

# CA Test Series

CA Final | Inter | Foundation Test Series

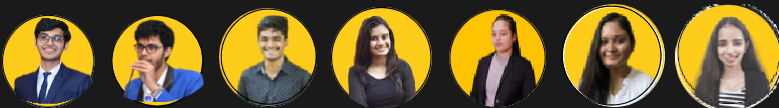


## NOTE'S

**CA FINAL  
ADVANCED AUDIT AND  
PROFESSIONAL ETHICS  
AMENDMENT NOTES**



Consistently Top AIRs from CA Test Series



## Amendment notes of final audit

### CHAPTER 5.3: CARO 2020

#### Amendment in: Definition of small Company

Not  
Applicable  
to:

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graph TD
    A[Insurance Company] --> B[Banking Company]
    C[OPC and small Company under Co. Act] --> D[Small Company: 2(85) of Co. Act 2013, other than a public company:  
(1) Paid up S/c ≤ Rs. 4 crores, AND  
(2) Turnover ≤ Rs. 40 crores (Imm. preceding FY)  
(Further, it should not be, Holding or Subsidiary of any Company]
    E[Company U/s 8 of Co. Act 2013] --> F[Private Company (Not being a subsidiary or holding company of public company)  
Below all condition need to be fulfil:]
    
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Paid up Capital & Reserves & Surplus	As on balance sheet date	< Rs. 1 crore
Total borrowings from any bank or financial institution	at any point of time during the FY	< Rs. 1 crore
Total revenue as disclosed in Schedule III (including revenue from discontinuing operations)	as per the financial statements	< Rs. 10 crore

• CARO shall not apply to the auditor's report on consolidated financial statements except Para 3(xxi).

## CHAPTER 11: NBFC

**2) Infrastructure Finance Company (IFC):** A company which has net owned funds of at least ₹ 300 crore and has deployed 75% of its total assets in Infrastructure loans is called IFC provided it has credit rating of A or above and has a CRAR of 15% (with a minimum Tier I capital of 10 %).

**3) Systemically Important Core Investment Company (CIC-ND-SI):** Core Investment Companies (CIC) having total assets of not less than ₹ 100 crores either individually or in aggregate along with other CICs in the group and which raises or holds public funds are called as Systemically Important Core Investment Companies (CICs-ND-SI).

**4) Infrastructure Debt Fund (IDF-NBFC):** IDF-NBFC means a non-deposit taking Non-Banking Financial Company that has:

- a) net owned funds of ₹ 300 crore or more; and
- b) which invests only in Public Private Partnerships (PPP) and post commencement operations date (COD) infrastructure projects which have completed at least one year of satisfactory commercial operation and becomes a party to a Tripartite Agreement

**5) Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI):** NBFC-MFI is a non- deposit taking NBFC which has at least 85% of its assets in the form of microfinance. Such microfinance should be in the form of loan given to those who have annual income of ₹ 1,00,000 in rural areas and ₹ 160,000 in urban or semi urban areas. Such loans should not exceed ₹ 1,00,000 and its tenure should not be less than 24 months. Further, the loan has to be given without collateral. Loan repayment is done on weekly, fortnightly or monthly installments at the choice of the borrower

### ➤ Four Layers of NBFC's – Scale Based Regulation (SBR):

Effective from 01 October 2022: RBI has revised different facets of existing NBFC Classification and regulation like Capital Requirements, Governance Standards, Prudential

Regulations, etc. based on four layers that are defined based on their size, activity, and perceived riskiness:

1) Base Layer (NBFC-BL):	<p>a) NBFC – ND : asset size &lt; ₹1000 crore and</p> <p>b) NBFC undertaking the following activities-</p> <p>(i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), [online mediator to Lender &amp; borrower]</p> <p>(ii) NBFC-Account Aggregator (NBFC-AA), [accumulate &amp; distribute F.I. of Persons]</p> <p>(iii) Non-Operative Financial Holding Company (NOFHC) and</p> <p>(iv) NBFCs not availing public funds and not having any customer interface.</p>
2) Middle Layer (NBFC-ML),	<p>a) NBFC-D, irrespective of asset size, [Can be in Mid Layer Or Upper]</p> <p>b) NBFC – ND, with asset size ≥ ₹1000 crore and</p> <p>c) NBFCs undertaking the following activities</p> <p>(i) Standalone Primary Dealers (SPDs), [authorized in buying and selling govt. securities – will Always remain in MID LAYER]</p> <p>(ii) Infrastructure Debt Fund - NBFC (IDF-NBFCs), [Will Always remain in MID LAYER]</p> <p>(iii) Core Investment Companies (CICs), [Can be in Mid Layer Or Upper]</p> <p>(iv) Housing Finance Companies (HFCs) and [Can be in Mid Layer Or Upper]</p> <p>(v) Infrastructure Finance Companies (NBFC-IFCs). [Can be in Mid Layer Or Upper]</p>
3) Upper Layer (NBFC-UL)	<p>These are specifically identified by the RBI as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology (as per Circular).</p> <p>The top 10 eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor</p>
4) Top Layer (NBFC-TL)	<ul style="list-style-type: none"> <li>• The Top Layer will ideally remain empty.</li> <li>• RBI will add NBFC's in this layer if is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.</li> </ul>
- NBFCs like, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution	

(NBFC-MFI), NBFC Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

- Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

#### DIFFERENCES BETWEEN BANKS AND NBFCs:

Basis	NBFC	Bank
<b>Demand Deposit</b>	NBFC cannot accept demand deposits, however some NBFCs can accept Term Deposits	Can accept
<b>Cheque</b>	No, NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;	Yes
<b>DICGC</b>	No, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors	Yes
<b>Priority Sector</b>	No Minimum Exposure to Priority Sector required by NBFCs	Yes

#### PRUDENTIAL NORMS:

Capital Requirements: <b>Capital Assets * Risk Weight</b>	<p>NBFC : SI (Sys. Imp) – Deposit &amp; Non Deposit taking:</p> <ul style="list-style-type: none"> <li>• Shall maintain a minimum capital ratio (Tier I + Tier II capital) which shall <math>\geq 15\%</math> of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.</li> <li>• Tier I capital <math>\geq 10\%</math></li> <li>• NBFCs primarily engaged in lending against gold jewellery Tier I capital <math>\geq 12\%</math></li> <li>• Note: For Cash – Risk weightage is “0”</li> </ul>
Income Recognition:	The income recognition shall be based on recognised accounting principles.

