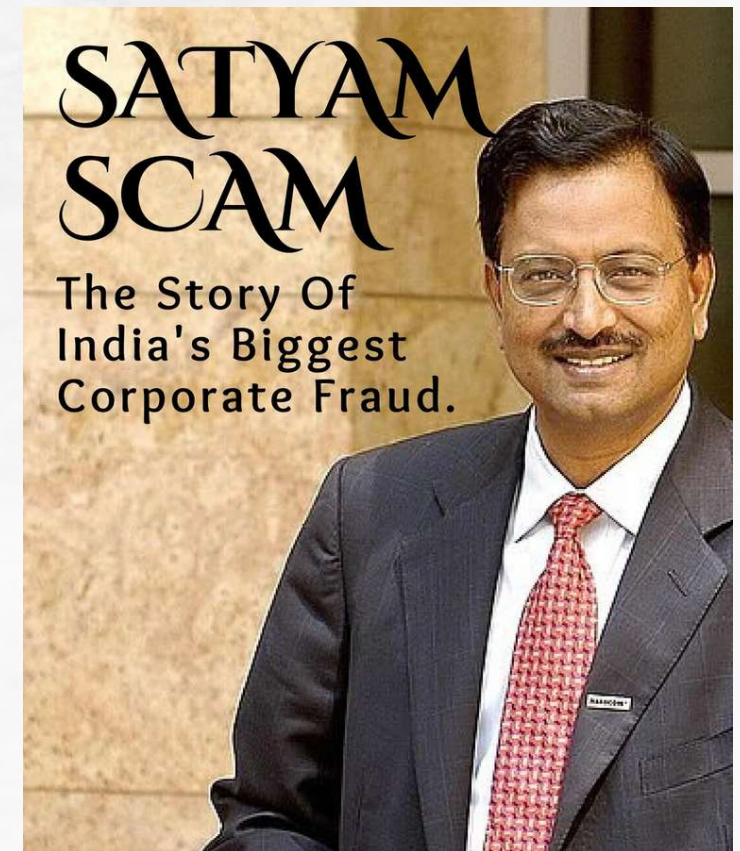


“It's good to learn from your mistakes.

**It's better to learn
from other people's mistakes.”**

Warren Buffett





Learning from Mistakes:

A Deep Dive into Audit Failures

SA - Compliance NFRA - AUDIT Perspective

CA Chintan Shah

Date:
10th Aug 2025

NFRA



National Financial Reporting Authority
Government of India



Agenda

- **NFRA (National Financial Reporting Authority)**

- Composition, Scope, Jurisdiction, Constitution, Present Situation
- Roles & Powers
- Inspections
- Penalties and Debarments

- **Standards on Auditing**

- **Case Studies**

- RELIANCE HOME FINANCE LIMITED
- RELIGAR FINVEST LIMITED
- COFFEE DAY GLOBAL LIMITED
- CMI LIMITED
- SRS LIMITED



SCOPE

- **NFRA oversees accounting and auditing standards in India to ensure transparency and reliability of financial reporting.**
- **It monitors compliance with accounting standards issued under the Companies Act, 2013.**



CONSTITUTION

- **Established under Section 132 of the Companies Act, 2013.**
- **Independent regulatory body under the Ministry of Corporate Affairs.**
- **Comprises members who are experts in the fields of accounting, auditing, law, and finance.**

PRESENT SITUATION

- **NFRA plays a crucial role in enhancing confidence in financial reporting.**
- **Actively collaborates with other regulatory bodies like SEBI and RBI to streamline regulations.**
- **Conducts investigations and imposes sanctions for non-compliance with auditing and accounting standards.**

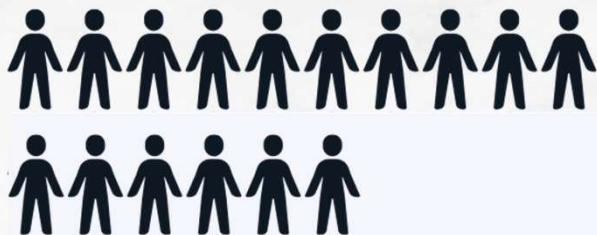


JURISDICTION

NFRA's jurisdiction extends to:

- **Listed companies.**
- **Unlisted public companies whose :**
 - **Net worth \geq Rs. 500 crore; or**
 - **Paid up Capital \geq Rs. 500 crore; or**
 - **Annual turnover \geq Rs. 1000 crore (As on 31st March of the preceding financial year);****OR**
- **Companies whose securities are listed outside India**
- **Certain classes of private companies prescribed by the central government. (No class prescribed currently)**
- **Foreign subsidiaries or associates of Indian companies, if their income or net worth exceeds 20% of the consolidated income or net worth of the Indian company.**

COMPOSITION



**1 CHAIRPERSON &
MAXIMUM 15
MEMBERS**

The NFRA currently is composed of 1 Chairperson, 2 full-time Members and 9 part-time Members.

- Current Chairperson of NFRA - Shri Nitin Gupta is currently Chairperson, since 23rd July, 2025
- Chairperson is an officer of 1986 batch of Indian Revenue Service;
- Member – Accounting;
- Member – Auditing;
- Member – Enforcement;
- One representative of the MCA not below the rank of Joint Secretary or equivalent (ex-officio)
- One representative of RBI, being a member of the RBI Board is to be nominated by the RBI;
- One representative of SEBI, being the Chairman of SEBI or whole-time member of SEBI is to be nominated by SEBI;
- A retired chief justice of high court or a person who has been the judge of a high court for more than 5 years is to be nominated by the Central Government,
- President of the Institute of Chartered Accountants of India (ex-officio)

The Chairman may also invite any other person to the meeting to give their expert opinion.

ROLES & POWERS OF NFRA

◦ Responsibilities of NFRA:

- Recommends accounting and auditing policies and standards.
- Monitors and enforces compliance with these standards.
- Oversees the quality of service provided by professionals like auditors and CFOs, suggesting improvements.
- Performs other related functions as mandated.

◦ Changes from Previous Practice:

- Previously, the Central Government prescribed accounting standards based on ICAI recommendations after consulting the National Advisory Committee on Accounting Standards.
- With NFRA's constitution, ICAI must now consult NFRA and consider its recommendations instead of the National Advisory Committee on Accounting Standards.
- NFRA effectively replaces the National Advisory Committee on Accounting Standards in this process.

◦ Powers of NFRA:

- Investigates professional or other misconduct by prescribed CA firms or CAs.
- Has exclusive jurisdiction once an investigation is initiated; no other authority can proceed with related proceedings.
- Can initiate investigations suo moto or on a reference from the Central Government.

◦ Powers Comparable to Civil Court:

- Can summon and examine persons under oath.
- Has the authority to inspect books, registers, and other documents.
- Issues commissions for witness examinations or document review.

◦ Penalties for Misconduct:

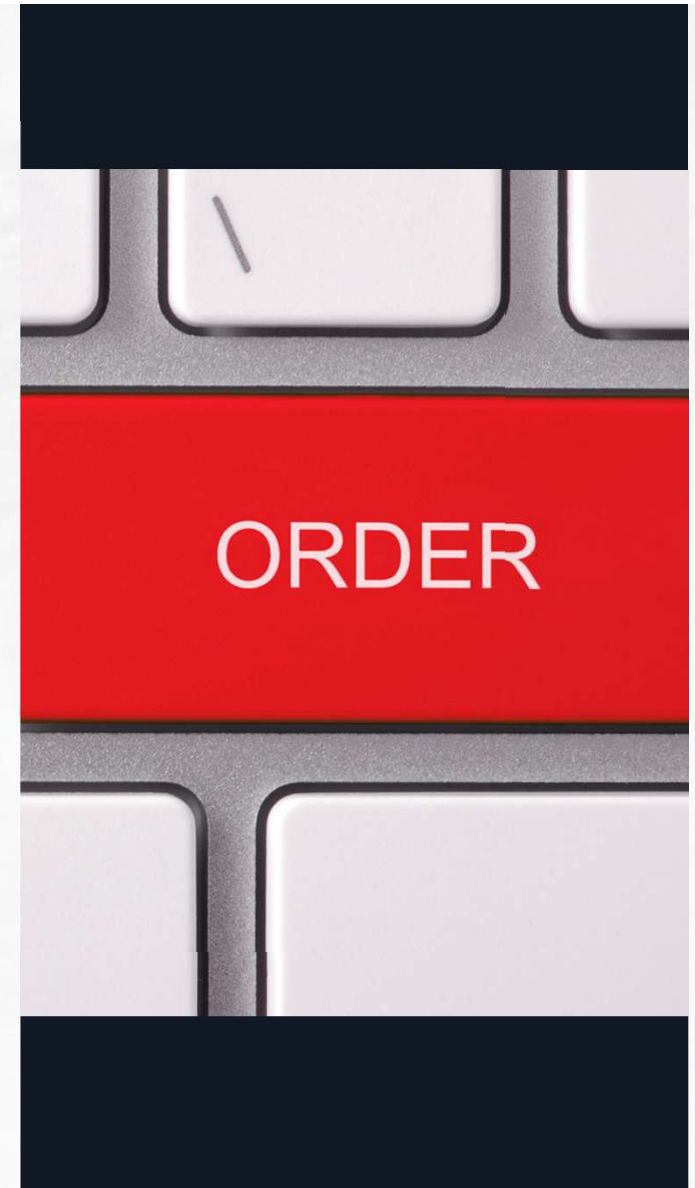
- Individuals: Fine ranging from Rs. 1,00,000 to 5 times the fees received.
- Firms: Fine ranging from Rs. 5,00,000 to 10 times the fees received.
- Can debar members/firms from practicing for 6 months to 10 years, as decided.

