

CA Final

ADVANCED AUDITING

Assurance and Professional Ethics



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**PROFESSIONAL ETHICS
AND LIABILITIES OF AUDITOR**

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PROFESSIONAL ETHICS AND LIABILITIES OF AUDITOR

1. Significance of the COP – [Section 6](#)
 2. Cancellation and Restoration of COP [Regulation – 10 & 11](#)
 3. Members - deemed to be in Practice – [Section 2\(2\), Regulation 191 & Section 144 of CA13](#)
 4. Companies not to Engage in Accountancy - [Section 25 & 141\(2\)](#)
 5. Member in Practice Prohibited from using other Designation - [Section 7](#)
 6. Maintenance of Branch Offices – [Section 27](#)
 7. KYC Norms for CA in Practice
- #CA13 - Companies Act, 2013



Chartered Accountants in Practice

1. Disabilities for the Purpose of Membership – [Section 8](#)
2. Types of Members of the Institute
3. Removal of Name - [Section 20](#)
4. Restoration of Membership - [Section 20 & Regulation 19](#)
5. Penalty for Falsely Claiming to be a Member etc. - [Section 24](#)

Membership of the Institute



- A. What is NOCLAR?
- B. Definition
- C. Exclusions
- D. Examples as per IESBA, of non-compliance
- E. Objectives
- F. Important facts
- G. Applicability of NOCLAR in India
- H. NOCLAR vs. SA 250
- I. Responding to NOCLAR
- J. Responsibility of Responding to NOCLAR & Documentation

Non-Compliance with Laws and Regulations (NOCLAR)



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| B.1 Threats | B.2 Evaluation of Threats |
| 1. Self-interest Threats | |
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Threats, Evaluation of Threats & Safeguards

1. Integrity – [Subsection 111](#)
 2. Objectivity - [Subsection 112](#)
 3. Professional Competence and Due Care – [Subsection 113](#)
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 5. Professional Behaviour - [Subsection 115](#)
- Duty to comply fundamental principles

Fundamental Principles



Overview of Code of Ethics



START



PROFESSIONAL ETHICS AND LIABILITIES OF AUDITOR



Chartered Accountants in Service

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Types of Misconduct - Professional or Other Misconduct - Section 21 & 22

- (a) Professional Misconduct
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Clause 1: Allows to Practice in Own Name
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Part 1 - Professional Misconduct of Members in Practice

S.1A

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S.1B

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S.1C

S.1D

PROFESSIONAL ETHICS AND LIABILITIES OF AUDITOR

Chapter I - Preliminary
Chapter II - Conduct of a Member being an Employee
Chapter V - Maintenance of Books
Chapter VI - Tax Audit Assignments
Chapter VII - Appointment of an Auditor in case of non-payment of undisputed fees
Chapter VIII - Company Audit Assignments
Chapter IX - Appointment as Statutory Auditor for Other Services

Chapter X - Auditor Indebtness
Chapter XI - Directions in case of Unjustified Removal of Auditors
Chapter XIII - Guidelines on Tenders Clarifications on the various issues-related to tender
Chapter XIV - UDIN Guidelines
Chapter XV - Guidelines for Networking
Chapter XVI - CA Logo
Chapter XVII - Corporate form of Practice (Chapter III, IV & XII omitted)

- (a) Write up
- (b) Website of the CA Firms
- (c) Online Third Party Platforms
- (d) Publication in the Telephone or other Directories
- (e) Application based Service Provider Aggregators (SPAs)
- (f) Specialised Directories for limited circulation
- (g) Exemptions

Council Advertisement Guidelines, 2008

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Recommended Self-Regulatory Measures

- (a) Branch Audits
- (b) Joint Audit
- (c) Ratio Between Qualified and Unqualified Staff
- (d) Disclosure of Interest by Auditors in other Firms
- (d) Recommended Minimum Scale of Fees

