

CA Final – Adv. Auditing

Academic Updates (Amendments) for May 2025

Chapter 3: Audit Planning, Strategy and Execution

3.10 - SA 450 “Evaluation of Misstatements identified during the Audit”

This SA deals with the auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Objective of Auditor	The objective of the auditor is to evaluate: (a) The effect of identified misstatements on the audit; and (b) The effect of uncorrected misstatements, if any, on the financial statements.
Definition of Misstatement	It may be defined as a difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Causes of Misstatement	Misstatements may result from: (a) An inaccuracy in gathering or processing data from which the financial statements are prepared; (b) An omission of an amount or disclosure; (c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and (d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.
Definition of Uncorrected misstatements	Misstatements that the auditor has accumulated during the audit and that have not been corrected.

Requirements of this SA

Accumulation of Identified Misstatements	<ul style="list-style-type: none"> • The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. • The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements • To assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and TCWG, it may be useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements. (A) Factual misstatements: Misstatements about which there is no doubt.
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	<p>(B) Judgmental misstatements: Differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.</p> <p>(C) Projected misstatements: Auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.</p>
	Points to remember
<p>Consideration of Identified Misstatements as the Audit Progresses</p>	<p>(1) The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:</p> <ul style="list-style-type: none"> • The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or • The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised). <p>(2) If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.</p>
<p>Communication and Correction of Misstatements</p>	<ul style="list-style-type: none"> • The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management and shall request management to correct those misstatements. • If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections.
<p>Evaluating the Effect of Uncorrected Misstatements</p>	<ol style="list-style-type: none"> 1. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 (Revised) to confirm whether it remains appropriate in the context of the entity's actual financial results. 2. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate having regard to the following: <ul style="list-style-type: none"> • the size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole and the particular circumstances of their occurrence, and • the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Communication with TCWG	<ul style="list-style-type: none"> • The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation with a request that uncorrected misstatements be corrected. • The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.
Written Representation	The auditor shall request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.
Documentation	<p>The audit documentation shall include:</p> <ul style="list-style-type: none"> • The amount below which misstatements would be regarded as clearly trivial; • All misstatements accumulated during the audit and whether they have been corrected; & • The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

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Chapter 8

Specialised Areas (Revised SA 800, 805 & 810)

8.1 - Standards dealing with Specialised Areas (SA 800 – 899)

SA 800	Special Considerations – Audits of F.S. prepared in accordance with Special Purpose Framework
SA 805	Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or items of a F.S.
SA 810	Engagements to Report on Summary Financial Statements.
Areas dealt by SA 800 - 899	<ul style="list-style-type: none"> (a) Acceptance of Engagements (b) Planning and Performing the Engagement (c) Forming an Opinion and Reporting considerations

8.2 – SA 800 “Special Considerations – Audit of F.S. Prepared in accordance with Special Purpose Frameworks”

Scope of SA 800	<ul style="list-style-type: none"> • SA 800 deals with special considerations in the application of SAs to audit of F.S. prepared in accordance with a Special Purpose Framework (SPF). • It does not override the requirements of the other SAs. • It may not deal with all special considerations relevant in the circumstances of the engagement.
	<p>Point to remember</p> <p>Reference to “financial statements” in this SA means “a complete set of special purpose financial statements” including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.</p>
Special Purpose Framework	<ul style="list-style-type: none"> • FRF designed to meet the financial information needs of specific users. • It may be a fair presentation framework or a compliance framework. • Requirements of applicable FRF determine the form and content of the F.S. and what constitutes a complete set of financial statements.
	<p>Examples of special purpose frameworks</p> <ul style="list-style-type: none"> (a) The cash basis of accounting and also cash flow information that an entity may be required to prepare for creditors; (b) Financial reporting provisions established by a regulator to meet the requirements of that regulator; or (c) Financial reporting provisions of a contract, such as a loan agreement or a project grant.
Requirements of SA 800	
Considerations when accepting the Engagement	<ul style="list-style-type: none"> • Before accepting the engagement, auditor is required to determine the acceptability of FRF applied in the preparation of F.S. as per the requirement of SA 210. In an audit of special purpose F.S., the auditor shall obtain an understanding of: <ul style="list-style-type: none"> (a) purpose for which the F.S. are prepared;

	<p>(b) intended users; and</p> <p>(c) steps taken by management to determine that the applicable FRF is acceptable in the circumstances.</p> <ul style="list-style-type: none"> • In the case of Special Purpose F.S., the financial information needs of the intended users is a key factor in determining the acceptability of the FRF applied in the preparation of the F.S. • Applicable FRF may provide financial reporting standards established by an organization that is authorized to formulate standards for special purpose F.S. Some laws or regulations may prescribe the FRFs to be used by management in the preparation of special purpose F.S. for a certain type of entity. • Where the financial reporting standards as referred above are supplemented by regulatory requirements, SA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist. • Applicable FRF may provide the financial reporting provisions of a contract. In that case, the acceptability of the FRF in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable FRFs as described in SA 210. • In the case of a special purpose framework, importance of each of the attributes normally exhibited by acceptable FRF to a particular engagement is a matter of professional judgment.
<p>Considerations when Planning & Performing an Audit</p>	<ul style="list-style-type: none"> • In planning and performing an audit of special purpose F.S., auditor shall determine whether application of SAs requires special consideration in the circumstances of the engagement. While determining the application of SA, auditor is required to consider the requirement of SA 200 on applicability of SAs. SA 200 requires the auditor to comply with <ul style="list-style-type: none"> (a) relevant ethical requirements, and (b) all SAs relevant to the audit. <p>Auditor is required to comply with each requirement of an SA unless entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.</p> • Application of some of requirements of SAs in an audit of special purpose F.S. may require special consideration by auditor. For example, in SA 320, judgments about matters that are material to users of the F.S. are based on a consideration of common financial information needs of users as a group. In the case of an audit of special purpose F.S., however, those judgments are based on a consideration of financial information needs of the intended users. • SA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies. In the case of F.S. prepared in accordance with the provisions of a contract, auditor shall obtain understanding of any significant interpretations of contract that management made in preparation of those F.S. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the F.S. • In the case of special purpose F.S., such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. Existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose F.S.

