THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Setup by an Act of Parliament)
GURUGRAM BRANCH (NIRC)

e-Newsletter

MAY 2024

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Feedback & Suggestions: Gurugram Branch will be happy to receive the feedback from you regarding the seminars/workshops and other activities organized by branch. You may please send feedback at Gurugram Branch of NIRC of ICAI requests the members & students to come forward & share the articles (Professional & Other) to be published in the upcoming newsletter. The submissions may be sent to icaigurugram@gmail.com with the subject line (Article Newsletter).

ICAI MOTTO

य एष सुप्तेषु जागर्ति कामं कामं पुरुषो निर्मिमाणः ।
तदेव शुक्रं तद् ब्रह्म तदेवामृतमुच्यते ।
तस्मिंल्लोकाः श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ॥

Ya eṣa supteṣu jāgarti kāmam kāmam purūṣo nirmimāṇah I
Tadeva śukram tad brahma tadevāmṛtamucyate I
Tasminlokāh ṣritāh sarve tadu nātyeti kaścan I Etad vai tat II

That person who is awake in those that sleep, shaping desire after desire, that, indeed, is the pure. That is Brahman that, indeed is called the immortal. In it all the worlds rest and no one ever goes beyond it. This, verily, is that, kamam kamam: desire after desire, really objects of desire. Even dream objects like objects of waking consciousness are due to the Supreme Person. Even dream consciousness is a proof of the existence of the self.

No one ever goes beyond it: of Eckhart: 'On reaching God all progress ends'.

Source: Kathopanishad

CA Amit Kithania
Chairperson
ICAI Gurugram Branch

MESSAGE FROM THE CHAIRPERSON

Dear Esteemed Members and Professionals,

Greetings to each one of you as we step into the vibrant month of May! It brings me immense joy to connect with you all through this message, reflecting on our journey of excellence and the exciting prospects that lie ahead at ICAI Gurugram Branch, NIRC.

May is a month of renewal and growth, symbolizing the blooming of new opportunities and the fruition of our endeavors. At ICAI Gurugram Branch, we are committed to empowering our members and professionals with the knowledge and skills necessary to thrive in today's dynamic professional landscape.

As we navigate through this month, I encourage each of you to actively engage with the various events, seminars, and initiatives organized by our esteemed branch. These platforms serve as invaluable opportunities for continuous learning, networking, and professional development.

Let us seize this moment to collaborate, innovate, and excel together, embodying the spirit of unity and progress that defines our community. Together, we can scale new heights and achieve remarkable milestones.

I extend my best wishes to you all for a fulfilling and successful month ahead. May your endeavors be met with abundant success, and may you continue to inspire and uplift those around you with your dedication and expertise.

To our dedicated CA students, I extend my heartfelt best wishes as you prepare for the upcoming CA examinations. Your hard work, dedication, and resilience are commendable, and I have no doubt that you will excel in your endeavors. Remember, each challenge you face is an opportunity for growth, and every milestone you achieve brings you closer to realizing your dreams. Stay focused, stay determined, and believe in your abilities. The entire ICAI Gurugram Branch community stands behind you, cheering you on every step of the way.

Warm regards,

CA. Amit Kithania
Chairperson
ICAI Gurugram Branch (NIRC)

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HOW INCOME OF RWAS- RESIDENTIAL WELFARE ASSOCIATIONS TAXED

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Introduction
Due to modernization, people are living in complexes and townships with many other persons sharing many common areas. Gone are the days, when people were living own houses in a single piece of land. Now, a single piece of land is shared by many house owners.
This is when the concept of Resident Welfare Association (RWA) or Apartment Owners Association has come into existence.
A Resident Welfare Association (RWA) is a body that represents the interest of people living in a community or a society. The association is responsible for managing day-to-day problems of the residents, organizing events, managing facilities in the apartments and complexes and safeguarding the rights of the unitholders.

Resident Welfare Association (RWA) is categorized as the 'Association of Persons' (AOP) under the Income Tax Act, 1961.

So, the taxability of RWAs and AOPs are same under Income tax Act. Only the thing which can be highlighted is different heads of income.

Incomes of Resident Welfare Association (RWA)

Various types of income that an RWA may earn are listed below:-

- Members' Contribution such as Maintenance charges, Electricity charges, Water Collection, Sewerage Receipts etc.
- Dividend income
- Interest on Bank Deposits
- Rental income from the use of the common area
- Rental income from Advertisements hoardings
- Parking charges

Taxability of Income of Resident Welfare Association (RWA)

An RWA is not always liable to pay income tax on its income. Only those incomes which arise from non- members or non-mutual activities are subject to tax under the Income Tax Act. As in legal parlance, it is called the 'doctrine of mutuality' i.e. one person cannot make income from himself. As such the contributions received by RWA from its members are not taxable at all.