Council General Guidelines, 2008

Council Guidelines

- Clause 1:** contravenes provision of the act etc.
- Clause 2:** Confidentiality - CAIS
- Clause 3:** Supplies Incorrect info to ICAI, etc.
- Clause 4:** Defalcates or Embezzels Money

Part 2 - Professional Misconduct of all Members

Clause: Other Misconduct Part 3 - Other Misconduct of all Members

- Clause 1:** Confidentiality
Section 126 - Evidence Act, 1872
- Clause 2:** Certifies / Reports Without Examination
- Clause 3:** Certifies on Accuracy of Forecasts
- Clause 4:** Substantial Interest (S.I.)
Section 141(3)(b), (c) & (d) of CA13
- Clause 5:** Fails to Disclose a Material Fact Known to Him
- Clause 6:** Fails to Disclose Misstatement Know to Him
- Clause 7:** Due Diligence / Grossly Negilgent
- Clause 8:** Fails to Obtain Sufficient Info
- Clause 9:** Fails to Invite Attention to SAs
- Clause 10:** Fails to Keep Money of Client Separate in Bank

The Second Schedule

S.2

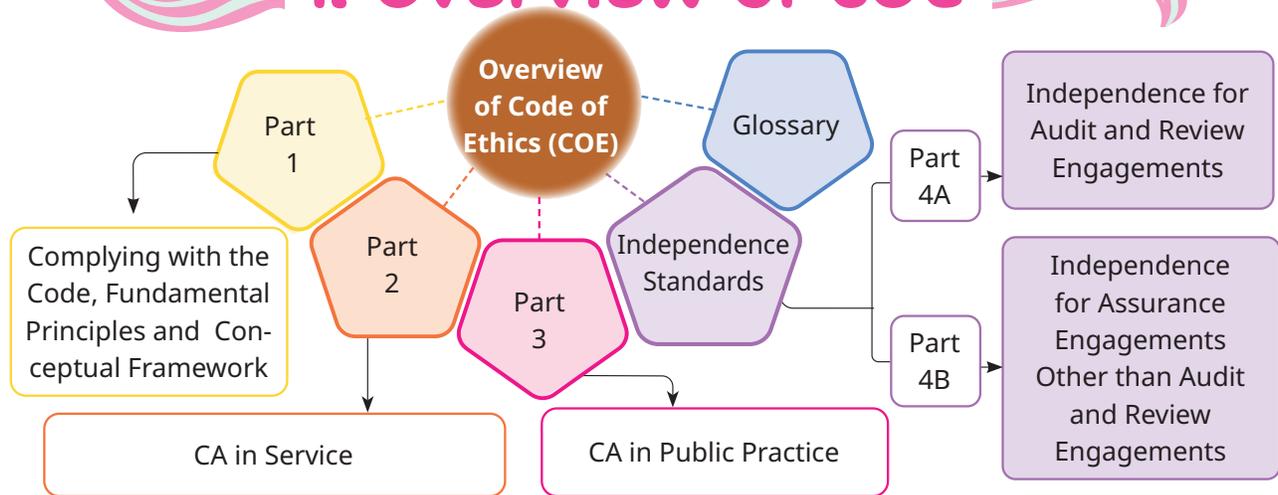
S.2A

Part 1 - Professional Misconduct in relation to CAs in Practice

FINISH

CODE OF ETHICS

1. Overview of COE



Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework

(Applies to all CA) (Section 100-199) Contains provisions relating to fundamental principles and complying with the code applicable to all CAs.

Part 2 - CA in Service (CAiS)

(Applies to CA in service while performing professional activities) (Section 200-299)

Applies to CAiS when performing professional activities and covers CAs employed / engaged in executive or non-executive capacity in commerce, industry, service, public sector, NPO sector, Education, Regulatory or professional bodies. Also applies to CAiS under a CA Firm.

Part 3 - CA in Public Practice

(Additionally for CA in practice when providing professional services) (Section 300-399)

Contains provisions on conflicts of interests, professional appointments, fees, gift inducements, custody of client assets, NoCLAR, etc.