	<ul style="list-style-type: none"> In the case of special purpose F.S., persons responsible for the oversight of its preparation may not be the same as TCWG responsible for the oversight of the preparation of general purpose F.S. In such cases, requirements of SA 260 may not be relevant to the audit of the special purpose F.S.
Forming an Opinion & Reporting Considerations	<p>When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SA 700.</p>
	<p style="text-align: center;">Description of the Applicable Financial Reporting Framework</p> <ul style="list-style-type: none"> SA 700 requires the auditor to evaluate whether the F.S. adequately refer to or describe the applicable FRF. In the case of F.S. prepared in accordance with the provisions of a contract, auditor shall evaluate whether the F.S. adequately describe any significant interpretations of the contract on which the F.S. are based. SA 700 deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose F.S.: <ul style="list-style-type: none"> (a) Auditor's report shall also describe the purpose for which the F.S. are prepared and the intended users; and (b) If management has a choice of FRFs in the preparation of such F.S., the explanation of management's responsibility for the F.S. shall also make reference to its responsibility for determining that the applicable FRF framework is acceptable in the circumstances. (c) When key audit matters are communicated in the auditor's report on special purpose financial statements, SA 701 applies in its entirety. (d) SA 720 deals with auditor's responsibilities relating to other information. In context of this SA, reports containing or accompanying special purpose F.S. – the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in special purpose F.S. – are considered to be annual reports for the purposes of SA 720. In the case of F.S. prepared using SPF, term "similar stakeholders" includes the specific users whose financial information needs are met by the design of SPF used to prepare the special purpose F.S. When the auditor determines that the entity plans to issue such a report, requirements of SA 720 apply to audit of the special purpose F.S. (e) The auditor may deem it appropriate to refer, in an Other Matter Paragraph in the auditor's report on the special purpose F.S., to the auditor's report on the complete set of general purpose F.S. or to matter(s) reported therein as per SA 706. For example, the auditor may consider it appropriate to refer in auditor's report on the special purpose F.S. to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose F.S.
	<p style="text-align: center;">Alerting Readers that the F.S. are Prepared in accordance with a Special Purpose Framework</p> <ul style="list-style-type: none"> Special purpose F.S. may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose F.S. on public record. To avoid misunderstandings, auditor alerts users of auditor's report by including an Emphasis of Matter paragraph explaining that F.S. are prepared in accordance with a special purpose framework & therefore may not be suitable for another purpose. SA 706

requires this paragraph to be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".

Restriction on Distribution or Use

- In addition to the alert as discussed above, auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users.
- Depending on law or regulation applicable, this may be achieved by restricting distribution or use of the auditor's report. In these circumstances, the paragraph alerting the readers may be expanded to include these other matters, and the heading modified accordingly.
- **Example of Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use:**

We draw attention to Note X to the F.S., which describes the basis of accounting. The F.S. are prepared to assist Company in complying with financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company Limited and should not be distributed to or used by parties other than the Company or DEF Company Limited. Our opinion is not modified in respect of this matter.

8.3 - SA 805 "Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S."

**Single F.S./
Element of a
F.S.**

- The term element means an element, account or item of a F.S.
- A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, trade receivables or cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the F.S. or to the element.

Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

**Scope of SA
805**

- (a) **SAs 100 – 700 series apply to audit of FS:** to be adopted as necessary in audit of other historical financial information.
- (b) **SA 805 deals with special considerations in application of these SAs:** to Audit of single F.S. or Specific element/account/item of FS (EFS), prepared in accordance with General Purpose Framework or special Purpose Framework.
- (c) **SA 805 does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a principal auditor for purposes of an audit of consolidated financial statements.**

Auditor's Objective	Address appropriately the special considerations relevant to: <ul style="list-style-type: none"> • Engagement acceptance. • Engagement planning & performance. • Forming opinion & reporting on F.S. 	
Engagement Acceptance - Considerations	(a) Application of SA	<ul style="list-style-type: none"> • SA 200 requires compliance with all SAs relevant to audit. This requirement applies to audit of Single F.S. or Specific Element of a F.S. even if auditor also engaged to audit the complete set of F.S. • If auditor is not also engaged to audit the complete set of F.S., he shall determine the practicability of audit of Single F.S./Specific Element in accordance with SAs. • SA 200 requires the auditor to comply with (a) relevant ethical requirements and (b) all SAs relevant to the audit. • Auditor is required to comply with each requirement of an SA unless entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. • Compliance with the requirements of SAs relevant to the audit of a Single F.S. or of a Specific element may not be practicable when the auditor is not also engaged to audit the entity's complete set of F.S. <p>In such cases, auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of F.S.</p> <p>Auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of F.S. Hence, auditor may need further evidence to corroborate audit evidence acquired from the accounting records.</p> <ul style="list-style-type: none"> • In the case of an audit of a specific element, certain SAs require audit work that may be disproportionate to the element being audited. <p>For example, although the requirements of SA 570 are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If auditor concludes that an audit of a single F.S. or of a specific element may not be practicable, auditor may discuss with management whether another type of engagement might be more practicable.</p>
	(b) Acceptability of FRF	<ul style="list-style-type: none"> • SA 210 requires the auditor to determine acceptability of FRF applied in the preparation of the F.S. In the case of an audit of a Single F.S. or of a specific element of a F.S., this shall include determination of following: <ul style="list-style-type: none"> (a) Whether application of FRF will result in presentation that provides adequate disclosures to enable intended users to understand information conveyed in Single F.S. or element; and (b) Effect of material transactions and events on information conveyed in Single F.S. or element.

