Technical Guide to Audit in a Shared Service Centre Structure

The Institute of Chartered Accountants of India
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Foreword

'Shared Service Centre Structure' is an emerging concept in organizational structures these days. In this structure, service is provided by one part of a group of entities where that service was earlier scattered in more than one part of such group. The main purpose of this structure is the convergence and streamlining of functions of an organization to ensure that the services required of it are delivered as effectively and efficiently as possible to the organization.

Shared service centre structure provides an ideal bridge between centralized and decentralized administration. It provides several benefits to organization like clear separation of responsibilities, effective quality assurance, concentration on core operations in various business areas, standardized processes and reporting, company-wide utilisation of available knowledge, better information analysis and decision making, etc. Audit of shared service centres poses many typicalities and to resolve them, some of the members may need guidance.

I am happy that the Auditing and Assurance Standards Board has brought out this Technical Guide to Audit in a Shared Service Centre Structure. The Guide has been formulated in an easy to understand language and contains detailed guidance on the various intricacies involved in audit of shared service centres.

At this juncture, I wish to place on record my appreciation for CA. Abhijit Bandyopadhyay, Chairman, Auditing and Assurance Standards Board for his proactive initiatives to help members in conducting audits in various industries/sectors in the form of such industry/sector specific Technical Guides.

April 05, 2013 **CA. Subodh K. Agrawal**
New Delhi President, ICAI

Preface

Shared services centre (SSC) is a dedicated unit (including people, processes and technologies) that is structured as a centralized point of service and is focused on defined business functions. Driven by technology, shared service centres are proving to be instrumental in achieving cost efficiency in large organisations by centralising back-office operations and eliminating redundancy. Today, many organisations employ a shared services model for finance, human resources management and information technology.

Given their peculiar structure and positioning in an organisation, audit of SSCs can pose typical challenges to their auditors. In this background, I am happy to place in your hands, the Technical Guide to Audit in a Shared Service Centre Structure. The Technical Guide covers aspects such as background information on origin of SSCs, planning and scoping, control testing, completion and reporting, etc. It also augments implementation of the Standard on Assurance Engagement (SAE) 3402, 'Assurance Reports on Controls at a Service Organisation' and Standard on Auditing (SA) 402, 'Audit Considerations Relating to an Entity Using a Service Organisation'.

At this juncture, I wish to place on record my deep gratitude to CA. Harinderjit Singh, Gurgaon and his team comprising CA. Sandeep Chaddha, CA. Ankur Motiwal and CA. Ridhima Dubey who, despite their extremely pressing professional and other preoccupations, volunteered to write this Technical Guide and share their valuable experience and knowledge for the benefit of the members, at large.

I am also thankful to CA. Subodh Kumar Agrawal, President, ICAI and CA. K Raghu, Vice President, ICAI for their support to the activities of the Auditing and Assurance Standards Board.

I also wish to place on record my gratitude for my colleagues on the Board during 2012-13 when the Technical Guide was envisioned as well as my colleagues at the Board for the current term 2013-14, viz., CA. Naveen ND Gupta, Vice Chairman, CA. Rajkumar S Adukia, CA. Jay Ajit Chhaira, CA. Shriniwas Y Joshi, CA. Sanjeev Maheshwari, CA. Dhinal A Shah, CA. Shiwaji B Zaware, CA. M. Devaraja Reddy, CA. S. Santhanakrishnan, CA. J. Venkateswarlu, CA. Manoj Fadnis, CA. Sanjiv K Chaudhary, CA. Vijay K Gupta, Shri Gautam Guha, Shri Bhaskar Chatterjee, CA. Niraj Kumar Jhunjhunwala, CA. Sanjay Vasudeva, CA. Ganesh Balakrishnan, CA. Charanjeet Surendra Attra and CA. Saunak Ray for their support and guidance to the Board. I also wish to place on record my thanks to the special invitees to the Board, viz., Prof. Manoj Anand, Shri Vijay Sachdeva and Shri Sunil Kadam for their support to the Board. I also wish to thank the Secretariat of the Auditing and Assurance Standards Board for their efforts in giving the Guide its final shape.

I am sure that the Technical Guide would be immensely useful to the members.

April 22, 2013
Kolkata

CA. Abhijit Bandyopadhyay
Chairman
Auditing and Assurance Standards Board

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Chapter 1
Overview

Introduction

The purpose of this Technical Guide to Audit in a Shared Service Centre Structure is to provide supplementary guidance to the members who are performing audit in shared service centre structure. The Guide should not be considered as replacement to the existing pronouncements of the Institute of Chartered Accountants of India (ICAI), i.e., Standard on Assurance Engagements (SAE) 3402, Assurance Reports on Controls at a Service Organisation. SAE 3402, deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organisation that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements Standard on Auditing (SA) 402*, Audit Considerations relating to an Entity Using a Service Organisation, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.

1.1 History and Evolution of Shared Service Centre

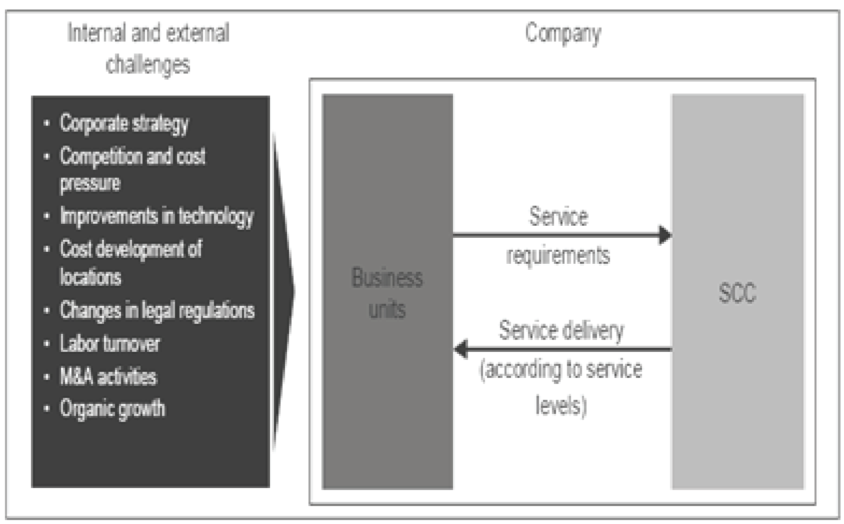
In the global economies, international businesses are under pressure from ever-increasing and cut-throat competition.

* This Standard on Auditing (SA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations. Specifically, it expands on how the user auditor applies SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" and SA 330, "The Auditor's Responses to Assessed Risks" in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

Although consistent expansion along with diversified operations leads to greater profits and market share, an inefficient company structure, high administrative costs, and unclear information paths are often the side products.

General cost reductions coupled with steadily growing product quality are key mantras in establishing and sustaining in any competitive market. Many companies resort to restructuring their operations in order to create synergies and increase their performance.

Internal and external challenges led to the birth of the concept of shared services. As an internal services provider, the Shared Service Centre presents an ideal bridge between consolidated administration and decentralised responsibilities in order to master the challenges of modern-day business management.



1.2 What is a Shared Service Centre

Shared Services "Defined"

Shared services refer to an arrangement wherein service is provided by one part of a group of entities where that service had previously been scattered in more than one part of the group of entities. Under these arrangements, the funding and resourcing of the services are shared and the providing department could effectively be termed as an internal service provider. The arrangements can alternatively be entered with a third party service provider.

The above does not imply that a captive unit of an entity would be considered as a Shared Service provider.

Features of a Shared Service Centre

- Support of local operations for the improvement of customer services through better information and work methodology.
- Back office optimisation of process and support activities.
- Effective and efficient support of internal areas through application of standardised and consolidated processes.
- Organisationally and economically independent entity.
- Through focusing on internal needs, release of resources.

Key Note:
Features of the shared service centre entirely depend upon the nature and purpose of the shared service centre.

What cannot be termed as a Shared Service Centre

A Shared Service Centre leads to a restructuring of duties and responsibilities with defined evaluation periods and service levels. As a result, it can be arranged according to a centralised or decentralised organisational structure. Through a combination of the respective organisational forms, it is possible to utilise the advantages of synergy effects and eliminate existing deficiencies.

Following table highlights the key difference between SSC and centralised/decentralised organisation structure:

SSC versus centralised/decentralised organisation		
Initial Situation		Option Shared Service Centre
Centralised	Decentralised	
• Inflexible	• Higher costs	• Efficient organisations culture
• Rigid structure	• Variable standards	• Economies of scale
• Too far away from the daily business	• Non-standardised quality Management	• Synergy effects
• Bureaucratic	• Similar costs in different business units	• Company-wide controlling
		• Bundled experience
		• Business areas maintain independence
		• Standardisation of best practices
		• Recognition of local priorities
		• Sensitive to customer needs

Shared Services is different from the diametrically opposite model of ***Outsourcing***, which is where an external third party is paid to provide a service that was previously internal to the buying organisation.

What is a Shared Service Centre

For purpose of illustration, in a typical client structure for a Multinational Corporation (MNC), there will be a parent company in US or Europe and then there will be a number of legal subsidiaries (referred to as 'component' in the subsequent paragraphs) across the globe to service its customer base in those countries.

Many such clients have established Shared Service Centres ("SSCs"). SSCs generally provide centralised services ranging from specific tasks (such as processing of accounts receivable, accounts payable, payroll, intercompany accounting and reconciliations, etc) to complete functions or businesses processes (including, entire accounting cycle including preparation of management information reports and financial statements, information technology operations, customer relationships, procurement process, etc.). These SSCs could either be captive i.e., in-house or external i.e., a third-party SSC. The SSCs may also be established in different geographies primarily driven by language constraints. The SSCs in India provides support for those countries which have high degree of English speaking capabilities and the SSCs which are established in other countries such as Europe or in Greater China Region predominantly support those countries where the medium is dominated by local languages.

Key Note:

In case of a third party SSC, the group/component auditor needs to exercise judgment on the level of assurance/audit comfort required out of the processes/activities. Such decision/assessment would be influenced by nature of process/activities outsourced to the third party, auditor's risk assessment process, etc.

1.3 Importance/Role of Shared Service Centre

One purpose of Shared Services is the convergence and streamlining of an organisation's functions to ensure that they deliver to the organisation the services required of them as effectively and efficiently as possible. This often involves the centralising of back office functions such as HR and Finance but can also be applied to the middle or front offices. The application of a Shared Service Centre follows goals that are aimed at increasing profit and efficiency as well as quality improvements.

Other benefits at a glance:

- Clear separation of responsibilities.
- Effective quality assurance.
- Effectiveness and ease in adopting changes.
- Defined (quality) standards for input/processing/output.
- Establishment of internal customer and supplier relationship management.
- Concentration on core operation in the various business areas.
- Established performance production and control through service level agreements.
- Standardised processes and reporting.
- Company-wide utilisation of available knowledge.
- Higher information consistency.
- Better information analysis and decision making.