So, Members' Contribution, Rental income from use of common area (if received from member) will not be considered as income and hence there will be no tax liability.

Similarly, all other incomes such as Dividend income, Interest on Bank Deposits, Rental income from non- members etc will be eligible to tax.

Income Tax Rate of a Resident Welfare Association (RWA)

Total Income	Income-Tax Rate
Up to Rs. 2,50,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Where a resident welfare association is registered as a co-operative society-

**Surcharge on Income-tax for C o - operative Society: 12% Where Total Income exceeds Rs. 1 Crore

Where a resident welfare association is registered as a society-

1. Shares of members are known and all members having Net total income is upto basic exemption

In this case, the slab rates as applicable to an Individual shall be applicable to an RWA.

2. Shares of members are not known or one or more members having Net total income is more than basic exemption

In this case, the entire income will be taxable at Maximum Marginal Rate (MMR) i.e. 42.744%

**Note 1- (If shares of member known) In this case if any member is chargeable to tax at rate higher than MMR then such members' share shall be taxable at such higher rate in hands of RWA and remaining income of RWA shall be taxable at MMR.

**Note 2- (If shares of member not known) In this case if any member is chargeable to tax at rate higher than MMR then entire income of RWA shall be taxable at such higher rate.

Which and When ITR is required for an RWA

The applicable ITR for a resident welfare association is ITR-5. ITR-5 has to be compulsorily filed online with or without a digital signature. Section 139(1) mandates every person to file a return of income within the prescribed due date if the total income exceeds the basic exemption limit.

In case the total income of the RWA does not exceed the basic exemption limit, then an RWA is not under a legal obligation to

file a return of income. It is advisable to file a return of income

even in such cases, being an association of a group of people. Further, if the bank deducts TDS on the interest income then the refund thereof can be claimed only by filing a return of income.

Is an RWA is liable to deduct TDS on payments

Normally, an RWA makes the payment to contractors and professionals (engineers, etc.) since the activity of an RWA is confined to maintenance activity.

A person when makes a payment to a contractor or a professional above the prescribed threshold limit then he is liable to deduct income tax or TDS from such payments.

AUDIT OF ACCOUNTING ESTIMATES: ANALYSIS WITH SPECIAL REFERENCE TO SA 540

CA Rahul Sharma
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Accounting Estimates Defined: "An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is uncertainty, as well as for other amounts that require estimation. Where this SA addresses only accounting estimates involving measurement at fair value, the term 'fair value accounting estimates' is used". (As defined under SA 540)

Understanding Accounting Estimates: For entities of all size and nature, some or the other time management has to make accounting estimates. This happen particularly in a situation when monetary amounts in financial statements cannot be directly deduced. All Accounting estimates have some degree of estimation; this is due to uncertainties involved in quantification, this may be due to inherent limitations of management's knowledge or due to nature of available data that give rise to inherent subjectivity and variation in the measurement outcomes. Along with being subjective, accounting estimates may also be complex. Thus accounting estimates have important implications over the financial statement audit, **because the complexity, subjectivity or other inherent risk factors on the measurement of these monetary amounts makes them sensitive for misstatement.** The accounting process often presents certain scenarios where an amount or item in the financial statements cannot be measured with precision. In financial reporting, when the amounts of assets, liabilities, income, or expenses for the period cannot be measured with precision, they are determined using accounting estimates. **Accounting Estimate** *are estimated based on judgment and knowledge derived from experience, training and formal teaching. Estimation is involved in reporting certain elements of the financial statements – value of which cannot be determined using objective data.*

Even though uncertainties and values are determined using historical estimates and approximations, they deserve to be a part of financial reporting. A prudent estimation will surely result into a transparent and reliable financial statement. The value of such element cannot be always fixed based of any specific data. They usually involve a lot of complexities & uncertainties and therefore expertise, skill and knowledge is required to determine the value, which will always be an approximation.

This also establishes the fact that there is some level of subjectivity in the process because the management and accountants require a very good level of skill, expertise and knowledge to make the assumption which can be acquired through *experience, training and formal teaching*. Sometimes there may be a considerable difference in values estimated by different persons. Management may derive value of an element of financial statement using certain assumptions which will completely different from value deduced by auditors.

Typically the notes on accounts contain the details of the basis or assumptions used in estimating elements of financial statements. ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. The **auditor's objective** is to obtain sufficient, appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework (AFRF).

Accounting Estimates V/s Accounting Principles:

These are two different financial concepts which are commonly used during preparation of financial statements. However, it is very much vital to distinguish between the two. Let us differentiate the same, as given below:

Meaning: Accounting Estimate means an approximation of a value of Asset, Liability, Income or Expenditure for which a precise means of measurement is not available on the other hand Accounting Principles can be understood as Specific principles, bases, conventions, rules, and practices used by the management while preparing and presenting financial statements.