	<ul style="list-style-type: none"> • A Single F.S. or a specific element may be prepared in accordance with an applicable FRF that is based on a FRF established by an authorised or recognised standards setting organisation for the preparation of a complete set of F.S. <p>If this is the case, determination of acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a Single F.S. or of a specific element of a F.S. that provides adequate disclosures.</p>
Planning and Performance Considerations	<p>(a) In planning and performing the audit of a Single F.S. or of a specific element of a F.S., auditor shall adapt all SAs relevant to the audit as necessary in the circumstances.</p> <p>(b) The relevance of each of the SAs requires careful consideration. Even when only a specific element of a F.S. is the subject of the audit, SAs such as SA 240, SA 550 and SA 570 are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of RP transactions, or the incorrect application of the going concern basis of accounting under the applicable FRF.</p> <p>(c) SA 260 requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260 notes that, in some cases, all of TCWG are involved in managing the entity, and the application of communication requirements is modified to recognise this position. When complete set of F.S. is also prepared by entity, those person(s) responsible for the oversight of the preparation of the single F.S. or the element may not be the same as TCWG responsible for the oversight of the preparation of the complete set of F.S.</p> <p>(d) When auditing Single F.S. or a specific Element in conjunction with complete set of F.S., audit evidence obtained as part of audit of complete F.S. may be useful, but auditor nevertheless needs to plan & perform audit of Single F.S. to obtain Sufficient Appropriate Audit Evidence on which to base the opinion on the Single F.S. on the element.</p> <p>(e) Individual F.S. that comprise a complete set of F.S., and many of the elements of those F.S., including their related notes, are interrelated. Hence, when auditing a Single F.S. or a Specific element, auditor may not be able to consider the F.S. or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.</p> <p>(f) Materiality determined for a Single F.S. or for a specific element may be lower than materiality for complete F.S., this will affect NTE of audit procedures and the evaluation of uncorrected misstatements.</p>
Form of Opinion	<ul style="list-style-type: none"> • SA 210 requires that agreed terms of audit engagement include the expected form of any report to be issued by auditor. • Consider whether expected form of opinion is appropriate in the circumstances. • The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion on a single F.S. or on a specific element of a F.S. prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

	<p>Factors that may affect auditor’s consideration as to whether to use the phrases “presents fairly, in all material respects”, or “gives a true and fair view” in the auditor’s opinion</p> <p>(a) Whether the applicable FRF is restricted to the preparation of a complete set of F.S.</p> <p>(b) Whether the Single F.S. or the specific element of a F.S. will:</p> <ul style="list-style-type: none"> • Comply fully with each of those requirements of the framework relevant to the particular F.S. or the particular element, and the presentation of the F.S. or the element include the related disclosures. • If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.
<p>Forming an Opinion and Reporting Considerations</p>	<ul style="list-style-type: none"> • Apply SA 700 and SA 800 (When applicable), adapted as necessary, in the circumstances of the engagement. • SA 700 requires auditor, in forming an opinion, to evaluate whether the F.S. provide adequate disclosures to enable intended users to understand effect of material transactions and events on the information conveyed in F.S. In case of a Single F.S. or of specific element, it is important that F.S. or element, in view of requirements of applicable FRF, provides adequate disclosures to enable intended users to understand information conveyed in F.S. or element, and effect of material transactions and events on information conveyed in F.S. or element.
<p>Going Concern</p>	<ul style="list-style-type: none"> • Depending on applicable FRF used in preparation of Single F.S. or specific element of F.S., description in auditor’s report of management’s responsibilities relating to going concern may need to be adapted, as necessary. • Description in the auditor’s report of the auditor’s responsibilities may also need to be adapted as necessary depending on how SA 570 applies in the circumstances of the engagement.
<p>Key Audit Matters</p>	<p>SA 700 requires auditor to communicate KAM in accordance with SA 701 for audits of complete sets of general purpose F.S. of listed entities.</p>
<p>Other Information</p>	<ul style="list-style-type: none"> • SA 720 deals with auditor’s responsibilities relating to other information. In context of this SA, reports containing or accompanying Single F.S. or specific element of a F.S.–purpose of which is to provide owners (or similar stakeholders) with information on matters presented in Single F.S. or specific element of a F.S.– are considered to be annual reports for purposes of SA 720. • When the auditor determines that the entity plans to issue such a report, the requirements of SA 720 apply to audit of the Single F.S. or the element.
<p>Signature of the Auditor</p>	<ul style="list-style-type: none"> • Auditor’s report shall be signed. • Report is signed by auditor (i.e. engagement partner) in his personal name. Where firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. • The partner/proprietor signing the auditor’s report also needs to mention membership number assigned by ICAI.

- Also include registration number of the firm, wherever applicable, as allotted by ICAI, in the auditor's reports.

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements

- If auditor also engaged to report on complete F.S., express separate opinion on each engagement.
- If audited Single F.S. published with entity's audited complete set of F.S., presentation of Single F.S. should be clearly differentiated from complete set of F.S.
- Do not issue audit report on Single F.S. or Specific Element until satisfied with the differentiation.

Considering the Implications of Certain Matters Included in Auditor's Report on Entity's Complete Set of F.S. for the Audit of the Single F.S. or Specific Element of a F.S. and for the Auditor's Report Thereon

- If the auditor's report on an entity's complete set of F.S. includes:
 - (a) A modified opinion in accordance with SA 705;
 - (b) Emphasis of Matter Para or Other Matter Para in accordance with SA 706;
 - (c) A Material Uncertainty Related to Going Concern in accordance with SA 570; or
 - (d) A statement that describes an uncorrected material misstatement of other information in accordance with SA 720,
 auditor shall consider the implications, if any, that these matters, may have for the audit of the Single F.S. or of specific element of a F.S. and for the auditor's report thereon.
- **Example:** If auditor's report on the complete set of financial statements contains a qualification in relation to accounts receivable, and Single F.S. includes accounts receivable, or the specific element of a F.S. relates to accounts receivable, it is likely that there would be implications for the audit.
 On the other hand, if the qualification of auditor's opinion on complete set of F.S. relates to classification of long term debt, then it is less likely that there would be implications for an audit of the Single F.S. that is the Statement of Profit and Loss, or if the specific element of the F.S. relates to accounts receivable.
- **Factors that may be relevant in considering those implications include:**
 - (1) Nature of matter(s) being described in auditor's report on complete set of F.S. & extent to which it relates to what is included in the Single F.S. or a specific element of a F.S.
 - (2) Pervasiveness of the matter(s) described in the auditor's report on the complete set of F.S.
 - (3) Nature and extent of the differences between the applicable FRFs.
 - (4) Extent of the difference between the period(s) covered by complete set of the F.S. compared to the period(s) or dates of the Single F.S. or element of a F.S.
 - (5) Time elapsed since date of auditor's report on complete set of the financial statements.
- **Inclusion of a reference to the auditor's report on the complete set of F.S.:**
 Even when certain matters included in auditor's report on complete set of F.S. do not have implications for audit of, or for auditor's report on, the Single F.S. or Specific element of a F.S., auditor may deem it appropriate to refer to matter(s) in Other Matter Para in an auditor's report on the Single F.S. or on Specific element of a F.S.