◦ Appeal Process:

- Dissatisfied parties can appeal NFRA's decision to the Appellate Authority.



VS



INSPECTED FIRMS- 12

Inspection has been conducted of the mentioned firms so far and the action taken then and order passed refers to a particular client company of the firm.

Walker Chandiok & Co LLP
Inspection Report No. 132.2-2022-05

BSR & Co., LLP
Inspection Report No. 132.2-2022-03

PWCA LLP
Inspection Report No. 132.2-2022-04

SRBC LLP
Inspection Report No. 132.2-2022-01

DHS LLP
Inspection Report No. 132.2-2022-02

Lodha & Co. LLP
Inspection Report No. 132.2-2023-01

Walker Chandiok & Co LLP
Inspection Report No. 132.2-2023-06

M/s Deloitte Haskins & Sells LLP
Inspection Report No. 132.2-2023-07

PWCA LLP
Inspection Report No. 132.2-2023-04

SRBC LLP
Inspection Report No. 132.2-2023-05

MSKA & Associates
Inspection Report No. 132.2-2023-03

BSR & Co., LLP
Inspection Report No. 132.2-2023-02

INSPECTIONS BY NFRA

Selection Process

- NFRA selects audit firms based on:
 - Risk assessments considering factors like firm size, nature of engagements, and public interest.
 - Specific concerns highlighted by government, regulators, or issues in the public domain.
- Criteria include compliance with Companies Act 2013, SQCI, auditing standards, firm-specific policies, and regulatory directives.

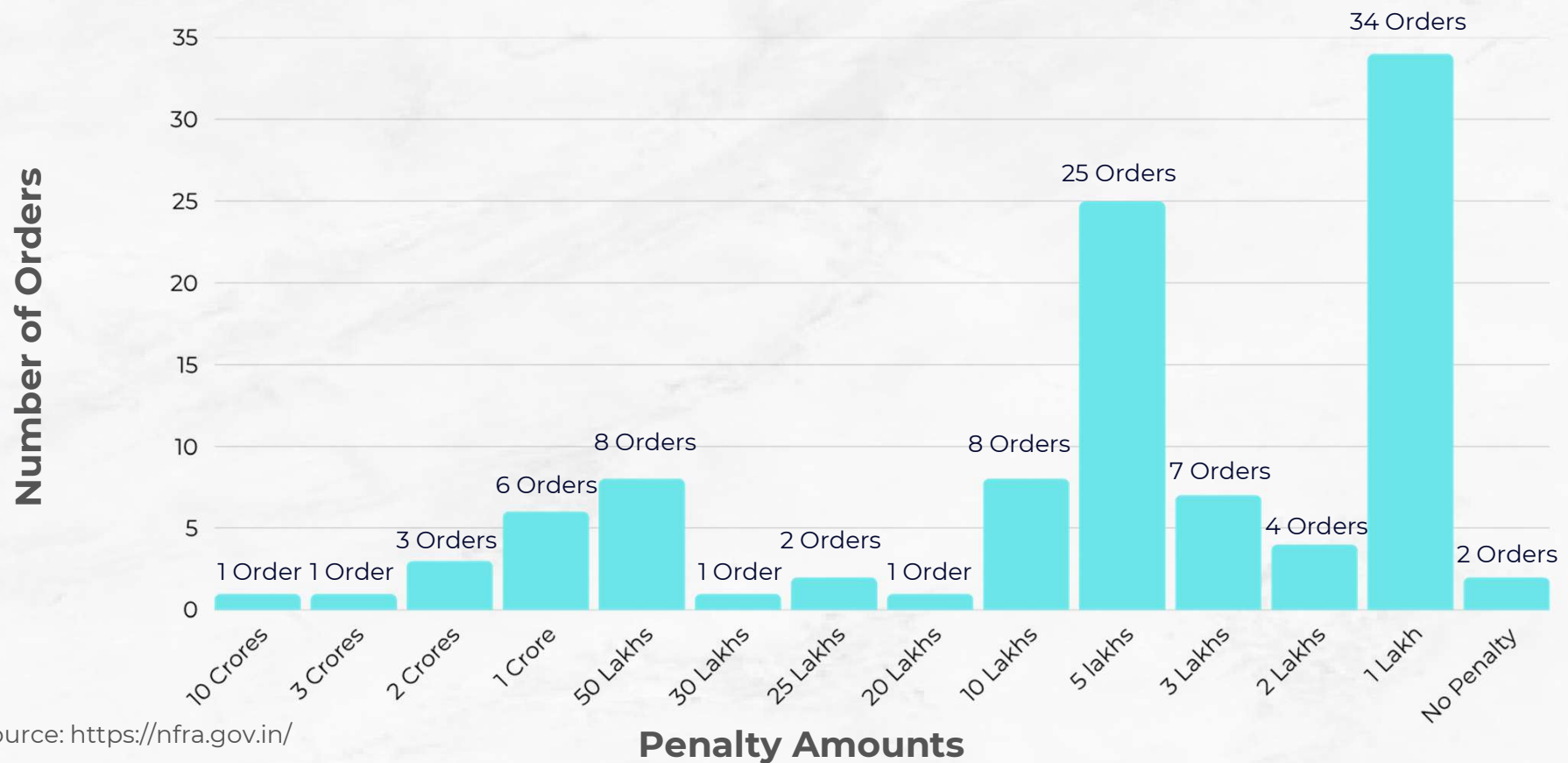
Proceedings

- NFRA conducts audit quality inspections to evaluate compliance with auditing standards and regulatory requirements.
- Methods include:
 - Initial questionnaires and entry meetings to understand firm structure and audit processes.
 - On-site inspections involving interviews, document reviews, and substantive testing.
- Inspection findings are documented in draft reports, including identified non-compliances and recommendations.
- Audit firms respond within 30 days, clarifying positions on identified issues.
- Final inspection reports detail NFRA's conclusions, recommendations, and any enforcement actions required.
- Results are published on NFRA's website, ensuring transparency in audit quality assessments and fostering continuous improvement in audit practices.

Source: <https://nfra.gov.in/>

PENALTIES : NFRA

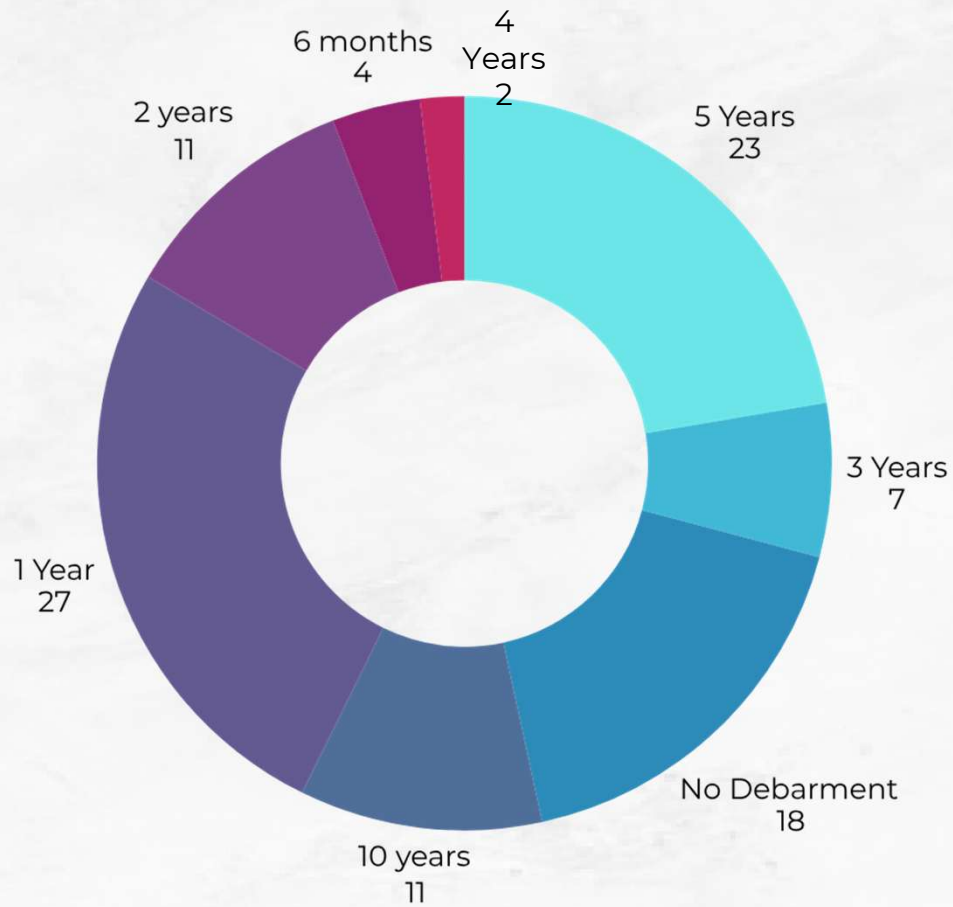
So far, in total 103 orders have been passed by NFRA, here is a chart showing the penalty amounts.



