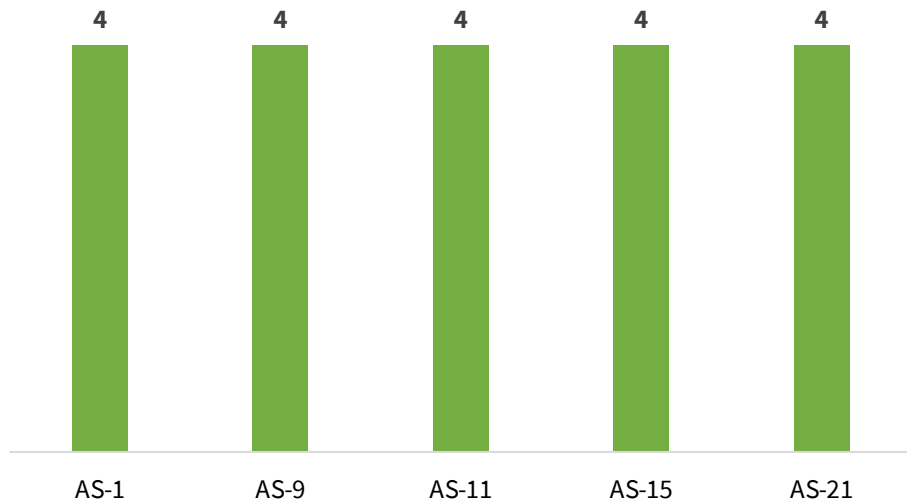
**Recommended to ICAI for necessary actions**

## Standards on Auditing - Observations : FY 2021-22

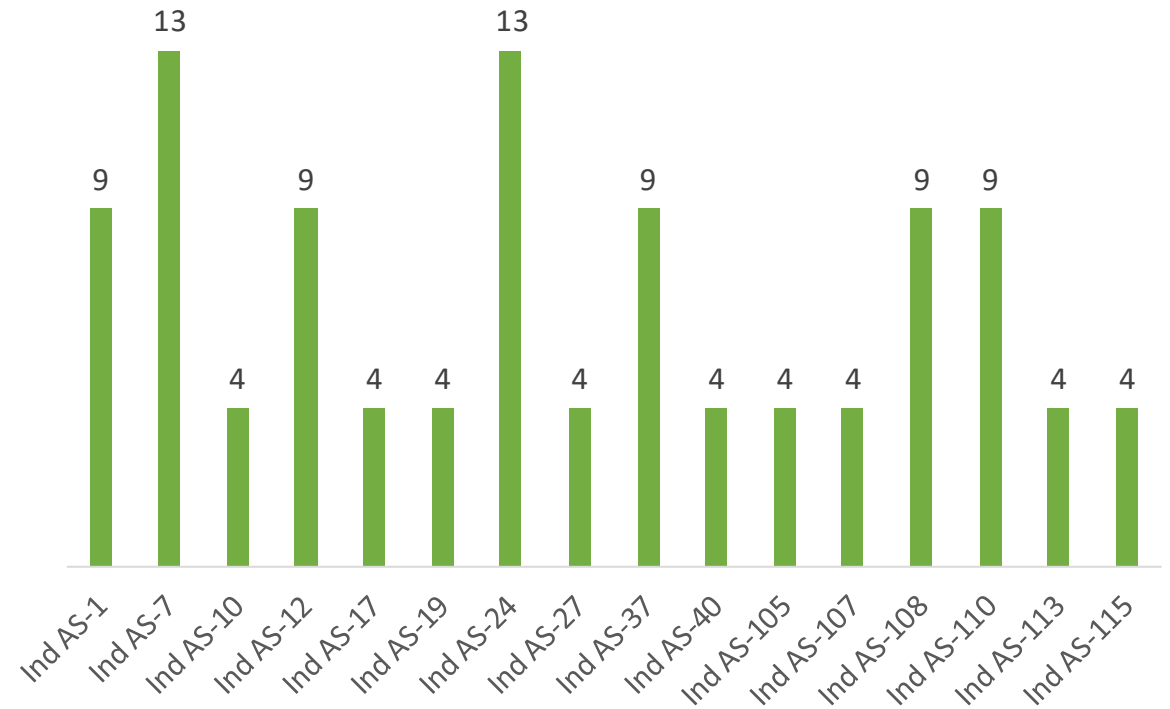


## Accounting Standards - Observations

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



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



# **Brydon Report**

## ASSESS, ASSURE & INFORM - SIR DONALD BRYDON CBE, LONDON

- The Report contained a substantial number of recommendations which should be taken together to stimulate improved quality and effectiveness of audit in the UK
- At the heart of the Report lies the objective of making audit more informative to its users and therefore, by improving the cost and allocation of capital, adding value to the economy as a whole

- **Re-defining Audit Purpose**

“The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”

The Brydon report on audit is out, so what do key stakeholders think of it?



Practice

Written by  
Alison Thomas

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Brydon's report on the future of audit has largely been well received, but its recommendations are so wide-ranging that it's hard to know where to begin



# **Future of Audit**

## AQMM

- **AQMM v1.0 – Evaluation Matrix** – Assessing their current level of **Audit Maturity**, identify areas where competencies are good or lacking and then develop a road map for upgrading to a higher level of maturity.
- The firms auditing the **listed entities or Banks other than co-operative banks (except multi-state co-operative banks) or Insurance Companies** are to **mandatorily assess** their level of audit quality maturity using the AQMM Rev v1.0 from 1st April 2023. (firms doing only branch audits are not covered)
- Total possible points - 600

Section	Total Possible Points
Section 1. Practice Management – Operation	280
Section 2. Human Resource Management	240
Section 3. Practice Management – Strategic / Functional	80
<b>Total</b>	<b>600</b>



- Negative Scoring

## AQMM

- Scores and the level obtained by the firms shall be reviewed by the peer reviewer alongside the peer review cycle
- Level of the firm assessed using AQMM and reviewed by the Peer Reviewer / AQMM Reviewer shall be hosted on the website of the ICAI alongside the date of expiry of the Peer Review Certificate
- AQMM Grading -

Limits	Category	Indication
Up to 25% in each Section	Level 1 Firm	Indicates that the firm is very nascent –will have to take immediate steps to upgrade its competency or will be left lagging behind
Above 25% to 50% in each section	Level 2 Firm	Indicates firm has made some progress - will have to fine-tune further to reach the next level of competency
Above 50% to 75% in each section	Level 3 Firm	Indicates firm has made substantial progress - will have to fine-tune further to reach the highest level of competency
Above 75% in each section	Level 4 Firm	Indicates firms that have made significant adoption of standards and procedures - Should focus on optimising further

## The New Terrain !



- Disrupted 'Traditional' Audit Approach
- Renewed push for 'Audit Reforms'
- Elevated Fraud Risk
- Innovative Business Models
- Tech- Driven Business Environment
- Use of RPA, Machine Learning – Audit Performance
- Refrain Association with tainted names
- Skepticism to Forensic
- Public Interest vs Client Interest



# Thank You

## **kkc & associates llp**

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