- Independence Standards (Parts 4A and 4B) (For CA in public practice)

Part 4A Independence for Audit and Review Engagements (Section 400-899)

Part 4B Independence for Assurance Engagements Other than Audit and Review Engagements (Section 900-999)

Structure

Each section has following parts with mentioned purpose

Introduction (Section 100 - 199)

- Sets out the subject matter addressed in the section and introduces the requirements and application material in the section
- Applies to all CA

Requirements

- Establish general and specific obligations to be complied with by the members
- Denoted with R, usually mandatory.

Application material

- Provides context, explanations, suggestions or actions, illustrations and other guidance to assist in complying with the requirements.
- Must be considered to apply 'R' of the Code. Designated with A.

Practical examples

- Incorporated in the Code to illustrate different situations in which pressure might arise.



2A. Fundamental Principles of Ethics

1. Integrity :

CA to be straight forward and honest in both professional and business relationships.

→ Not knowingly be associated with reports, returns, communications or other information where accountant believes that the information:

- (i) ➤ Contains a materially **false or misleading** statement;
- (ii) ➤ Contains statements or information provided **negligently**; or
- (iii) ➤ **Omits or obscures** required information

However, CA may provide a modified report in respect of such above mentioned matter.

→ When a CA becomes aware of above information the accountant shall take steps to be disassociated from that information.



2. Objectivity :

Not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.



3. Professional Competence and Due Care:

- (i) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- (ii) To act diligently in accordance with applicable **technical and professional standards**
- (iii) Serve with **professional competence** & exercise **sound judgment** in applying professional knowledge and skill.
- (iv) Develop continuing **awareness**
- (v) Continuing **professional development** to develop and maintain the capabilities to perform tasks.
- (vi) **Diligence** encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- (vii) Shall take reasonable steps to provide **subordinates** appropriate **training and supervision**.

Where appropriate, a CA shall make clients, employing organization, or other **users aware of the limitations** inherent in the services or activities.



4. Confidentiality :

To refrain from:

- 1. Disclosing outside the firm or employing organization confidential information without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- 2. Using confidential information acquired as a result of professional and business relationships to their **personal advantage** or the advantage of third parties

4-A. Confidentiality : Subsection 114

1. An accountant shall:

- Be alert to the possibility of **inadvertent disclosure**;
- Maintain confidentiality of information within the **firm or employing organization**;
- Maintain confidentiality of information disclosed by a **prospective client** or employing organization;
- **Not disclose** without proper and specific **authority**, unless there is a legal or professional duty or right to disclose;
- Not use confidential information acquired for the personal advantage of accountant or else;
- **Not use** or disclose any confidential information, **after that relationship has ended**; and
- Ensure that **personnel** under the accountant's control respect the duty of **confidentiality**.

2. Following are circumstances where CA might be required to disclose confidential information or when such disclosure might be appropriate:

- Disclosure is **required by law**,
- Disclosure is **permitted by law** and is authorized by the client or the employing organisation;
- There is a **professional duty** or right to disclose, when not prohibited by law:

- (i) To comply with the requirements of Peer Review or Quality Review
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a CA in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.
- 3. In deciding whether to disclose confidential information, CA should consider the following points:
 - (i) Whether the interests of any party, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the CA;
 - (ii) Whether all the relevant information is known and substantiated, to the extent it is practicable; and
 - (iii) The proposed type of communication, and to whom it is addressed;
 - (iv) Whether the parties to whom the communication is addressed are appropriate recipients.