	<ul style="list-style-type: none"><li>Income on NPA shall be recognised only when it is actually realised.</li><li>Any such income recognised before the asset became nonperforming and remainingunrealised shall be reversed.</li></ul>																		
Asset Classification & Provisioning Norms:	<p>The asset classification &amp; Provisioning norms as given below shall apply to every applicableNBFC (except NBFC-MFIs):</p> <p>Note: The class of assets referred to above shall not be upgraded merely as a result ofrescheduling, unless it satisfies the conditions required for the upgradation</p> <table><tr><td></td><td>Meaning</td><td>Provision</td></tr><tr><td>Standard Assets:</td><td>No default in repayment of principal or payment of interest</td><td>NBFC-SI-D &amp; ND : 0.4% NBFC-NSI-ND : 0.25%</td></tr><tr><td>Sub-Standard Assets:</td><td><ul style="list-style-type: none"><li>NBFC – NSI– ND An asset which hasbeen classified as NPA for a periodnot exceeding 18 months</li><li>NBFC – SI– D &amp; ND An asset whichhas been classified as NPA for aperiod not exceeding 12 months</li></ul></td><td>10% of total outstanding</td></tr><tr><td>Doubtful</td><td><ul style="list-style-type: none"><li>NBFC – NSI– ND Remains a substandardasset for a period ‘exceeding18 months</li><li>NBFC – SI– D &amp; ND Remains a substandardasset for a period ‘exceeding12</li></ul></td><td><ul style="list-style-type: none"><li>100% Provision: Unsecuredor Non-Realizable securities</li><li>For Secured Portion:<table><tr><td>Asset</td><td>Provision</td></tr><tr><td>Doubtful for:</td><td></td></tr><tr><td>Upto 1 Yr</td><td>20%</td></tr></table></li></ul></td></tr></table>		Meaning	Provision	Standard Assets:	No default in repayment of principal or payment of interest	NBFC-SI-D & ND : 0.4% NBFC-NSI-ND : 0.25%	Sub-Standard Assets:	<ul style="list-style-type: none"><li>NBFC – NSI– ND An asset which hasbeen classified as NPA for a periodnot exceeding 18 months</li><li>NBFC – SI– D &amp; ND An asset whichhas been classified as NPA for aperiod not exceeding 12 months</li></ul>	10% of total outstanding	Doubtful	<ul style="list-style-type: none"><li>NBFC – NSI– ND Remains a substandardasset for a period ‘exceeding18 months</li><li>NBFC – SI– D &amp; ND Remains a substandardasset for a period ‘exceeding12</li></ul>	<ul style="list-style-type: none"><li>100% Provision: Unsecuredor Non-Realizable securities</li><li>For Secured Portion:<table><tr><td>Asset</td><td>Provision</td></tr><tr><td>Doubtful for:</td><td></td></tr><tr><td>Upto 1 Yr</td><td>20%</td></tr></table></li></ul>	Asset	Provision	Doubtful for:		Upto 1 Yr	20%
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		months	1 to 3 Yr	30%	
			≥ 3 yrs	50%	
	Loss	• An asset which has been identified as			

## Chapter – 16 : Unit 3: Forensic Accounting (Earlier Forensic Audit)

The word “**Forensic Audit**” in this Chapter including the name of Unit 3 stands changed to “**Forensic Accounting**”.

All the references to “Forensic Audit” throughout the study material shall stand changed to “**Forensic Accounting**”.

Similarly, ‘**Forensic Auditor**’ should also be read as ‘**Forensic Accountant**’.

## CHAPTER 17.1 : Peer Review

The Word “**Statement**” or “**Statement on Peer Review**” used throughout the chapter shall be substituted as “Guidelines” or “Peer Review Guidelines, 2022” respectively

1) The words “**Technical, Professional and Ethical Standards** as applicable including other regulatory requirements thereto and” shall be substituted with “**Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee and**”

### Definition as Per ICAI:

"Peer Review" means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee."

## What are the objectives of Peer Review?

Answer:

Ensure that in carrying out the assurance service assignments, the members of the Institute:

- Comply with the Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee
- have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services

## 2) Some Changes in Definition & Additions

Reviewer: [Clause 2(19)]	means a member duly approved and empanelled by the Board on fulfilling the qualifications prescribed for a Reviewer as per Guideline 26 of these Guidelines [Clause 2(19) of Peer Review Guidelines, 2022]
New Unit: [Clause 2(12)]	<ul style="list-style-type: none"><li>• Firm whose date of establishment is <b>less than 12 months</b> immediately preceding the date of receipt of application of Peer Review and which may or may not have rendered any assurance service during the said period <b>or</b></li><li>• Practice Unit in <b>existence for a period exceeding 12 months</b> but <b>not rendering any assurance services.</b></li></ul>
Branch Peer Reviewer [2(9)]	Means a Reviewer appointed to conduct the <b>Peer Review of the Branch of a Practice Unit.</b>  The qualifications and other <b>obligations and duties</b> of the Branch Peer Reviewer shall be the <b>same as that of the Reviewer</b> [Clause 2 (5) of PRG, 2022]

<b>Clause 1, Part 2 CA Act:</b>	The Peer Review Guidelines, 2022 issued by Council are covered under clause (1) of Part II of Second Schedule to the Act and it is <b>obligatory</b> for the Practice Unit to comply with the provisions contained in this
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	Guidelines.
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### 3) One point Added in Scope