For example, auditor may consider it appropriate to refer in the auditor's report on the Single F.S. or a Specific element of the F.S. to a Material Uncertainty Related to Going Concern section included in auditor's report on complete set of F.S..

Adverse Opinion or Disclaimer of Opinion in Auditor's Report on the Entity's Complete Set of F.S.

- If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of F.S. as a whole, SA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a Single F.S. that forms part of those F.S. or on a specific element of those F.S.. This is because such an unmodified opinion would contradict adverse opinion or disclaimer of opinion on entity's complete set of F.S. as a whole.
- If auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of F.S. as a whole but, in context of a separate audit of a specific element that is included in those F.S., auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
 - (a) The auditor is not prohibited by law or regulation from doing so;
 - (b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
 - (c) The element does not constitute a major portion of the entity's complete set of F.S.
- Auditor shall not express an unmodified opinion on a Single F.S. of a complete set of F.S. if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of F.S. as a whole. This is the case even if the auditor's report on the Single F.S. is not published together with auditor's report containing adverse opinion or disclaimer of opinion. This is because a Single F.S. is deemed to constitute a major portion of those financial statements.
- In the auditor's report on an entity's complete set of F.S., the expression of a disclaimer of opinion regarding results of operations and cash flows, where relevant, and an unmodified opinion regarding the state of affairs is permitted since disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the F.S. as a whole.

NOTE: SA 800 and 805 do not override the requirements of the other SAs; nor do they purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

8.4 - SA 810 "Engagements to Report on Summary Financial Statements (SFS)"

Meaning of Summary Financial Statements (SFS)	Historical financial information that is derived from F.S. but that contains less detail than the F.S., while still providing a structured representation consistent with that provided by the entity's F.S.
Scope of SA 810	SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on SFS derived from financial statements audited in accordance with SAs by that same auditor .
Engagement Acceptance	<ul style="list-style-type: none"> (a) Accept the engagement only when also engaged to audit, in accordance with SAs, those F.S., from which these Summary F.S. have been derived. (b) Before accepting Engagement, auditor shall: <ol style="list-style-type: none"> 1. Determine whether the applied criteria are acceptable.

2. Obtain the agreement of management that acknowledges and understands its responsibilities:

- For the preparation of Summary F.S. in accordance with the applied criteria;
- To make the audited FS available to the intended users of Summary F.S. without undue difficulty; and
- To include the auditor's report on Summary F.S. in any document that contains the Summary F.S. and that indicates that the auditor has reported on them.

(c) Agree with the management the form of opinion to be expressed on the Summary F.S.

(d) Do not accept engagement if:

- Criteria are not acceptable; or
- Unable to obtain management agreement, unless required by law.

(e) **Non-compliance with SA:** An engagement conducted in accordance with such law or regulation does not comply with this SA:

- Accordingly, the auditor's report on SFS shall not indicate that the engagement was conducted in accordance with this SA.
- Include appropriate reference to this fact in the terms of the engagement.
- Determine the effect that this may have on the engagement to audit FS from which Summary F.S. are derived.

Point to remember

- **Meaning of Applied criteria:** The criteria applied by Management in the preparation of Summary F.S.

Criteria for the preparation of Summary F.S. may be established by an authorised or recognised standards setting organisation or by law or regulation. Where established criteria do not exist, criteria may be developed by management, for example, based on practice in a particular industry. If the auditor concludes that the applied criteria are unacceptable, auditor shall not accept the engagement to report on the Summary F.S., unless required by law or regulation to do so.

- **Responsibility for Preparation of Summary F.S.:** Preparation of Summary F.S. requires management to determine the information that needs to be reflected in the Summary F.S. so that they are consistent, in all material respects, with or represent a fair summary of the audited F.S. Because Summary F.S. by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of Summary F.S. do not exist.

- **Factors affecting the auditor's determination of the acceptability of the applied criteria:**

- (a) Nature of the entity
- (b) Purpose of the Summary F.S.
- (c) Information needs of the intended users of the Summary F.S.; and
- (d) Whether the applied criteria will result in Summary F.S. that are not misleading in the circumstances.

