BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

e-newsletter/02/2026-27

MAY 2026

ICAI

E-NEWSLETTER

EDITORIAL

Dear Esteemed Members,

The recent weeks have been both productive and encouraging for our Branch, marked by meaningful learning opportunities, engaging discussions, and active involvement from members and students alike. The enthusiasm and participation witnessed across various programs reaffirm our collective commitment towards professional excellence and continuous growth.

As we step into a new phase filled with possibilities, aspirations, and renewed responsibilities. In today's dynamic environment, staying informed, skilled, and connected has become more important than ever. Keeping this in mind, the ICAI Bhubaneswar Branch remains dedicated to providing platforms that promote learning, professional development, and constructive collaboration among our fraternity.

Going forward, we intend to introduce more initiatives focused on practical knowledge, leadership development, and stronger engagement within the professional community. We believe that the true strength of our Branch lies in the active contribution and collective spirit of its members and students. I encourage all of you to participate wholeheartedly and help us build a more vibrant, progressive, and inclusive professional environment.

I extend my sincere gratitude to our members, Managing Committee, faculty, and volunteers whose commitment and hard work continue to inspire the success of our Branch. Together, with unity of purpose and dedication, let us strive for greater achievements in the year ahead.

May the coming year bring new opportunities, continued learning, and success to each one of you.

Warm regards,

CA (Dr.) Goutam Lenka

Chairman, ICAI Bhubaneswar Branch

EDITORIAL BOARD

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Members' area of Interest

Observations related to SA 330, The Auditor's Responses to Assessed Risks.

Observation 2:

It was observed that the auditor has not performed any audit procedures for referencing and linking of financial statements and work papers with trial balance to ensure completeness and accuracy of financial statements.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why the financial Statements should be cross referenced to the trial balance as per SA 330?	Financial statements should be referenced/cross-referenced to the trial balance as per SA 330 for several reasons: **1.Accuracy and completeness:** Cross referencing ensures that all accounts from the trial balance have been accurately transferred to the financial statements. This is a check on the completeness and accuracy of the financial statements. **2. Verification of balances:** It allows the auditor to verify that the balances reported in the financial statements agree with the underlying accounting records, ensuring that the financial statements are based on the entity's books and records. **3. Detection of misstatements:** By referencing the trial balance, auditors can detect any discrepancies or misstatements that may have occurred during the preparation of the financial statements. **4. Audit trail:** Cross-referencing provides a clear audit trail that can be followed during the audit process. This is important for both the auditor and those charged with governance, as it facilitates the review and understanding of how the financial statements were prepared.	**Para 20 of SA 330:** The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process: (a) Agreeing or reconciling the financial statements with the underlying accounting records; and (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A52)

5. Risk assessment: Cross-referencing helps auditors in assessing the risk of material misstatement in the financial statements. It is a part of the audit procedures that auditors perform in response to the risks identified.

6. Supporting audit opinion: The cross-referencing process provides evidence to support the auditor's opinion on whether the financial statements are free from material misstatement, whether due to fraud or error.

7. Regulatory compliance: Financial reporting standards and accounting principles often require that financial statements should be prepared based on the trial balance. Cross-referencing ensures compliance with these standards and principles.

8. Professional skepticism: Cross-referencing encourages auditors to exercise professional skepticism by not taking the financial statements at face value and instead verifying the figures against the trial balance.

LIABILITIES OF CHARTERED ACCOUNTANT IN THE CAPACITY OF AUDITOR

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Introduction

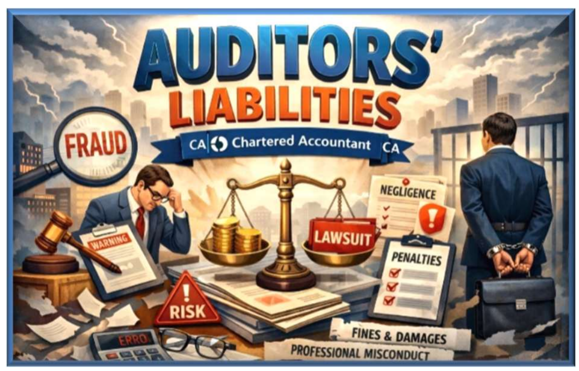
A Chartered Accountant acting as a statutory auditor plays a crucial role in ensuring that financial statements present a true and fair view of a company's financial position. Since shareholders, investors, lenders, regulators, and the public rely heavily on audit reports, auditors are exposed to significant legal, professional, civil, and criminal liabilities. With the increasing focus on corporate governance and financial transparency, the accountability and responsibilities of auditors have expanded considerably.