How they affect data: change in Accounting estimates changes actual financial information on the other hand Accounting principles changes signify conceptual changes in how financial information is calculated.

How change is given effect: Changes in Accounting Estimates is given effect prospectively however changes in Accounting Principles should be given effect retrospectively.

What is used in background: In accounting estimates, information related to historical data, opinions and knowledge of experts, etc are used for achieving useful results, whereas in case of the Accounting Principles, the guidelines are provided by various laws, Accounting Bodies and policymakers following which decisions are taken.

Subjectivity: Accounting Estimates are subjective in nature due to their dependence on expert knowledge, skill and experience, which also depends on the information available from various sources during a particular time. Accounting Principles are more objective in nature since rules and policies are fixed and in each Accounting Period these should also be disclosed in notes to financial statements.

Both of these are important and relevant in the world of finance and should be used to maintain Quality of financial reporting which is achieved by consistency, transparency and understandability of the financial condition of the business.

Concept of Audit of Accounting Estimates: Before going in detail we shall take a snapshot of audit procedure which should be adhered if any estimated figure is involved in financial statements. The primary objective of auditor is to gather "Sufficient and Appropriate Audit Evidence" in support of various assertions of the financial elements. To prepare financial statements is the primary responsibility of the management like any other figure, accounting estimate is also appear at the initiative of the management and not auditor. The auditor should obtain evidence as to a. That accounting estimate is reasonable as per the circumstances and b. that it has been appropriately disclosed. To disclose an estimate depends on various factors like legal requirement of disclosure, materiality of volume or nature, matching concept etc. Normally auditors apply following procedure while auditing accounting estimates:

a) Review and test the process through which estimate are developed: including evaluation of date and evaluation of assumptions underlying the estimates; testing the calculations involved in the estimate; comparison of estimate and actual results of prior periods and evaluation of the approval procedure of the management.
b) Comparison of the estimates developed by the management with estimates developed by auditors.
c) Subsequent events (Events occurred after generation of estimates and up to submission of Audit Report) related with estimates must be r reviewed.

Knowledge of client business and consistence of other audit evidences gathered with accounting estimates also plays vital role in the final assessment of reasonableness of an accounting estimate. If auditor is of the view that accounting estimates developed by the management are significantly different from the estimates assessed or developed by the auditor, he may request the management to carry out necessary changes. In case management refuses to revise it's estimate it would be considered a misstatement and the auditor would need to consider it's effect on the financial statement.

Auditing Accounting Estimates : ISA 540 (Revised) Implementation Tools

Understanding, How one can get detailed understanding of accounting estimates? and how to proceed in auditing when one come across with any accounting estimate? is very vital considering the increased use of estimates in preparation of Financial Statements in current scenario. To provide a universal answer to this million dollar question International Federation of Accountant (IFAC) has issued a publication having title "Auditing Accounting Estimates : ISA 540 (Revised) Implementation Tools". I made an effort to conclude out of this 35 page publication – "how to proceed with audit of accounting estimates".

The above referred publication stipulates / suggests 10 steps to audit accounting estimates:

Step 1.1: Obtain an understanding of the entity and its environment, the applicable financial reporting framework related to its accounting estimates and related disclosures.

Unlike before starting audit of any element of financial statement as a first step one has to gain an understanding of a. Business Unit & it's environment and b. Financial Reporting Framework & Internal Control System. Through all this exercise auditor shall be in a position to set sample size. Obviously acceptable risk level and materiality of assertions are also equally important for setting sample size for accounting estimates. In addition to it attention is also invited to some other matters which are specifically related to accounting estimates.

What: to understand about Unit/ Environment/Control System/Reporting Framework:

1. Condition (Transaction or Event) that require estimation of some element of financial statement or which can cause change in estimate.
2. Financial Reporting Framework/ Regulatory Framework (Including Codified and Un Codified accounting practices) applicable to that business related to accounting estimates. For

this auditor should have sound knowledge of ICAI's publications. One should also understand how much inherent risk prevails in those circumstances.

3. Nature of Accounting Estimate and related disclosures.

Why: to understand about Unit/ Environment/Control System/Reporting Framework:

1. To assess risk of probable misstatement about estimates.
2. To discuss with Management about accounting requirement and disclosure requirement of accounting estimates.

How: to understand about Unit/ Environment/Control System/Reporting Framework:

1. By way of reading and understanding Financial Reporting Framework.
2. Inquiries/representation from management specially who are responsible for accounting estimates.
3. Inquires / representation from management about changes in - entity's operations, business environment, technology. Also use technique of inspection, observation and reading of documents in this respect.
4. Use of Analytical procedures to find risk prone areas and unusual transactions.