Types of Shared Service Centres

Shared Service Centres – Types	
Commercial Structure Variation	Location Variation
Unitary - A single organisation consolidating and centralising a business service	**On-shore** – Work is carried out in the same country but at a different location
Lead department - An organisation consolidating and centralising a business service that will be shared by other organisations	**Near-shore** – Work is carried out in a close location
Joint Initiatives – Agreement between two or more organisations to set up and operate Shared Services	**Off-shore** – Work is carried out anywhere in the world that is not on-shore or near-shore

The audit approach for each of these types of the Shared Service Centre would be different and would depend on the organisational set-up of the shared service centre. An auditor would have to adopt different audit strategy depending upon structure of the Shared Service Centre as well as risks and related controls.

Suggested audit strategies are discussed in detail in the next sections.

1.4 Services Offered by Shared Service Centre

Some of the common services offered by SSC include the following:

Finance	Procurement	HR	IT	Sales
• Accounts Payable • Accounts Receivable • Credit and Collections • Treasury Operations • Financial Reporting • Fixed Asset Accounting • General Ledger Reconciliations • Inter-Company Transactions • Planning and Forecasting	• Administrative Procurement • Contact Management • Logistics and Goods Management • Purchase Order Processing • Supplier Management	• Application Data Administration • Payroll • Personnel Data Administration • Travel Accounting	• Application Development • Hosting • Operating of Data Processing Centre, Data Collection and Data Filing • User Help Desk	• Billing • Complaint Management • Customer Service • Order Management • Technical Support

1.5 Efficiencies and Economies Attained

There is two-fold benefit of centralising the accounting and other functions at one or more SSC *viz.,* economies and efficiencies attained.

Reduction in Cost

The client benefits from the economies by moving the transactions processing and reporting, reconciliations and review, etc. to low cost countries like India, China, etc. and also because of the volume of transactions processed from one location rather than a number of locations globally it also gains economies of scale.

Efficiency from Standardisation

The client also attains significant efficiency by standardising the processes which ensures uniformity of reporting. The review mechanism also becomes more robust since all the reports and reviews are driven by one standardised process. The client is also in a better position to have a constant look at those processes and bring in further efficiencies in the same.

1.6 Homogeneous Process and Standardisation Attained

As discussed above, in a SSC model, the process will be homogeneous or consistent irrespective of the fact from where the transaction is originating. Taking an example, in case of Treasury Reconciliations, all the Bank Reconciliations for all the legal subsidiaries and parent company will be prepared at the SSC with same set of defined process, subject to same set of defined rigor of review and reporting of exceptions and performed by same set of people at SSC. This definitely helps the client in attaining standardisation in their processes. Reference should also be made to Chapter 3, in respect of third-party SSC handling processes of multiple groups.

1.7 Objective of Audit in a Shared Service Centre Structure

In case of both captive/third-party SSC, sending multiple audit engagement teams to perform audit work at SSC is likely to be neither efficient nor effective. A better approach is usually for the group audit team (responsible for audit of parent company and consolidation) to establish the level of audit comfort needed over the functions and processes at the SSC and to assign one audit team (the “SSC audit team”) to perform specified procedures designed to share audit comfort with In-Country/component audit teams to achieve both group and component and local statutory reporting objectives. Refer paragraph 2.1 for the role of corporate/group audit team, SSC audit team and In-Country/component audit teams.

In the remaining Chapters, we will look at an overview of the planning and scoping, execution, reporting and communication involved in an effective audit of a SSC. We will also look at some of the key messages from the experience of some of the engagement teams who have already implemented a SSC audit approach.

Key Note:

The technical guide should not be considered as substitute for the audit of the financial statements of the Shared Service Centre under the legal regulatory environment of the jurisdiction under which it operates. Depending upon the legal status of the SSC it would be subject to the audit requirements as per local laws. For example, a SSC incorporated as a company under Companies Act, 1956 (the 'Act'), would be subject to audit pursuant to the requirements of Section 227 of the Act.

To understand the relevance and scope of different audit teams involved in SSC audit engagement, reference should be made to Para 2.1 of Chapter 2.

Chapter 2
Planning and Scoping Phase

2.1 Areas of Audit Emphasis in a Shared Service Centre

Typically, in a SSC audit structures, 3 types of audit teams are involved. These audit teams can be referred to as 'parent/group audit team', 'in-country/component audit team' and 'SSC audit team'. Depending upon the nature of engagement, key roles and responsibilities of these audit teams can be identified as under:

Audit Team	Comp-onent	Location	Role	Responsibili-ties
Parent/ Group Audit Team	Group Financ-ial State-ments	Usually, the location where the consoli-dated financial state-ments of the group are filed.	• Maintaining relationship with the group's manage-ment / audit committee. • Drive relationship with component/ SSC audit teams. • Planning for audit of consolidate-ed financials statements. • Issue inter firm instructions.	• Ensure compliance with the local reporting requirement, practice regulations and oversight. • Review the work of the component/ SSC audit teams. • Perform the incremental required audit work locally. • Issue

			• Ensure compliance with local risk management policies.	opinion on the group's consolidated financial statements.
In-Country/ Component Audit Team	Component/ Subsidiary Financial Statements	Usually, the location where the component financial statements of the subsidiary Company are filed.	• Maintaining relationship with the subsidiary's management. • Drive relationship with SSC audit team. • Planning for audit of component financials statements. • Issue inter firm instructions. • Ensure compliance with local risk management policies.	• Ensure compliance with the local reporting requirement, practice regulations and oversight. • Review the work of the SSC audit teams. • Perform the incremental required audit work locally. • Issue opinion on the component's financial statements.
Share Service Centre		Locations where the shared	• Maintaining relationship with the SSC	• Ensure that the staff performing

Audit Team		service centre is located.	management. • Ensure that nature and scope of the work to be performed in connections with group's/ component's financial statement is clearly agreed with the group/ component audit teams. • Receive inter firm instructions. • Ensure compliance with local risk management policies.	the work is appropriately trained – depending upon the nature of the engagement. • Ensure that the work performed is in accordance with the instructions. • Issue reports/ opinion in the format and timelines – agreed in the inter firm instructions.

<u>Key Note:</u>

In the scenario where the shared service centre is a subsidiary of the group company, it is possible that the 'In-country/component' auditor and SSC auditor would be same in relation to SSC entity.

The areas where audit support could be provided to Parent/Group Audit Team or In-Country/Component audit teams from the Shared Service Centre Facility include:

a) Tests of manual and automated controls, including information technology general controls (ITGC) where systems reside at the Shared Service Centre, and IT support is provided by the SSC;

b) Tests of monitoring controls or business performance reviews performed by personnel at the SSC;

c) Detailed substantive audit procedures; and/or

d) Substantive analytical procedures.

<u>Key Note:</u>

Competency level of the engagement team performing the audit at any SSC depends upon the nature of engagement and capacity under which engagement team is working. For e.g. where the engagement team performing work at SSC is an extension of the Parent/Group Audit Team, the SSC engagement team is not expected to exercise any judgment independently. SSC engagement team in such situations would generally perform their work strictly as per instructions received from the Parent/Group /in-country audit team.

In cases where the audit team at SSC is engaged to perform a full scope audit on behalf of the in-country/group audit team on a component's/group's financial statements and the inter firm instruction does not specify the detailed procedures to be performed by the SSC audit team, SSC audit team is expected to apply their judgment on the nature, timing and extent of audit procedures to be performed by them.

It is also important to note that the reporting structure in each of the above cases would be different and should be agreed between the audit teams and be part of the inter firm instructions.

2.2 Role of Group Audit Team, SSC Audit Team and In-Country Audit Teams

Each of the Group audit team, SSC audit team and In-Country audit teams plays an important role in servicing the client.

For the reporting at Parent/Group office including consolidation, the Group audit team needs to work closely with SSC audit team (since most of the significant processes are at SSC) and in some cases with In-Country audit teams also (where some of the significant processes are still residing In-Country rather than at SSC). Similarly, to support local reporting by In-Country audit team for each legal subsidiary, all the three teams need to work collectively to divide the work amongst each of them so as to ensure sufficient audit comfort is obtained by the In-Country audit team and they can then sign-off the legal subsidiary's accounts as per applicable local GAAP and GAAS.

The role of each of these three teams is discussed in more details in the paragraphs below.

2.3 Independence and Competency

GAAS requirements in certain territories may necessitate the SSC engagement team providing confirmations to group and component/statutory audit teams (to all groups in case of a third-party SSC) regarding the independence and competency of the team performing the audit work. In order to manage this process in a timely fashion, the SSC team should enquire, during the planning phase, as to the nature of confirmations required. The SSC team should consider and coordinate centrally the full listing of these confirmations, and assign an appropriate administration assistant to collate, track and distribute appropriately required information for SSC engagement team members. Any issues of potential non-compliance should however be communicated and discussed with the respective group or component/in-country team immediately.

Group engagement teams should identify all SSC audit teams involved in the group audit including those that may not have a direct reporting responsibilities and it should ensure that those are in compliance with the independence requirements of the group audit.

<u>Key Note:</u>

Standard on Quality Control (SQC) establishes basic principles and essential procedures and to provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

Appropriate consideration needs to be given by the audit firm in ensuring compliance with SQC in performing the audit engagements.

2.4 Understanding of the Processes

The audit in a SSC scenario needs to be planned to ensure that the desired level of audit comfort is available to each impacted audit team using the most effective and efficient overall audit approach.

The planning and scoping of the work to be performed at SSC will depend on a number of factors including the extent to which the SSC is performing transactions through standardised systems (as opposed to running different processes for each subsidiary or group in case of a third-party SSC) and the degree to which Parent/Group audit team is relying on the work in issuing an opinion on controls.

For example, in case provisions of the Sarbanes Oxley Act, 2002 (SOX) are also applicable to the Group(s), the Parent/Group audit team in conjunction with SSC audit team needs to do the following during the planning and scoping exercise:

a) Understanding the strategy of the client as it relates to the SSC, the standing of the SSC within the group, its business rationale and objectives. This includes ensuring a thorough understanding of the roles, responsibilities, accountability for and ownership of the information to be processed by the SSC. This also involves understanding where the control and responsibility lies between the entities using the data from the SSC and the SSC itself, control activities that are performed at the SSC and how these are monitored by the Client.

b) Understanding key risks, including fraud and business risks, related to the SSC. In doing this, audit teams need to understand both those risks the SSC is responsible for managing on behalf of the rest of the group, as well as the risks to which the SSC itself is exposed. Management's views and response to the assessed risks should also be considered by the relevant audit teams.

c) Understanding both the legal and management control structure of the client.

d) Understanding the audit and reporting requirements for the group and component entities that require stand-alone audits, including local statutory requirements, relevant GAAP and GAAS, and related materiality.

e) Understanding those processes, systems (that is supporting the SSC, and where are these hosted) controls, personnel and accounting records employed (whether GL or Sub- Ledgers are maintained at SSC) and retained at the SSC which are relevant to financial reporting and how those relate to group and component and statutory audit financial reporting throughout the client.

f) Evaluating what audit comfort can be obtained at the SSC.

g) Determining what level of audit comfort is required by each of the group and component/statutory audit teams.

h) Considering what procedures might need to be performed at the group or component location in support of the SSC team's work.

i) Upfront and ongoing agreement with all group and component/statutory audit teams on the audit comfort to be obtained at the SSC, including the nature, timing and extent of specified procedures.

j) Determining who will perform the SSC audit work and when.

k) Agreeing on the process for applicable review and oversight of work performed at the SSC.

l) Establishing how the audit comfort will be documented and shared.

m) Understand the processes, the activities and tasks that are transitioned.

n) Understand the various reports that are provided by SSC.