Source: <https://nfra.gov.in/>

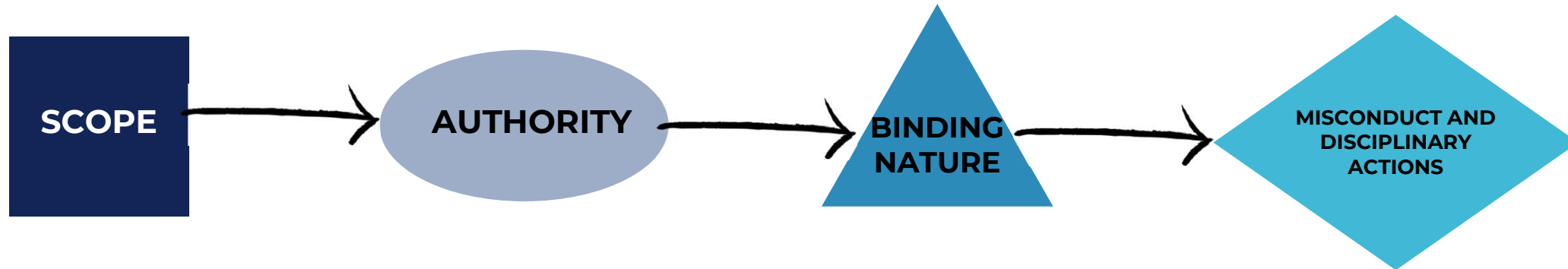
DEBARMENT

Summary of 103 orders



Source: <https://nfra.gov.in/>

STANDARDS ON AUDITING



- Standards on Auditing (SAs) prescribe guidelines for the conduct of audits.
- They cover auditing procedures, responsibilities of auditors, and reporting requirements.
- Aim to ensure audits are conducted with due care and in accordance with applicable laws and regulations.

- Issued by the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI).
- Issuance authority derived from the NFRA under Section 132(2) of the Companies Act, 2013.
- SAs are aligned with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

- SAs are mandatory for all audits of financial statements of all entities.
- Non-compliance may lead to penalties, sanctions, or disciplinary action against auditors.

- Defines misconduct for auditors, including:
 - Breach of auditing standards.
 - Failure to exercise due diligence.
 - Providing misleading information.
- ICAI and NFRA has the authority to investigate complaints and impose sanctions, including fines, suspension, or removal of audit firms or auditors found guilty of misconduct.

STANDARDS ON AUDITING

- **SA 200** - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
- **SA 210** - Agreeing the Terms of Audit Engagements
- **SA 220** - Quality Control for an Audit of Financial Statements
- **SA 230** - Audit Documentation
- **SA 240** - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- **SA 250** - Consideration of Laws and Regulations in an Audit of Financial Statements
- **SA 260** - Communication with Those Charged with Governance
- **SA 265** - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- **SA 299** - Joint Audit of Financial Statements

STANDARDS ON AUDITING

- **SA 300** - Planning an Audit of Financial Statements
- **SA 315** - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- **SA 320** - Materiality in Planning and Performing an Audit
- **SA 330** - The Auditor's Responses to Assessed Risks
- **SA 402** - Audit Considerations Relating to an Entity Using a Service Organisation
- **SA 450** - Evaluation of Misstatements Identified During the Audit

STANDARDS ON AUDITING

- **SA 500** - Audit Evidence
- **SA 501** - Audit Evidence-Specific Considerations for Selected Items
- **SA 505** - External Confirmations
- **SA 510** - Initial Audit Engagements – Opening Balances
- **SA 520** - Analytical Procedures
- **SA 530** - Audit Sampling
- **SA 540** - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- **SA 550** - Related Parties
- **SA 560** - Subsequent Events
- **SA 570** - Going Concern
- **SA 580** - Written Representations
- **SA 600** - Using the Work of Another Auditor
- **SA 610** - Using the Work of Internal Auditors
- **SA 620** - Using the Work of an Auditor's Expert

STANDARDS ON AUDITING

- **SA 700** - Forming an Opinion and Reporting on Financial Statements
- **SA 701** - Communicating Key Audit Matters in the Independent Auditor's Report
- **SA 705** - Modifications to the Opinion in the Independent Auditor's Report
- **SA 706** - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- **SA 710** - Comparative Information—Corresponding Figures and Comparative Financial Statements
- **SA 720** - The Auditor's Responsibilities Relating to Other Information

STANDARDS ON AUDITING

- **SA 800** - Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
- **SA 805** - Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
- **SA 810** - Engagements to Report on Summary Financial Statements
- **2000-2699** Standards on Review Engagements (SREs)
 - **SRE 2400 (Revised)**, Engagements to Review Historical Financial Statements
 - **SRE 2410** “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”

CASE STUDIES



- **RELIANCE HOME FINANCE LIMITED**
- **RELIGARE FINVEST LIMITED**
- **COFFEE DAY GLOBAL LIMITED**
- **CMI LIMITED**
- **SRS LIMITED**



**HOME
FINANCE**

RELIANCE HOME FINANCE LIMITED

Order Passed on 26.04.2024 for the Financial Year 2018-2019

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 200 & SA 300

- SA 300- This SA outlines the responsibility of the auditor to plan the audit effectively.
- It requires communication with the previous auditor (if any), evaluation of client integrity, identification of engagement risks, and development of a strategy to conduct the audit efficiently and effectively.
- SA 200 sets the foundation for auditing standards and requires the auditor to exercise professional skepticism, apply professional judgment, obtain sufficient audit evidence, and issue an independent opinion.

- The EP (Engagement Partner) accepted the audit engagement prior to obtaining a No Objection Certificate (NOC) from the previous auditor, violating Clause 8 of ICAI Code and paragraph 12(b) of SA 300.
- Engagement planning documents were dated before the NOC was received. Despite knowledge of suspected fraud reported by the outgoing auditor, no enhanced procedures were applied.
- This reflects non-compliance with SA 300, poor engagement acceptance practices, and lack of consideration of client integrity as required under SQC 1.
- EP did not demonstrate professional skepticism or conduct meaningful procedures in relation to questionable GPCL disbursements.
- Despite glaring red flags such as related party transactions, loan evergreening, and unrealistic recoverability assumptions, no efforts were made to verify the financial condition of borrowers or assess management biases.
- This amounts to a serious breach of auditor objectivity, competence, and diligence as mandated under SA 200.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

Section 143(12) & SA 240

- Section 143(12) of the Companies Act mandates statutory auditors to report suspected fraud to the Central Government.
- SA requires the auditor to:
 - Maintain professional skepticism throughout the audit
 - Understand the business and its environment including internal control and obtain information
 - Identify and assess the ROMM due to fraud at the financial statement level
 - Identify significant and non-significant risk
- The auditor shall enquire with management about process for identification of ROMM and responses to it
- The auditor shall also refer to the report of internal auditor and ask for assessment of findings
- The auditor shall perform tests for fraud risk due to management override of controls by following methods like test journal entries, test estimates and management biases, test non-recurring transactions and perform analytical procedures

- P W LLP had reported fraud involving ₹7,900 crore to the MCA. EP failed to obtain or analyze the ADT-4 report or relevant correspondence submitted by the previous auditor.
- No procedures were performed to independently examine or refute the suspected fraud.
- The auditor instead relied solely on management explanations and concluded no fraud existed, without evidencing professional skepticism or due diligence.
- EP failed to adhere to SA 240 responsibilities regarding fraud. Despite prior fraud reporting by PW and significant irregularities in GPCL loans, there was no documented fraud risk assessment, nor any substantive testing related to end-use or borrower viability.
- The engagement team did not test for management override, did not analyze unusual journal entries, and did not evaluate known red flags such as shell company borrowers and intercompany fund transfers. NFRA held that EP's audit documentation reflected routine procedures lacking depth, failing to address fraud indicators and control weaknesses.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 570

◦Events or conditions that may cast significant doubt on the entity's ability to continue as a Going Concern:

- Net liability or net current liability position
- Adverse key financial ratios
- Management intentions to liquidate the entity or cease operations
- Loss of key management without replacement

◦Audit procedures relevant to concluding on the going concern:

- Analyzing and discussing cash flow forecasts, profit forecasts, and other relevant forecasts with management
- Analyzing and discussing the entity's latest available interim financial statements
- Reviewing minutes of shareholders' meetings
- Identifying any breaches of loan repayments
- Performing audit procedures related to subsequent events
- Confirming the existence, legality, and enforceability of arrangements for financial support from related and third parties, and assessing their financial capability to provide additional funds

◦RHFL faced multiple adverse indicators such as continued defaults in loan repayments, significant downgrades in credit ratings, and active participation in an Inter-Creditor Agreement (ICA) for restructuring its debt.

◦These conditions clearly signaled material uncertainty regarding RHFL's ability to continue as a going concern. Despite these red flags, the EP relied merely on management's broad and unsupported representations of continued solvency and cited participation in the ICA as a positive sign, without critically examining its implications.