<b>Scope:</b>	<p><b>Q. Write short note on scope of peer review.</b></p> <p><b>Answer:</b></p> <p>The Peer Review process shall apply to all the assurance services provided by a Practice Unit.</p> <p>1) Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review</p> <p>2) The Review shall cover:</p> <p>(i) Compliance with Technical, Professional and Ethical Standards</p> <p>(ii) Compliance with directions and/or guidelines issued by the Council to the Members, including Fees to be charged, Number of audits undertaken, register for Assurance Engagements conducted during the year and such other related records.</p> <p>(iii) Compliance with directions and/or guidelines issued by the Council in relating to article assistants and/or audit assistants, including attendance register, work diaries, stipend payments, and such other related records</p> <p>(iv) Systems and procedures for carrying out assurance services.</p> <p>(v) Training programmes for staff (including articulated and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure.</p> <p>(vi) Self-evaluation under Audit Quality Maturity Model or any other guideline issued the Centre for Audit Quality by</p> <p>(vii) Quality of reporting</p>
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### 4) One point Added in TPE meaning

<b>Technical, Professional and Ethical</b>	<p>Q. Explain technical, ethical and professional standards as per Guidelines on peer review. Answer:</p> <p>(i) Accounting Standards issued by ICAI that are applicable for entities other</p>
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<b>Standards:</b>	<p>than companies under the Companies Act, 2013;</p> <p>(ii) Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation With National Financial Reporting Authority (NFRA);</p> <p>(iii) Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015,</p> <p>(iv) Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;</p> <p>(v) Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements</p> <p>(vi) Any other Technical, Professional, Ethical Standards and other Standards issued by any authority governing the profession of Chartered Accountancy.</p> <p>(vii) Standards:</p> <p>Standards issued by the Institute of Chartered Accountants of India including-</p> <p>a) Engagement and Quality Control Standards</p> <p>b) Standards on Internal Audit</p> <p>c) Statements</p>
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#### 5) One point Added in Assurance Engagement:

<b>Assurance Engagement:</b>	<p><b>Q.</b> What are the <b>areas excluded</b> from the <b>scope</b> of peer reviewer? <b>Or,</b></p> <p><b>Q.</b> CA. M appointed as a Peer Reviewer for M/s. K Associates has <b>asked for all the compilation and the Due Diligence engagements</b> carried out by M/s. K Associates for her peer review during the period considered for peer review purposes by the board. She has also sent out a mail to Peer Review Board regarding her selections. Mr. K, the managing partner of the</p>
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	<p>firm seeks your advise on this matter</p> <p><b>Answer:</b></p> <p>The Guidelines on Peer Review defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. The entire peer review process is directed at the assurance services.</p> <p>Means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, but does <b>not include:</b></p> <ol style="list-style-type: none"> <li>1) Engagement for <b>Due diligence</b></li> <li>2) Management <b>Consultancy</b> Engagements</li> <li>3) Testifying as an <b>expert witness</b>;</li> <li>4) Providing <b>expert opinion</b> on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client</li> <li>5) Engagements to prepare <b>tax returns</b> or advising clients in taxation matters;</li> <li>6) <b>Representation</b> before various Authorities;</li> <li>7) Engagements for the <b>compilation of financial statements</b>;</li> <li>8) Engagements solely to <b>assist the client in preparing</b>, compiling or collating <b>information other than financial statements</b>;</li> <li>9) Any other service rendered, or function performed by practitioner not prescribed by the Council to be 'Assurance Engagement</li> </ol> <p>Assurance engagements does not include engagements for the compilation of financial statements or engagements solely to assist the client in preparing, compiling or collating information other than financial statements; or engagement for Due diligence and Due Diligence engagements i.e., they are not covered within the meaning of assurance</p>
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	engagements and hence outside the scope of Peer Review
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## 6) Peer Review Applicability:

### Applicability of Peer Review:

As per Clause 5 of Peer Review Guidelines, 2022, criteria of Peer Review are defined on following basis

<b>1) Mandatory</b>	Peer Review can be mandated for such Practice Units as may be decided by the Council
<b>2) Voluntary</b>	Any Practice Unit may, <b>suomotu, apply</b> to the Board for the conduct of its Peer Review
<b>3) Special Case</b>	The <b>Board, based on specific information received from Secretary, ICAI or Disciplinary directorate or any other Regulator, which in the opinion of the Board</b> requires a special Peer Review of the Practice Unit, may conduct a special Peer Review of the Practice Unit for such a period determined by the Board

**Accordingly, the Peer Review Mandate (Revised), operative from April 1, 2022, has been made in following four stages:** [It was clarified that **holding a valid Peer Review certificate** by Practice Units should be a **prerequisite for undertaking audit** of all entities falling **under phase I; II; III and IV of the mandate** from respective dates of mandate becoming operative]

Phase	Firms covered for Mandatory Peer Review (PR): (If Any of the condition fulfilled, i.e., AUDIT BASED or PARTNERS BASED)		Date from which PR is mandatory
	AUDIT BASED CONDITION	Partners	
I	PU which <b>propose to undertake Statutory Audit</b> of enterprises: <ul style="list-style-type: none"> <li>Whose <b>equity or debt</b> securities are <b>listed in India or abroad</b> as defined under SEBI (LODR) For these Practice Units, there is a <b>pre-</b></li> </ul>	N.A.	1st April 2022