Step 1.2: <u>Obtain an understanding of the entity's system of internal control related to its accounting estimates.</u>

What: To understand about Internal Control System related with Accounting Estimates:

1. How much management's Financial Reporting System related with accounting estimates is regulated?
2. If estimation requires specialized or knowledge then how that need has been identified and how experts are employed?
3. How risk related with accounting estimates is identified and addressed by the management?
4. For estimation and disclosure, how management:
   - Identified - method, assumption and data source for estimation of some element of financial statement.
   - Management pay attention to underlying uncertainty of an accounting estimate.
   - Address uncertainty – by quantifying & providing and disclosing it in financial statement.
5. How management controls process of estimation of elements of financial

statement.

6. How previous estimates are compared with actual outcome.

Why: To understand about Internal Control System related with Accounting Estimates:

To find out underlying risk of material misstatement and designing further audit procedures (Nature, Timing and Extent).

How: To understand about Internal Control System related with Accounting Estimates:

1. Determine how much control system is under strict control of management.
2. Find out how management identifies risk associated with Internal Control System. Also assess how management respond to changes in methods, significant assumptions or the data used in making accounting estimates, taking into account risk associated there with.
3. Obtain an understanding about business's Information System related with accounting estimates. For this auditor should identify is estimation in existence for both routine and non recurring transactions. And finally to find How the information system addresses the completeness of accounting estimates and related disclosures, in particular for accounting estimates related to liabilities.
4. Understanding management's process of monitoring and correcting internal control system. Example : one such way is Internal Audit.
5. Audit Techniques and Documentation while carrying out point no. 1 to 4 above: understanding of the above components of the entity's system of internal control can be achieved by:
   - Inquiring of relevant personnel about the procedures used to initiate, record, process, and report transactions or about the entity's financial reporting process
   - Inspecting policy or process manuals or other documentation of the entity's IT system
   - Observing the performance of the policies or procedures by entity's personnel
   - Selecting transactions and tracing them through the applicable process in the IT system Obtain audit evidence about the design and implementation of identified controls in the control activities component over management's process for making accounting estimates (including those related to significant risks) by:
   - Inquiring of entity personnel
   - Observing the application of specific

controls

- Inspecting documents and reports

However, inquiry alone is not sufficient for such purposes

Step 2: Perform a retrospective review

What: is retrospective review of Accounting Estimates:

This means reviewing the accounting estimates in previous years and also their re – estimation in subsequent years with an objective to develop an understanding as to inherent risk. For deciding nature and extent of review procedure auditor takes into account volume and nature of accounting estimates.

Why: is retrospective review of Accounting Estimates:

To find out effectiveness of management's estimation process used in previous years. This implies likely effectiveness of current process. If there is evidence that management failed to consider relevant and reliable information that it had, or reasonably could have obtained, related to previous accounting estimates, a difference between the outcome and management's accounting estimate may be a misstatement.

How: To retrospective review of Accounting Estimates

1. The review may cover accounting estimates made in one or more previous fiscal years, half-years or quarters. The period covered may depend on when the outcome of an accounting estimate is resolved. For this length of current accounting period may be considered.
2. • Consider whether there is any indication that one or more previous accounting estimates were biased.
3. After this Analytical procedures may be applied to perform the review. These may be useful when accounting estimates arise from the recording of routine and recurring transactions. For example, trends may be identified indicating, on a preliminary basis, whether this year's accounting estimates appear reasonable. On the other hand, based on the assessment in a previous year, one or more inherent risks of material misstatement may be assessed as higher. In that case, a more detailed retrospective review may be required, for example – when practicable – a focus on how the data and significant assumptions used affected the previous accounting estimates. **This procedure (Review of previous years) is not applicable to non recurring**

nature of transaction where accounting estimate is involved.

Step 3: Determine whether the engagement team requires specialized skills or knowledge.

What : is Specialized skill or knowledge associated with Audit of Accounting Estimates

Accounting Estimates must be developed by the team of management who has required knowledge, skills and experience to develop accounting estimates. Similarly it should be audited by the engagement team having a like competence.

Why: There is need for specialized skill or knowledge associated with Audit of Accounting Estimates

Quality management standards (ISA 240) require that the engagement team and any auditor's experts collectively have the appropriate competence and capabilities to perform the audit engagement and enable an auditor's report that is appropriate in the circumstances

In some cases, this could mean that the firm may be able to audit accounting estimates only when: The engagement team includes:

- One or more members with specialized skills or knowledge of certain aspects of the accounting estimate, the business, or industry.
- Auditor's experts who possess expertise in fields other than accounting or auditing.

