

# Overview of ICSI Auditing Standards (CSAS-1 to CSAS-4)

## Introduction

The Council of the Institute of Company Secretaries of India (ICSI) at its meeting held in May 2019 introduced four Auditing standards ("CSAS") to be followed by the Practicing Company Secretaries (PCS) while undertaking audit assignments under any statute. These Audit Standards seeks to bring uniformity and promote best auditing practices among all the PCS while conducting audit. These standards were brought with a view to strengthen the audit process and promote corporate governance practices. They were effective from **1<sup>st</sup> July, 2019** on a recommendatory basis and mandatory for Audit Engagements accepted by the Auditor with effect from **1st April, 2020\***.

\*In view of the developments arising due to the spread of Covid-19 pandemic, the mandatory applicability of ICSI Auditing Standards CSAS-1 to CSAS-4 was extended for Audit Engagements accepted by the Auditor on or after **1st October, 2020**.

There are four CSAS issued by ICSI:

1. CSAS-1 – Auditing Standard on Audit Engagement
2. CSAS-2 – Auditing Standard on Audit Process and Documentation
3. CSAS-3 – Auditing Standard on Forming of Opinion
4. CSAS-4 – Auditing Standard on Secretarial Audit

## SCOPE OF AUDITING STANDARD:

### CSAS-1

- Deals with Auditor's Role and Responsibility and process of entering into an understanding/ agreement with the Appointing Authority for the purpose of audit.

### CSAS-2

- Deals with responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit documents.

### CSAS-3

- Deals with basis and manner for forming Auditor's opinion on subject matter of the audit.

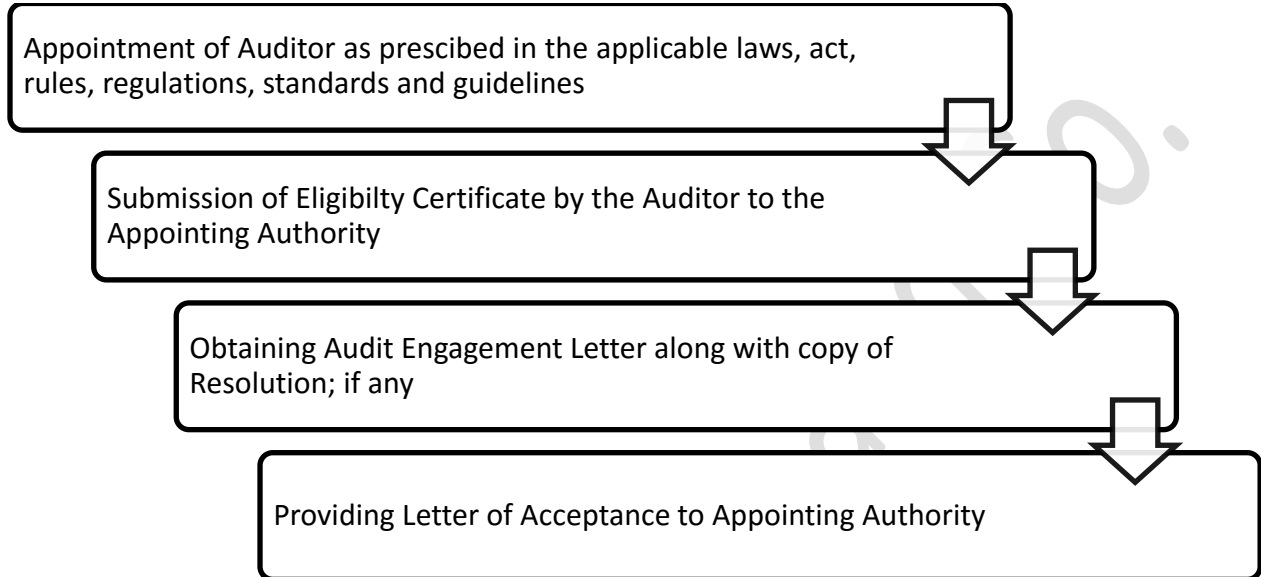
### CSAS-4

- Deals with basis and manner for carrying out the Secretarial Audit.