	requisite of having Peer Review Certificate.											
II	<p>Practice Units which propose to undertake <b>Statutory Audit of unlisted public companies</b> having:</p> <table><tr><td><b>Paid-up capital</b></td><td>≥</td><td><b>Rs. 500 crores</b> ,or</td></tr><tr><td><b>Annual turnover</b></td><td>≥</td><td><b>Rs. 1000 crores</b> or</td></tr><tr><td><b>Aggregate O/s loans, debentures &amp; deposit</b></td><td>≥</td><td><b>Rs. 500 crores</b></td></tr></table>	<b>Paid-up capital</b>	≥	<b>Rs. 500 crores</b> ,or	<b>Annual turnover</b>	≥	<b>Rs. 1000 crores</b> or	<b>Aggregate O/s loans, debentures &amp; deposit</b>	≥	<b>Rs. 500 crores</b>	<p>PU rendering <b>attestation services: having 5 or more partners</b>: pre-requisite of having <b>Peer Review Certificate before accepting any Statutory audit</b></p>	<p>1st April 2023</p>
<b>Paid-up capital</b>	≥	<b>Rs. 500 crores</b> ,or										
<b>Annual turnover</b>	≥	<b>Rs. 1000 crores</b> or										
<b>Aggregate O/s loans, debentures &amp; deposit</b>	≥	<b>Rs. 500 crores</b>										
III	<p>PU which propose to undertake the Statutory Audit of entities which have:</p> <ul style="list-style-type: none"><li>• <b>Raised funds from public or banks</b> or FI's of <b>&gt; 50 Crores</b> during the period under review or of</li><li>• <b>anybody corporate</b> including trusts which are <b>covered under public interest entities</b></li></ul> <p>For these Practice Units, there is a pre-requisite of having Peer Review Certificate.</p>	<p>PU rendering attestation services and having <b>4 or more partners</b>: Pre-requisite of having <b>Peer Review Certificate before accepting any Statutory audit</b>.</p>	<p>1st April 2024</p>									
IV	<p>Practice Units which propose to undertake audits of <b>branches of Public Sector banks</b> : For these Practice Units, there is a pre-requisite of having Peer Review Certificate.</p>	<p>Practice Units rendering attestation services and <b>having 3 or more partners</b>: There is a pre-requisite of having <b>Peer Review Certificate before accepting</b></p>	<p>1st April 2025</p>									

		anyStatutory audit.	
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On the **date when Peer Review becoming mandatory** for a Practice Unit, **if PU already have PR Certificate** there is **no need of once again, till conclusion of the validity period** of the said Certificate. It will berequire obtain new PR certificate when exiting certificate will get expire

## 7) Peer Review Board:

### Peer Review Board: *(Note : Important For MCQ's Only)*

<b>Composition:</b>	<ul style="list-style-type: none"> <li>• Minimum <b>6 Member</b></li> <li>• Maximum of <b>12 members</b> to be appointed by the Council Of whom <b>50%</b> shall befrom members of the Council</li> <li>• The Council <b>MAY nominate members</b> to the Board <b>from outside bodies</b></li> <li>• <b>Chairman and the Vice-Chairman</b> shall be amongst its elected Council membersappointed on the Board</li> </ul>
<b>Meeting Requirements:</b>	<p>Provisions related to the time, place and quorum of Meetings of the Peer Review Boardas well as procedure for transaction of business shall be <b>governed by the Chartered Accountants Regulation, 1988</b></p> <p><i>[Earlier requirement of Quorum, No. of Meets are not specified now]</i></p>

## 8) Eligibility Of reviewer:

7 year audit experience' to be read as '7 years of assurance practice experience'.

<b>Training &amp; Experience:</b>	<p><b>a) Practice 7 Yrs:</b> Member in practice with at least 7 Yrs of assurance practice experience</p> <p><b>b) Industry 10 Yrs&amp; Practice 3 Yrs:</b> In case member has moved from industry to practice and is currently in practice he should have at least 10 Yrs of audit experience in</p>
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## 9)Confidentiality:



<b>Confidentiality:</b>	<ul style="list-style-type: none"> <li>• Strict confidentiality shall be maintained by all those involved in the PeerReview process, namely, <b>Reviewers</b>, <b>members</b> of the <b>Board</b>, any <b>QualifiedAssistants</b> or <b>Practice Unit</b></li> <li>• Reviewer shall <b>not make use of or disclose</b> the contents of review report orany confidential information EXCEPT as required by the Board or council</li> <li>• A <b>Declaration of Confidentiality</b> (Form 4) shall be <b>signed by all members</b> ofthe <b>Board</b> and the Board's Secretariat.</li> </ul>
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## 10) PEER REVIEW PROCESS:

<b>Stage 1: Procedure for initiating Peer Review:</b>	Application Cum Questionnaire Filed (Form 1)	1) <b>PU which desire</b> to get Peer Reviewed shall make an application for Peer Review in the <b>Application cum Questionnaire</b> in Form 1.
		2) 2) In case the <b>Peer Review is initiated by the Board</b> , the Application cum Questionnaire in Form 1 should <b>be submitted by the PU on the request of</b> the Peer Review Board Secretary
	Application Received:	The Application mentioned under clauses 6(1) and 6(2) <b>above received</b> by the <b>Board</b> shall be <b>duly numbered</b> .
	Selection of reviewer <b>(3 &amp; 1 day)</b>	Name of <b>3 Reviewers</b> shall be <b>recommended</b> by the Board to the Practice Unitwithin <b>3 days</b>
		The Practice Unit shall <b>select 1 out of the 3 Reviewers</b> & intimate to theBoard <b>within 1 working day</b> of receipt of the names
	Reviewer Confidentiality to PU: <b>(2 days)</b>	The <b>Board shall intimate the Reviewer</b> so selected to <b>submit a Declaration ofConfidentiality</b> in Form 2 to the PU <b>within 2 working days</b> from the receipt ofSelection of name of the Reviewer from the PU.
	PU Reviewer: to	The PU shall <b>also provide a copy of the Application cum Questionnaire</b> in Form1 submitted to the Board as per