	<ul style="list-style-type: none"> • Factors affecting auditor's evaluation whether the audited F.S. are available to the intended users without undue difficulty: <ol style="list-style-type: none"> (a) Whether Summary F.S. describe clearly from whom or where audited F.S. are available. (b) Whether the audited F.S. are on public record; or (c) Whether management has established a process by which the intended users of the Summary F.S. can obtain ready access to the audited F.S. 				
Nature of Procedures	<p>EVALUATE:</p> <ol style="list-style-type: none"> (a) Whether Summary F.S. adequately: <ul style="list-style-type: none"> • Disclose their summarised nature; & • Identify the audited F.S. (b) If Summary F.S. are not accompanied by audited F.S., whether they clearly describe: <ul style="list-style-type: none"> • From whom or where audited F.S. are available; OR • Law & Regulation that specifies that audited F.S. need not be made available to intended users of Summary F.S. & establishes criteria for preparation of Summary F.S. (c) Whether Summary F.S. adequately disclose the applied criteria. (d) Whether Summary F.S. are prepared in accordance with applied criteria. (e) Whether Summary F.S. contain necessary information & are appropriately aggregated so as not to be misleading. (f) Whether audited F.S. are available to intended users without undue difficulty. <p>COMPARE:</p> <ul style="list-style-type: none"> • Summary F.S. with related information in audited F.S. to determine whether Summary F.S. agree with or can be re-calculated from related information in audited F.S. 				
Form of Opinion	<table border="1"> <tr> <td>(a) Unmodified opinion shall be expressed on Summary F.S. if:</td> <td> <ul style="list-style-type: none"> • Summary F.S. are consistent, in all material respects, with audited F.S., in accordance with applied criteria, or • Summary F.S. are a fair summary of audited F.S. in accordance with applied criteria. </td> </tr> <tr> <td>(b) If Law & Regulation prescribe different wordings:</td> <td> <ul style="list-style-type: none"> • Apply the procedures (Evaluation and Compare) and any further procedures necessary to be able to express the prescribed opinion; and • Evaluate whether users of Summary F.S. might misunderstand the auditor's opinion on Summary F.S. and, if so, whether additional explanation in the auditor's report on Summary F.S., can mitigate possible misunderstanding. </td> </tr> </table>	(a) Unmodified opinion shall be expressed on Summary F.S. if:	<ul style="list-style-type: none"> • Summary F.S. are consistent, in all material respects, with audited F.S., in accordance with applied criteria, or • Summary F.S. are a fair summary of audited F.S. in accordance with applied criteria. 	(b) If Law & Regulation prescribe different wordings:	<ul style="list-style-type: none"> • Apply the procedures (Evaluation and Compare) and any further procedures necessary to be able to express the prescribed opinion; and • Evaluate whether users of Summary F.S. might misunderstand the auditor's opinion on Summary F.S. and, if so, whether additional explanation in the auditor's report on Summary F.S., can mitigate possible misunderstanding.
(a) Unmodified opinion shall be expressed on Summary F.S. if:	<ul style="list-style-type: none"> • Summary F.S. are consistent, in all material respects, with audited F.S., in accordance with applied criteria, or • Summary F.S. are a fair summary of audited F.S. in accordance with applied criteria. 				
(b) If Law & Regulation prescribe different wordings:	<ul style="list-style-type: none"> • Apply the procedures (Evaluation and Compare) and any further procedures necessary to be able to express the prescribed opinion; and • Evaluate whether users of Summary F.S. might misunderstand the auditor's opinion on Summary F.S. and, if so, whether additional explanation in the auditor's report on Summary F.S., can mitigate possible misunderstanding. 				
Auditor's Report on Summary F.S.	<p>Elements of the Auditor's Report:</p> <p>Auditor's report on Summary F.S. shall include the following elements:</p> <ol style="list-style-type: none"> (a) Title: clearly indicating it as the report of an independent auditor. (b) Addressee: If addressee of Summary F.S. is not the same as the addressee of auditor's report on the audited F.S., auditor shall evaluate the appropriateness of using a different addressee. <p>Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the Summary F.S. include:</p>				

- the terms of the engagement,
- the nature of the entity, and
- the purpose of the summary financial statements.

(c) **Identification of Summary F.S. on which the auditor is reporting, including the title of each statement, included in the Summary F.S.:** When auditor is aware that the Summary F.S. will be included in a document that contains information other than the Summary F.S. and auditor's report thereon, auditor may consider, if form of presentation allows, identifying page numbers on which Summary F.S. are presented. This helps readers identify the Summary F.S. to which the auditor's report relates.

(d) **Identification of the audited financial statements.**

(e) **A clear expression of an opinion.**

(f) **A statement indicating that Summary F.S. do not contain all the disclosures** required by the FRF applied in preparation of the audited F.S. and that reading the Summary F.S. and auditor's report thereon is not a substitute for reading the audited F.S. and auditor's report thereon.

(g) If required, then a **statement that Summary F.S. and audited F.S. do not reflect effects of events that occurred subsequent to date of the auditor's report on audited F.S.**

(h) **Reference to auditor's report on the audited F.S.,** date of that report, and fact that an unmodified opinion is expressed on the audited financial statements.

(i) A **description of management's responsibility** for Summary F.S., explaining that management is responsible for the preparation of the Summary F.S. in accordance with the applied criteria.

(j) A **statement that the auditor is responsible for expressing an opinion,** based on the auditor's procedures conducted in accordance with this SA, on whether the Summary F.S. are consistent, in all material respects, with [or are a fair summary of] the audited F.S.

(k) **Auditor's signature** along with firm registration number, wherever applicable, and the membership number assigned by the ICAI. Besides, UDIN is required to be stated.

(l) **Date of the auditor's report:** Auditor shall date the auditor's report on the summary financial statements no earlier than:

- (i) Date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the Summary F.S. have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and
- (ii) Date of auditor's report on the audited F.S.

(m) Place of signature.

ADDITIONAL CONSIDERATIONS

Qualified Opinion/EOM/OM Para in Report on Audited FS

Reference to Auditor's Report on Audited F.S.

When the auditor's report on the audited F.S. includes:

- (a) a qualified opinion in accordance with SA 705;
- (b) EOM Para, or OM Para in accordance with SA 706;
- (c) Material Uncertainty Related to Going Concern section in accordance with SA 570;

		<p>(d) Communication of KAM in accordance with SA 701; or</p> <p>(e) A statement that describes an uncorrected material misstatement of the other information in accordance with SA 720; and</p> <p>auditor is satisfied that Summary financial statements are consistent, in all material respects, with or are a fair summary of the audited F.S., in accordance with applied criteria, auditor's report on summary F.S. shall, in addition:</p> <p>(i) State that auditor's report on audited F.S. includes a qualified opinion, EOM Para, OM Para, Material Uncertainty Related to Going Concern Section, communication of KAM, or a statement that describes an uncorrected material misstatement of the other information; and</p> <p>(ii) Describe:</p> <p>(a) Basis for qualified opinion on audited F.S. and the effect thereof, if any, on the Summary F.S.;</p> <p>(b) The matter referred to in EOM Para or OM Para or Material Uncertainty Related to Going Concern section in the auditor's report on audited F.S.; and the effect(s) thereof, if any, on the Summary F.S.; or</p> <p>(c) The uncorrected material misstatement of other information and effect(s) thereof, if any, on the information included in a document containing Summary F.S. & auditor's report thereon.</p>
	Adverse Opinion/ Disclaimer of Opinion on Audited FS	<p>When the auditor's report on the audited F.S. contains an adverse opinion or a disclaimer of opinion, the auditor's report on the Summary F.S. shall, include the following:</p> <ol style="list-style-type: none"> 1. Statement that auditor's report on audited F.S. contains adverse opinion or disclaimer of opinion; 2. Description of basis of such opinion; and 3. Statement that as a result of adverse opinion or disclaimer of opinion it is inappropriate to express an opinion on Summary F.S.
	Modified Opinion on Summary F.S.	<p>Express adverse opinion if:</p> <ol style="list-style-type: none"> 1. Summary F.S. are not consistent in all material respects with or are not a fair summary of audited F.S. in accordance with applied criteria. AND 2. Management does not agree to make the necessary changes.
Restriction on Distribution/Use	<p>When distribution or use of the auditor's report on the audited F.S. is restricted, or the auditor's report on the audited F.S. alerts readers that the audited F.S. are prepared in accordance with a special purpose framework, auditor shall include a similar restriction or alert in the auditor's report on Summary F.S.</p>	
Comparatives	<ol style="list-style-type: none"> 1. If audited F.S. contain comparatives, but Summary F.S. do not, determine whether such omission is reasonable in the circumstances of the engagement. 2. Determine the effect of unreasonable omission on the auditor's report on Summary F.S. 3. If Summary F.S. contain comparatives that were reported on by another auditor, auditor's report on Summary F.S. shall also contain the matters that SA 710 requires the auditor to include in the auditor's report on the audited F.S. 	