The following activities should be considered by the auditor when determining what work to perform at SSC:

i) Make inquiries of management at the group level and at the component/statutory and SSC entities, and review management's existing documentation of policies, procedures, processes, and controls.

ii) Identify significant processes and sub-processes managed at the SSC relevant to authorising, initiating, processing, recording and/or reporting transactions for the relevant entities, including identifying activities that are common to multiple entities (for any given process which is determined to be in scope, the population of key controls is often the same whether the scoping were performed from a group audit perspective or a component/statutory audit entity perspective).

iii) Identify the key inputs to, and outputs from, the SSC which are relevant from a financial accounting perspective (e.g., transaction flow, standing data, and accounting records).

iv) Identify technologies and application instances that support the key SSC financial processes, inputs and outputs.

v) Relate key SSC inputs/outputs and processes/sub-processes to control objectives, information processing objectives, and/or financial statement assertions relevant to the group audit and all component/statutory entity audits.

vi) Where comfort is being sought from tests of controls, identify key controls that operate both within and outside the SSC, to ensure a complete understanding of the end-to-end design of internal control and to clearly identify those controls to be tested by the SSC audit team versus those to be tested by the group or other component/statutory audit teams.

vii) Obtain and review any Internal Audit work relating to the SSC and consider that work in developing the SSC audit plan.

viii) Document the above information as part of the audit plan in a manner that facilitates sharing amongst the engagement teams and streamlines the inter firm instruction and reporting processes.

Good documentation practices include:

1) A matrix identifying SSC processes and sub-processes that are relevant to each entity.

2) Process flowcharts and narratives that enable a clear understanding of the SSC processes, inputs and outputs.

3) A "roadmap" or "mapping" that relates SSC input/outputs and processes/sub-processes to related control objectives and control activities - see sample template below:

	Processes/Sub-Processes			
	Accounts Payable		Inventory	Accounts Receivable
	Goods Receipt	Disbursement		
US	X			
UK	X			
Germany	X			
India		X		X
Malaysia	X		X	
Key Note: The extent of processes managed out of shared service centre				

may vary from one organisation to another. However, this technical guide has been prepared keeping in view that the majority of the components entailed in the guide shall be applicable to the audit of all shared service centre irrespective of its size, complexity and volume of operations.

2.5 Understanding/ Building Integrated Audit Approach

The integrated audit approach implies using the controls work in conjunction with substantive work. This integrated audit approach may be more relevant to a client to which SOX is applicable. However, this approach can also be adopted for in-country statutory audit requirements since the controls will be homogenous across all components and a control based approach can be applied to support the component's audit.

The Parent/Group audit team, the in-country audit teams and SSC audit team should together determine the integrated audit approach as applicable in terms of controls reliance and substantive testing approach.

Under the integrated audit approach, the results of the controls testing work should be used for determining the nature, timing and extent of the substantive audit procedures by Group audit team/In-Country audit team and communicated to SSC audit team.

2.6 Understanding of Reporting Requirements in Local Countries

In order to make the SSC audit approach effective wherein In-Country audit teams can rely on the work done by SSC audit team at SSC, it is important for SSC audit team to understand the reporting requirements in local countries.

Although most of the countries across the globe have statutory audit requirements for companies, there could be few exceptions also like Brazil, Canada, etc. Further, in some countries like Netherlands, Switzerland, etc., the statutory audit is required for companies only if revenue is beyond a threshold, etc. Countries in scope for audit is communicated by the client to the group team, which then shares this with the in-country audit teams as well as the SSC audit team. Based on this information the audit teams need to closely co-ordinate with the in-country audit teams to understand audit and reporting requirements of respective countries.

2.7 Local GAAS Requirements Compliance to be Ensured

During the planning stage, the component audit teams should communicate additional audit requirements to the group audit team as required under the local GAAS. Accordingly, it is pertinent to note that the SSC audit team should have adequate understanding of local GAAS requirements. Such understanding is necessary to ensure determination of nature, timing and extent of substantive procedures to be performed by the component audit team in conjunction with In-Country audit team. For example, in some countries there is a local GAAS requirement to send accounts payable confirmation and in those cases the SSC audit team can centrally coordinate those accounts payable confirmations at the SSC rather than each In-Country audit team doing it locally.

In most instances, it is expected that the work would be conducted in accordance with International Standards on Auditing or applicable GAAS, but if additional statutory or local professional standard requirements exist they need to be identified during the planning phase by the Group/in-country audit team and appropriately included in the instructions and specify procedures to be performed by SSC audit team.

Key Notes:

1) The above guidance on Local GAAS will only be applicable if the SSC is handing processes of entities for a group located outside the country in which SSC audit team is conducting its audit procedures.

2) Usually, any specific GAAS requirement which requires a specific audit procedure to be performed by the SSC team, the in-country audit team would include that GAAS requirement

and details of the related audit procedure in the inter firm instructions itself. Also it is important to note that the inter firm report/opinion by the SSC team to the in-country audit team would only refer to the specific audit procedure and would not make reference to compliance of any local GAAS.

2.8 Identification of Significant Risks

It is necessary to consider the extent to which the client exercises control over the effective operation of the SSC by means of certain key performance indicators. Accordingly, the extent to which a review of this information (e.g., account reconciliation statistics) may provide audit comfort to the SSC team has to be determined. This may require other teams to perform work on behalf of the SSC team.

The respective Parent/Group, component/statutory and SSC audit teams should collaborate on any risk factors that would require additional work to be performed at the SSC in connection with any specific group or component/statutory audit. This should be completed and documented at the planning stage of the audit to ensure appropriate scoping for all entity audits and to demonstrate the active involvement of all relevant parties to group audit/ component audit planning decisions.

Further, the SSC audit team should also consider fraud risk in the scoping phase. In order to address the fraud risk, the SSC team may be requested by the respective Parent/Group auditor/component auditor to leverage the fraud risk assessment done by them and may be asked to perform procedures such as fraud related inquiries with SSC management, testing of manual journal vouchers, etc.

Reference should be made to paragraph 6.1 in respect of reliance to be placed on scanned documents and related risks.

Key Note:

Standard on Auditing (SA) 240, '*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'* deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how SA 315, "*Identifying and Assessing the Risk of Material Misstatement*

Through Understanding the Entity and Its Environment," and SA 330, *"The Auditor's Responses to Assessed Risks,"* are to be applied in relation to risks of material misstatement due to fraud.

2.9 Agreement of Scope of Audit Work between Teams

The respective Parent/Group or component/statutory audit teams may desire comfort from substantive tests of details at the SSC, whether contemplated in the initial audit plan or as a response to the results of other audit work. In most cases, substantive tests of details at the SSC will be limited to situations where the work can only be performed at the SSC due to the physical location of the accounting records or supporting documentation. Consideration should also be given, however, to procedures that can serve dual purpose as both tests of controls and tests of details. The SSC team should feel free to challenge instructions to perform work which in the view of the SSC team will not provide effective and efficient results.

However, the procedures to be performed are ultimately the responsibility of the group/ component teams.

Specified procedures to be performed by the SSC audit team should clearly distinguish between procedures that are 'tests of controls' versus 'tests of details'. The SSC audit team may be able to provide controls comfort to multiple audit teams by sampling once from a single population of common control activities. A similar approach may be used for some substantive testing, particularly when using accept-reject or audit sampling techniques. For certain tests of details, however, the audit team might need to identify separate populations of transactions and balances related to each component entity and test a full sample from each to satisfy the needs of each respective audit team for substantive testing.

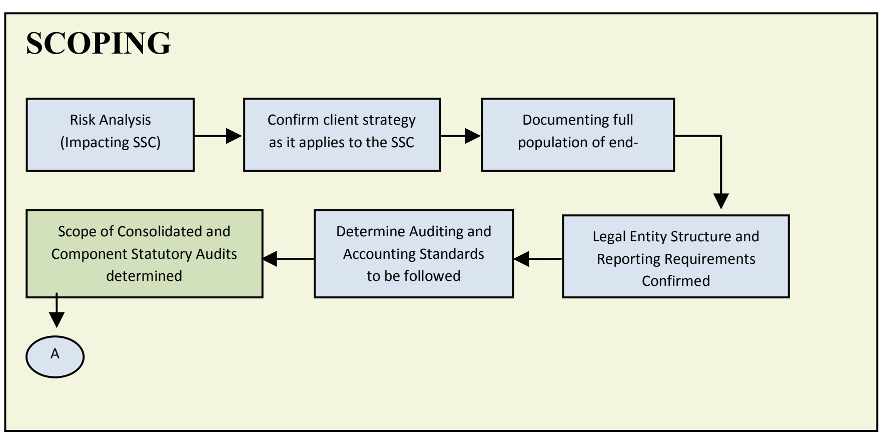
The timing of the audit work to be performed by the SSC audit team should be agreed upon at an early stage by all audit teams. Controls work should be performed to allow sufficient time for the teams to review the results, determine their conclusions on the design and operating effectiveness of the controls and consider the need to alter the nature, timing and extent of their planned audit procedures or to request additional work at the SSC in response to any identified control weaknesses or other audit findings. Additional visits, such as those that might be required to update testing of controls or to perform subsequent events procedures, should be clearly outlined in planning.