# **CSAS-1 AUDITING STANDARD ON AUDIT ENGAGEMENT**

## **I. AUDIT ENGAGEMENT PROCESS:**

### **1. APPOINTMENT**



### **2. AUDIT ENGAGEMENT LETTER**

The Audit Engagement Letter shall inter alia include:

- a. The objective and scope of the audit;
- b. The responsibilities of the Auditor and the Auditee;
- c. Written representations provided and/or to be provided by the Management to the Auditor, including particulars of the Predecessor or Previous Auditor;
- d. The period within which the audit report shall be submitted by the Auditor, along with milestones, if any;
- e. The commercial terms regarding audit fees and reimbursement of out of pocket expenses in connection with the audit; and
- f. Limitations of audit, if any.

Where the objective and scope of the audit and responsibilities of the Management and of the Auditor have been established by law, the Audit Engagement Letter shall give a reference to the provisions of the relevant law.

### **3. COMMUNICATION TO THE PREDECESSOR OR PREVIOUS AUDITOR**

The Auditor shall communicate in writing to the Predecessor or Previous Auditor, if any, before accepting the Audit Engagement.

#### 4. CHANGES IN TERMS OF ENGAGEMENT; IF ANY

- The Auditor shall not agree to a change the terms of the Audit Engagement where there is no reasonable justification for doing so.
- If before completion of the assignment, change in the scope of engagement is requested which results in a lower level of assurance, the Auditor shall consider the appropriateness of carrying out the same.

If the terms of the Audit Engagement are changed, the Auditor and the Appointing Authority shall agree on the new terms of the engagement by way of a supplementary/revised engagement letter or any other suitable form in writing.

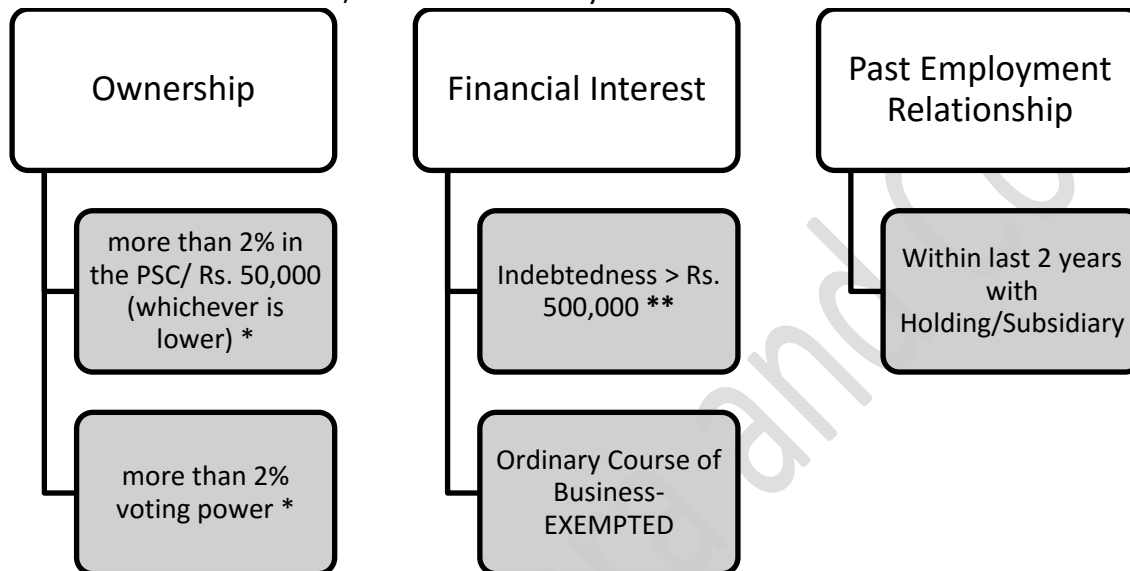
#### II. LIMITS ON AUDIT ENGAGEMENTS:

PCS shall adhere to the limits on audit engagement specified by the ICSI, which are as follows:-

<b>Audit Assignments</b>	<b>Limit per F.Y.</b>
1. Secretarial Audits per partner/ PCS :	
a. Unit not peer reviewed	10
b. Unit peer reviewed	15
2. Annual Secretarial Compliance Reports individually/per partner to be issued:	
a. Unit not peer reviewed	5
b. Unit peer reviewed	10
3. In case of the following, Secretarial Audit/ Secretarial Compliance Report to be done by Peer Reviewed Units only:	
• Top 100 companies as per market capitalization	w.e.f. 01.04.2020
• Top 500 companies as per market capitalization	w.e.f. 01.04.2021
• All listed companies	w.e.f. 01.04.2022
• All companies	w.e.f. 01.04.2023

### III. CONFLICT OF INTEREST:

The Auditor shall not have any substantial conflict of interest with the Auditee. Any conflict of interest, other than substantial conflict of interest, must be disclosed by the Auditor before accepting the Audit Engagement or as soon as the Auditor becomes aware of the same, as the case may be.



\* This limit shall be applied based on combined holding of the Auditor along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person

\*\* The limit of Rs. 500,000 shall be applicable to the combined indebtedness of the Audit firm including indebtedness by the partners in their individual capacity.

### IV. CONFIDENTIALITY

- not disclose the information obtained during the course of Audit
- not use or share with any person any information obtained except for the purposes of audit
- all reasonable steps be taken to ensure that employees, staff and other team members of the Auditor and persons engaged by the Auditor to provide advice or assistance during the conduct of audit, shall also adhere to the Auditor's duty of confidentiality

## **CSAS-2 AUDITING STANDARD ON AUDIT PROCESS AND DOCUMENTATION**

### **Audit planning**

- Audit plan should be as per terms of Audit engagement
- Qualitative audit to be carried out in an efficient, effective and timely manner
- Exercise professional judgment in an objective manner.

### **Third Party confirmation**

- The Auditor shall obtain confirmations from third party(ies), wherever required

### **Analysis of Audit evidence**

- Auditor shall evaluate the Audit Evidence to arrive at the conclusion
- If the Auditor finds that Audit Evidence is conflicting, he shall assess the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence

### **Risk assessment**

- Risk assessment of the auditee relevant to Audit engagement shall be done considering the business environment, organisational structure and compliance requirement
- The auditor shall also evaluate high risk areas and activities of the Auditee

### **Collection and verification of Audit evidence**

- The auditor shall record if there is any deviation with applicable laws, section etc
- The auditor shall keep gathering and evaluating evidence until he is satisfied with the data

### **Documentation**

- Auditor shall adequately document the Audit Evidence in working papers, the basis and extent of planning, work performed and findings of the audit
- Audit Documents shall contain sufficient information to enable an Auditor to ascertain significant findings and conclusions
- Auditor shall also document discussions with the Management in respect of which written record is not available

### **Information about the Auditee**

- The Auditor shall obtain sufficient information about the Auditee that is relevant for conduct of audit and forming an opinion and its expression

### **Audit Check-lists**

- The Auditor shall use systematic and comprehensive audit check-lists for carrying out the audit and to verify the compliance requirements.

### **Record keeping and Retention**

- establish policies and procedures for retention of Audit Documents
- Documents shall be collated for records within 45 days from the date of signing of Auditor's Report
- Documents shall be maintained in physical or electronic form and retained for 8 years from the date of signing of Auditor's Report