Unaudited Supplementary Info Presented with Summary F.S.	<ol style="list-style-type: none"> 1. Evaluate whether such information is clearly differentiated from Summary F.S. 2. If entity's presentation of such information is not clearly differentiated from Summary F.S., the auditor shall ask management to change the presentation of such information. 3. If management refuses to do so, the auditor to explain in auditor's report on Summary F.S. that such information is not covered by that report.
Information in Documents Containing Summary F.S.	<p>(a) Auditor shall read the information included in a document containing the Summary F.S. and related Auditor's Report to consider whether there is a material inconsistency between the other information and the Summary F.S.</p> <p>(b) If auditor identifies a material inconsistency, he shall discuss the matter with management and determine whether Summary F.S. or information included in document containing the Summary F.S. and auditor's report thereon needs to be revised.</p> <p>(c) If auditor determines that information needs to be revised & management refuses to revise information as necessary, auditor shall take appropriate action in the circumstances, including considering the implications for auditor's report on the Summary F.S.</p>
Auditor Association	<p>If auditor becomes aware that entity plans to state that auditor has reported on Summary F.S. in a document containing Summary F.S., but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document.</p> <p>If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the Summary F.S. in that document.</p> <hr/> <p>Auditor engaged to report on F.S. while not engaged to report on Summary F.S.</p> <ul style="list-style-type: none"> • The auditor may be engaged to report on the F.S. of an entity, while not engaged to report on the Summary F.S. If, in this case, auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that Summary F.S. are derived from the F.S. audited by the auditor, auditor shall be satisfied that: <ol style="list-style-type: none"> (a) Reference to the auditor is made in the context of the auditor's report on the audited F.S.; and (b) Statement does not give the impression that the auditor has reported on the Summary F.S. • If (a) or (b) are not met, auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, entity may engage the auditor to report on the Summary F.S. and include the related auditor's report in the document. • If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the Summary F.S. in the document containing the Summary F.S., auditor shall advise management that he disagrees with the reference to the auditor, and he shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor.
Timing of Work & Subsequent Events	<ul style="list-style-type: none"> • The auditor's report on Summary F.S. may be dated later than date of auditor's report on the audited F.S. In such cases, auditor's report on the Summary F.S. shall state that the Summary F.S. and audited F.S. do not reflect the effects of events that occurred subsequent to the date of the auditor's report on audited F.S.

- Auditor may become aware of facts that existed at the date of auditor's report on the audited F.S. but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the Summary F.S. until auditor's consideration of such facts in relation to the audited F.S. in accordance with SA 560 has been completed.
- When the auditor reports on the Summary F.S. after the completion of the audit of the F.S., he is not required to obtain additional audit evidence on the audited F.S., or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited F.S. since the Summary F.S. are derived from the audited F.S.
- Auditor's report on Summary F.S. should state that the Summary F.S. and the audited F.S. do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited F.S.

Compiled by: CA. Pankaj Garg



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Chapter 14A: Audit of Banks

14A.4 – Verification of Important Ratios

Statutory Liquidity Ratio (SLR)	<p>SCAs are required to verify compliance of SLR on 12 odd dates in different months of a financial year not being Fridays.</p> <p>Resultant report is to be sent to management of the bank and to RBI. To verify compliance with SLR requirements, SCAs has to examine two aspects:</p> <p>(a) Correctness of the figure of the Demand and Time Liabilities (DTL), and</p> <p>(b) Maintenance of prescribed percentage of liquid assets.</p>
Audit Approach and Procedure	<ol style="list-style-type: none"> 1. Obtain an understanding of the relevant circulars of the RBI so as to ascertain the items to be included in composition of DTL. 2. Request the branch auditors to verify the correctness of the trial balances and examine the cash balance at the branch on the selected dates. 3. Examine, on test basis, consolidations regarding DTL position prepared by H.O. with reference to the related returns received from branches. 4. Examine composition of items of DTL as per circulars/instructions of RBI. 5. Examine whether consolidations prepared by the bank include the relevant information in respect of all the branches. 6. Examine whether the balances in Branch Adjustment Accounts of foreign branches have been taken into account in arriving at the net balance in Branch Adjustment Accounts. 7. A considerable part of the information required by the SCA for reporting on compliance with the SLR requirements will flow from the branches. It is suggested that the relevant information pertaining to the branches within a region may be consolidated at regional level. The auditor of the region concerned should verify the same and report on the same. The consolidated statement should also be counter-signed by the regional manager. The auditor at the central level should apply the audit procedures to the overall consolidation prepared for the bank as a whole. Where such a procedure is followed, the SCA should adequately describe the same in his certificate. 8. Specify number of unaudited branches and a statement that auditor has relied on the returns received from the unaudited branches in forming his opinion.
Items to be excluded in DTL	<ol style="list-style-type: none"> (a) Paid up capital, reserve, any credit balance in P&L Account of the bank, amount of any loan taken from the RBI and amount of refinance taken from EXIM Bank, NHB, NABARD, SIDBI. (b) Bills discounted by a bank with eligible financial institutions as approved by the RBI. (c) Net Income tax provision. (d) Amount received from DICGC towards claims held by banks pending adjustments thereof. (e) Amount received from ECGC by invoking the guarantee.