How : specialized skill or knowledge associated with Audit of Accounting Estimates can be acquired

1. Nature, Timing and Extent of he involvement of individuals with specialized skill may vary throughout the audit, depending of fact and circumstances.
2. Primarily engagement team themselves may have understanding and experience to audit accounting estimates.
3. Secondly they may engage someone to : A. develop and apply concept and techniques to meet requirement of accounting framework. B. understand technically business or legal concept or data. C. who can address difficulties who can procuring data and processing it in a meaningful information.
4. For some infrequent or non recurring transaction and event.
5. Accounting estimates according to nature of business
6. Degree of estimation certainty may be considered for determining how much

skill & expertise required by the auditor

7. Complexities involved in Methods or Model used, Requirement of financial reporting framework and level of entity's use of IT also determines how muhch expertise required by the auditors while auditing accounting estimates.

Step 4: Identify and assess the risks of material misstatement.

What: is identification and assessment of risk of material misstatement in relation to accounting estimates.

The auditor shall separately assess inherent and control risk, and take the following into account in identifying the risks of material misstatement and in assessing inherent risk specifically associated to volume and nature of accounting estimate:

a. The degree to which the accounting estimate is subject to estimation uncertainty; and

b. The degree to which the following are affected by, complexity, subjectivity, or other inherent risk factors:

i. The selection and application of the method, assumptions and data in making the accounting estimate; or

ii. The selection of management's point estimate and related disclosures for inclusion in the financial statements.

Why: identification and assessment of risk of material misstatement in relation to accounting estimates.

Very precisely it is to find out nature and extent of further audit procedure to be applied. To assess the likelihood and magnitude of misstatement. The level of inherent risk varies on a scale (the "spectrum of inherent risk"). The higher the assessed inherent risk is on this spectrum, the more persuasive (relevant and reliable) the audit evidence provided by further audit procedures needs to be.

How: identification and assessment of risk of material misstatement in relation to accounting estimates

Auditor should use results of Step 1 to Step 3 for identification and assessment of risk of material misstatement in relation to accounting estimates.

The following examples may increase or decrease risk. Consider whether:

- There are constraints on obtaining reliable data from external sources or on the amount of knowledge that management can obtain about the subject matter of an accounting estimate.
- Data from past events is useful in

predicting future outcomes.

- Management's methods require the use of unobservable inputs.
- A lack of prescriptive guidance in the applicable financial reporting framework results in a need for management to use considerable judgment in selecting methods, assumptions and data sources. This may increase the degree of subjectivity in making an accounting estimate and the likelihood of intentional or unintentional management bias or other fraud risk factors insofar as they affect inherent risk.
- Those making and reviewing the accounting estimates have obtained and applied appropriate levels of specialized skills and knowledge when warranted.
- Events occurring after the date of the financial statements may provide additional information relevant to risk assessments. This information may result in a need to revise initial assessments.

Step 5: <u>Identify and assess any significant risks and identify controls that address the significant risk and evaluate whether they were designed effectively and determine whether they have been implemented.</u>

What : To identify and assess risk and internal controls in existence to address those risk. Also to evaluate that they were effectively designed and implemented.

If the auditor has determined that a significant risk exists, the auditor shall identify controls that address that risk and evaluate whether such controls have been designed effectively, and determine whether they have been implemented.

Why: To obtain more persuasive audit evidence to respond to a significant risk, including a risk that fraudulent financial reporting may occur through intentional misstatement of accounting estimates.

How: To identify and assess risk and internal controls in existence to address those risk

Through Step no 4 one shall be in a position to find out inherent risks associated with the Accounting Estimates. Determine whether it is practicable to obtain sufficient appropriate audit evidence for an accounting estimate by performing only substantive procedures or whether the operating effectiveness of controls also needs to be tested. This may be the case, for example, when an estimation process is highly automated and complex.

Also to Consider whether an accounting estimate and related disclosures are affected by:

- Recent significant economic, accounting or other developments that require specific attention • Significant transactions with related parties
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Step 6: Determine the approach you will use in performing substantive procedures

What: To determine the approach one should use for performance of substantive procedures

After finding inherent risk involved and performing compliance audit procedures for audit of accounting estimates. The auditor's further audit procedures shall include one or more of the following approaches:

a. Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);

b. Testing how management made the accounting estimate (see paragraphs 22 – 27); or

c. Developing an auditor's point estimate or range (see paragraphs 28 – 29).

The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be. The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

Why : To determine the approach one should use for performance of substantive procedures

Before expressing an opinion on the financial statement auditor must gather "Sufficient and Appropriate" audit evidences to substantiate assertions made (By all the elements) in financial statement. In this process after assessing risk, assessing internal controls, management competence etc. and setting benchmark for acceptance of error auditor device compliance and substantive test procedures.