Sources of Auditor's Liability

The liabilities of auditors arise from multiple sources, including statutory provisions under the Companies Act, 2013 and other applicable laws, civil liability for negligence, criminal liability in cases involving fraud or collusion, contractual obligations arising from engagement terms, and professional misconduct proceedings initiated by the ICAI. Each form of liability operates independently and may expose the auditor to penalties, compensation claims, disciplinary action, or prosecution.

Statutory Liability under the Companies Act, 2013

The Companies Act, 2013 contains several important provisions governing the duties and responsibilities of auditors. Section 143 defines the powers and duties of auditors, including their right to access books of accounts and their obligation to comply with auditing standards. Section 141 prescribes eligibility and disqualification criteria to ensure auditor independence, while Section 140 deals with the resignation and removal of auditors and the consequences of fraudulent conduct. Section 447 imposes severe punishment for fraud, including imprisonment and heavy monetary penalties. Failure to comply with these provisions may result in regulatory action and statutory penalties against the auditor.



Civil Liability for Negligence

Auditors may also face civil liability if they fail to exercise reasonable care, skill, and professional competence while conducting audits. An auditor owes a duty of care not only to the company but also, in certain circumstances, to third parties such as banks, creditors, and investors who rely on audited financial statements for decision-making. Negligence may arise where auditors fail to verify material balances, ignore warning signs, perform inadequate audit procedures, or rely excessively on management representations without independent corroboration. However, auditors are not regarded as guarantors of financial statements, and liability generally arises only when professional standards are not followed with reasonable diligence.

Criminal Liability

Criminal liability arises when the conduct of the auditor goes beyond ordinary negligence and amounts to gross negligence, recklessness, fraud, or intentional misconduct. Mere errors of judgment do not usually attract criminal prosecution unless there is evidence of collusion or willful suppression of material facts. Regulatory authorities such as SEBI, RBI, SFIO, ED, and CBI have increasingly adopted a strict approach in pursuing auditors involved in major corporate frauds and financial irregularities.

Professional Misconduct and ICAI Disciplinary Action

The Institute of Chartered Accountants of India regulates the professional conduct of Chartered Accountants through the Code of Ethics and Auditing Standards. If an auditor is found guilty of professional misconduct, disciplinary action may be initiated by the ICAI. Such action may include reprimand, suspension of membership, monetary penalties, or removal from practice. These disciplinary proceedings are separate from civil or criminal proceedings and may significantly affect the auditor's professional reputation and career.

Important Case Studies

The Satyam Computer Services scandal remains one of the most significant examples of auditor liability in India. The fraud involved inflated revenues, fictitious cash balances, and manipulated financial statements over several years. The auditors were criticised for failing to independently verify bank balances, relying excessively on management explanations, and lacking adequate professional scepticism. The case highlighted the importance of independent confirmations, proper verification procedures, and comprehensive audit documentation.

Similarly, the IL&FS crisis demonstrated the increasing scrutiny faced by auditors in cases involving large-scale financial irregularities. Investigations focused on whether auditors had failed to identify warning signs and appropriately report material misstatements or governance failures.

Areas Requiring Greater Auditor Vigilance

Auditors must exercise particular caution in high-risk areas such as revenue recognition, related party transactions, cash and bank confirmations, going concern assessments, management override of controls, and review of subsequent events. Independent audit evidence should always be prioritised over management representations, especially where significant risk indicators or unusual transactions exist.

Importance of Documentation

Audit documentation serves as one of the strongest defences available to auditors in litigation and regulatory proceedings. Proper working papers demonstrate the procedures performed, evidence obtained, professional judgments exercised, and conclusions reached during the audit. Comprehensive documentation helps establish that the auditor acted with due diligence, professional scepticism, and reasonable care.