5. Professional Behaviour : Subsection 115

1. To comply with relevant laws and regulations and avoid any action that may bring credit to the profession
2. CA should be honest and truthful and should not:
 - (i) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
 - (ii) Make disparaging references or unsubstantiated comparisons to the work of others
 - (iii) Any violation of Advertisement Guidelines issued by the Council

Duty to comply with fundamental principles

1. A CA shall comply with each of the fundamental principles.
2. The fundamental principles of ethics establish the standard of behaviour expected of a CA.
3. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles.
4. A CA might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, with:



5. However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by LorR, disassociate from the matter creating the conflict.
6. The CA is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions

Legends

Professional Accountant - CA, Those Charged with Governance - TCWG, Law or Regulation - LorR

2B. Threats, Evaluation of Threats & Safeguards

Conceptual Framework specifies an approach for a CA to:

- (i) Identify threats to compliance with the fundamental principles;
- (ii) Evaluate the threats identified; and
- (iii) Address the threats

2B-1. Threats



1. Self-interest

I. Definition - The threat that a financial or other interest will inappropriately influence a CA's judgment or behaviour;

II. Examples

- (i) A CA having a direct financial interest in a client.
- (ii) A CA quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- (iii) A CA having a close business relationship with a client.
- (iv) A CA having access to confidential information that might be used for personal gain.
- (v) A CA discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

III. Examples of facts & circumstances

- (i) A CA holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- (ii) A CA participating in incentive compensation arrangements offered by the employing organization.
- (iii) A CA having access to corporate assets for personal use.
- (iv) A CA being offered a gift or special treatment from a supplier of the employing organization.



2. Self-review

I. Definition - The threat that a CA will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;

II. Examples

- (i) A CA issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- (ii) A CA having prepared the original data used to generate records that are the subject matter of the assurance engagement.

III. Examples of facts & circumstances

A CA determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.



3. Familiarity

I. Definition - the threat that due to a long or close relationship with a client, or employing organization, a CA will be too sympathetic to their interests or too accepting of their work; and

II. Examples

- (i) A CA having a close or immediate family member who is a director or officer of the client.
- (ii) A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- (iii) An audit team member having a long association with the audit client.

III. Examples of facts & circumstances

- (i) A CA being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
- (ii) A CA having a long association with individuals influencing business decisions.

2B-1. Threats



4. Advocacy

I. Definition - The threat that a CA will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;

II. Examples

- (i) A CA promoting the interests of, or shares in, a client.
- (ii) A CA acting as an advocate on behalf of a client in litigation or disputes with third parties.
- (iii) A CA lobbying in favor of legislation on behalf of a client.

III. Examples of facts & circumstances

A CA having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.



5. Intimidation

I. Definition - the threat that a CA will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

II. Examples

- (i) A CA being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- (ii) A CA feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- (iii) A CA being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- (iv) A CA having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public."

III. Examples of facts & circumstances

- (i) A CA or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - (1) The application of an accounting principle.
 - (2) The way in which financial information is to be reported.
- (ii) An individual attempting to influence the decision-making process of the CA, for example with regard to the awarding of contracts or the application of an accounting principle.



2B.2 Evaluation of Threats:

Policies and procedures might impact the evaluation of **whether a threat** to compliance with the fundamental principles **is at an acceptable level**.

- (i) **Acceptable level:** Third party test, party likely conclude that the accountant complies with the fundamental principles.
- (ii) **Reasonable and Informed Third Party:** Consideration by the CA about whether the same conclusions would likely be reached by another party.



2B-3. Addressing Threats

If the identified threats to compliance are **not at an acceptable level**, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (i) **Eliminating the circumstances**, including interests or relationships, that are creating the threats;
- (ii) **Applying safeguards**, if available and capable of being applied, to reduce threats to acceptable level; or
- (iii) **Declining or ending** the specific professional activity.

Actions to Eliminate Threats: A threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity.



2B-4. Safeguards

Safeguards are **actions** individually or in combination that the accountant takes **that effectively reduce threats to an acceptable level**.

Examples

- (i) Assigning **additional time and qualified personnel**, might address a self-interest threat.
- (ii) Having an **appropriate reviewer**, might address a self-review threat.
- (iii) **Using different partners** and engagement teams for the provision of non-assurance services
- (iv) Involving **another firm to perform or re-perform** might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- (v) **Separating teams** might address a self-interest threat.