How: The three approaches may be used individually, or in combination, in auditing one or more of the data, assumptions or methods used by management.

- Consider using **Approach A** when the outcome of events relevant to an accounting estimate becomes known before the date of the auditor's report and therefore estimation uncertainty is minimal and not likely to require disclosure.

- Consider using **Approach B** when, for example:
- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is appropriate.
- The accounting estimate is based on a large population of items of a similar nature that individually are not significant.
- The applicable financial reporting framework specifies how management is expected to make the accounting estimate.
- The accounting estimate is derived from the routine processing of data. • Consider using
- **Approach C** when, for example:
- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's process for making accounting estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the auditor's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.
- There are appropriate alternative assumptions or sources of relevant data that can be used in developing an auditor's point estimate or range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty.

Developing a point estimate, rather than a range, may be more effective when the auditor expects less variability in the reasonably possible outcomes and therefore the point estimate can be developed with a higher degree of precision.

<u>Basically these approaches are according to complexities of fact & circumstances, risk associated with accounting estimates and intensity & degree of audit procedures/ techniques to be employed.</u>

Step 7.1: <u>Test how management made the estimate. Note: This step describes Approach B.</u>

Note: It does not cover Approach A – Obtain Audit Evidence from Events Occurring up to the Date of the Auditor's Report or Approach C – Develop an Auditor's Point Estimate or Range.

What: is "how management made the estimate"

There may be risk of material misstatement related with selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate. In addition to it misstatement may be at the time of actual estimation and disclosure. Besides audit has an objective:

- Management's methods, significant assumptions and data are appropriate in the context of the applicable financial reporting framework and the circumstances of the entity, and that changes, if any, from prior periods are appropriate; and
- Judgments made in selecting the method, significant assumptions and data give rise to indicators of possible management bias.

Significant assumptions: Based on the knowledge obtained in the audit, management's significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities. When applicable, management has the intent to carry out specific courses of action and has the ability to do so

Data: The data is relevant and reliable considering the circumstances; and Management has appropriately understood or interpreted the data, including with respect to contractual terms.

Disclosures: Design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level for disclosures related to an accounting estimate, other than those about estimation of uncertainty.

Why: It is required to find "how management made the estimate"

To appropriately respond to assessed risks and thereby enable the auditor to obtain sufficient appropriate audit evidence about whether the accounting estimate and related disclosures resulting from management's selection and application of its methods, significant assumptions and data are reasonable in the context of the applicable financial reporting framework. Arbitrary changes in management's methods, significant assumptions or data sources may indicate possible management bias and a risk of material misstatement.

How: to find "How management made an estimate"

Methods, significant assumptions, data and disclosures used by the management may be understood using audit technique of inquires, representations, scrutiny of management policy and other documents related with accounting estimates and examination. Tools like Flow charting, Questionnaires etc. may also be used at appropriate places.

Step 7.2: Evaluate management's selection of its point estimate and related disclosures about estimation uncertainty. This describes Approach B with no reliance on the effective operation of controls.

What: To evaluate estimate developed by management and disclosers made in financial statements

Auditor again through various audit procedures, techniques and tools establish that management has taken appropriate steps to understand

a. uncertainty associated with estimates and b. that uncertainty has been appropriately considered at the time of development of estimates & disclosure.

If in auditor's judgment management has not taken appropriate steps then auditor shall:

a. Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the estimation uncertainty, and evaluate management's response(s) in accordance SA

b. If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, he should develop an point estimate or range as per his own judgment in accordance with SA; and

c. Evaluate whether a deficiency in internal control exists and, if so, communicate in accordance SA to Those Charged with Governance and Management.

Why : To evaluate estimate developed by management and disclosers made in financial statements

To appropriately respond to assessed risks and thereby enable sufficient appropriate audit evidence to be obtained about whether the accounting estimate resulting from management's selection of its point estimate and development of related disclosures about estimation uncertainty are reasonable in the context of the applicable financial reporting framework

How: To evaluate estimate developed by management and disclosers made in financial statements

In addition to procedures used in 7.1 also establish:

- Attributes of an asset or liability used in estimating its fair value (valuation attributes) were appropriate and complete.
- Management's point estimate is appropriately chosen from the reasonably possible measurement outcomes.
- When applicable, management has followed requirements in the applicable financial reporting framework that prescribe how to select an amount from reasonably possible outcomes.

Step 8: <u>Evaluate whether there are indicators of possible management bias and, if there are, the implications for the audit</u>

What: is indicators of possible management bias and it's implication for audit

The auditor shall evaluate whether judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature.