	(1st Point Info): <b>(2 days)</b>	clause 6 (1) or 6(2) above <b>to the Reviewer</b> within <b>2 working days</b> of the appointment of the Reviewer
<b>Step 2: Procedure to be followed by the Peer Reviewer:</b>	Confidentiality Confirmation:	Before commencement of Peer Review, the Peer Reviewer shall <b>ensure</b> that the Declaration of <b>confidentiality is furnished</b> to the Practice Unit and <b>acknowledgement of receipt</b> thereof is <b>obtained</b> by him
	Intimation of Samples:	On receiving the Application cum Questionnaire in Form 1 from the PU, the Peer Reviewer shall <b>initiate the Peer Review by:</b>  - <b>Intimating</b> the PU of <b>proposed visit</b> and the <b>proposed samples</b> selected to be kept ready by the Practice Unit.
	Additional Information furnished by Practice Unit: <b>[1 Day]</b>	The Reviewer <b>may seek further/ additional clarification</b> in Form 6 from the Practice Unit <b>on the information furnished/ not furnished</b> by the Practice Unit in the Questionnaire.  • The Practice Unit shall provide this additional information to the Reviewer <b>within 1 working day</b> .
	Samples Intimation: <b>[2 Days]</b>	The Reviewer shall, <b>within 2 working days</b> of receiving the information from the Practice Unit, select assurance service engagements that he would like to review and <b>intimate</b> the same <b>to the Practice Unit and the Peer Review Board</b> in Form 5.
	On-Site Review: <b>[2 Days]</b>	Reviewer shall plan “on-site review” visit in consultation with the Practice Unit.  The <b>Reviewer shall give the PU at least 2 working days</b> to keep ready necessary records of the selected assurance services in Form 5.
	Completed within <b>20 days</b>	The Reviewer and PU shall mutually co-operate and ensure that the <b>entire review process is completed within 20 working days:</b>  • from the date of receipt of application from the PU for

		<p>Peer Review or</p> <ul style="list-style-type: none"> <li>from the date of notifying the PU about its selection for Review as the case may be, i.e., Whether Suo-Moto applied or selected by Boards</li> </ul>
	<p>New Unit Completed <b>within 7 Days:</b></p>	<p>In case of Peer Review of a New Unit, the Reviewer and Practice Unit shall mutually co-operate and ensure that the entire review process is completed within <b>7 working days</b> from the date of receipt of application cum questionnaire from the Practice Unit for being Peer Reviewed”</p>
<b>Step 3: Execution</b>	<b>Peer Review Visits</b>	<p>This on-site Review should <b>not extend beyond 6 working days</b></p>
	<b>Compliance Review of General Controls</b>	<p>The Reviewer is required to carry out a compliance Review of the following General Controls for evaluating the degree of reliance to be placed upon them for effective Review:</p> <ul style="list-style-type: none"> <li>a) <b>I</b>ndependence</li> <li>b) <b>M</b>aintenance of Professional Skills and Standards</li> <li>c) <b>O</b>utside Consultation</li> <li>d) <b>S</b>taff recruitment, Supervision and Development</li> <li>e) <b>O</b>ffice Administration</li> </ul>
	<b>Selection of Assurance Service Engagements for Review</b>	<p>The number of assurance service engagements to be reviewed shall depend upon:</p> <ul style="list-style-type: none"> <li>a) The number of partners / members involved in assurance service engagements in the Practice Unit;</li> <li>b) The Fees charged / received / GST paid by the Practice unit.</li> <li>c) The number of locations / branch offices of the practice Unit;</li> <li>d) The Standard of quality controls generally prevailing;</li> <li>e) The size and nature of assurance service engagements undertaken by the Practice Unit.</li> </ul>

		f) The methodology generally adopted by the Practice Unit in providing assurance services.
	Review of Records	<p>A) <b>Compliance Approach</b> – Assurance Service Engagements: The compliance approach is to assess whether proper control procedures have been established / followed by the Practice Unit to ensure that assurance services are being performed in accordance with Technical, Professional and Ethical Standards.</p> <p>B) <b>Substantive Approach</b> - Assurance Engagements: This approach requires a Review of the assurance working papers in order to establish the extent of compliance, whether the assurance work has been carried out as per the Technical, Professional, and Ethical Standards</p>
	Procedure for Peer Review of a New Unit	<p>1. Peer Review of a New Unit is to be <b>conducted based on the antecedents</b> (Background) <b>of partners and policy parameters announced by the Practice Unit</b> for conduct of <b>attest function</b>. The Reviewer has to verify the same from the Application cum Questionnaire submitted by the Practice Unit in Form 1 as well as an</p> <p>2. <b>Onsite visit</b> to the PU which shall be <b>restricted to 1 day</b>.</p> <p>3. The Reviewer shall thereafter submit a <b>Report to the Board</b> in the formats as prescribed by it.</p>
<b>Step 4:</b> <b>Reporting</b> by the Peer Reviewer	After completing the on-site review, the Reviewer, <b>shall submit the Peer Review Report</b> to the: <ul style="list-style-type: none"> <li>• <b>Board</b> along with Form 9 if in his opinion, the Practice Unit has <i>adequate systems and procedures in compliance with the Technical, Professional and Ethical Standards</i>.</li> <li>• A <b>copy</b> of the report shall also be forwarded to the <b>Practice Unit</b>.</li> </ul>	
	Communication of Findings to	<ul style="list-style-type: none"> <li>• In case, in the opinion, the systems and procedures of the Practice Unit are <b>deficient or non-compliant</b> with</li> </ul>