2C Non-Compliance with Laws and Regulations (NOCLAR)

A. What is NOCLAR?

In the course of providing a professional service to a client	Or	carrying out professional activities for an employer
a Professional accountant (member of ICAI) may come across		
an instance of NOCLAR	Or	suspected NOCLAR
committed by	Or	about to be committed by
the client or the TCWG, management or employees of the client	Or	the employer, TCWG, management or employees of the employer.

B. Definition of NOCLAR under the Code:

NOCLAR comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing LorR committed by the following parties:

- (i) Client or employing organization (EO)
- (ii) TCWG of the client or EO
- (iii) Management of the client or EO, or
- (iv) Other individuals working for or under the direction of the client or EO.

C. Exclusions from NOCLAR

under the Code:

- (i) Personal misconduct unrelated to the business activities of the employing organisation, and
- (ii) Non-compliance by parties, other than those specified in the definition above

D. Examples as per IESBA, of non-compliance covered under NOCLAR: (FM-DP-BEST)

- (i) Fraud, corruption and bribery,
- (ii) Money laundering, terrorist financing and proceeds of crime,
- (iii) Data protection,
- (iv) Public health and safety,
- (v) Banking and other financial products and services,
- (vi) Environmental protection,
- (vii) Securities markets and trading,
- (viii) Tax and pension liabilities and payments.

E. Objectives of NOCLAR

- ▶ CA have a responsibility to act in the **public interest** and not turn a blind eye to instances of NOCLAR.
- ▶ They should **alert management / TCWG** on situations of identified/suspected non-compliance.

F. Important facts about NOCLAR:

1. No additional responsibility to check

Responsibilities under NOCLAR will be applicable when he is encounters or is made aware of, non-compliance or suspected non-compliance **in the course of providing a professional service to a client.** He is **not required to investigate, nor responsible for ensuring compete compliance.**

2. Expertise of Laws not Required

A professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, he is not expected to have a level of knowledge of L&R greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

3. Certain Matters Expressly out of Purview:

Clearly inconsequential matters, relating to personal misconduct.

4. Disclosure, which is Contrary to Law not Required:

Under Code, disclosure to an AA to be avoided if doing so would be contrary to LorR.

G. Applicability of NOCLAR in India

1. Section 260 - Responding to NOCLAR - Professional Accountants in service: Applicable to **Senior Professional Accountants** in service, being employees of **listed entities**.

Senior professional accountants in service are:

- (i) directors, officers or senior employees
- (ii) able to exert significant influence over, and
- (iii) make decisions regarding, the acquisition, deployment and control of the employing organization's

(iv) human, financial, technological, physical and intangible resources.

Senior professional accountants refer to key managerial personnel.

2. Section 360 - Responding to NOCLAR - Professional Accountants in public practice: Applicable to audit engagements (where auditor to report on T&F view of FS as per A-FRFW) of **entities**:

- (a) the shares of which are **listed** on recognized stock exchange(s) in India; **and**
- (b) have **net worth of 250 crores** or more.

H. NOCLAR vs. SA 250

Basis	SA-250	NOCLAR
(a) CAiS	SA 250 is applicable only on Audit, and not on other Assurance engagements.	NOCLAR is applicable on professional accountants in service, and in practice (it applies on Audit as well as other professional services) (For audit only applicable to Company Audit)
(b) Impact of non-compliance	SA 250 talks of auditor's responsibilities for laws having direct effect & other laws that do not have a direct effect on the determination of the amounts and disclosures in the FSs, 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 takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.
(c) Stakeholders	SA 250 does not define stakeholders.	NOCLAR is related to affect of non-compliance on investors, creditors, employees as also the general public
(d) Imminent Breach (Anticipated Breach)	This provision is not existent in SA 250	As per NOCLAR, in exceptional circumstances, CA might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors etc. Having first considered whether it would be appropriate to discuss the matter with MGT or TCWG & exercise professional judgment and determine whether to disclose the matter immediately to an AA in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted.