◦The auditor failed to perform essential procedures such as assessing the credibility of cash flow forecasts, analyzing debt repayment schedules, evaluating the feasibility of proposed restructuring measures, or testing management's assumptions under stress scenarios.

◦There was no evidence of obtaining corroborative evidence from external sources or assessing the adequacy of disclosures made in the financial statements.

◦The auditor's report did not contain an Emphasis of Matter or a qualified opinion, despite overwhelming indicators of uncertainty. This demonstrated gross negligence and a direct violation of SA 570 requirements.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 500 & SA 540

- SA 500 – Audit Evidence - This SA establishes the auditor's responsibility to design and perform audit procedures to obtain sufficient and appropriate evidence to support audit opinions.

- SA 540 mandates auditors to evaluate the reasonableness of accounting estimates and management assumptions, especially in areas involving judgment and estimation uncertainty like ECL.

- EP relied solely on management-provided data and verbal explanations. There was no independent verification of GPCL loan recoverability, no end-use confirmation, and no attempt to obtain external confirmations or third-party validation.

- Audit documentation lacked evidence of testing related to borrower financials, internal control assessments, or impairment calculations, thus violating SA 500.

- EP accepted management's ECL estimate of ₹278 crore on a ₹16,251 crore loan book (including ₹7,849 crore GPCL), without verifying assumptions or evaluating borrower credit risk.

- No audit procedures were applied to challenge segmentation, staging criteria, or Probability Default /Loss Given Default inputs.

- The model used was deficient, and its application unverified, leading to gross understatement of expected losses.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 220 & SQC 1

- Scope of Auditor's Responsibilities in SA:

- Quality control procedures for financial statement audits
- Client acceptance and continuation procedures
- Assignment of engagement teams
- Engagement performance

- Responsibilities of the Engagement Partner:

- Ensure appointment of a quality control reviewer
- Discuss significant audit matters with the reviewer
- Do not date or sign the auditor's report until the review process is completed.

- The EQCR partner participated in audit planning meetings before the previous auditor's NOC was obtained, compromising auditor independence and violating ethical requirements.
- There is no documented evidence that the EQCR conducted any independent review of critical risk areas such as the entity's going concern status, ECL impairment evaluation, or indicators of fraud.
- Despite the high-risk nature of the engagement, including ongoing investigations, suspected fraud, and financial instability, the EQCR failed to challenge the audit team's judgments or ensure sufficient audit procedures were performed.
- The audit file lacked any sign-off or commentary by the EQCR on major audit decisions, and no formal quality control review memorandum was prepared.
- At the firm level, there was a complete breakdown of quality control mechanisms. The firm failed to ensure that client acceptance procedures were appropriately followed, including evaluation of the predecessor auditor's fraud findings and verifying the integrity of the new client. There was no documentation of supervision or second-level review of working papers.
- These failures point to systemic deficiencies in the firm's compliance with SQC 1, particularly with respect to independence, engagement acceptance, supervision, and monitoring of audit quality.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 230

- Audit documentation should be sufficient and appropriate to form an audit opinion
- Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand the nature, timing and extent of the audit procedures performed, results of the audit procedures performed and the audit evidence obtained, significant matters, the conclusions reached and significant professional judgments
- Assembly of final audit file
 - Assemble the entire audit file within stipulated time frame
 - Do not alter or change any audit documentation after signing of audit report
 - If exceptional circumstances, then all changes must be reviewed and reason of change must be mentioned

- The audit documentation prepared by the engagement team was severely deficient and non-compliant with SA 230.
- Key documents such as the communication with the previous auditor, the ADT-4 report submitted by Price Waterhouse, fraud risk assessments, going concern evaluations, and documentation of sample selection criteria were either missing, inadequately recorded, or lacking any substantiating evidence.
- NFRA found that even the planning documents were dated prior to receiving the NOC from the previous auditor, indicating procedural violations. Work papers lacked basic elements such as reviewer sign-offs, audit conclusions, indexing for traceability, and references to supporting evidence.
- The documentation also failed to reflect any rationale behind sampling techniques used, population size, or the basis for extrapolating test results. Additionally, assertions made in the auditor's communication to the MCA (regarding internal control checks and substantive testing) could not be corroborated by the audit file. The absence of structured, sequential, and reviewable records demonstrated a gross failure to exercise professional care and fulfill the documentation standards mandated under SA 230.

RELIANCE HOME FINANCE LIMITED

Content of SAs

Explanation of Non Compliance

SA 620

- SA 620 deals with the auditor's responsibilities when using the work of an individual or organization possessing expertise in a field other than accounting or auditing (an "auditor's expert"). When the auditor engages such an expert, SA 620 requires them to:
 - Evaluate the competence, capabilities, and objectivity of the expert.
 - Understand the expert's work and its relevance to the audit.
 - Agree with the expert on the nature, scope, and objectives of their work.
 - Evaluate the adequacy of the expert's findings, and document the relevance and reasonableness of their conclusions.
 - Ensure the expert's findings are based on sufficient appropriate audit evidence.
 - Maintain professional skepticism and ensure consistency with SA 200 and SA 500.

- The Engagement Partner (EP) and audit firm failed to adhere to the requirements of SA 620 while using the work of an auditor's expert.
- Though a legal expert was engaged to assess issues flagged by the predecessor auditor under
 - Section 143(12), the audit file lacked any documentation defining the scope, nature, or objectives of the expert's work. There was no evidence that the EP evaluated the competence, independence, or relevance of the expert's conclusions.
- The auditor's opinion was formed based solely on management's assertions and unverified correspondence, without independently assessing the appropriateness or sufficiency of the expert's findings.
- Furthermore, key documents referred to in the expert's report were not reviewed by the audit team.
- This blind reliance on management-appointed experts, without due diligence or corroboration, demonstrated a lack of professional skepticism and resulted in a misleading audit opinion, in clear violation of SA 620 and SA 500.

PENALTIES



ON THE FIRM

Monetary Penalty : Rs. 1 Crore
Debarment : 10 year debarment
from audit of listed entities.

ON THE PARTNER 1 :

Monetary Penalty : Rs. 50 lakhs
Debarment : 5 Years

ON THE PARTNER 2 :

Monetary Penalty : Rs. 10 lakhs
Debarment : 3 Years



RELIGARE FINVEST LIMITED

Order Passed on 18.03.2024 for the Financial Year 2018-2019

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 540

- SA 540 mandates that auditors must assess the reasonableness of significant accounting estimates made by management, including assumptions, models, and data sources. It requires the application of professional skepticism and corroboration of estimates using reliable and sufficient audit evidence.
- The auditor must also evaluate whether the estimates are consistent with historical data, observable inputs, and aligned with the applicable financial reporting framework.

- The EP did not challenge the ECL methodology despite it being based on outdated, overly optimistic recovery assumptions.
- The provisioning on NPAs was significantly understated. Documentation lacked evidence of validation of probability of default (PD), loss given default (LGD), or segmentation criteria.
- The EP failed to involve any expert or specialist despite the complexity of the ECL model, breaching SA 540.
- The EP also failed to exercise professional skepticism and did not obtain sufficient evidence to justify the recognition of a Deferred Tax Asset (DTA) of ₹495.63 crores.
- No audit procedures were documented to confirm whether there was 'virtual certainty' that future taxable income would be available for realization of the DTA, as required under AS 22.
- The auditor merely relied on management's assertions and presented audit plans without actual execution of procedures.
- NFRA noted the misuse of terminology such as 'reasonable certainty' instead of the mandated 'virtual certainty'.
- The failure to independently assess future profits, and the acceptance of internal emails without audit corroboration, reflected a severe breach of professional diligence and a clear violation of SA 540.

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 240

- SA requires the auditor to:
 - Maintain professional skepticism throughout the audit
 - Understand the business and its environment including internal control and obtain information
 - Identify and assess the ROMM due to fraud at the financial statement level
 - Identify significant and non-significant risk
- The auditor shall enquire with management about process for identification of ROMM and responses to it
- The auditor shall also refer to the report of internal auditor and ask for assessment of findings
- The auditor shall perform tests for fraud risk due to management override of controls by following methods like test journal entries, test estimates and management biases, test non-recurring transactions and perform analytical procedures
- Additionally, Section 143(12) of the Companies Act mandates statutory auditors to report suspected fraud to the Central Government

- EP (Engagement Partner) failed to adhere to SA 240 responsibilities regarding fraud.
- Despite clear red flags such as large-scale loan defaults, round-tripping of funds, and dealings with suspected shell companies, the audit documentation showed no evidence of enhanced risk assessment or targeted testing.
- Internal controls around disbursements and related party transactions were not independently evaluated.
- Journal entries were not tested and there was no examination of high-risk related party transactions, particularly involving management influence.
- NFRA also noted that generic audit procedures were copy-pasted from templates without tailoring them to the specific fraud risks of the entity

To Be Continued ----->

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 240

- The EP's failure to document inquiry outcomes with those charged with governance, and lack of internal team brainstorming sessions, further indicated non-compliance with SA 240.
- NFRA observed that the audit file lacked critical documentation supporting the existence of internal control checks, fraud risk procedures, or testing of anomalies.
- The response to significant fraud indicators was mechanical and unsubstantiated.
- Ultimately, NFRA concluded that the auditor not only failed to identify and respond to fraud risks but also falsely represented having done so, constituting gross professional misconduct and a direct violation of SA 240 and responsibilities under the Companies Act.
- Additionally, the auditor failed to report suspected fraud to the Central Government as mandated under Section 143(12), further compounding the severity of the violation.