	<p>PU <b>(Preliminary report)</b></p>	<p>reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification, he shall communicate his findings to the Practice Unit, in a <b>Preliminary Report</b> issued by him</p>
	<p>Response by PU</p>	<ul style="list-style-type: none"> <li>• The Practice Unit shall, <b>within 2 days</b> of the date of receipt of the findings, make its submissions or representations, in writing to the Reviewer</li> </ul>
	<p>Peer review report</p>	<ul style="list-style-type: none"> <li>• <b>If the Reviewer is satisfied with the reply received from the Practice Unit:</b> He shall submit an <b>unqualified Peer Review Report</b> to the <b>Board</b> along with Form 9. A <b>copy</b> of the report shall also be forwarded to the <b>Practice Unit</b>.</li> <li>• <b>If response by the Practice Unit is not satisfactory:</b> the Reviewer shall submit a <b>Qualified Report</b> to the Board incorporating his <b>reasons</b> for the same along with Form 9. A copy of the report shall also be forwarded to the Practice Unit.</li> </ul>
	<p>Report Should State that:</p>	<p>The Peer Review Report should state that the <b>system of quality control</b> for the assurance services of the Practice Unit for the period under Review has been <b>designed so as to carry out the assurance services</b> in a manner that ensures <b>compliance with Technical, Professional and Ethical Standards</b>.</p>
	<p>Submit Following Documents along with Report:</p>	<p>The Peer Reviewer shall ensure to submit the following documents along with the Peer Review Report:</p> <ul style="list-style-type: none"> <li>i) <b>Annexures</b> to the Report as prescribed by the Board</li> <li>ii) <b>Copy of Questionnaire</b> as received from the Practice Unit</li> <li>iii) <b>List of samples</b> selected by him in accordance with the criteria prescribed by the Board</li> <li>iv) <b>Preliminary Report</b>, if issued, along with PU's</li> </ul>

		<p>submissions on the same.</p> <p>The Practice Unit as well as the Reviewer shall ensure that all documents submitted to the Board are duly dated, signed and complete in all aspects.</p>
<b>Follow on Review:</b>	<p>In case of a <b>modified report</b>, The Board shall order for a <b>“Follow On” Review</b>:</p> <ul style="list-style-type: none"> <li>• <b>After a period of 1 year</b> from the date of issue of report as mentioned in (b) above.</li> <li>• If the Board so decides, the period of one year may be reduced but shall <b>not be less than 6 months</b> from the date of issue of the report.</li> </ul>	

### 11) PEER REVIEW CERTIFICATE:

	<b>Some Other Miscellaneous Points:</b>
<b>Issuance of Peer Review Certificate:</b>	<ul style="list-style-type: none"> <li>• <b>In case of an unqualified report</b> issued by the Peer Reviewer, the Peer Review Board <b>Secretary shall place the report before the Board</b> or its Sub-Committee <b>for consideration and issuance</b> of Peer Review Certificate to the Practice Unit, but <b>only after the Peer Reviewer confirms the fee receipt from the Practice Unit</b> by him.</li> <li>• <b>New Units:</b> A Peer Review Certificate shall be issued to subject to the Procedures followed by the reviewer as prescribed under Clause 8 of these Guidelines and other clauses of these Guidelines, as the case may be.</li> <li>• <b>SIGNED:</b> The Certificate shall be <b>duly signed by the Chairman, Vice Chairman and Secretary</b> of the Board mentioning the validity period.</li> <li>• <b>Secretary:</b> The Peer Review Board Secretary shall serve the Peer Review Certificate upon the Practice Unit.</li> <li>• <b>List on ICAI Website:</b> The PR Board Secretary shall <b>update the List of Practice Units having a valid Peer Review certificate</b> incorporating the names of Practice Units to whom the Peer Review certificates have been issued on the <b>ICAI website</b>.</li> <li>• <b>Qualified Report:</b> In cases where a Qualified Report has been issued by the Reviewer and has been considered by the Board, the Peer Review Board Secretary shall <b>inform the Practice Unit</b> that a Peer Review certificate</li> </ul>



	cannot be issued along with the reasons therefor as well as inform about the due date for conducting a follow-on review as may be decided by the Board.
<b>Peer Review Certificate VALIDITY:</b>	<ul style="list-style-type: none"> <li>• <b>Normally:</b> The Peer Review Certificate shall be valid for a period of <b>3 years</b> or such other period as may be decided by the Board commencing from the date of receipt of Peer Review report by the Board.</li> <li>• <b>FOR NEW UNIT:</b> The validity of the Peer Review Certificate issued to New Units shall be <b>decided by the Board</b>.</li> <li>• The <b>Council may for such reasons</b> as may be prescribed by it <b>extend the validity</b> of existing Peer Review <b>certificate</b> granted to a Practice Unit. The Practice Unit shall make an Application in Form 8 requesting for extension of validity”</li> </ul>

#### Let's Summarize Special Points for “NEW UNITS”

New Unit: [Clause 2 (12)]	<ul style="list-style-type: none"> <li>• <b>Firm whose date of establishment is less than 12 months</b> immediately preceding the date of receipt of application of Peer Review and which may or may not have rendered any assurance service during the said period or</li> <li>• Practice Unit in <b>existence for a period exceeding 12 months</b> but <b>not rendering any assurance services</b>.</li> </ul>
Completion of P.R:	Within <b>7 working days</b> [Instead of <b>20 Working Days</b> ]
On-Site Review:	Restricted to <b>1 day</b> [Instead of <b>6 days</b> ]
Issuance of Certificate:	Peer Review Certificate shall be issued to subject to the Procedures followed by the reviewer asprescribed under Clause 8 of these Guidelines and other clauses of these Guidelines/
Certificate Validity:	<b>Decided by the Board</b> [Instead of <b>3 years</b> ]

## CHAPTER 18 : Professional Ethics

Following Provisions of Code of Ethics also became Applicable:

## FEES – Relative Size (i.e., Fees from single client is Higher)

<b>Intro &amp; Threats</b>	When the <b>total fees generated from an Audit client [single client &amp; its related parties]</b> by the firm expressing the audit opinion <b>represent a large proportion of the total fees of that firm</b> , the dependence on the client and concern about losing the client create a <b>self-interest or intimidation threat</b> .						
<b>What to Do</b>	If <b>Limit</b> mentioned in this Para <b>exceeds</b> (Threat), Then Audit firm needs to <b>Disclose / report the fact to ICAI (Institute)</b>						
<b>Limit:</b>	<p>Disclosure is required where <b>for 2 consecutive years, Below Limits are Crossed:</b></p> <table border="1"> <thead> <tr> <th>When Auditee Is:</th><th>Limit:</th></tr> </thead> <tbody> <tr> <td>Non-Public Interest Entities (PIE):</td><td>The <b>gross</b> annual professional fees from an audit client represent more than <b>40% of the total fees of the firm</b></td></tr> <tr> <td>Public interest entities</td><td>The <b>gross</b> annual professional fees from an audit client represent more than <b>20% of the total fees of the firm</b></td></tr> </tbody> </table> <p>[If the <b>fees continue to exceed mentioned limits</b>, the firm shall in <b>each such year disclose</b> this fact to the Institute]</p>	When Auditee Is:	Limit:	Non-Public Interest Entities (PIE):	The <b>gross</b> annual professional fees from an audit client represent more than <b>40% of the total fees of the firm</b>	Public interest entities	The <b>gross</b> annual professional fees from an audit client represent more than <b>20% of the total fees of the firm</b>
When Auditee Is:	Limit:						
Non-Public Interest Entities (PIE):	The <b>gross</b> annual professional fees from an audit client represent more than <b>40% of the total fees of the firm</b>						
Public interest entities	The <b>gross</b> annual professional fees from an audit client represent more than <b>20% of the total fees of the firm</b>						
<b>Exemption:</b>	<p>Above threshold is <b>NOT APPLICABLE</b> if:</p> <ol style="list-style-type: none"> <li><b>Firms exempted</b> - Firm <b>total fees received</b> by the firm does <b>not exceed Rs. 20 Lakhs</b> (Including fees for other services rendered) Including different firms in which such member or firm may be a partner to all audit clients</li> <li><b>Audit Clients exempted:</b> audit of <b>government Companies, public undertakings, nationalized banks, and public financial institutions</b>, or where <b>appointments of auditors are made by Government or Regulators</b></li> </ol>						
<b>Public Int. Entity:</b>	<ol style="list-style-type: none"> <li><b>Listed Entity</b>, Or,</li> <li><b>Defined by regulation</b> or legislation as a public interest entity</li> <li>For which the <b>audit is required by regulation</b> or legislation to be conducted in compliance with the <b>same independence requirements</b> that apply to the audit of <b>listed entities</b>.</li> </ol>						

	d) <b>Banks and Insurance Companies</b> are to be considered as Public Interest Entities.
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#### **Tax Services to Audit Clients -:**

Introduction:	<b>Providing tax services to an audit client might create a self-review or advocacy threat.</b> Tax services comprise a broad range of services and if provided to audit clients create following threats and are hence <b>either prohibited or restricted</b>		
Tax return preparation	<b>Allow</b> , does not usually create a threat		
Tax calculations: (PIE is Public Int. Entity)	<b>Tax calculations</b> for the purpose of <b>preparing the accounting entries: Self-review thereat</b>		
	For PIE	Material Effect on FS	> <b>Not Permitted</b>
	For PIE	No Material Effect on FS	> <b>Permitted</b> if adequate
	For Non-PIE	Material or Non-Material Effect on FS	safeguards built to address the threat
Tax planning and other tax advisory services:	<ul style="list-style-type: none"> <li>• Might create <b>self-review or advocacy threat</b>.</li> <li>• Hence <b>may provide depending on the level of threat and safeguards</b> that can be built.</li> <li>• However <b>when Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation</b>, <b>not to provide</b> such services if there is a reasonable <b>doubt</b> about the <b>suggested accounting treatment</b> and it has <b>material effect on FS</b></li> </ul>		
Tax services involving valuations	<ul style="list-style-type: none"> <li>• Might create <b>self-review or advocacy threat</b>.</li> <li>• <b>Valuation result not having a direct effect on the financial statements – May provide if</b> <ul style="list-style-type: none"> <li>✓ Valuation has <b>no material effect on FS</b> or</li> <li>✓ Valuation is <b>subject to external review by tax authorities</b></li> </ul> </li> <li>• <b>Valuation result having a direct effect on the financial statements –</b> Provisions of sub section 603 on providing valuation services to audit clients apply.</li> </ul>		
Assistance in	• Might create <b>self-review or advocacy threat</b> .		

the resolution of tax disputes:	<ul style="list-style-type: none"> <li>• <b>NOT ALLOW:</b> A firm or a network firm shall <b>not provide tax services</b> that involve assisting in the resolution of tax disputes to an audit client if:               <ol style="list-style-type: none"> <li>a) The services involve <b>acting as an advocate for the audit client</b> before a <b>court</b>; and</li> <li>b) The <b>amounts</b> involved are <b>material to the FS</b>.</li> </ol> </li> <li>• <b>ALLOW:</b> Ethics does not preclude a firm or network firm from having a <b>continuing advisory role</b> in relation to the <b>matter that is being heard before a court</b>, forexample responding to specific requests for information, providing factual accounts or testimony, assisting client in analyzing the tax issues related to the matter.</li> <li>• For the purpose of this subsection, "<b>Court</b>" does <b>not include a Tribunal</b></li> </ul>
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#### Non-Compliance with Laws and Regulations (NOCLAR) –Applicable HaiBoss !!