I. Responding to NOCLAR

Steps to be taken for responding:

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 AA
6. Imminent Breach
7. Documentation

"AA" for the purpose of disclosure will depend on the nature of the matter. For example, the AA would be SEBI in the case of fraudulent financial reporting in case of listed entities.

J. Responsibility of Responding to NOCLAR

Code lays steps to follow while assessing the nature of matter and potential harm to the interests of the stakeholders like employing organisation, investors, creditors, employees or general public. CA to apply knowledge, expertise and professional judgement to determine the need, nature and extent of further action. It might require seeking advice on whether to disclose matter to AA.

1. Understanding of the Matter:

Obtain understanding of matter and determine:

- i. The nature and circumstances in which matter occurred or might occur,
- ii. The application of the relevant L&R to the circumstances, and
- iii. Assess potential consequences to stakeholders.

2. Addressing the matter

- Depending on matter take steps to investigate the matter internally.

3. Seeking Advice

- (i) Confidentiality: He/she might also consult confidentially with others within the EO, firm, network firms, ICAI, or a legal counsel.
- (ii) To further clarify understanding of the matter, discuss with appropriate level of management / TCWG or in case of CAiS immediate superior, unless they appear to be involved in the matter. Then, discuss it with the next higher level of authority. This will also prompt management to investigate further
- (iii) CAiP to communicate to management / TCWG for them to take timely action. Management / TCWG should inform appropriate authorities.
- (iv) In case of CAiS basis their response of superiors determine if further action is needed in the public interest.
- (v) Additionally, consider if there is a need to disclose the matter to internal auditor, or in case of CAiS to EO's external auditor.

4. & 5. Determining whether further action is needed & determining whether to disclose the matter to an AA Further action that the senior professional accountant might take includes:

- i. In case of group entities, informing the group engagement partner who needs to them inform other components if relevant or in case of CAiS to the management of the parent entity, if any.
- ii. Disclosing matter to AA as specified under respective law, or
- iii. Withdrawing or resigning from the engagement where permitted. However this is not a substitute for other actions to be taken under the Code.

Remember - It is the responsibility of EO's or client's management and TCWG to identify and address any instances of NOCLAR and ensure business activities are conducted as per L&R.

Confidentiality - ICAI has incorporated disclosures of NOCLAR under Clause (1) of Part-I to Second Schedule and Clause (2) of Part-II to the Second Schedule

6. Imminent Breach (Refer comparison with SA 250 above)

7. Documentation

A. Additional documents requirements (in addition to as required under SAs) as under:

1. How management / TCWG have responded to the matter.
2. Having regard to the reasonable and informed third party test
 - course of action considered,
 - judgments made and
 - decisions that were taken.
3. How the accountant is satisfied that the responsibility of public interest has been fulfilled.

B. Relevant documentation requirements under SAs for CAiP:

1. Prepare documentation sufficient to **enable an understanding of** significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
2. Document **discussions** of significant matters with management, TCWG, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
3. Document **identified or suspected non-compliance**, and the results of discussion with management and, where applicable, TCWG and other parties outside the entity.

Content in red bracket is not in ICAI SM





290+

AIRs including
AIR 1 & 2



1,50,000+

CA Students
Taught till date



46th AIR

Rank Holder
in CA Final



Chief Mentor of FAST
TEST SERIES



Degree in Management
and Administration



Faculty of Audit and FR/
Accounts at CA Final and
Intermediate Level



Founder of FAST Career Consultants
India's largest private CA Placement
Company placing CA Freshers across
Indian at packages upto 38 Lacs

CA Sarthak Jain



AIR **1** Madhur Jain
CA Final Nov 23



AIR **1** Ruth Clare Dsilva
CA Final July 21



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AIR **2** Sikha Jain
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AIR **2** Akshat Goyal
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