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 705

- SA 705 deals with the auditor's responsibility to express a modified opinion when the auditor concludes that the financial statements are materially misstated or when sufficient appropriate audit evidence could not be obtained.
- It outlines three types of modifications based on the severity and pervasiveness of issues identified: **Qualified Opinion**, **Adverse Opinion**, and **Disclaimer of Opinion**.
- The Standard mandates that where material misstatements are both **pervasive** and fundamental to the financial statements, the auditor must issue an **adverse opinion**.
- Similarly, if audit evidence is insufficient and the potential effects are material and pervasive, a **disclaimer** is warranted.

- In the case of Religare Finvest Ltd., the auditor failed to comply with SA 705.
- Despite major audit issues such as the impairment of investments, unjustified recognition of deferred tax assets (DTA), and frauds detected in the corporate loan book, the EP issued only a **qualified opinion** on the standalone financial statements and a **disclaimer of opinion** on the report relating to Internal Financial Controls over Financial Reporting (IFCoFR).
- Given the pervasive nature of audit failures, material uncertainties, and lack of sufficient appropriate audit evidence, the situation warranted an **adverse opinion** under SA 705.
- The auditor's failure to appropriately modify the opinion misled users of the financial statements and reflected a serious breach of professional responsibility under this Standard.

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 500

- SA 500 requires auditors to design and perform audit procedures to obtain sufficient appropriate audit evidence to support their opinion.
- Evidence must be relevant and reliable, and may be obtained through inspection, observation, external confirmations, recalculation, reperformance, and analytical procedures.
- The standard emphasizes the need to evaluate the credibility of management's responses and corroborate information with independent sources, especially in areas involving judgment, risk, or material balances.
- It further stresses that audit evidence obtained from independent external sources is generally more reliable than internally generated information.
- The auditor must consider both the quantity and quality of audit evidence to ensure it is sufficient to reduce audit risk to an acceptably low level.

- The EP failed to obtain adequate and reliable audit evidence throughout key areas of the engagement.
- The audit team relied almost entirely on management explanations for critical assertions without conducting independent verification. No direct confirmations were sought from lenders, no evidence of review or testing of loan agreements or board approvals was found, and no procedures were performed to trace the end use of disbursed funds.
- There was also a complete absence of third-party confirmations or external validations for balances and impairments. NFRA found that the audit file lacked evidence supporting key conclusions—particularly for impairment testing, recoverability of loans, and classification of NPAs.
- Further, no walkthroughs or control tests were performed over the loan approval and disbursement process, despite it being the primary source of misstatement and suspected fraud.

To Be Continued ----->

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 500

- In multiple instances, conclusions appeared to be backfitted to align with management's narrative. The EP failed to demonstrate how the audit evidence obtained was sufficient or appropriate in nature and extent to reduce audit risk to an acceptably low level. These omissions led NFRA to conclude that the audit opinion was baseless and not supported by the evidentiary requirements mandated under SA 500.
- NFRA also observed that the auditor failed to verify the legitimacy of investments made by the company in several suspected bogus entities. No procedures were documented to validate the existence, operations, or financial standing of these investee companies.
- Furthermore, loans were issued to multiple counterparties without any assessment of their creditworthiness or verification of supporting credentials.
- There was no audit trail demonstrating how these borrowers were evaluated for risk or repayment capacity.
- These lapses not only signify a breach of SA 500's requirement for reliable and sufficient evidence but also expose serious gaps in the audit team's due diligence process over core financial activities.

RELIGARE FINVEST LIMITED

Content of SAs

Explanation of Non Compliance

SA 230

- Audit documentation should be sufficient and appropriate to form an audit opinion
- Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand the nature, timing and extent of the audit procedures performed, results of the audit procedures performed and the audit evidence obtained, significant matters, the conclusions reached and significant professional judgments
- Extent of audit documentation is based on the factors like size and complexity of the entity, audit evidence obtained & its significance, audit methodology, identified risks of material misstatement
- Assembly of final audit file
 - Assemble the entire audit file within stipulated time frame
 - Do not alter or change any audit documentation after signing of audit report
 - If exceptional circumstances, then all changes must be reviewed and reason of change must be mentioned

- The audit file was found to be grossly deficient. Important documentation like risk assessment procedures, sampling basis, and review notes were missing.
- Key sections, including fraud risk evaluation and internal control testing, were generic or copied from templates.
- No review trail was found by the EQCR, indicating non-compliance with SA 230 and 220.
- Audit working papers lacked indexing, version control, and evidence of supervisory review, resulting in a file that was disorganized and untraceable.
- Assertions made in the audit report and communications with regulators were not backed by any documented audit work, making it impossible to determine whether procedures were actually performed or simply recorded post-facto.

PENALTIES



ON THE PARTNER :

Monetary Penalty :	Rs. 5 lakhs
Debarment :	5 Years



COFFEE DAY GLOBAL LIMITED

Order Passed on 12.04.2023 for the Financial Year 2018-2019

COFFEE DAY GLOBAL LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, 220 & SQC 1

Objective of auditor:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance means high, but not absolute level of assurance. In case reasonable assurance cannot be obtained then auditor has to modify its audit opinion.
- To maintain professional skepticism and have a questioning mind, remain alert to conditions which may indicate possible misstatement
- To comply with ethical requirements such as: Independence, Integrity, Confidentiality, Professional behavior and professional competence. The standard guides in obtaining sufficient and appropriate audit evidence to reduce the audit risk to acceptably low level
- The auditor's responsibilities encompass quality control procedures, client acceptance assessments, team assignments, and ensuring thorough engagement performance.
- The engagement partner specifically oversees the appointment of a quality control reviewer, discusses significant audit matters with them, and refrains from signing the auditor's report until the review process is satisfactorily concluded.
- These measures ensure audits are conducted with integrity and in accordance with professional standards.

◦The Auditors failed to perform appropriate audit procedures to evaluate and maintain their independence.

◦In spite of Auditors having independence threat, they accepted the audit engagement as statutory auditor by disregarding and grossly violating the principle of independence mentioned in standards of auditing and **code of ethics**.

◦In view of this, the charge stands proved that the Auditors have violated SQC 1, SA 200 and SA 220.

COFFEE DAY GLOBAL LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, 220, **230** & SQC 1

- Audit documentation should be sufficient and appropriate to form an audit opinion
- Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand the nature, timing and extent of the audit procedures performed, results of the audit procedures performed and the audit evidence obtained, significant matters, the conclusions reached and significant professional judgments
- Extent of audit documentation is based on the factors like size and complexity of the entity, audit evidence obtained & its significance, audit methodology, identified risks of material misstatement
- Assembly of final audit file
 - Assemble the entire audit file within stipulated time frame
 - Do not alter or change any audit documentation after signing of audit report
 - If exceptional circumstances, then all changes must be reviewed and reason of change must be mentioned

- Auditors used editable Excel files without security features, allowing 68 out of 87 files in the Audit File to be modified between NFRA's request and submission dates.
- Two new files ("Planning Compliance & Review Summary" and "Deferred Tax (Working)") were created after NFRA requested the Audit File.
- These actions violate SA 230, as they constitute tampering with audit documentation.
- SA 200, SA 220, and SQC-1 require auditors to uphold **ethical principles such as integrity and professional behavior.**
- The Audit File should have been assembled within 60 days of signing the audit report, which the auditors did not comply with.
- Auditors displayed unprofessional behavior by delaying responses to NFRA's communications via email and letter.

COFFEE DAY GLOBAL LIMITED

Content of SAs

Explanation of Non Compliance

CARO 2016 and SA 200, SA 240, SA 315, SA 330 and SA 550.

- The scope of this SA is the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- SA requires the auditor to:
 - Maintain professional skepticism throughout the audit
 - Understand the business and its environment including internal control and obtain information
 - Identify and assess the ROMM due to fraud at the financial statement level
 - Identify significant and non-significant risk
- The auditor shall enquire with management about process for identification of ROMM and responses to it
- The auditor shall also refer to the report of internal auditor and ask for assessment of findings
- The auditor shall perform tests for fraud risk due to management override of controls by following methods like test journal entries, test estimates and management biases, test non-recurring transactions and perform analytical procedures

- The company engaged in ever greening loans and round-tripping funds to understate liabilities to MACEL.
- Group companies did not repay these loans, but financial statements were manipulated to hide the true financial position.
- MACEL had negligible business operations, negative net worth, and was used to siphon funds by promoters.
- There was ample evidence that MACEL lacked financial strength to repay loans, necessitating impairment loss recognition and write-offs.
- The company failed to recognize impairment losses and write off non-recoverable loans as required by IND AS 109.
- Auditors did not question management or conduct adequate audit procedures to verify compliance with IND AS 109.