- Now only on Senior Professional Accountant Employees (Not all employees)
- Listed Entity AUDIT only, Not all assignments
- Listed Entity having Specific Network

Applicability:	International (IESBA) Code of Ethics	<ul style="list-style-type: none"> <li>• <b>In case of members in practice:</b> Applicable to <b>ALL</b> assignments</li> <li>• <b>In case of members in service:</b> Applicable to <b>ALL</b> employers</li> </ul>
	As per ICAI Code of Ethics	<ul style="list-style-type: none"> <li>• <b>In case of Professional Accountant in practice:</b> Applicable to <b>Audit of Listed Entities</b> assignments, Below <b>all</b> conditions must fulfill:               <ul style="list-style-type: none"> <li>✓ <b>Shares</b> of which are <b>listed</b> on recognized stock exchanges(s) in <b>India</b> and</li> <li>✓ Net worth <b>&gt;= INR 250 crores</b></li> </ul> </li> <li>• <b>In case of members in service:</b> Applicable to "<b>Senior Professional Accountants</b>" in service, being <b>employees</b> of <b>listed entities</b></li> </ul>

	<p>➤ <b>Senior professional accountants Means KMP</b> [Directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources]</p> <p>➤ <b>"Audit engagement"</b> means reasonable assurance engagement in which a professional accountant in public practice expresses an opinion on whether financial statements give a true fair view by an applicable financial reporting framework</p>
<b>Meaning:</b>	<p>Where a professional accountant <b>in public practice or senior professional accountant identifies any non-compliance</b> with laws and regulations to comply with the principles of integrity and professional behavior it may have to <b>report</b> such non-compliance by alerting <b>management / TCWG</b> and take <b>further actions as appropriate like reporting to regulatory bodies or withdrawing</b> from engagement.</p> <p>In the course of providing a professional service to a client or carrying out professional activities for an employer, a Senior Professional accountant may come across an instance of <b>non-compliance with laws and regulations (NOCLAR) or suspected NOCLAR committed or about to be committed by:</b></p> <ul style="list-style-type: none"> <li>• The <b>client</b> /professional accountant's employing organisation (<b>Employer</b>)</li> <li>• <b>TCWG</b> of client or Employing organisation</li> <li>• <b>management</b> of a client/ employing organisation</li> <li>• <b>other individuals</b> working for or under the direction of a client/ employing organisation</li> </ul> <p>NOCLAR under Revised Code of Ethics does <b>NOT address the personal misconduct unrelated to the business</b> activities of the client/ employing organisation <i>and</i> noncompliance <b>by parties other than listed out in the definition</b> of NOCLAR</p>
<b>Examples:</b>	<p>As per IESBA, following examples would be covered in NOCLAR:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; border-radius: 10px; padding: 5px; text-align: center;">             Fraud, corruption&amp;           </div> <div style="border: 1px solid black; border-radius: 10px; padding: 5px; text-align: center;">             Money laundering, terrorist financing &amp;           </div> <div style="border: 1px solid black; border-radius: 10px; padding: 5px; text-align: center;">             Securities           </div> </div>

	<div>Banking and other</div> <div>Data protection</div> <div>Environmental protection</div> <div>Public health and safety</div> <div>Tax and pension liabilities&amp;</div>		
<b>Points to Note:</b>	During Course of Providing a Service:	NOCLAR will be <b>applicable</b> if a professional accountant encounters, or is made aware of, non-compliance/Suspected also, he is not required to investigate, nor responsible for ensuring complete compliance.	
	Expertise of Laws NOT Required:	A professional accountant is <b>expected to apply knowledge</b> and expertise, and exercise professional judgment. However, he is <b>not expected to have</b> a level of <b>knowledge of laws</b> and regulations <b>greater than which is required to undertake the engagement</b>	
	Out of Scope:	Matters that are clearly inconsequential, or relating to <b>personal misconduct</b> pertaining to business activities of the client not covered	
	Disclosure contrary to Law:	Disclosure, which is Contrary to Law <b>not Required</b> : As per IESBA Code, disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation	
<b>NOCLAR vs. SA-250:</b>		<b>SA-250</b>	<b>NOCLAR</b>
	1	Applicable <b>only on Audit</b> , and not on other Assurance engagements	Applicable on professional accountants in <b>service</b> , and in <b>practice</b> , it applies to Auditors, as well as professional services



			other than Audit
	2	Talks of <b>auditor's responsibilities</b> for laws having <b>direct effect</b> on the determination of material amounts and disclosures <b>in the financial statements</b> (such as tax and labour laws); and other laws and regulations that <b>do not have a direct effect</b> on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business	NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it <b>takes into account non-compliance</b> that <b>causes</b> substantial harm resulting in <b>serious consequences</b> in <b>financial or nonfinancial terms</b>
	3	<b>Not defined stakeholders</b>	NOCLAR is related to <b>affect of noncompliance</b> on <b>investors, creditors, employees</b> as <b>also the general public</b>
	4	This provision is not existent in SA-250	<b>In exceptional circumstances,</b> the professional accountant <b>might become aware of an imminent breach of a law</b> or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having <b>first considered whether it would be appropriate to discuss the matter with management or those charged with governance</b>

		of the company, the accountant shall exercise professional judgment and <b>determine whether to disclose the matter immediately to</b> an <i>appropriate authority</i> in order to prevent or mitigate the consequences of such imminent breach. <b>If disclosure is made,</b> <i>that disclosure is permitted</i>
<b>Respond to NOCLAR:</b>	<b>In case of Employment&gt;&gt;</b>	• Responsibility of <b>Senior Professional Accountant</b> in Service
	<b>In case of Audit Engagement&gt;&gt;</b>	• Responsibilities of <b>Professional Accountant</b>
<b>Steps to be taken for responding:</b>	1) Obtaining an understanding of the matter 2) Addressing the matter 3) Seeking Advice 4) Determining whether further action is needed 5) Determining whether to disclose the matter to an Appropriate Authority 6) Imminent Breach (Breach that is most likely to happen) 7) Documentation Note: Situation where disclosure ought to be made by the <i>Auditor</i> , the “Appropriate authority” for the purpose of disclosure will depend on the nature of the matter. For example, the appropriate authority would be SEBI in the case of fraudulent financial reporting	