

# Guidance Note on Audit Engagement

The Auditing Standard on Audit Engagement (CSAS-1), formulated by Auditing Standards Board (ASB) of the Institute of Company Secretaries of India (ICSI) and issued by the Council of the ICSI, is effective from 1st July, 2019 on a recommendatory basis and mandatory with effect from 1st April, 2021.

This Guidance Note sets out the explanations, procedures and practical aspects in respect of the provisions contained in CSAS-1 to facilitate compliance thereof by the stakeholders.

## Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit Engagement under any statute. The Standard deals with the Auditor's roles and responsibilities with respect to an Audit Engagement and process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

*The Auditing Standard on Audit Engagement (CSAS-1) is applicable to the Practicing Company Secretaries (PCS) as defined in the Company Secretaries Act, 1980, who undertake the audit assignment envisaged under the Companies Act, 2013 or Securities and Exchange Board of India Act, 1992 or any other law prevailing in India.*

*CSAS-1 is not applicable for Audits entrusted on a voluntary basis by the Auditee to the Auditor. However, adherence to the Standard is recommended in respect of Audits entrusted on voluntary basis also.*

*In case of appointment by Court, Tribunal or Regulatory Authority, CSAS-1 shall apply to the extent possible, since the manner of appointment and terms of engagement in such cases shall be as per the directions of the Court, Tribunal or Regulatory Authority.*

*Following is an illustrative list of Audits which may be undertaken by a Company Secretary under various Statutes:*

| <b>Type of Audit</b>                            | <b>Act/<br/>Regulation</b>   | <b>Section/<br/>Regulation</b> | <b>Auditee</b>   |
|---|--|--------------------------------|--|
| <i>Secretarial<br/>Audit</i>                    | <i>Companies<br/>Act, 2013</i>   | <i>204</i>                     | <i>Company</i>   |
| <i>Secretarial<br/>Audit</i>                    | <i>SEBI (LODR)<br/>Regulations<br/>2015</i>  | <i>24A</i>                     | <i>Listed Entities</i>   |
| <i>Internal Audit</i>                           | <i>Companies<br/>Act, 2013</i>   | <i>138</i>                     | <i>Company</i>   |
| <i>Audit of<br/>Depository<br/>Participants</i> | <i>SEBI<br/>(Depositories<br/>and<br/>Participants)<br/>Regulations<br/>2018 read with<br/>SEBI circular<br/>no. SEBI/<br/>HO/MRD/<br/>DOP2-DSA2/<br/>CIR/P/2019/22<br/>dated<br/>January 23,<br/>2019</i> | <i>76</i>                      | <i>Sole<br/>Proprietorship,<br/>Partnership<br/>Firm, LLP,<br/>Company</i> |

|   |   |   |   |
|---|---|---|---|
| <i>Internal Audit of Stock Brokers</i>          | <i>SEBI (Stock and sub-broker) Regulations 1993</i>   | <i>SEBI circular no. MIRSD/DPSIII/ Cir-26/08</i>                        | <i>Sole Proprietorship, HUF, Partnership Firm, LLP, Company</i>   |
| <i>Internal Audit of Investment Advisors</i>    | <i>SEBI (Investment Advisors) Regulations 2013</i>    | <i>19(3)</i>  | <i>Sole Proprietorship, Partnership Firm, LLP, Company</i>  |
| <i>Internal Audit of Portfolio Managers</i>     | <i>SEBI (Portfolio Managers) Regulations 1993</i>     | <i>SEBI circular no. IMD/PMS/CIR/1/21727/03 dated November 18, 2003</i> | <i>Body Corporate</i>   |
| <i>Internal Audit of Credit Rating Agencies</i> | <i>SEBI (Credit Rating Agencies) Regulations 1999</i> | <i>SEBI circular no.MRD/CRA/ CIR-01/2010 dated January 06, 2010</i>     | <i>Public Financial Institution, Scheduled Commercial Bank, Foreign Bank operating in India with RBI approval, Foreign Credit Rating Agency recognised by or under any law, Company, Body Corporate</i> |

|                                     |   |       |   |
|-------------------------------------|---|-------|---|
| Internal Audit of Research Analysts | SEBI (Re-search Analysts) Regulation 2014 | 25(3) | Sole Proprietorship, Partnership Firm, LLP, Company |
|-------------------------------------|---|-------|---|

While auditing under any of the statutes, the Auditors are required to examine the Records, documents and information from the Auditee to express an independent opinion. Therefore, it becomes very important to understand the scope of audit.

This Guidance Note on CSAS-1 deals with the Auditor's responsibilities while agreeing to the terms of Audit Engagement and entering into an agreement with the Management or those charged with governance. This includes principal contents of an Audit Engagement Letter and also the duties and responsibilities of the Auditor and the Auditee in case of a change in terms of engagement, if any.

### Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2020.

In view of the developments arising due to the spread of Covid-19 pandemic, the effective date of mandatory applicability of ICSI Auditing Standards CSAS-1 to CSAS-4 has been extended for **Audit Engagements accepted by an Auditor on or after 1<sup>st</sup> April, 2021**. Members are advised to follow the Institute's communications/ guidelines, which may be issued from time to time, for the date of mandatory applicability of ICSI Auditing Standards CSAS-1 to CSAS-4.