		<p>(f) Amount received from insurance companies for ad hoc settlement of claims pending judgement of court.</p> <p>(g) Amount received from court receiver.</p> <p>(h) Net unrealized gain/loss arising from derivatives transactions under trading portfolio.</p> <p>(i) Income flows received in advance such as annual fees and other charges which are not refundable.</p> <p>(j) Liabilities arising on account of utilisation of limit under 'Bankers' Acceptance Facility' (BAF).</p> <p>(k) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.</p> <p>(l) Amounts received in Indian currency against import bills and held in sundry deposits pending receipt of final rates.</p> <p>(m) Un-adjusted deposits/balances lying in link branches for agency business like dividend warrants, interest warrants, refund of application money, etc., in respect of shares/debentures to the extent of payments made by other branches but not adjusted by the link branches.</p> <p>(n) Margins held and kept in sundry deposits for funded facilities.</p>
	<p>Items to be included in DTL</p>	<p>(a) Net credit balance in branch adjustment accounts. The credit entries in branch adjustment account which are outstanding for more than 5 years are required to be considered at gross.</p> <p>(b) Interest accrued on deposits should be calculated on each reporting fortnight (as per the interest calculation method applicable to various types of accounts), whether or not such interest is accounted for in books of accounts, so that the bank's liability in this regard is fairly reflected in the total NDTL of the same fortnightly return. Cash collaterals received under collateralized derivative transactions as these are in the nature of 'outside liabilities'.</p> <p>(c) Borrowings from abroad by banks in India need to be considered as 'liabilities to other' and should be considered at gross level.</p> <p>(d) The reconciliation of Nostro accounts needs to be scrutinized to ascertain if any inwards remittances are received on behalf of customers and have remained unaccounted.</p>
	<p>Exempted Items</p>	<p>While examining the computation of DTL, the auditor may specifically examine the details of exempted categories of the following items:</p> <p>(a) Minimum Eligible Credit (EC) and outstanding Long-Term Bonds (LB) to finance Infrastructure loans and affordable housing loan, as per RBI Circular.</p> <p>(b) Eligible amount of incremental FCNR(B) and NRE deposits of maturities of 3 years and above. Auditor should also verify loans out of FCNR(B) deposits and inter- bank Foreign Currency (IBFC) deposits for reporting in Form A return.</p>

- | | | |
|--|--|--|
| | | <p>(c) Banks should convert their foreign exchange assets/liabilities (including borrowings) in USD, GBP, JPY and Euro into INR at RBI reference rate. For other currencies consider the New York rate for conversion into USD.</p> <p>(d) As per RBI Circular on “Maintenance of CRR/SLR on Foreign Currency Assets/Liabilities – Reference rate for INR/USD & exchange rate of other major currencies”, for conversion of foreign Currency Assets/ Liabilities reference rate from FBIL should be taken. If reference rate is not available from FBIL, banks may continue to use New York closing rate for conversion of such currency into USD.</p> |
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Compiled by: CA. Pankaj Garg



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14B.1 - Meaning and Types of NBFC

Registration and regulation of NBFC

- Sec. 45-IA of RBI (Amendment) Act, 1997 provides that no NBFC is allowed to commence or carry on the business of a NBFC without:
 - (a) obtaining a certificate of registration issued by the RBI; and
 - (b) having the net owned fund (NOF) of ₹ 25 lakh or such other amount, not exceeding ₹ 100 crore, as the Bank may, by notification in the Official Gazette, specify.
- RBI may notify different amount of NOF for different categories of NBFCs.
 - (a) For NBFC-ICC, NBFC-MFI and NBFC-Factor, the NOF shall be ₹ 10 crore.
 - (b) For NBFC-P2P, NBFC-AA & NBFC not availing public funds and not having any customer interface, the NOF shall be ₹ 2 crore.
 - (c) For NBFC-IFC and IDF-NBFC, the NOF shall be ₹ 300 crore.

All existing companies should meet prescribed NOF in a phased manner by 31st March 2027. Scale Based Regulations framework lays down a glide path for existing NBFCs to achieve the new required NOF. The glide path is as follows:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-P2P, NBFC-AA and NBFC do not availing public funds and do not having any customer interface	INR 2 crore	INR 2 crore	INR 2 crore
NBFC-IFC and IDF-NBFC	INR 300 crore	INR 300 crore	INR 300 crore
NBFC-ICC	INR 2 crore	INR 5 crore	INR 10 crore
NBFC-MFI	INR 5 crore	INR 7 crore	INR 10 crore
NBFC-Factor	INR 5 crore	INR 7 crore	INR 10 crore

- The registration is required where the financing activity is a principal business of the company.
- However, to obviate dual regulation, certain categories of NBFC which are regulated by other regulators are exempted from requirement of registration with the RBI, for example: companies registered with SEBI or IRDA.

14B.2 - Prudential Norms

Capital Requirements

- Every NBFC shall maintain a capital ratio consisting of Tier I and Tier II capital of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items, which shall not be less than 15%.
- The Tier I capital in respect of applicable NBFCs (except NBFC-MFI and NBFC primarily engaged in lending against gold jewellery), at any point of time, shall not be less than 10%.
- NBFCs engaged in lending against gold jewellery shall maintain a minimum Tier I capital of 12%.

Points to remember

- **“Tier 1 capital” for NBFCs (except NBFCs-BL) is the sum of**
 - (i) Owned fund as reduced by investment in shares of other NBFCs & in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund; and**
 - (ii) Perpetual debt instruments issued by a non-deposit taking NBFCs in each year to the extent it does not exceed 15% of aggregate Tier 1 capital of such company as on March 31 of the previous accounting year.**

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital
- **“Tier 2 capital” for NBFCs (except NBFCs-BL) is the sum of:**
 - (i) Preference shares other than those which are compulsorily convertible into equity;**
 - (ii) Revaluation reserves at discounted rate of 55%;**
 - (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;**
 - (iv) Hybrid debt capital instruments;**
 - (v) Subordinated debt; and**
 - (vi) Perpetual debt instruments issued by a non-deposit taking NBFC which is in excess of what qualifies for Tier 1 capital;**

to the extent the aggregate does not exceed Tier 1 capital.

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital.