## CSAS-3 AUDITING STANDARD ON FORMING OF OPINION

1. Consider materiality while forming opinion and adhere to:
  - a) **Principle of completeness** i.e. Consider all relevant audit evidence before issuing audit report.
  - b) **Principle of objectivity** i.e. Apply professional judgment and skepticism to ensure evidence is factually correct.
  - c) **Principle of timeliness** i.e. Prepare audit report within the agreed time-frame.
  - d) **Principle of a contradictory process** i.e. when two contradictory facts emerge on same subject matter of audit, Auditor must strive to find additional evidence/ material which supports or negates one of the facts.
2. Verify accuracy of **facts and responses** from concerned persons.
3. Indicate if **third-party report** is provided by the auditee and also consider important findings of third party.
4. Carry out a **supplemental test** to check veracity of third-party report.
5. Express **unmodified opinion** if satisfied that:
  - a) Applicable laws have been duly complied with in terms of timeliness as well as process and
  - b) Relevant records are free from misstatement.
6. Express **modified opinion** in bold or italic letters. Modified opinion is to be issued if:
  - a) Non-compliance of applicable laws is found,
  - b) Relevant records are not free from misstatement,
  - c) Sufficient and appropriate audit evidence to ensure the above is not available.
7. Ask auditee to remove any such **limitation on scope of audit** which is likely to make the Auditor give modified opinion or disclaimer.
8. In case of absence of sufficient and appropriate evidence, if the auditor concludes that effects of unavailability of such evidence will be non-material, he shall give unmodified opinion. However, if the effects are likely to be material, he shall express disclaimer of opinion.

## **FORMAT OF AUDIT REPORT**

- The report shall be addressed to appointing authority unless the terms of engagement provide otherwise.
- Report must be detailed. Specific formats, if any, must be followed. Provide annexures wherever necessary.
- A section named Auditor's responsibility should be included in the audit report. This section shall state that the audit was conducted in accordance with applicable Standards.
- The report shall state that due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed.
- Signature block shall mention name of auditor/firm, certificate of practice number/registration number and membership number of the auditor.
- Mention clearly the date and place of signing audit report.
- If the firm is peer Reviewed, it is mandatory to mention the Peer Review Certificate Number in Report.

## **CSAS-4 AUDITING STANDARD ON SECRETARIAL AUDIT**

1. The auditor shall adhere to the other Auditing Standards on
  - (a) Audit Engagement (CSAS-1);
  - (b) Audit Process and Documentation (CSAS-2); and
  - (c) Forming of Opinion (CSAS-3).
  
2. **Identification and segregation of applicable laws:**

The Auditor shall take note of the industry specific laws and other laws as may be applicable to the Auditee.
  
3. **Identification of Events/Corporate Actions:**
  - The Auditor shall identify events/corporate actions that took place during the audit period.
  - The Auditor shall verify all event and calendar based compliances from the Records of the Auditee, database or website of the regulators and other relevant sources
  
4. **Board Composition:**

The Auditor shall verify compliance of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, agreement with Lenders/Investors, Articles of Association and provisions of other Acts / rules/ regulations, guidelines and policies, board decisions, shareholders decisions, with regard to constitution and composition of Board, Committees of Board
  
5. **Board processes:**

The Auditor shall verify that the decisions of the Board and its Committees are taken and recorded in compliance with applicable laws, rules, regulations, guidelines, standards and defined internal processes, if any.
  
6. **System and Process:**

The Auditor shall assess the efficacy and adequacy of the system and processes of the Auditee commensurate with its size and operation for verifying compliance of applicable laws, rules, regulations, standards, guidelines and defined internal processes, if any.
  
7. **Detection of fraud:** The Auditor shall exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit to detect and report the fraud envisaged under the provisions of Section 143(12) of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, 2014 and collect sufficient evidence of the fraud if any.



8. **Reporting of fraud:** If the Auditor has sufficient reason to believe that there is commission of fraud and have justifiable grounds for the same, he shall report to Audit Committee/Board/Central Government as per the process laid down under the Companies Act, 2013 and include the same in Secretarial Audit Report.
9. **Identification and Reporting of the events/actions having major bearing on Auditee's affairs:** It shall be the duty of the Auditor to identify and report in the Secretarial Audit Report all events/actions having major bearing on the Auditee's affairs in pursuance of the applicable laws, act, rules, regulations, guidelines, standards, etc.  
An event/action shall be considered as having major bearing on Auditee's affairs if it affects its going concern or alters the charter or capital structure or management or business operation or control, etc

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Date: 11<sup>th</sup> April, 2020

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