COFFEE DAY GLOBAL LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, SA 240, **SA 315**, SA 330 and CARO.

SA 315 guides auditors in identifying and assessing risks of material misstatement in financial statements.

- Auditors must understand the entity's environment, including its operations, industry, and regulatory framework.
- They assess entity-level risks by evaluating the entity's risk assessment processes and its responses to identified risks.
- Internal controls are evaluated to determine their design and effectiveness in preventing or detecting material misstatements.
- Risks are assessed at the assertion level for transactions, account balances, and disclosures in the financial statements.
- Audit procedures are designed and performed based on assessed risks to gather sufficient audit evidence.
- Documentation of all significant audit decisions and findings is crucial throughout the audit process.
- The audit approach is iterative; if new information affects the assessed risks, procedures are adjusted accordingly.

◦Lack of evidence supporting valid business reasons for round-trip fund transfers indicated misappropriation at CDGL, resulting in material misstatements and fraud in financial statements.

◦Auditors failed to exercise necessary professional skepticism to assess fraud risk and did not conduct additional audit procedures or question these transactions adequately.

◦Section 143(1)(b) of the Act mandates auditors to inquire into transactions represented solely by book entries for potential harm to company interests, a duty the auditors did not fulfill.

◦Violations include sections 143(1)(b) and 143(12) of the Act, and standards SA 200, SA 240, SA 315, and SA 330.

◦Additionally, the auditors failed to comply with CARO requirements based on the outlined analysis.

COFFEE DAY GLOBAL LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, SA 240, SA 315 and SA 330

Overall Response to Risks at Financial Statement Level :

- Risk of material misstatement at the financial statement level is the risk that the financial statements do not accurately reflect the entity's financial position.
- Auditor's Responses include introducing unpredictability in audit procedures (timing, selection criteria), adjusting audit procedures for thoroughness (shift timing of substantive tests), emphasizing professional skepticism and using experienced staff, assessing control environment to ensure reliability of internal controls.
- Audit Procedures for Assertion-Level Risks include approaches like test controls for effectiveness where reliable, conducting substantive procedures where controls are inadequate, combining testing of controls with substantive procedures as needed.
- Design of Audit Procedures include tailoring procedures based on inherent and control risks for each financial statement element and ensuring audit evidence obtained matches the level of risk identified.
- These actions help auditors gather sufficient evidence to verify the accuracy of financial statements and maintain audit quality.

- Internal financial controls at CDGL were nonexistent in the release of supplier advances, loans, and banking transactions, with management overriding controls in these areas.
- Auditors are required to disclose any significant deficiencies or material weaknesses in internal controls, but they falsely reported that CDGL had adequate internal financial controls and that these were operating effectively.
- The auditors' claim of providing a disclaimer of opinion is incorrect; they actually issued an unmodified opinion.
- Additionally, auditors neglected to report Related Party Transactions as per the provisions of the Act which was a violation of SA 550 as well.
- Auditors failed to fulfill statutory duties under SA 200, SA 240, SA 315, and SA 330, and violated sections 143(1)(b), 143(3)(e), 143(3)(i), and 143(12) of the Act.

PENALTIES



ON THE FIRM

Monetary Penalty :	Rs. 10 crores
Debarment :	2 Years

ON THE PARTNERS

Partner 1 :

Monetary Penalty :	Rs. 50 lakhs
Debarment :	5 Years

Partner 2 & 3 :

Monetary Penalty :	Rs. 25 lakhs each
Debarment :	5 Years



CMI : WIRES | CABLES | CONDUCTORS

CMI (Choudhari Metal Industries) LIMITED

Order Passed on 26.04.2024 for the Financial Years 2019-2020, 2020-21 and 2021-22.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 700

- The primary objective of the audit process is to enable auditors to form a precise opinion on the accuracy of financial statements, ensuring they are free from material misstatement, whether due to error or fraud. This involves a comprehensive evaluation of the audit evidence gathered, assessing the adherence of the financial statements to the applicable financial reporting framework.
- This assessment is crucial in determining the type of opinion to be expressed in the auditor's report. An unmodified opinion is issued when auditors conclude that the financial statements present a true and fair view in accordance with the reporting framework. In cases where auditors identify material misstatements or are unable to gather sufficient appropriate audit evidence, they may issue a modified opinion. This could take the form of a qualified opinion if the issues are specific and limited, an adverse opinion if the issues are pervasive and severe, or a disclaimer of opinion if they cannot express an opinion due to insufficient evidence.
- Furthermore, auditors may choose to emphasize certain matters in their report that they believe are crucial for stakeholders' understanding, even if these matters do not affect the audit opinion.
- The auditors faced allegations of not adhering to SA 700 by issuing opinions on CMIL's financial statements without obtaining sufficient audit evidence, as required by Paragraph 11. Despite claiming compliance with auditing standards in their response to the Show Cause Notice (SCN), subsequent audit reviews identified multiple material misstatements in CMIL's financial statements for several fiscal years. These findings suggested that the auditors had certified the financial statements as accurate without conducting thorough audits, undermining stakeholder trust. Such lapses not only indicate a failure to apply auditing standards properly but also reflect a concerning approach in auditing a Public Interest Entity (PIE).
- The auditor's opinion is crucial as it assures stakeholders of the accuracy and reliability of financial statements. Therefore, issuing opinions without adequate evidence constitutes gross negligence and breaches the trust placed by users of financial statements. The auditors' response to the accusations was found inadequate, underscoring the importance of auditors' responsibilities in upholding the integrity and reliability of financial reporting for stakeholders' confidence.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 705, SA 706 and SA 200

◦ Emphasis of Matter (EOM) Paragraphs:

- Used in the auditor's report for crucial matters in the financial statements, placed under "Emphasis of Matter" with references to FS disclosures. It does not alter the auditor's opinion. Examples include uncertainties in litigation outcomes or early adoption of accounting standards.

◦ Other Matter Paragraphs (OMP):

- Used for non-FS matters relevant to user understanding, placed under "Other Matter" in the auditor's report, is not prohibited by law/regulation and not a critical audit matter. Example includes constraints affecting audit scope by management.

Auditors discuss EOM or OMP inclusion with those charged with governance as it ensures transparency and agreement on report content.

◦ The audit firm faced charges for failing to report a material misstatement in their audit report concerning CMIL's non-accounting of liabilities towards banks/financial institutions after those liabilities became Non-Performing Assets (NPAs). This omission violated Ind AS 109 and constituted a "Misstatement" as per SA 200.

◦ Instead of modifying their opinion in line with SA 705, the auditors presented the issue as an Emphasis of Matter (EoM).

◦ They claimed to have qualified their opinion based on the company's loans being declared NPAs by banks, but their report indicated qualification based on CMIL's going concern.

◦ The auditors should have qualified the misstatement amount and modified their opinion in accordance with SA 705, rather than merely presenting it as EoM. SA 706 clearly suggests that EoM paragraph cannot be used as a substitute for a modified audit opinion.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 570

- Management's role in assessing the entity's going concern includes evaluating financial, operational, and other indicators to determine its ability to continue operations. They disclose any material uncertainties affecting this assessment but are not required to disclose if none exist.
- Auditors, in turn, gather sufficient audit evidence to evaluate the adequacy of management's assessment. If significant uncertainty exists, auditors review management's plans and forecasts. Their procedures involve assessing the reasonableness of management's assumptions, inquiring about events beyond the assessment period, and evaluating the feasibility of management's plans.
- In reporting, auditors issue an adverse opinion if they believe management's assessment is inappropriate. If appropriate with disclosure, they highlight this in their report. If management's assessment is appropriate but lacks disclosure of material uncertainties, auditors may issue a qualified or adverse opinion. If no material uncertainty exists, auditors review disclosure per financial reporting standards.
- This rigorous process ensures transparency in financial reporting regarding the entity's ability to operate as a going concern.

- During FY 2020-21, CMIL showed declining financial indicators raising doubts about its ability to continue as a going concern. The audit lacked evidence of management's formal assessment of CMIL's going concern status.
- Auditors accepted management's explanation without documented communication or supporting evidence. They did not evaluate the appropriateness of management's use of the going concern basis. No additional audit procedures were performed despite indicators suggesting potential material uncertainty.
- Auditors must gather sufficient evidence supporting management's going concern assessment. They should evaluate the appropriateness of using the going concern basis and perform additional procedures if indicators suggest material uncertainty.
- The audit lacked thoroughness in assessing CMIL's going concern status, raising concerns about compliance with auditing standards and documentation requirements.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, SA 240 and SA 315

- The scope of this SA is the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
 - SA requires the auditor to:
 - Maintain professional skepticism throughout the audit
 - Understand the business and its environment including internal control and obtain information
 - Identify and assess the ROMM due to fraud at the financial statement level
 - Identify significant and non-significant risk
 - The auditor shall enquire with management about process for identification of ROMM and responses to it
 - The auditor shall also refer to the report of internal auditor and ask for assessment of findings
 - The auditor shall perform tests for fraud risk due to management override of controls by following methods like test journal entries, test estimates and management biases, test non-recurring transactions and perform analytical procedures
- SA 240 mandates auditors to evaluate revenue transactions and assertions for potential fraud risks (Paragraph 26) and requires documentation if they conclude no fraud risk exists (Paragraph 47).
 - However, audit findings revealed deficiencies: auditors verified through GST returns and reconciliations without adequate supporting evidence, omitted documentation of key audit procedures, and failed to assess revenue recognition against company policy.
 - Assertions such as occurrence, completeness, and accuracy of revenue lacked sufficient verification, with missing GST returns and sample invoices further weakening their position.
 - These actions led to accusations of gross negligence and inadequate due diligence, indicating a failure to meet auditing standards and regulatory expectations.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 230