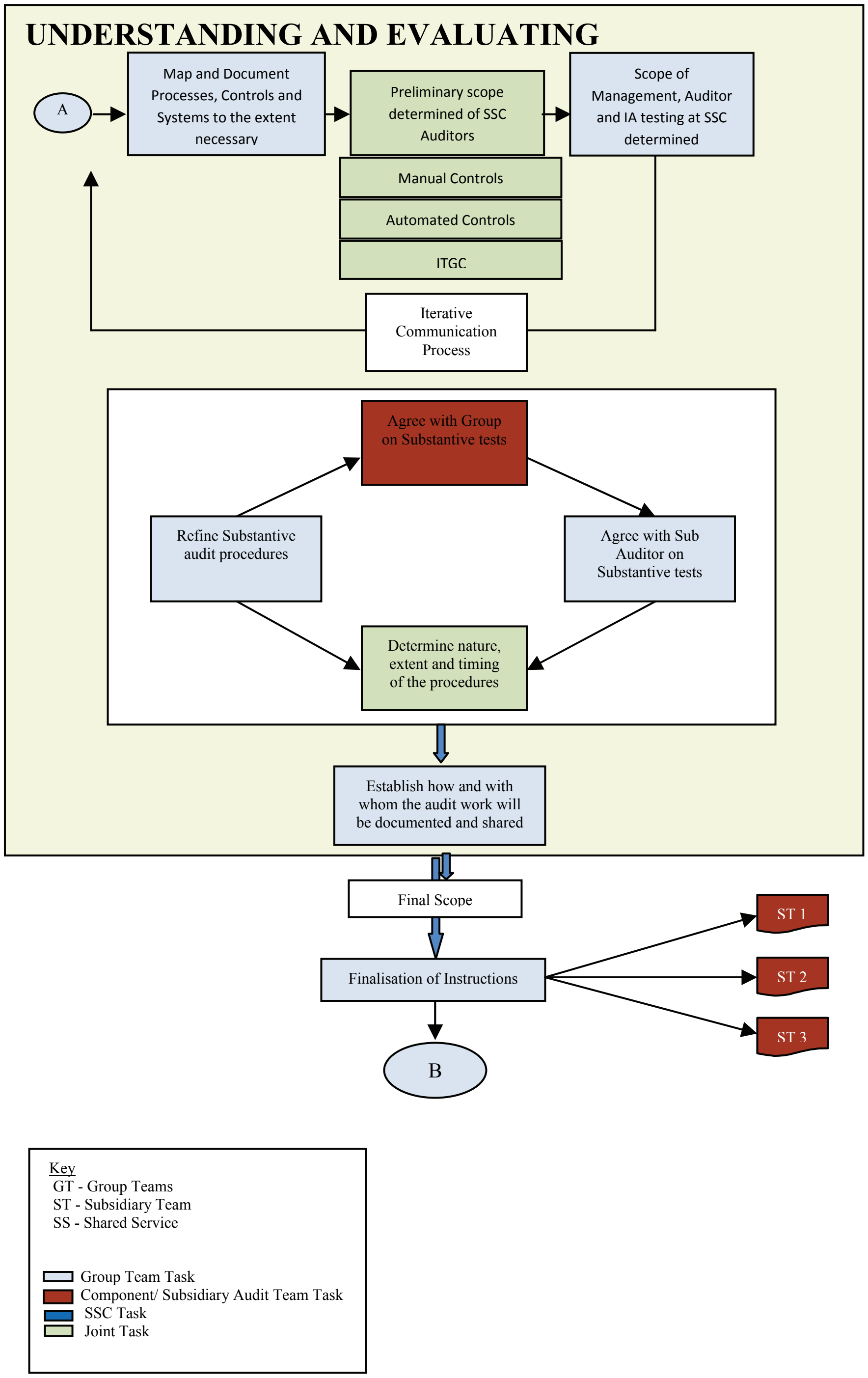
The reporting GAAP for specified procedures also needs to be determined and agreed with respective Parent/Group audit team for consolidation reporting and with In-Country audit teams of the respective Group for statutory audits of subsidiaries. The SSC audit team needs to ensure that they have sufficient knowledge in reporting GAAP (to the extent applicable in understanding the process and procedures required to be performed).

In some cases or for a particular group (in case of a third-party SSC), the client may have developed local GAAP expertise (including financial statements and disclosures also) at SSC like in case of IFRS reporting applicable in certain countries. In such cases, the SSC audit team can expand its scope of work to include full-scope IFRS financial statement opinion rather than only doing specified procedures. The SSC audit team needs to ensure that they have sufficient expertise in reporting GAAP *viz.* US GAAP, IFRS or otherwise before issuing inter firm reporting to In-Country audit team.

Good documentation practices includes use of “Split-of-work matrix” given in Appendix 1 clearly earmarking the controls and substantive testing scope of work to be done by Group audit team, SSC audit team and In-Country audit team.

Summary Flowchart for Scoping and Understanding and Evaluating Phase




UNDERSTANDING AND EVALUATING
A
Map and Document Processes, Controls and Systems to the extent necessary
Preliminary scope determined of SSC Auditors
Scope of Management, Auditor and IA testing at SSC determined
Manual Controls
Automated Controls
ITGC
Iterative Communication Process
Agree with Group on Substantive tests
Refine Substantive audit procedures
Agree with Sub Auditor on Substantive tests
Determine nature, extent and timing of the procedures
Establish how and with whom the audit work will be documented and shared
Final Scope
Finalisation of Instructions
ST 1
ST 2
ST 3
B
Key
GT - Group Teams
ST - Subsidiary Team
SS - Shared Service
Group Team Task
Component/ Subsidiary Audit Team Task
SSC Task
Joint Task

2.10 Materiality

Materiality needs to be separately determined for reporting by SSC audit team to Parent/Group audit team for consolidation purposes and to In-Country audit teams for statutory audits of subsidiaries (for all the Groups handled by a third-party SSC). These materiality thresholds need to be determined by Parent/Group audit team and In-Country audit teams for subsidiaries respectively and informed *via* Inter firm instructions to the SSC audit team so that it can perform the specified substantive procedures and report accordingly.

<ins>Key Note:</ins>

It is important to perform the audit at the SSC considering the materiality thresholds of all the countries on behalf of which the audit is performed by the SSC audit team. In particular, considering materiality limits of each country is also important in case where the SSC audit include substantive audit procedures. As the sample size in case of each country, for substantive testing, has to be determined on the basis of respective materiality limits.

Standard on Auditing (SA) 320, *Audit Materiality*, requires the auditor to consider materiality and its relationship with audit risk when conducting an audit.

2.11 Importance of Effective Communication between Teams

Effective communication has become the utmost important tool of the auditor to carry out an effective audit and issue an audit opinion under a SSC environment. One of the key challenges in conducting the audit under a shared service centre set-up is to get access to the information to plan, execute and conclude the audit. In case the audit is not carried out on the basis of right information, the auditor would not be able to plan the audit effectively as understanding the key components like assessment of the company's risk profile; understanding of the controls under the shared service environment and understanding the linkages of the process/transactions are keys to plan an effective audit.

Typically, for a company under shared service centre environment, it becomes difficult for the remote audit teams (i.e., the audit teams of entities who's processing and knowledge base has been transferred to the shared service centres) to have detailed insights to the changes effective/planned by the company. It is due to the fact that some of the key organisations like business finance, strategic planning and sales organisations also get concentrated in a particular geography. Most of the key plans/decisions for the group under this new environment are influenced by the overall objective of the group instead of focusing on operations in the individual countries. However, it does not mean that the group does not intends to have profitable operations in all the countries, what it essentially means is that all operations focuses and contributes to the overall objectives of the group. Also, the objectives of individual units are aligned and linked to ones of the group in such a way that success/achievement of the group's objectives would mean success for the individual operations.

The above challenges mandate that effective channels of communication must be established which would enable audit teams in individual countries to have access to information they need to conduct an effective audit and have knowledge base to understand the company's business, strategies, operating styles, objectives etc., which they can link to the one's relating to their piece (country, branch, service organisation, etc.).

One of the suggested approaches in case of a Multi National Company is the process by which the auditor of the parent company who has the overall responsibilities of the consolidated financial statements and is in the best position to access the information in the company, to share a document with the other audit teams, who have limited access. This shall help both the company and the respective auditors to carry out an informed and effective audit. The contents on this document would be specific to company's structure, purpose and timing of the communication.

As an example a document giving the understanding of Company's controls and environment would typically include the following:

- Listing and overview of the key business processes.
- Mapping of the risks with the controls at business process level.
- Overview of the control environment of the company.
- Analysis of the fraud risks.

Other similar communications could be following subjects, form and contents of which would again depend on Company's structure, agreement between the auditors keeping in view the local level compliances, timing of the communications and expectation between the client and auditors:

- Results of the work carried out by the parent company's auditors on the internal controls of the group, to the extent applicable to the local legal entities.
- Results of other Agreed-upon procedures (AUP) performed by any of the audit teams with other audit teams.
- Result of any other work carried out (as agreed between the auditors) by one of the audit team on the behalf of other auditors.

Key challenges in sharing documents would be:

a) to define as to what level of information and form of information that the auditors of the parent company's auditor would be able to share with the auditors of the respective audit teams.

b) to assess as to what level the local country audit teams would be able to place reliance on any such documents as there would be inherent limitation of level of information it would contain and local Indian GAAS requirements (like different year ends, specific procedures to be performed on the some of the components on which the auditor in India has to comment (CARO 2003) and other local legal and other regulatory compliances).

c) restrictions imposed by the policies (if any) of the individual audit firms and sometimes by the regulators like Institute of Chartered Accountants of India (ICAI) in respect of such forms of reporting.

Upfront collaboration and sharing of information during planning among the group, component/statutory and SSC audit teams facilitates the group auditor's ability to provide more detail on the exact nature, timing and extent of the specified procedures to be performed at the SSC. To the extent the details of this planning and scoping are documented in the formalised instructions, it may be possible to simplify the SSC audit report to include results and findings only.

For suggested contents of inter firm instructions to be issued by Group audit team or In-Country audit team to SSC audit team, refer the Appendix 2.

Besides Inter firm Instructions, as a best practice there could be ongoing sharing of information and results between the three teams via conference calls, e-mails, etc., at planning, execution and completion stages of the audit.

2.12 Controls Work Planning and Scoping

The key controls could exist at the following locations:

1) Corporate level controls for example, if IT server is based at corporate level then Information Technology General Controls (ITGCs) and most of the application controls will exist at corporate level. These should be tested by Group audit team.

2) There may be certain application level controls that could be tested at the SSC if there are certain applications being operated. SSC auditor may be required to test controls on key reports, spreadsheets, access restrictions, segregation of duty conflicts, etc.

3) At SSC, manual controls are around transactions processing, reconciliations preparation and review, etc, for

the processes handled by SSC. These controls should be tested by SSC audit team.

4) In some cases, the controls continue to operate In-Country or locations other than corporate and SSC primarily because of language issues, proximity to customers, etc. For example, the controls around sales order processing, collections for non-English speaking countries, etc., may reside In-Country or locations other than corporate and SSC. These controls should be tested by In-Country teams or if it is more efficient for the Group audit team to test it centrally.

The suggested practice is that the Group audit team in conjunction with SSC audit team should decide the scope of work around controls (manual or automated) and determine the audit team who will be doing walkthroughs and testing for each of the sub-processes and key controls.

2.13 Substantive Testing Planning and Scoping

Like controls testing approach, the substantive testing approach also needs to be determined at the following locations:

a) Substantive testing for Group consolidation reporting and Corporate level push-down entries (i.e., processes driven centrally from Corporate level like restructuring accruals, etc., and entries are then passed at local entity set of books level) for statutory audits should be covered by Group audit team.

b) For the processes handled at SSC, the substantive procedures should be performed by SSC audit team.

c) There could be some processes like local taxation, pension, etc., which for the reason that they require local laws and local GAAP knowledge may continue to be retained In-Country and accordingly substantive procedures for them will be covered by In-Country audit teams along with financial statements and disclosures for opinion on local statutory financials.

Again, like controls testing approach, for reporting on consolidated financials by Group audit team, the Group audit team in conjunction with SSC audit team should determine the nature, timing and extent of the substantive audit procedures along with determining the team responsible for performing those procedures. For local statutory financials, the In-Country audit team should determine the substantive procedures and the team responsible for performing those procedures in conjunction with SSC audit team.

The planning stages of a SSC audit can be quite complex and will likely require iterative communication and information gathering amongst the group, component/statutory and SSC audit teams. The development of an effective overall audit approach is more likely to be achieved if the group audit, including work to be performed in the SSC, is planned on a coordinated team basis.

At an early stage, the group auditor and the SSC auditor will need to determine the most effective approach for coordinating audit work relating both to the group financial statements and component/statutory audit requirements. Often, the efficiency and effectiveness of the group audit is enhanced when the group audit team assumes responsibility for the SSC audit approach and related testing decisions and communicates appropriate details of such, including the specified procedures, to all relevant engagement teams. In this regard it should be noted that SSC audit work will always be performed and reported as specified procedures. Other approaches may be more appropriate when the data generated at the SSC is used for statutory, rather than group financial statements. The group, SSC and component/statutory audit teams will need to maintain adequate communication to ensure the specified procedures performed will satisfy all needs and expectations of the teams.