## Objective

The objective of the Standard is to prescribe for the Auditor, principles and procedures to be followed while accepting or continuing with an Audit Engagement by agreeing to the terms of engagement with the Appointing Authority or any changes therein and matters relating thereto.

*This Standard is applicable on the Auditor in all of the following situations:*

**New Audit Engagement** – Covers an audit being conducted first time and therefore the appointment of the Auditor is an initial appointment. It will also cover the situations where the audit for the previous period was conducted by another Auditor.

**Recurring Audit Engagement** – Covers the situation where the Auditor had conducted the audit for the previous period and is requested to conduct the audit for the subsequent period as well. In such a case, the Auditor should obtain fresh Audit Engagement Letter if the period of engagement has expired, including revised terms if the circumstances so require Auditor shall adhere to the Standard even if the Audit Engagement is a continuing one.

**Changes in terms of Audit Engagement** – Whenever there is a change in the terms of Audit Engagement in the middle of an ongoing audit, the Auditor shall adhere to the Standard and initiate a revised Engagement Letter in terms of this Standard.

## Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India (ICSI), the following terms shall have the meaning attributed as below, unless specified otherwise:

(1) "Appointing Authority" means any person having authority to appoint the Auditor.

*The Auditee under the Statute could be a company or any other form of entity. Appointing Authority will depend upon the type of the Auditee. In case the Auditee is a company, the Appointing Authority would be the Board of company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulator or any officer thereof.*

*For example, in case of Secretarial Audit under Section 204 of Companies Act, 2013 or Clause 24A of the SEBI (LODR) Regulations, 2015 and Internal Audit under Section 138 of Companies Act, 2013, the Appointing Authority would be the Board of the Company.*

*In case, the Auditee is under Corporate Insolvency Resolution Process, the Appointing Authority shall be the Resolution Professional.*

*In case of Audit of Depository Participants, the Appointing Authority may depend upon the type of Auditee, e.g. if the Depository Participant is a company then the Appointing Authority will be the Board or in case of an LLP it could be the designated partner or any other partner as may be authorised to appoint the Auditor. Similarly in case of Internal Audit of Stock Brokers, Internal Audit of Investment Advisors, Internal Audit of Portfolio Managers, Internal Audit of Credit Rating Agencies and Internal Audit of Research Analysts, the Appointing Authority would depend upon the type of Auditee.*

(2) "Audit Engagement" means detailed terms of reference of appointment including scope of audit, remuneration and limiting conditions, if any.

(3) "Auditee" means a person subject to audit.

(4) "Auditor" means a Company Secretary who is deemed to be in practice under sub-section (2) of Section 2 of the Company Secretaries Act, 1980 and includes a firm or Limited Liability Partnership (LLP) registered with ICSI, undertaking the Audit.

*Auditor means a member of the ICSI who holds a valid Certificate of Practice under Section 2(2) of the Company Secretaries Act, 1980. It includes a firm or Limited Liability Partnership (LLP) registered with ICSI and whose partners are members of the ICSI.*

(5) "Management" includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee.

*In case of Companies*

*The term "persons who have been entrusted with the responsibility of governance and compliances of the Auditee" include the Key Managerial Personnel as defined under Section 2(51) of the Companies Act, 2013 and senior Management as defined under SEBI (LODR) Regulations, 2015 and the explanation given in Section 178 of the Companies Act, 2013.*

*As per Section 2(51) of Companies Act, 2013: "Key Managerial Personnel", in relation to a company, means –*

- (i) the Chief Executive Officer or the Managing Director or the Manager;*
- (ii) the Company Secretary;*
- (iii) the whole-time Director;*
- (iv) the Chief Financial Officer;*
- (v) such other officer, not more than one level below*

*the directors who is in whole-time employment, designated as Key Managerial Personnel by the Board; and*

*(vi) such other officer as may be prescribed*

*As per Regulation 16(1)(d) of SEBI (LODR) Regulations, 2015 : "Senior Management" shall mean officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of Management one level below the Chief Executive Officer/Managing Director/ whole time Director/ Manager (including Chief Executive Officer/Manager, in case they are not part of the board) and shall specifically include Company Secretary and Chief Financial Officer.*

*Explanation to Section 178 of the Companies Act, 2013, describes that "Senior Management" means personnel of the company who are members of its core Management team excluding Board of Directors comprising all members of Management one level below the Executive Directors, including the functional heads.*

*In case of Auditee other than companies, the term "persons who have been entrusted with the responsibility of governance and compliances of the Auditee" shall include any person or employee of the Auditee as may be authorised. For example, in case of an LLP, Management includes the partners or designated partners or any officer of the LLP entrusted with such responsibility.*

*In case of a Proprietorship, Management means the proprietor or any officer authorised by him.*

*(6) "Predecessor or Previous Auditor" means an Auditor who has conducted the most recent audit assignment of the Auditee and submitted report thereon prior to the incumbent Auditor or was engaged but did not complete*