Why : To Evaluate whether there are indicators of possible management bias and, if there are, the implications for the audit

Management may use considerable judgment in developing accounting estimates and related disclosures. Judgments are susceptible to bias that may increase the risk of material misstatement, including a misstatement due to fraud.

How: To evaluate whether there are

indicators of possible management bias and, if there are, the implications for the audit

Make an evaluation in relation to groups of accounting estimates or all the estimates in aggregate since, when considered individually, estimates may appear reasonable. Consider whether management's:

- Assessment of a need to change an estimate is subjective
- Judgments and decisions are favorable for management objectives; for example, management may make point estimates that provide them with a more favorable financial reporting outcome by consistently trending toward one end of the range of reasonable outcomes
- Selection of a point estimate indicates a pattern of optimism or pessimism

Step 9: <u>Make an overall evaluation based on the audit procedures performed.</u>

What: <u>is an overall evaluation based on audit procedures performed</u>

After employing audit procedures auditor needs draw conclusion out of those procedures either auditor form a favorable opinion in respect of assertions or non favorable opinion. Following conclusions may or may not be drawn by the auditor:

a. The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;

b. Management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and

c. Sufficient appropriate audit evidence has been obtained.

If auditor has formed a contrary opinion then he may consider reporting accordingly as suggested by ICAI pronouncement.

Why: <u>there is an overall evaluation based on audit procedures performed</u>

An overall evaluation helps to determine: The auditor has obtained sufficient appropriate audit evidence when risk assessments have changed during the course of the audit. Whether the changes made to the audit procedures to respond to the higher assessed risk enabled the auditor to obtain sufficient appropriate audit evidence. The auditor has obtained sufficient appropriate audit evidence regarding the reasonableness of amounts within an estimate range when. The requirements of the applicable financial reporting framework have been met. For example, when management has not recognized an accounting estimate, it may be useful to reconsider whether the recognition criteria in the applicable financial reporting framework were in fact met. Misstatements have been appropriately identified, including misstatements that may be indicative of fraud, Disclosures are appropriate, including those regarding estimation uncertainty, and supported by sufficient appropriate audit evidence

How: overall evaluation based on audit procedures performed

Identify whether any information that has come to the auditor's attention differs significantly from the information on which the risk assessment was based. When audit evidence supports that a wide range for an estimate is appropriate in the circumstances, reconsider whether the auditor has obtained sufficient appropriate audit evidence regarding the reasonableness of the amounts within the range. When audit evidence supports a point estimate that differs from management's point estimate, the difference constitutes a misstatement. When audit evidence supports a range that does not include management's point estimate, the misstatement is the difference between management's point estimate and the nearest point of the range supported by audit evidence. Review identified misstatements for indicators of possible management bias that may not have been previously identified.

Step 10: Document the audit work

What: is documenting the audit work (specially with reference to accounting estimates)

Documentation may be in the form of representations, questionnaire, audit plans, audit observations, various documents generated internally/externally. These documents shall aim at:

a. Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;

b. The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level, taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks;

c. The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;

d. Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, and

e. Significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

Why: <u>Documentation related with audit estimates</u>

To provide evidence that the audit was planned and performed in accordance with ISA 540 (Revised) and other applicable ISAs and that the auditor exercised professional skepticism. and

To enable reviews of the work performed and provide a record of matters of continuing significance to future audits.

How: <u>Documentation related with audit estimates</u>

In addition to the documentation requirements in ISA 540 (Revised) (listed above), comply with the requirements and guidance in ISA 230, and with the documentation requirements in ISA 315 (Revised 2019) and ISA 330.

The auditor is not required to document how every inherent risk factor was taken into account in identifying and assessing the risks of material misstatement in relation to each accounting estimate.

Topic: Seminar On Practical Aspects Of Corporate Restructuring & Compounding Of Contraventions Under FEMA And Session On Stress Management