Risk Mitigation Measures

To minimise liability exposure, auditors should maintain independence, exercise professional scepticism, and obtain sufficient and appropriate audit evidence. Properly drafted engagement letters, engagement quality reviews, partner rotation policies, and continuous professional training are essential safeguards. Audit firms should also maintain strong internal quality control systems and adequate professional indemnity insurance to manage potential risks arising from audit engagements.

Conclusion

The role of an auditor carries immense public responsibility along with substantial legal and professional exposure. Although auditors are not expected to detect every fraud, they are required to conduct audits with due care, independence, and professional scepticism. Adherence to auditing standards, ethical conduct, timely reporting of irregularities, and robust documentation are essential for safeguarding public interest as well as protecting the auditor's professional standing and reputation.

"An auditor's true strength lies not merely in verifying numbers, but in upholding trust, integrity, and accountability in the financial system."

GAAR, BEPS 2.0 and Global Minimum Tax – Implications

Introduction

Global taxation is undergoing major reform with stricter anti-avoidance rules and coordinated international tax standards. GAAR, BEPS 2.0, and the Global Minimum Tax are key developments aimed at preventing tax base erosion and ensuring fair taxation across jurisdictions.

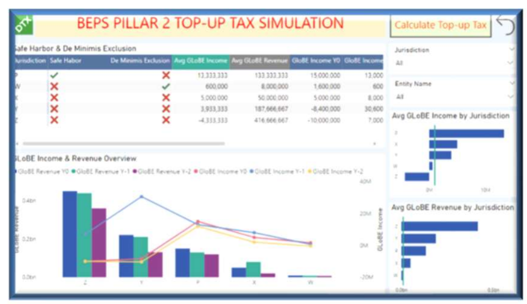
GAAR (General Anti-Avoidance Rule)

GAAR, introduced under the Income Tax Act, empowers tax authorities to deny tax benefits arising from arrangements lacking commercial substance. It targets transactions structured mainly to obtain tax advantages, including treaty abuse and artificial arrangements. Taxpayers must now ensure that transactions are supported by genuine business purpose and economic substance.

BEPS 2.0 Framework

The OECD's BEPS 2.0 project addresses profit shifting by multinational enterprises. It has two pillars: Pillar One reallocates taxing rights to market jurisdictions for large global businesses, especially digital companies, while Pillar Two introduces a global minimum tax framework to limit base erosion through low-tax jurisdictions.

Global Minimum Tax



Under Pillar Two, multinational groups with global turnover above the prescribed threshold must pay a minimum effective tax rate of 15%. If tax paid in any jurisdiction is lower, a top-up tax is imposed. This reduces tax competition among countries and limits the use of tax havens for profit shifting.

Impact on India

India may benefit from reduced profit shifting and higher tax compliance, but must also align its domestic tax system with global standards. Indian multinationals will need to reassess international structures, transfer pricing policies, and tax efficiency strategies.

Role of Chartered Accountants

CAs play a key role in ensuring GAAR compliance, evaluating substance over form, managing BEPS-related risks, and advising on global tax structuring. Strong expertise in international taxation and documentation is essential in the evolving regulatory environment.

Conclusion

GAAR, BEPS 2.0, and the Global Minimum Tax collectively mark a shift toward transparent and coordinated global taxation. They reduce tax avoidance opportunities and require businesses to adopt more substance-driven and compliance-focused tax strategies.

"Global tax rules are no longer about where profits are booked, but about where value is truly created."

Glimpses of Events

"MC MEMBERS AT ICAI GLOBAL ORBIT ORGANISED BY GLOBAL TRADE AND SERVICES COMMITTEE (ICAI)"

"MC MEMBERS AT SEMINAR ORGANISED BY ANGUL CPE STUDY CHAPTER OF EIRC OF ICAI"

"NATIONAL TALENT SEARCH COMPETITION, 2026-27 AT BHUBANESWAR BRANCH"

"MC MEMBERS WITH HONOURABLE GOVERNOR OF ODISHA AT THE LOK BHAWAN, ODISHA"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