2.14 Linkages with IT Work

Usually the IT server will not be based out of the SSC (except in case of a third-party SSC where procedures around IT controls will have to be performed by SSC auditor) and may exist at Corporate or some other location of the group. In that scenario, the group/corporate audit team will be responsible for carrying out the IT environment of the group including Information Technology General Controls (ITGCs) and Application Controls. The SSC audit team relies on the work done by group audit team with regard to the IT controls testing. In cases, where SSC team assesses the need for doing any procedures related to IT environment at the SSC of the company, they need to perform such procedures in concurrence with the group audit team.

It is of paramount importance that there are proper linkages of the IT controls testing with manual controls testing and nature, timing and extent of substantive testing procedures. Any exception identified in ITGC testing will have a pervasive impact and should accordingly be assessed. Also, any exception identified in IT applications controls testing could have an impact on manual controls and therefore needs to be assessed accordingly. The result of IT testing to the extent that impacts the SSC controls should be appropriately addressed by the Group/in-country teams and communicated to SSC audit team before execution of the manual controls testing and final determination of nature, timing and extent of substantive procedures at SSC.

2.15 Review of Internal Audit Work

In order to leverage the work done by internal audit at SSC which may be only relevant in case of captive SSC, the Group audit team and SSC audit team needs to work together. In case the internal audit process is driven out of corporate, the Group audit team needs to assess the competency and objectivity of the internal audit team. In addition, the Group audit team may use a direct assistance or direct reliance model for the work to be done by internal audit team to support controls testing work. For example, the internal audit team may be used under direct assistance model to perform control walkthroughs or direct reliance could be placed on internal audit work for controls testing.

The Group audit team and SSC audit team also needs to review the Internal Audit reports relevant to SSC to determine the nature, timing and extent of procedures to be performed by them.

Key Note:

It is also important for the in-country audit team to review the relevant internal audit reports issued from time to time. This review becomes important especially in cases where internal audit has raised any observation in relation to a specific location or has issued an observation that impacts a particular (or set of) locations.

Also, while relying on the work of Internal Auditor, reference needs to be made to SA 610 on 'Using the Work of Internal Auditors'.

2.16 Effective Work Practices Tools

The teams may use work practices tools like sub-process mapping, key controls mapping, spilt-of work (refer Appendix 1), etc. to ensure that there are no issues in the SSC audit approach and responsibilities are clearly defined between the teams.

2.17 Agreement on Timings of Audit

As part of the planning phase, there should be an agreement between the teams on the reporting timelines and this should be agreed in the Inter firm Instructions. The local reporting deadlines of respective countries should be discussed and agreed among the in-country audit team, SSC audit team and SSC personnel and client personnel too before finalising the timings of planning, execution and reporting between Group audit team or In-Country audit team and SSC audit team. Also refer paragraph 2.10.

Key Note:

Due emphasis should be given to the timing of update testing (roll forward testing at year end, where majority of the audit procedures are performed before the year end), as there might be subsidiary companies/components in the group, which operate with a different financial year as compared to one of the ultimate parent company.

2.18 Risk Management Considerations

The SSC team would also need to consider the ICAI's pronouncements such as Code of Ethics, etc., Risk Management policies before accepting any inter firm reporting assignment under a SSC audit approach including for the form of reporting, reporting GAAS and GAAP, sharing of work papers, etc.

2.19 Structure of the Audit Team

At SSC, the structure of the audit team will depend on the complexity of the processes handled at SSC. In case, complex processes like revenue, payroll, etc., are handled from SSC, it becomes important that the audit team has adequate experience in auditing those areas and require more senior level team involvement. Use of specialists in the audit team like IT, etc., may also be warranted again depending on the processes handled at the SSC. The involvement of the specialists should also be agreed upfront with the Group audit team and In-Country audit teams *via* Inter firm Instructions.

2.20 Engagement Letter

Standard on Auditing (SA) 210 (Revised), 'Agreeing the Terms of Audit Engagements' lays down the requirements in respect of engagement letter and should be taken into consideration while agreeing the scope of the engagement.

Chapter 3
Execution Phase

Typically, the audit approach for an audit would be divided in the following stages *viz.*, understanding, evaluating and testing of operating effectiveness of controls, substantive analytics and substantive tests of detail. The nature, extent and timing of the procedures to be performed in each of these stages would depend upon the auditor's judgement and local GAAS requirements.

Further, auditing in the shared service environment also requires consideration of the appropriate definition of populations and selection of samples. It should be noted that there is a clear distinction between controls testing and substantive tests of details performed by the SSC auditor with respect to these matters. Audit team should follow the relevant guidance/pronouncement applicable in the territory considering the aspects discussed in the following paragraphs.

3.1 Controls Testing

Auditing in the shared service environment also requires consideration of the appropriate definition of populations and selection of samples. It should be noted that there is a clear distinction between controls testing and substantive tests of details performed by the SSC auditor with respect to these matters.

The decision on the number of items to test requires a determination as to whether the population subject to testing is sufficiently homogeneous to permit it to be treated as one population and, therefore, permit the results of testing to be appropriately projected to that entire population. Therefore, in a situation where a SSC is processing transactions for multiple geographies and/or entities following the same or substantively similar procedures on a common accounting IT application, it is often appropriate to define the population to test as being all transactions for all geographies and/or entities processed at the SSC. Conversely, in situations where the SSC follows different procedures or processes transactions on different systems, it would generally not be appropriate to combine populations of transactions for sample selection.

For example, in case of third-party SSC handling processes for multiple groups, and the processes are homogeneous, selection of a single sample from the entire population should be sufficient to give assurance on controls at the SSC for all the groups. Where the processes are not homogeneous, then separate samples needs to be selected for each group covered by SSC.

Key Note:

SAE 3402 on '*Assurance Reports on Controls At a Service Organisation*' issued by ICAI should be referred for reliance on controls where third party SSC is handling processes of multiple groups.

3.2 IT Controls Testing

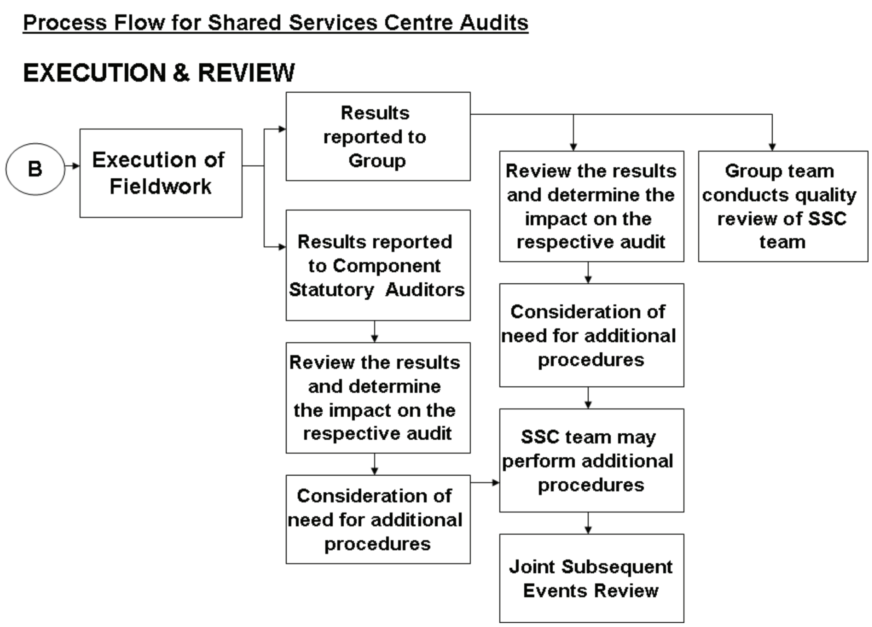
In case of IT controls testing, testing of even a few transactions for IT application controls and IT reports could suffice in case of a common accounting IT application. In case the client is using different IT accounting applications, then such IT controls testing have to be performed for all the significant applications. As already stated above, the results of IT Controls Testing may impact Manual Controls reliance on the nature, timing and extent of substantive procedures.

Key Notes:

1. Reference should be made to paragraph 3.1 above, for third-party SSC, where the IT Controls are not homogeneous across processes for all the Groups.
2. Importance of Information Technology has been recognised across all Standards on Auditing.

3.3 Substantive Testing

The definition of population when performing substantive tests of detail will differ based upon the type of test. Audit sampling lends itself to extrapolation of results to a full population and as such this type of test might be applied to the complete population of transactions processed in the SSC. Accept-reject testing also allows the auditor to either accept or reject certain characteristics of an entire population based on an appropriately selected sample. This may generate efficiencies through performing a substantive test once with one sample to draw conclusions on account balances for many locations processed in the SSC. Conversely, for targeted testing, it may be more appropriate to separate transactions by entity in a Group for the purposes of defining populations and selecting samples.



Chapter 4
Completion and Reporting

Reporting is a critical part of any audit. In an SSC audit, it is even more important as the reporting between the SSC audit team and group/component audit team forms the basis of handing over of the work performed at the shared service centre. On completion of the SSC audit, the SSC auditor needs to issue a report to the group/component audit team as agreed at the time of finalising the scope of the work between the two audit teams. The paragraphs below summarise the form of reporting, including the illustrative templates for the same.

4.1 Form of Reporting

Reporting to the group and component/statutory teams for an SSC will generally take the form of a report on specified procedures and findings. See the illustrative template in Appendix 3. The report will document the procedures performed, the results of applying those procedures, and restrictions on the use of the report.

Whether by reference to the specified procedures included in the audit instructions (or a separate communication issued by the SSC team) or by directly listing the procedures performed, the report needs to provide sufficient information to enable all teams to clearly understand the level of work that was done and conclude on the design and operating effectiveness of the controls tested. The detail provided in the report should ideally include:

a) the specific control objectives that were considered through the evaluation and testing of controls, including the nature, timing and extent of the controls work. If the relationship between financial statement assertions and in-scope control objectives is described in the planning and scoping documentation, the same may be attached to the inter firm specified procedures report;

b) substantive tests of details performed, including the nature, timing and extent of the testing;

c) the extent to which reliance has been placed on the work of others and the procedures performed to justify it; and

d) exceptions should be reported clearly, indicating the test performed and details of the exception, including population subject to testing, and sampling approach.

Much of the information to be included in the report should be readily available from the audit working papers of the SSC auditor. The report will provide sufficient detailed information for the user of the report to understand the nature, extent and results of the work performed. Providing this detail in a report which can be appended to the receiving office's working papers will eliminate the need for group and component/statutory auditors to duplicate documentation prepared by the SSC auditor. The efficiency of sharing comfort across multiple locations serviced by the SSC should more than offset any incremental time required to prepare the report.

The planning and scoping of audit work in a SSC environment is best executed as a collaborative effort. A key element of this process will be to ensure that testing requested by the group or component/statutory audit teams is warranted, i.e., it either addresses identified significant risks for the group or entity, or is a required procedure under applicable GAAS. Scrutiny should be applied in any situation where neither of the above criteria applies, and the requesting party should be asked to justify the need for the procedure to be performed.