Asset Classification	Every NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely: <ul style="list-style-type: none"> (a) Standard assets; (b) Sub-standard assets; (c) Doubtful assets; and (d) Loss assets. 	
	Standard Assets	The asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business.
	Sub-standard Assets	<ul style="list-style-type: none"> • An asset which has been classified as NPA for a period not exceeding 18* months (in case of NBFC-BL). • An asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms. <p>*12 Months in case of NBFC-ML and above.</p>

	Doubtful assets	An Asset which remains a sub-standard asset for a period exceeding 18* months (in case of NBFC-BL). *12 Months in case of NBFC-ML and above								
	Loss Assets	<ul style="list-style-type: none"> • An asset identified as loss asset by the applicable NBFC or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and • An asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower. 								
	Non-Performing Assets	<p>(a) an asset, in respect of which, interest has remained overdue for a period of more than 180* days (in case of NBFC-BL);</p> <p>(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 180 days* or on which interest amount remained overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(c) a demand or call loan, which remained overdue for a period of more than 180 days from the date of demand or call or on which interest amount remained overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(d) a bill which remains overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(g) the lease rental and hire purchase instalment, which has become overdue for a period of more than 180 days* (in case of NBFC-BL);</p> <p>(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset.</p> <p>*90 days in case of NBFC-ML</p> <div style="background-color: #e0e0e0; padding: 5px;"> <p style="text-align: center;">Points to remember</p> <p>Period of more than 180 days for NPA classification shall be adjusted as per glide path outlined below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">NPA Norms</th> <th style="text-align: center;">Timeline</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">>150 days overdue</td> <td style="text-align: center;">By March 31, 2024</td> </tr> <tr> <td style="text-align: center;">>120 days overdue</td> <td style="text-align: center;">By March 31, 2025</td> </tr> <tr> <td style="text-align: center;">> 90 days</td> <td style="text-align: center;">By March 31, 2026</td> </tr> </tbody> </table> </div>	NPA Norms	Timeline	>150 days overdue	By March 31, 2024	>120 days overdue	By March 31, 2025	> 90 days	By March 31, 2026
NPA Norms	Timeline									
>150 days overdue	By March 31, 2024									
>120 days overdue	By March 31, 2025									
> 90 days	By March 31, 2026									


Provisioning Requirements	Standards Assets	NBFC-BL shall make provision for standard assets at 0.25%* of outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet. *0.40% in case of NBFC-ML & NBFC-UL (Subject to few exceptions).		
	Substandard Assets	A general provision of 10% of total outstanding shall be made.		
	Doubtful Assets	Unsecured portion	100% to the extent to which the advance is not covered by the realisable value of the security.	
		Secured portion	Period for which the asset has been considered as doubtful	% of provision
		Up to one year	20	
		One to three years	30	
		More than three years	50	
	Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.		

14B.6 - NBFC Auditor's Report (Reserve Bank) Directions, 2016

Matters to be reported in case of NBFC not accepting public deposits - Para 3(C)	<p>Apart from the aspects enumerated in (A) above, auditor shall include a statement on the following matters, namely:</p> <p>(i) Whether BOD has passed a resolution for non-acceptance of any public deposits;</p> <p>(ii) Whether company has accepted any public deposits during the relevant period/year.</p> <p>(iii) Whether company has complied with prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts etc.;</p> <p>(iv) In respect of Systemically Important Non-deposit taking NBFCs:</p> <p>(a) Whether capital adequacy ratio as disclosed in the return submitted to RBI in form NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI;</p> <p>(b) Whether company has furnished annual statement of capital funds, risk assets/ exposures and risk asset ratio within the stipulated period.</p> <p>(v) Whether the NBFC has been correctly classified as NBFC Micro Finance Institutions (MFI).</p>
Obligation of auditor to submit an exception report to the Bank - Para 5	<p>Where, the statement regarding any of the items referred to in para 3, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:</p> <p>(a) the provisions of Chapter III-B of Reserve Bank of India Act, 1934; or</p> <p>(b) the NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or</p> <p>(c) Master Direction - RBI (NBFC - Scale Based Regulation) Directions, 2023,</p> <p>it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, to concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located.</p>

Chapter 19: Professional Ethics and Liabilities of Auditors

19.15 - Council General Guidelines, 2008

No.	Heading	Provision
XVI	Logo Guidelines 	<ul style="list-style-type: none">• Logo consists of letter 'CA' in blue colour with a tri colour tick mark (upside down) with white background.• Blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability and depth.• Upside down tick mark typically used by CAs, has been used to symbolise the wisdom and value of the professional.• 'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to serve the Indian economy in public interest.• There should be no alteration of the font, spacing and dimensions. Refrain from rotating or tilting the logo. The logo should not be shrunk or distorted.

19.18 - Recent Decisions of Ethical Standard Board

- (1) It is not permissible for member in practice being statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" for the same client.
- (2) Statutory auditor of an entity is not permitted to engage in assignment of compilation engagement, of that entity as per SRS 4410.
- (3) It is permissible for members in practice to engage in the services assessment/performance audit of the centres of skill development council of Govt. of India as these are permissible under Management Consultancy and other services issued u/s 2(2)(iv) of Chartered Accountants Act, 1949.
- (4) It is permissible for a member in practice to accept the assignment of Mystery Audit.
- (5) It is permitted for a member in practice to mention position as promoter/Director on the portal of a Company. However, he cannot mention his professional attainments and name of the firm with which he is associated. There should be no violation of clauses (6) and (7) of Part I of First Schedule to CA Act, 1949 in doing so.
- (6) It is permissible for a member in practice to become professional director in Board of Management of a Co-operative Bank.
- (7) It is permissible for a member to set up practice in IFSC/GIFT city.
- (8) It is permissible for a member to render professional services to IFSC units from offices outside IFSC.
- (9) A firm is not permitted to publish its vision or mission statement on letter head, visiting card or stationery etc. Vision & mission statement may be printed on firm profile & may be provided in response to a specific request.
- (10) It is not permissible for a member/ firm being the statutory Auditor of a Bank to accept the assignment of ASM of a customer of the same Bank simultaneously. He can accept either of the Assignments at one time.
- (11) A member in practice cannot be appointed as Internal Auditor & Procurement officer simultaneously in an organization.
- (12) It is permissible for members in practice to charge fees on a percentage of utilization amount of an educational Institute for certifying the amount (utilization) spent by an educational Institute out of grant.