Day & Date : Saturday, 13th April 2024

Venue : Hotel Radisson Gurgaon, Sohna Road, Sector-49, Gurugram

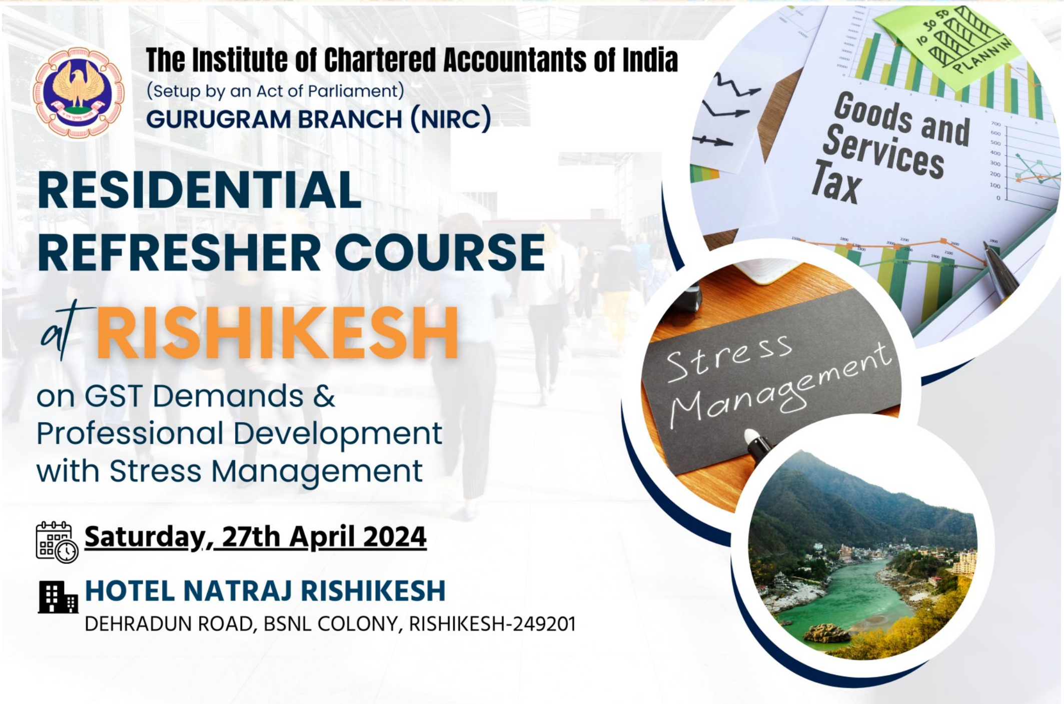
Glimpses

Topic: CA Students Industrial Visit 2024

Day & Date : Friday, 19th April 2024

Venue : Jay Fe Cylinders Limited , Bhiwadi Unit, Rajasthan

Glimpses


The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)
GURUGRAM BRANCH (NIRC)
RESIDENTIAL
REFRESHER COURSE
at RISHIKESH
on GST Demands &
Professional Development
with Stress Management
Saturday, 27th April 2024
HOTEL NATRAJ RISHIKESH
DEHRADUN ROAD, BSNL COLONY, RISHIKESH-249201
Goods and
Services
Tax
Stress
Management

Upcoming Events

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)
GURUGRAM BRANCH (NIRC)

Upcoming Events for CA Members & Students - MAY 2024 (Tentatively)

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2	3	4 MAY Seminar on Valuation for CA Members
5 MAY Free Health Checkup for CA Members	6	7	8	9	10	11 MAY Seminar on GST for CA Members
12	13	14	15	16	17 & 18 MAY Two Days National Conference on Internal Audit	
19	20	21 MAY Seminar on GST for CA Students	22	23	24 MAY Sport Activities for CA Members	25
26 & 27 MAY Residential Refresher Course cum Industrial Visit for CA Students		28	29	30	31 MAY Sport Activities for CA Students	

May 2024

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

- 4 **Seminar on Valuation for CA Members**
- 5 **Free Health Checkup for CA Members**
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- 24 **Sport Activities for CA Members**
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- 31 **Sport Activities for CA Students**

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(Setup by an Act of Parliament)

GURUGRAM BRANCH (NIRC)

Annual Study Group Membership 2024-25

We take this opportunity to thank all our professional colleagues for their participation in large numbers in programs organized by Gurugram Branch. During the Financial Year 2023-24, various programs were organized which were a grand success with participation of members in large numbers.

Particulars	Fee per Member	GST @18%	Total Amount
For Individual Member	Rs. 5500/-	Rs.990/-	**Rs. 6490/-** **imjo.in/ExybaM**
For five or more declared Members from any organization	Rs. 5000/-	Rs.900/-	**Rs. 5900/-** **imjo.in/SrgXWg**

Payment Option:

1. Offline Mode - Please fill up the form **(https://shorturl.at/cfsAT)** and send the cheque to the branch along duly filled form.

2. NEFT/RTGS Mode - RTGS/NEFT at the below bank and share the details of payment along duly filled form at gurgaonicai1@gmail.com

Bank Account Details :
Bank Name: Axis Bank
A/C Name: Gurgaon Branch of NIRC of ICAI
A/C Number: 910010026661826 | **IFSC Code:** UTIB0000056

Kindly mention your name and Membership Number in the remarks while making the payment
Note: GST details (in membership form) need to be shared at the time of making the payment. An invoice once issued will not be altered.

Disclaimer:
Request you to please send a mail to **gurgaonicai1@gmail.com** along with invoice/GST details (in membership form) within 3 days of making the payment to receive a copy of the GST Invoice with your details.

Team ICAI-Gurugram Branch (NIRC)