A report on SSC procedures should also explicitly state that the work performed at the SSC and the report issued thereon do not restrict the scope of either the group or component/statutory audit.

For situations where another office of the SSC audit firm is not the statutory auditor and another firm plans to place reliance on the work of the SSC team, the Specified Procedures report will not be appropriate as it is for inter firm reporting only. Rather, an Agreed-Upon Procedures report might be issued in accordance with applicable GAAS. See the illustrative template at Appendix 4.

Engagement teams should carefully consider the appropriate reporting in these circumstances.

In case Inter firm's opinion is being issued by SSC audit team rather than a specified procedures report, then see the illustrative template at Appendix 5.

4.2 Access to Working Papers

The responsible parties (i.e. group/component/SSC audit teams) should enter into a memorandum of understanding on access to audit work papers. On the assumption that the SSC work is performed properly, and that there is a sufficiently detailed and clear report, it is anticipated that access to working papers would only rarely be necessary. Where applicable, consultation with local Firm's Risk Management team may be required by SSC team with respect to granting access of working papers.

Key Note:

1. Importance of documentation in audit cannot be ignored. Standard on Auditing (SA) 230, Audit Documentation deals with the auditors responsibility to prepare audit documentation for an audit of financial statements.
2. The local laws of the countries may restrict the access of audit work paper and thus necessary compliance should be ensured. In India, the Chartered Accountants Act, 1949 per se prohibits sharing of work papers by the auditors.

4.3 Work Papers Review by Group or In-Country Audit Team and Evaluation of Findings

Consideration should also be given to the appropriate level of quality control review required over the SSC auditor. The group team, on behalf of all teams using the results of the SSC team's work, should obtain representation from the SSC team as to their possession of the appropriate skills, knowledge of group accounting policies and of applicable GAAPs and GAASs to execute the assigned audit work. Agreement should also be reached and documented at the planning stage as to the form of any oversight and review to be performed on the SSC team's work, in accordance with the requirements of applicable regulations. This may involve one or more visits by the group team to meet the SSC team.

Key Notes:

1) Significant consideration needs to be given to the risk management policies/issues applicable in the respective territories under which the SSC team and in-country audit team operates – in cases where access to work paper is extended. Also refer paragraph 2.18.

2) Reference should be made to SA 600, *Using the Work of Another Auditor*, issued by ICAI, if the SSC audit engagement team and Group/Component audit team are operating within the jurisdiction of India. Pursuant to this Standard on Auditing, there is no requirement to assess the professional competence of the other auditor(s) where the latter is/are also the members of ICAI. Requirement to assess the professional competence of other auditors members would be required if the audit is being carried in accordance with ISAs or any other GAAS which has similar requirement.

For specified procedures reporting also, the In-Country teams will be required to review the work papers of SSC audit team.

Group and component/statutory teams should use the SSC specified procedures report to enable them to conclude upon the work performed by the SSC team like design and operating effectiveness of the population of key controls operating in the SSC in case where the work performed by the SSC team is primarily controls testing. The information appended to the report should be incorporated into the group or component/statutory work papers as required documentation as per applicable requirements.

> Key Note:
>
> Some countries/jurisdictions have additional responsibilities imposed on the central/group audit team to perform certain procedures on review of work performed in relation to the audit of group's financial statements by the component/shared service centre teams. For instance, in case the ultimate holding company is based out of United States of America and registered with Securities Exchange Commission (SEC), these requirements are prescribed under Auditing Standard 3 – "Audit Documentation" issued by Public Company Accounting Oversight Board (PCAOB).

4.4 Representation Letter

In the same way as procedures for engagement letters should not change when auditing in a SSC environment, in general there is no need to alter the approach to obtaining representation letters, unless the engagement team deems it necessary to obtain a separate representation letter from management of the SSC.

In other words, where the SSC auditor is doing the work in accordance with the group's/component's engagement letter, i.e., there is no separate engagement letter exchanged by the SSC auditor with SSC management. However, the SSC auditor should assess the form and content of any additional representations required by them from the SSC management (over and above what group/component audit teams would obtain from group/component's management).

> Key Note:
>
> Standard on Auditing (SA) 580, Written Representations, identifies that representation are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence.
>
> It further acknowledges that although the written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters which they deal.

Chapter 5
Key Messages

5.1 Planning and Scoping

One challenge, and a key to success in implementing the sharing of comfort in a shared services environment, is ensuring all participating parties are committed to the scoping process, and that the exercise is conducted in sufficient detail to facilitate execution of fieldwork. As with all audit work, and especially in the first year, detailed planning is essential to avoid misunderstanding, inefficiencies and exposure to the gathering of insufficient audit evidence. Time devoted to detailed scoping of controls work and substantive tests of detail in the first year can be significantly leveraged in subsequent years.

Key Note:

Through the planning phase the auditor should give cognizance to the requirements of Standard on Auditing (SA) 300, 'Planning an Audit of Financial Statements'.

5.2 Effective and Timely Communication

Another critical factor is effective communication amongst all parties involved in the audits. Preliminary discussions, documentation and correspondence should be clear on the definition of responsibilities and requirements of all parties. During the implementation phase of shared service centre work, teams might consider workshops with representatives of the group, component and SSC audit teams to monitor progress, and to reinforce the need to effectively leverage results of work performed centrally in the SSC.

In many instances, it is just as important to prepare and educate the client as it is to prepare the audit teams. As the clients evolve to a centralised processing and accounting structure, engagement teams should engage in timely dialogue with the client to clearly understand the details of the timetable for migration of work to the SSC. This will enable engagement teams to plan their own approach effectively and mitigate the risk of misunderstanding with the client later in the audit cycle.

5.3 Quality of Documentation

Given the number of end users, the quality of documentation in the work product provided by the SSC team is critical. Engagement teams should consider real-time participation from group, component and SSC audit teams (for example, through timely conference calls to walk through results of testing) to evaluate the progress of work.

Key Note:

Group/Component/SSC auditor should ensure compliance with the relevant standard/s dealing with using the work of the other auditors as also audit documentation, to the extent possible.

5.4 Evaluation of Findings

Results of testing may have different impacts for group and component audit teams, respectively, depending on the materiality level to which they are auditing. It is recommended that the SSC team ensures that sufficient details are provided regarding any findings, e.g. magnitude of errors, existence and degree of precision of any compensating control (and results of testing that control), mitigating factors, to enable all teams to interpret and evaluate the results for their own purposes.

5.5 Coordination between Teams

Coordination between teams is another factor relevant to all audit work, not just in a shared service environment. However, it is all the more critical in a shared service environment audit.

5.6 Substantive Analytics - Challenges Faced

In case the auditor is required to perform analytical procedures under substantive procedures, a challenge regularly faced by component/statutory audit teams is to identify the appropriate client contacts for analysis to support the team's substantive analytics, when some or all of the entity's transactions are processed in an SSC. This is an example of why it is important for audit team to align the audit engagement team and efforts along the management control structure, as management has primary responsibility for understanding and explaining results of operations. The group, component/statutory and SSC audit teams should discuss with the client and collaborate with each other during planning to identify those client individuals who will be responsible as primary contacts for providing analyses to the auditors for the financial results of component entities that have transactions processed through a SSC. It may be that the SSC team will need to perform the substantive analytics, depending on whether SSC management is responsible for financial statement assertions or not. Special attention should be paid to the challenges associated with designing and documenting the audit approach for the first year of auditing a client and/or the specific SSC, and heavier involvement of the group audit team in planning may be needed.

<u>Key Note:</u>

Standard on Auditing (SA) 520, ‘Analytical Procedures’, requires the auditor (a) to obtain relevant and reliable audit evidence when using substantive analytical procedures; and (b) to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor’s understanding of the entity.

Chapter 6
Other Considerations

6.1 Reliance on Scanned Documents and Risk Management

In a SSC audit, the SSC audit team has to rely heavily on auditing the scanned documents since most of the original documentation will be typically retained in the originating country like for example, third-party service provider invoices will be received at client's locations across the globe and the accounting is done by SSC based on the scanned images of those invoices sent by the originating locations. In most cases, it will not be cost effective for SSC to get all the original documents at SSC and therefore, the SSC audit team may not be able to verify those original documents for the samples selected by them. Further, the SSC audit team is also unlikely to have knowledge about the attributes of such documentation originating from foreign jurisdictions that may hamper the ability of the engagement team to place reliance on these documents.

The engagement team performing audit for the SSC unit may discharge its reporting responsibility in the following manner:

- Expressing an audit opinion.
- Performing an Agreed Upon Procedure (AUP) as per the group reporting instruction.

While discharging its reporting responsibility SSC audit teams may consider including certain wording to draw reference to its concern, disclaiming its opinion.

Key Note: SA 500 on Audit Evidence states: Para 9 – "Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or

facsimiles."

Para 10 – "…….,the auditor considers the reliability of the information to be used as audit evidence, for example, photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant."

SSC auditor may consider performing relevant additional procedures on the controls over maintenance of these scanned documents in cases where the audit procedures are based on verification of scanned/digitized documents.

Audit opinion

We have audited .... in accordance with ....auditing standards, except that the scope of our audit has been limited by the inability to scrutinize original documentation and by not having the level of knowledge of laws, custom, language and practice in relation to documentation that apparently emanates from other countries, to identify any obvious signs that such documentation may not be valid.

Except for the possible effects if any of the limitation in scope referred to above in our opinion..................

Specified/Agreed upon procedures report

For the avoidance of doubt, our procedures did not include reference to original documentation but only to scanned copies of documentation. In addition, our knowledge of laws, custom language and practice is not sufficient to enable us to identify any obvious signs that such documentation may not be valid.

The only relief to the above reporting requirement could be under the following conditions:

1) If all documentation is in English and if appropriate steps have been taken to translate documentation not in English so that the SSC audit team may understand the

documentation, then the reference to 'language' in the reports may be deleted.

2) If either:

- the business of the entity is straightforward, e.g., a cost plus company, and the documentation is simple such that the SSC audit team is satisfied that they have sufficient knowledge to scruitinise the documents appropriately as audit evidence, then the reference given in italics below may be omitted, or

- if with the help of the audit engagement teams of the users of the SSC, adequate steps are taken such that the SSC audit team is satisfied that they have the requisite level of knowledge and skill to scruitinise the documents appropriately as audit evidence then the reference in italics below may be omitted . It may be possible to consult with the user auditor to determine whether they believe that an appropriate sample of documentation can be sent to them for their review so that they are able to confirm that it meets their expectations as audit evidence. If this is agreed then this wording may be omitted. An appropriate sample should relate only to documentation about which the user auditor should be in a better position than the SSC audit team to form a view. Other documentation should be reviewed by the SSC audit team who should have the relevant skill to conclude without the need for any qualification by these words and so they should be omitted in such cases.

  "........*and by not having the level of knowledge of laws, custom, language and practice in relation to documentation that apparently emanates from other countries,*"

3) For specified/agreed upon procedures engagements, if the instructing auditor issues instructions as follows, then no reference in the note as set out in italics below may be required.

'In connection with your agreed upon procedures, we understand and agree that, where applicable, you will accept the scanned/faxed/electronic documentation available at the SSC and not original documentation as sufficient and appropriate audit evidence on which to perform the procedures requested.'

"...........our procedures did not include reference to original documentation but only to scanned copies of documentation."