- Audit documentation should be sufficient and appropriate to form an audit opinion
- Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand the nature, timing and extent of the audit procedures performed, results of the audit procedures performed and the audit evidence obtained, significant matters, the conclusions reached and significant professional judgments
- Extent of audit documentation is based on the factors like size and complexity of the entity, audit evidence obtained & its significance, audit methodology, identified risks of material misstatement
- Assembly of final audit file
 - Assemble the entire audit file within stipulated time frame
 - Do not alter or change any audit documentation after signing of audit report
 - If exceptional circumstances, then all changes must be reviewed and reason of change must be mentioned
- SA 230 requires thorough audit documentation detailing procedures, results, significant matters, and judgments, including tested items, personnel, and reviews.
- However, auditors faced charges for inadequate documentation, claiming previously submitted documents sufficient, including physical verifications and balance confirmations.
- Critical working papers like inventory checks and loan agreements were missing, and none of the documents were signed, dated, or sealed by the audit firm. Their explanation of office relocation was deemed unacceptable.
- This failure to meet SA 230 standards underscored negligence and lack of diligence, leading to significant consequences due to insufficient and vague responses.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 501

◦SA 501 aims to guide auditors in obtaining sufficient appropriate audit evidence regarding inventory, litigation and claims involving the entity, and segment information in financial statements.

◦Inventory:

- Auditors must assess the existence and condition of inventory through procedures like physical counting, evaluating management's procedures, and inspecting inventory records. If physical inventory counting is conducted at a date other than the financial statement date, additional procedures are required to verify changes in inventory.

- Inventory Held by Third Parties : When significant, auditors verify inventory held by third parties through confirmation or alternative audit procedures, ensuring sufficient evidence of existence and condition.

◦Auditors should identify and evaluate litigation and claims' potential impact on financial statements by communicating with External Legal Counsel and Written Representations from management.

◦Auditors evaluate the presentation and disclosure of segment information in financial statements, ensuring compliance with the applicable financial reporting framework.

◦The auditors faced serious allegations for failing to comply with SA 501 requirements regarding inventory verification. SA 501 mandates auditors to obtain sufficient appropriate evidence through physical counting or examination of final inventory records when inventory is material.

◦Audit reviews revealed no evidence of inventory verification in the Audit File for the fiscal years 2019-20, 2020-21, and 2021-22. The stock-taking documents submitted were also deemed inconclusive. Consequently, the auditors' response was deemed misleading and insufficient, indicating gross negligence in compliance with SA 501.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 320

◦SA 320, "Materiality in Planning and Performing an Audit," defines materiality as the threshold beyond which misstatements in financial statements could influence economic decisions of users. It encompasses both quantitative amounts and qualitative disclosures, such as accounting policies.

◦Materiality is not absolute but relative, varying based on factors like the entity's size and nature. Auditors consider several factors when determining materiality, including impact on trends, compliance with contracts, and the significance of affected financial statement items.

◦Types of materiality include overall, performance, specific, and specific performance materiality, each serving different purposes in auditing. Overall materiality is established using benchmarks relevant to users' financial information needs, ensuring financial statements are reliable for decision-making.

◦The auditors faced allegations of not adhering to SA 320 by failing to determine and document materiality for the Financial Statements, as mandated. In response, they claimed to have selected samples covering a significant portion of transactions and verified material items, submitting a materiality statement. However, an audit review revealed their response was misleading and unacceptable. The Audit File lacked evidence demonstrating compliance with SA 320. The document submitted lacked authenticity, lacking the seal and signature of the Engagement Partner (EP).

◦SA 320 requires auditors to determine materiality for the Financial Statements and establish performance materiality as part of their overall audit strategy. The mandatory language in Paragraphs 10 and 11 underscores these requirements. The absence of working papers in the Audit File documenting materiality determination led to the conclusion that auditors failed to comply with these mandatory standards. Consequently, their assertion of conducting the audit in accordance with SA, specified under Section 143(10) of the Act, was deemed inaccurate.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 200, SA 500 and SA 505

- SA 500, "Audit Evidence," is essential for auditors as it provides comprehensive guidance on obtaining and evaluating evidence to form their opinions on financial statements. The standard specifies a range of audit procedures, including inspection, confirmation, observation, inquiry, and analytical procedures. Auditors must exercise professional judgment to determine the sufficiency and appropriateness of evidence, considering its relevance to specific assertions and assessing its reliability based on its source and nature.
- The reliability of audit evidence is enhanced through the use of independent sources such as external confirmations directly obtained from third parties, analysts' reports or industry data, and previous audit evidence or internal records maintained by the entity. SA 500 underscores the importance of auditors applying these principles rigorously to ensure the integrity and accuracy of their findings.
- In terms of testing selection, auditors have flexibility in choosing their approach. Compliance with SA 500 is crucial for auditors in maintaining transparency and trustworthiness in their audit processes.

- SA 200 mandates auditors to gather sufficient appropriate audit evidence to minimize audit risk and reach reasonable conclusions. SA 500 requires the design and execution of suitable audit procedures, while SA 505 emphasizes the importance of obtaining reliable evidence from independent external sources.
- In response to accusations, the auditors claimed they had sent balance confirmation requests to debtors but received no responses, leading them to accept the reported balances as accurate. However, a review of their audit file revealed significant deficiencies. There was a lack of documentation regarding mandated procedures for confirming audit assertions and obtaining external confirmations of Trade Receivables. Moreover, they failed to document justifications for their decision not to pursue external confirmations.
- Criticism was also directed at the auditors for relying solely on confirmation letters from the company without properly selecting receivables for confirmation based on sampling and materiality considerations. Their failure to implement alternative procedures to verify balances, despite the lack of debtor responses, raised further concerns about their audit approach.
- Consequently, the auditors were deemed grossly negligent in fulfilling their audit duties, violating SA 200, SA 500, and SA 505. This highlighted significant deficiencies in their audit procedures and underscored the critical importance of adhering to auditing standards to ensure the accuracy and reliability of financial information.

CMI LIMITED

Content of SAs

Explanation of Non Compliance

SA 260 & SA 265

◦SA 260, "Communication with Those Charged With Governance (TCWG)," mandates auditors to communicate significant audit matters to governance bodies such as audit committees, ensuring transparency and effective oversight throughout the audit process. It also requires auditors to report instances of non-compliance with laws and regulations in the auditor's report, potentially leading to a qualified or adverse opinion depending on severity. Unclear cases of non-compliance require careful evaluation under SA 705, with auditors assessing whether reporting to external regulatory bodies is necessary. Documentation must include minutes of discussions with management, governance bodies, or external parties regarding non-compliance to maintain audit transparency.

◦SA 265 aims to communicate internal control deficiencies identified during audits to governance and management. Auditors assess the existence and significance of deficiencies based on factors like susceptibility to fraud, complexity of estimates, financial exposure, and transaction volume. Significant deficiencies are promptly reported in writing to governance, with management informed unless restricted due to fraud concerns. Communication details the nature and potential impact of deficiencies, emphasizing that the audit's focus is on forming a financial statement opinion rather than assessing internal control effectiveness. These standards ensure clear and effective communication of audit findings to stakeholders for informed decision-making and oversight.

◦The auditors were accused of failing to determine the TCWG, communicate with them about auditor responsibilities, planned audit scope, timing, and internal control deficiencies, violating SA 260 and SA 265.

◦The absence of evidence in the Audit File indicated the auditors' failure to identify and engage with the TCWG, neglecting its crucial oversight role in the entity's strategic direction and financial reporting process. The auditors did not address this charge in their response to the SCN.

◦Consequently, it was concluded that the auditors exhibited gross negligence by neglecting to identify and communicate with the TCWG, failing to overview the planned audit scope, timing, and internal control deficiencies, thus violating SA 260 and SA 265.