The considerations given and actions taken in relation to the above relief should be documented on the audit file at the planning stage and may be referred to again in the reporting section of the file.

<u>Key Note:</u>

It is the responsibility of the In-Country Team to perform procedures to ensure that the control over scanned documents is adequate. As such, they can also perform incremental procedure of looking at the original documents (on a sample basis) of the scanned documents verified/relied-upon by the SSC audit team.

As a best practice approach, this step should be included in the inter firm instructions and in-country team and SSC audit team can agree on the exchange of relevant information (as part of the work papers) to ensure that this test is performed.

Chapter 7
Way Forward

7.1 Future of Business Process Outsourcing in India

According to the study conducted by Gartner, Inc. in April 2011, Indian business process outsourcing market will grow by 23.2 percent in 2011.

According to Gartner, Inc. the business process outsourcing (BPO) market in India totaled $1.139 billion in 2010, a 28.6 percent increase from 2009 revenue of $885.6 million. The market's growth was driven primarily by increasing volumes in existing BPO engagements, clients expanding the scope of existing BPO relationships, and a number of new BPO deals in 2010 were from pent-up demand from 2009.

Gartner estimates the Indian domestic BPO market reach $1.4 billion in 2011, up 23.2 percent from 2010. The market will grow into a $1.69 billion market by 2012 and increase to $2.47 billion by 2014.

The study further states that the BPO services market in Asia/Pacific and Japan is made up of a good mix of multinationals, regional and local pure-play BPO service providers; IT services providers with BPO assets and capabilities; and telecom vendors. Though the BPO market is dominated by global and India-based service providers, there are also a number of fast-growing regional and niche BPO service providers.

According to Gartner, Inc. –

"Changing demographics, increasing affluence and economic growth in Asia/Pacific continues to drive shared services and BPO adoption, especially in Australia, India, Southeast Asia and China," and

"There is growing demand for multi country shared services and BPO services within Asia/Pacific. Buyers continue to invest in services that deliver scalable, high quality and consistent services across their geographical presence. There was significant consolidation in the global and regional BPO market in 2009 and 2010 with some large merger and acquisition (M&A) deals impacting the regional BPO service provider landscape."

As per the study –

The BPO services market in Asia/Pacific (excluding Japan) reached $8.6 billion in 2010, a 21.5 percent increase from 2009 revenue of $7.0 billion. The largest BPO country market in the region is Australia, which is more than three times larger than India, the second-largest consumer of BPO services. By vertical industry, banking and financial services, communications, government (both local and federal), technology and travel and transportation were the largest consumers of BPO services in the region.

India is one of the fastest-growing BPO market in Asia/Pacific. This segment was earlier dominated by small service providers with some local companies, such as Magus Customer Dialogue, Infovision, Andromeda.

Over the past three years, many established India-based BPO service providers and U.S. and Europe-based multinational BPO services providers have started focusing on the Indian domestic market. In the past, these providers were focused primarily on the international or offshore market. Some of the local providers include Omnia, Kenkei, Androemeda, Genpact, Magus, MphasiS, Intelenet Global Services, Tech Mahindra, Aegis, Spanco and HTMT.

7.2 Moving up from Supporting the Financial Statement to Drafting Them

Most finance directors and finance professionals recognise that a shared service centre is a document factory, a transaction processing plant. It takes raw materials of invoices, receipts, etc. and processes them through an agreed and established procedure.

Not all agree that the SSC should go a step further and produce the management accounts – but without that next step management accounting remains a cottage industry. And in the 21st century it needs to match the scale and sophistication of the whole organisation.

An SSC should be responsible for all the mechanical, routine and predictable activities of the finance function – right up to the production of the first draft of the monthly financial statements. These activities are generally susceptible to clear rules that can be adhered to and will prevent the SSC seeking clarification from other parts of the business on a frequent basis.

7.3 Building Expertise to Support Full Scope Audits - move Towards IFRS

With the emergence of IFRS in Europe, Asia-Pacific and other geographies, there is a potential for building IFRS expertise in teams at SSC by clients. The SSC therefore, can assume more responsibilities once the option to prepare IFRS financials is available for legal subsidiaries instead of local GAAP financials. With this emerging trend, SSC audit teams can also assume more work by issuing full-scope IFRS financials opinion for the legal subsidiaries instead of Specified/Agreed upon procedures report or Inter firm's Opinion on specified balances.

7.4 Benefits to Public Sector

Governments around the world are poised to benefit from adoption of a shared services business framework provided that lessons learned from the commercial sector are applied. Shared services frameworks bring together functions that are common to multiple business units under a single delivery organisation. The result is increased efficiency and quality of service and decreased cost. This Guide identifies four models for shared services as well as several factors common to all successful shared services initiatives. It also provides government policy makers with factors to consider in choosing a model, an overview of challenges to maximise benefits from shared services and a pathway to realise the framework's full potential.

Appendix 1

Split-of-work Matrix (Illustrative)

Split-of-work matrix for Inter firm Opinion audit by SSC audit team to support statutory audit by In-Country audit team of a subsidiary

Particulars of Task	Group audit team	SSC audit team	In-Country audit team
Planning and Controls Work			
Acceptance and Continuance Assessment			X
Engagement Letter			X
Independence Considerations		X	X
Inter firm Instructions		X	X
Understanding the Business		X	X
Review minutes of meetings		X	X
Review new/significant contracts		X	X
Assess fraud risk		X	X
Opening balances		X	X

Risk Assessment - Significant and Elevated Risks assessment		**X**	**X**
Materiality			**X**
Communicate with the client		**X**	**X**
Assess control environment	**X**	**X**	**X**
Controls Testing	**X**	**X**	**X**
Controls Opinion - Consolidated	**X**		
Evaluate results of Controls Opinion		**X**	**X**
Summary of Comfort		**X**	**X**
Substantive Analytics and Testing			
Property, plant and equipment		**X**	
Intangible assets		**X**	
Inventory		**X**	
Accounts receivable		**X**	
Prepayments and other current assets		**X**	
Cash		**X**	
Accounts payable		**X**	

Accruals, provisions and other liabilities		**X**	
Revenue- Analytics and Test of Details for Significant risk		**X**	
Cost of Sales		**X**	
Payroll except pension		**X**	
Operating expenses		**X**	
Other income and expenses		**X**	
Corporate Push Down Entries	**X**		
Other Substantive Testing			
Capital and other equity accounts		**X**	
Intercompany accounts		**X**	
Other Fieldwork Procedures			
Review of SSC audit team's work			**X**
Legal letters			**X**
Bank confirmation letters		**X**	
Accounts receivable confirmation letters		**X**	

Statutory accounts procedures			
Audit of detailed note disclosures			**X**
US GAAP and ISA Inter firm Opinion		**X**	
US Local GAAP conversion			**X**
Audit of pensions			**X**
Audit of tax			**X**
Completion procedures			
Detailed review of statutory accounts			**X**
Completion procedures and sign off			**X**

Appendix 2

Suggested Contents of Inter Firm Instructions (Illustrative)

Inter firm Instructions for Inter firm Opinion audit by SSC audit team to support statutory audit by In-Country audit team of a subsidiary

Table of Contents

1. General Audit Information

a. Introduction.

b. Entity information and scope of work.

c. Auditing and accounting standards.

2. Audit Scope and Procedures

a. Audit scoping and materiality levels.

b. Relevant comments on internal control structure.

c. Risk assessment, including fraud.

d. Independence and other confirmations.

e. Laws and regulations.

f. Related parties.

g. Subsequent events review.

h. Communication during the audit.

i. Sharing audit comfort.

j. Reliance on the work of the client's Internal Audit department or others.

k. Going concern assessment.

3. Reporting Requirements and Timings

a. Communicating results.

b. Communication protocols.

c. Acceptance and Continuance assessment.

d. Engagement Letter requirements.

e. Fees.

f. Management Representation Letter requirements.

g. Local statutory audit opinion requirements.

h. Timetable and due dates.

i. Archiving and record retention requirements.

4. Appendices

a. Acknowledgment of receipt of Inter firm Instructions template.

b. Allocation of work between Group, In-Country and SSC audit teams.

c. Materiality levels determined by Group/In-Country audit team.

d. Timetable and due dates.

e. Significant risks identified by Group/In-Country audit team.

f. Memorandum of work to be performed by SSC audit team.

g. List of key Group/In-Country audit team's contacts.

h. List of key Client's contacts.

i. Memorandum of Examination template.

j. Inter firm Opinion template.

k. Subsequent events procedures report template.

l. Independence confirmation template.

m. Archiving/Retention confirmation template.

Appendix 3

Specified Procedures Report Template (Illustrative)

Inter firm Report -

Specified Audit Procedures - Financial Information or Internal Controls (year-end)

[SSC audit team's office Letterhead]

To the [name of Group/In-Country audit team's office] [name of parent company] Group/In-Country Engagement Team

We have performed the procedures agreed with you[*] as set forth in your instructions dated [date of instruction letter] with respect to [identify the financial statements/special purpose financial information] of [name of component].

During the course of applying these procedures, no matters requiring comment to you were found [*include when there are exceptions to report:* except as follows[**]:]

Because the procedures performed do not constitute either an audit or a review conducted in accordance with [the standards of the Public Company Accounting Oversight Board (United States) OR auditing standards generally accepted in the United States of America] or standards for accounting and review services in the United States of America, respectively OR applicable review standard, we do not express any assurance on [identify financial statements/special purpose financial information]. [*Include when relevant in the circumstances:* This report relates only to the [financial information] specified above and does not extend to the

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[*] As an alternative, refer to "the following procedures" and list the specific procedures performed following the paragraph.
[**] Internal control deficiencies noted during the engagement should be listed here or included in an attachment.

[financial statements/special purpose financial information] of [name of component] taken as a whole.]

This report is intended solely for the use of [name of Group/In-country audit team's office] [name of parent company] Group/In-Country Engagement Team in connection with the [audit/review] of the consolidated financial statements of [name of parent company] and should not be used for any other purpose.

[Name of SSC audit team's office (signed)]

[Date]

Appendix 4

Agreed Upon Procedures Report Template (Illustrative)

(For work performed on the basis of International Standards on Related Services)

Agreed Upon Procedures - Financial Information or Internal Controls (year-end)

[SSC audit team's office Letterhead]

To the [name and address of Group/In-Country audit team's office]

We have performed the procedures agreed with you[1] as set forth in your instructions dated [date of instruction letter] with respect to [identify the financial statements/special purpose financial information] of [name of component]. Our engagement was performed in accordance with International Standards on Related Services (ISRS 4400 – Engagements to Perform Agreed Upon Procedures Regarding Financial Information)

During the course of applying these procedures, no matters requiring comment to you were found [*include when there are exceptions to report:* except as follows[2]:]

Because the procedures performed do not constitute either an audit or a review conducted in accordance with [the standards of the Public Company Accounting Oversight Board (United States) OR auditing standards generally accepted in the United States of America] or standards for accounting and review services in the United States of America, respectively, OR applicable review standard we do not express any assurance on [identify financial statements/special purpose financial information]. [*Include when*

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[1] As an alternative, refer to "the following procedures" and list the specific procedures performed following the paragraph.

[2] Internal control deficiencies noted during the engagement should be listed here or included in an attachment.

relevant in the circumstances] This report relates only to the [financial information] specified above and does not extend to the [financial statements/special purpose financial information] of [name of component] taken as a whole.]

This report is intended solely for the use of [name of Group/In-country audit team's office] [name of parent company] Group/In-Country Engagement Team in connection with the [audit/review] of the consolidated financial statements of [name of parent company] and should not be used for any other purpose.

[Name of SSC audit team's office (signed)]

[Date]

Appendix 5

Inter Firm Opinion Report Template (Illustrative)

Inter firm opinion

(For work performed on the basis of ISA's)

[SSC audit team's reporting office letterhead]

To [Group audit team's office]

As requested in your Inter firm Audit Instructions dated [insert date] ("instructions"), we have audited the accompanying special purpose financial information of [name of component] expressed in [currency] as of [year-end] and for the year then ended.

1. Management's Responsibility for the Special Purpose Financial information

Management is responsible for the preparation and presentation of this special purpose financial information in accordance with policies and instructions contained in the [name of parent company]'s accounting manual. This special purpose financial information has been prepared solely to enable [name of component] to prepare statutory financial statements.

2. Auditor's Responsibility

Our responsibility is to express an opinion on the special purpose financial information based on our audit. Except as explained in paragraph 4 below, we conducted our audit in accordance with International Standards on Auditing (ISAs). [As requested, our audit procedures also included the procedures identified in your instructions, which the instructions indicate are required by the auditing standards generally accepted in country where component is located]. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial information is free from material misstatement.

3. Restriction in Scope

As requested, the scope of our audit was restricted by the overall materiality level of [XXXX] specified in your instructions. [Include if relevant in the circumstances: As requested, we used the materiality level(s) of [XXXX] for [identify the particular class(es) of transactions, account balance(s) or disclosure(s), if applicable]].

4. Basis for [Qualified/Adverse/Disclaimer of] Opinion

[Include if giving a qualified/adverse/disclaimer of opinion: Provide a clear description of all of the substantive reasons and, unless impracticable, a quantification of the possible effect(s) on the financial information.]

5. Opinion

Because of the restriction described in the paragraph 4 above, the scope of our work was not sufficient to enable us to express, and we do not express, an unrestricted opinion on this financial information. However, in our opinion, based on our audit performed within the limits of materiality described in the paragraph 3 above, [add if the opinion is qualified: and except for the effect on the special purpose financial information of the matter[s] referred to in the paragraph 4 above], the accompanying special purpose financial information for [name of component] as of [date] and for the year then ended has been prepared, in all material respects, to give the information required to be shown in accordance with the policies and instructions contained in the [name of parent company]'s accounting manual.

6. Emphasis of Matter - Basis of Preparation

Without qualifying our opinion, we draw attention to the fact that the accompanying special purpose financial information is not presented in accordance with and does not include all the information required to be disclosed by ……… (name of the country) Generally Accepted Accounting Practice. Accordingly, the accompanying information is not intended to give a true and fair view of the financial position of [name of component] as of

[date], and of its financial performance and its cash flows for the year then ended in accordance with ………(name of the country) Generally Accepted Accounting Practice.

7. Restriction on Distribution or Use

Our report is intended solely for [name of component Audit Firm] in connection with the audit of the statutory financial statements of [name of component] and for no other purpose.

[Signature/Name of SSC audit team Firm]

[Date]

[Address]

Appendix 6

Additional Considerations for Indian Entities Operating in a Shared Service Centre Environment

The concern of auditors for the main entity, that is using the services of the SSC increases manifold under Indian context because of certain special considerations applicable to them. These considerations can broadly be classified as below.

6.1 Compliance with Indian Generally Accepted Accounting Practices (IGAAPs)

GAAP requirement vary across jurisdiction and certain adjustments may be necessitated to ensure compliance with the local GAAP requirements. These adjustments are carried out by the Indian entities accounting team, as these adjustments require knowledge of Indian GAAP for which necessary expertise may not be available at SSC.

Considering above, adjustments made to the financial statements to comply with the local GAAP requirements needs to be audited by the main auditor and thus additional work needs to be performed to get a corroborative evidence.

Examples of IGAAP adjustments:

- Accounting Standard 2, Valuation of Inventories.
- Accounting Standard 9, Revenue Recognition.
- Accounting Standard 11, The Effects of Changes in Foreign Exchange Rates.
- Accounting Standard 15, Employee Benefits.
- Accounting Standard 19, Leases.
- Accounting Standard 26, Intangible Assets.
- Accounting Standard 28, Impairment of Assets.

- Accounting Standard 29, Provisions, Contingent Liabilities and Contingent Assets.

6.2 Indian Generally Accepted Auditing Standards (IGAAS)

The Indian audit team also needs to ensure compliance with various IGAAS requirements while auditing the Indian entity. Although, India has substantially harmonsied with the International Standards on Auditing (hereinafter referred to as the "ISAs"), certain other pronouncements like Statement on the Companies (Auditor's Report) Order, 2003, Guidance Notes, General Clarification etc, have been issued by the professional regulatory body (Institute of Chartered Accountants of India) for the guidance of the members and same has to be considered by the members of the Institute.

Most of the IGAAS are similar to ISAs with certain key differences that may require Indian entity to perform certain additional procedures to comply with the audit quality norms and these could be over and above the ISAs.

6.3 Compliance with Laws and Regulations in India

Following are the examples of major laws for which compliance needs to be ensured by the Indian entity and thus by the reporting auditor.

- Taxation laws.
- Companies Act, 1956.
- Labour laws.
- Software Technology Parks of India (STPI).
- Other relevant laws and regulations.

Regulatory requirements have to be considered by the Indian entity and therefore, the same needs to be audited by the Indian audit team only.

6.3 (a) Compliance with Companies Act, 1956

(i) *Preparation of financial statements:* The Companies Act, 1956 specifies the format under Revised Schedule VI for

Balance Sheet and lays down the general principles for preparation of Statement of Profit and Loss.

(ii) *Statutory Reporting Requirement under section 227 of the Companies Act, 1956*

In addition to general reporting requirement, the auditor is required to report specifically on the following:

- The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
- None of the directors is disqualified as on [balance sheet date] from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

(iii) *Auditors reporting requirement under Companies (Auditor's Report) Order (CARO)* 2003

CARO reporting requirements include for example specific reporting on fixed assets and inventory records, physical verification of fixed assets and inventory, etc. In order to address these specific reporting requirements, the Indian audit team needs to ensure that adequate samples are selected for Indian entity rather than only relying on the work done by SSC auditor. Sample selection at SSC level may be representative of Indian entities population. This is important to ensure that the Indian audit team has done sufficient work on a standalone basis to address all the CARO reporting requirements.

Illustrative report on CARO 2003 reporting requirements

1. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.

(b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed. In our opinion, the frequency of verification is reasonable.

(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.

2. (a) The inventory (excluding stocks with third parties) has been physically verified by the Management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.

(b) In our opinion, the procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.

3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.

(b) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.

(c) In respect of the aforesaid loans, the parties are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.

(d) In respect of the aforesaid loans, there is no overdue amount more than Rupees One Lakh.

(e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.

(f) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.

(g) In respect of the aforesaid loans, the Company is regular in repaying the principal amounts as stipulated and is also regular in payment of interest, where applicable.

4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.

5. (a) According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, the question of commenting on transactions made in pursuance of such contracts or arrangements does not arise.

(b)In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other

relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.

7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.

8. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.

9. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities. .

(b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty and cess as at [balance sheet date] which have not been deposited on account of a dispute, are as follows:

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Due date	Date of Payment

10. The Company has no accumulated losses as at [balance sheet date] and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.

11. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.

12. In our opinion, the Company has maintained adequate documents and records in the cases where the Company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/ societies are not applicable to the Company.

14. In our opinion, the Company has maintained proper records of transactions and contracts relating to dealing or trading in shares, securities, debentures and other investments during the year and timely entries have been made therein. Further, such securities have been held by the Company in its own name or are in the process of transfer in its name, except to the extent of the exemption granted under Section 49 of the Act.

15. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.

16. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.

17. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.

18. The Company has made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year. In our opinion and according to the information and explanations given to us, the price at which such shares have been issued is not prejudicial to the interest of the Company.

19. The Company has created security or charge in respect of debentures issued and outstanding at the year-end.

20. The Management has disclosed the end use of money raised by public issues (Refer Note [ ] on Schedule) which has been verified by us.

21. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the Management.

> 22. [The other clauses, ……………… of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004,are not applicable in the case of the Company for the year, since in our opinion there is no matter which arises to be reported in the aforesaid Order.]

However, it would be pertinent to note that just by relying on the control report of the service entity auditor, the auditor of the Indian entity would not be able to conclude appropriately on the above, neither would he be able to demonstrate the fact that adequate audit evidence has been obtained. For an instance, as part of its audit procedure the Indian audit team needs to select sufficient samples for additions and retirements to fixed assets to demonstrate, that sufficient work has been carried out. Similarly, for inventories, the Indian audit team would require to report on the adequacy of physical verification of inventory and inventory records. Indian audit team needs to attend the physical verification of inventory done by the Indian entity and also verify sufficient samples of inventory items to its records in order to ensure the adequacy of the physical verification process of inventory and inventory records. In relation to internal controls, the Indian team would require to specifically report on the adequacy of internal controls in relation to inventory, fixed assets and sale of goods and services. In this regard also, the Indian team needs to ensure that sufficient work has been done by ensuring that adequate samples have been tested for the standalone Indian entity so that the Indian team can comment on the adequacy of internal controls. In relation to internal audit the Indian team would require to report on the adequacy of internal audit system. In some cases, the Indian entity may appoint an Internal Auditor locally to cover all such areas which are not covered by SSC internal audit. In respect of compliance with statutory requirement in Clause 9, the Indian audit team would need to consider appropriateness of legal compliance. Thus, there has to be adequate coverage in these areas.

6.3 (b) Taxation Laws

Compliance with relevant tax laws like Direct Taxes, Indirect Taxes, Transfer Pricing issues have to be ensured at the local entity level as the nature of compliance is complex and requires adequate understanding of compliance norms.

6.4 Institute of Chartered Accountants of India (ICAI):

6.4(a) Mandatory compliance with Standards of Auditing

The mandate for compliance with the auditing standards also flows explicitly/ implicitly from the following requirements of the Chartered Accountants Act, 1949:

- Clause 5 of Part I of the Second Schedule to the Chartered Accountants Act, 1949, requires that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.
- Clause 7 of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.
- Clause 9 of Part I of the Second Schedule to the Chartered Accountants Act, 1949 holds a member guilty of professional misconduct if he fails to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.

6.4 (b) *Peer Review under the Chartered Accountants Act, 1949*

The audit process in India is subject to Peer Review under the Chartered Accountants Act, 1949. The examination and review of a practice unit would be carried out by a "reviewer", i.e., a member, selected from a panel of reviewers maintained by the Peer Review Board of ICAI. The Peer Review process provides guidance to members to improve their performance and adherence to various statutory and regulatory requirements.

It is therefore necessary for the India engagement team to ensure that sufficient work has been done and documented by them for the standalone Indian entity considering the requirements of IGAAP, IGAAS, CARO 2003, Code of Ethics and Chartered Accountants Act, 1949, etc.