PENALTIES



ON THE FIRM

Monetary Penalty : Rs. 50 lakhs
Debarment : -

ON THE PARTNER

Monetary Penalty : Rs. 10 lakhs
Debarment : 2 Years



SRS LIMITED

Order Passed on 21.04.2023 for the Financial Year 2017-2018

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 240 & SA 230

- The scope of this SA is the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- SA requires the auditor to:
 - Maintain professional skepticism throughout the audit
 - Understand the business and its environment including internal control and obtain information
 - Identify and assess the ROMM due to fraud at the financial statement level
 - Identify significant and non-significant risk
- The auditor shall enquire with management about process for identification of ROMM and responses to it
- The auditor shall also refer to the report of internal auditor and ask for assessment of findings
- The auditor shall perform tests for fraud risk due to management override of controls by following methods like test journal entries, test estimates and management biases, test non-recurring transactions and perform analytical procedures

- EP (Engagement Partner) failed to adhere to SA 240 responsibilities regarding fraud, lacking adequate risk assessment procedures in audit documentation despite indicators like significant provisions against trade receivables and inventory level declines.
- EP's inquiry into FIR against SRS Group's personnel and stock exchange intimation yielded insufficient information, leading to a misleading explanation to MCA without supporting audit documentation for internal control checks, substantive testing, and sampling claimed to have been performed.
- Quarterly review reports on financial results were qualified due to uncertainties, indicating credit repayment difficulties, yet EP did not take appropriate steps despite indications of potential fraud, showing gross negligence.
- NFRA found EP's audit documentation inadequate, citing routine analytical procedures lacking depth or relevance and failure to evaluate unusual transactions or significant provisions adequately.
- EP's handling of sample selection, discrepancies, and lack of clarity on population size violated SA 230 requirements, concluding negligence and breach of responsibilities under the Companies Act and SA 240.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 220 and SA 230

- Audit documentation should be sufficient and appropriate to form an audit opinion. Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand the nature, timing and extent of the audit procedures performed, results of the audit procedures performed and the audit evidence obtained, significant matters, the conclusions reached and significant professional judgments
- Extent of audit documentation is based on the factors like size and complexity of the entity, audit evidence obtained & its significance, audit methodology, identified risks of material misstatement.
- The auditor's responsibilities encompass quality control procedures, client acceptance assessments, team assignments, and ensuring thorough engagement performance.
- The engagement partner specifically oversees the appointment of a quality control reviewer, discusses significant audit matters with them, and refrains from signing the auditor's report until the review process is satisfactorily concluded.
- These measures ensure audits are conducted with integrity and in accordance with professional standards.
- EP faced charges for failing audit documentation responsibilities under SA 230 and Para 75 of SQC 1, providing no supporting explanation.
- Audit file analysis revealed missing critical documents: audit plan, materiality evaluation, fraud risk assessment, EQCR details, and stakeholder meeting minutes.
- Submitted audit papers often didn't meet SA 230 requirements for documenting procedures, personnel, and reviews.
- Audit file index suggested an audit program existed but was missing, raising tampering concerns.
- Timely and thorough audit documentation is crucial for integrity and forming opinions.
- Failure to archive files timely and inadequate documentation reflect serious audit deficiencies.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 570 and SA 705

◦ Events or conditions that may cast significant doubt on the entity's ability to continue as a Going Concern:

- Net liability or net current liability position
- Adverse key financial ratios
- Management intentions to liquidate the entity or cease operations
- Loss of key management without replacement

◦ Audit procedures relevant to concluding on the going concern:

- Analyzing and discussing cash flow forecasts, profit forecasts, and other relevant forecasts with management
- Analyzing and discussing the entity's latest available interim financial statements
- Reviewing minutes of shareholders' meetings
- Identifying any breaches of loan repayments
- Performing audit procedures related to subsequent events
- Confirming the existence, legality, and enforceability of arrangements for financial support from related and third parties, and assessing their financial capability to provide additional funds

◦ EP faced charges under SA 570 for not evaluating the 'Going Concern' assumption despite adverse indicators.

◦ EP claimed to have queried management and discussed projections but found responses inadequate.

◦ Qualified opinion was issued due to material uncertainty, but NFRA identified deficiencies:

- Lack of evidence in audit file for evaluating going concern per Para A3 of SA 570.
- Failure to comply with Para 23 by not expressing qualified or adverse opinion when necessary.
- Inadequate documentation supporting qualified opinion over adverse opinion despite pervasive uncertainty.

◦ NFRA emphasized the audit opinion's importance for stakeholders' assurance and deemed EP's actions grossly negligent under SA 570 and SA 705.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 300 & SA 320

- SA 320, "Materiality in Planning and Performing an Audit," defines materiality as the threshold beyond which misstatements in financial statements could influence economic decisions of users. It encompasses both quantitative amounts and qualitative disclosures, such as accounting policies.
- Materiality is not absolute but relative, varying based on factors like the entity's size and nature. Auditors consider several factors when determining materiality, including impact on trends, compliance with contracts, and the significance of affected financial statement items.
- Types of materiality include overall, performance, specific, and specific performance materiality, each serving different purposes in auditing.
- Overall materiality is established using benchmarks relevant to users' financial information needs, ensuring financial statements are reliable for decision-making.

- EP faced charges for not developing and documenting the audit plan and strategy as required by SA 300, and for inadequately determining materiality per SA 320.
- EP claimed to have established audit strategy, plan, program, and checklist but failed to submit all of them.
- Materiality set at 1% of total assets and 75% for performance, but lacked adequate documentation or justification.
- Documents submitted were not part of the audit file and lacked authentication, indicating negligence.
- EP's failure to plan and set materiality showed a casual approach, resulting in non-compliance with SA 300 and SA 320.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 220

◦ Scope of Auditor's Responsibilities in SA:

- Quality control procedures for financial statement audits
- Client acceptance and continuation procedures
- Assignment of engagement teams
- Engagement performance

◦ Responsibilities of the Engagement Partner:

- Ensure appointment of a quality control reviewer
- Discuss significant audit matters with the reviewer
- Do not date or sign the auditor's report until the review process is completed.

◦ The EP was charged with failing to comply with the requirement of paragraph 19(a) of SA 220, which mandates appointing an Engagement Quality Control Reviewer (EQCR) for audits of financial statements of listed entities and prohibits dating the auditor's report until completion of the EQCR review.

◦ In response, the EP claimed to have appointed Mr. Bansal as the EQCR, citing his qualifications and contributions during the audit. However, Mr. Bansal's confirmation lacked formal documentation.

◦ Analysis revealed:

- Lack of formal appointment of the EQCR, contrary to SA 220 requirements.
- Misleading portrayal of Mr. Bansal's experience, contradicted by his own statements.
- Emails exchanged between the EP and EQCR lacked clarity on the nature of queries and their resolution.

◦ In audits of listed entities, the EQCR plays a crucial role in ensuring quality by evaluating significant judgments, reviewing independence, facilitating consultation on contentious matters, and reviewing audit opinion formation.

◦ The EP was found guilty of gross negligence and submitting false information, violating SA 220.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 299

- Provides an uniform approach to perform the audit procedure on the joint audit.
- The auditors shall also discuss the nature, timing and extent of audit procedures for common and specific areas and communicate to TCWG.
- Work divided between the joint auditors to be communicated to the Management.
- Joint auditor is not required to review the work performed by other joint auditor.
- The joint auditors are required to issue a common audit report except in case where there is disagreement in joint auditors, in this case they shall issue separate audit reports.
- The joint auditors are jointly and severally responsible for:
 - Decisions taken by all joint auditors in respect of common audit areas
 - Audit work not divided and carried out by all joint
 - Matters brought to the notice of joint auditors by any one of them & on which all of them agree
 - Disclosure requirement in financial statements
 - Joint decision
- EP faced charges for not adhering to SA 299 requirements on joint audits, specifically mutual discussion and documentation of audit work division.
- EP claimed joint audit work for SRS Limited was agreed upon by both firms, citing an email as evidence and discrediting management's role.
- Analysis found:
 - Lack of documentation in the Audit File regarding division of work among auditors.
 - Provided document was generic, not part of Audit File, and lacked detailed work division.
 - Insufficient evidence supporting management's role in work allocation.
- EP found guilty for not meeting SA 299 requirements of mutual discussion and documentation in joint audits.

SRS LIMITED

Content of SAs

Explanation of Non Compliance

SA 200 & SA 500

Objective of auditor:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance means high, but not absolute level of assurance. In case reasonable assurance cannot be obtained then auditor has to modify its audit opinion.
- To maintain professional skepticism and have a questioning mind, remain alert to conditions which may indicate possible misstatement
- To comply with ethical requirements such as: Independence, Integrity, Confidentiality, Professional behavior and professional competence

The standard guides in obtaining sufficient and appropriate audit evidence to reduce the audit risk to acceptably low level

- Audit evidence must be sufficient and appropriate to form an opinion on financial statements.
 - Sufficient in quantity and appropriate in quality.
- Evidence from external sources is generally more reliable.
- Original documents provide more reliable evidence.
- Forms of audit evidence include visual, documentary, and oral, and can be internal or external.
- Audit evidence can be gathered through inspection, observation, inquiry, analytical review, and re-performance.

◦The EP was charged with failing to evaluate the Property, Plant, and Equipment (PPE) of the company amounting to ₹188.07 crores, in violation of Paragraphs 15 and 16 of SA 200 and Paragraph 6 of SA 500.

◦In response, the EP stated that the statutory audit of SRS Limited for FY 2017-18 was a joint audit, leading to divided responsibilities between the joint auditors, including the physical verification of PPEs.

◦The EP clarified that only PPEs worth ₹1.9 lacs pertained to him, while the bulk, worth ₹188.04 crores, was under the purview of the other joint auditor.

◦As a result of this clarification, the charge was dropped.

PENALTIES



ON THE FIRM

Monetary Penalty : -
Debarment : -

ON THE PARTNER

Monetary Penalty : Rs. 3 lakhs
Debarment : 3 Years

NFRA

THANK YOU

JB Nagar CPE Study Circle of WIRC of ICAI

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