ADVANCED AUDITING AND PROFESSIONAL ETHICS

Circuit Filters or Circuit Breakers

- Circuit Breakers or circuit filters are the price bonds that set the upper and lower limit within which a stock can fluctuate on any particular day.
- A price band for a day is a function of previous trading day's closing. SEBI has directed the exchanges to apply circuit filters on scrips traded in Rolling Settlement if their price fluctuates more than 20% of the closing price of scrips on the previous day in any direction.
- However, feeling the threat of high settlement default in scrips forming part of sensex or in which derivatives and futures are available, because of these filters, SEBI has restricted the fluctuation to 10% instead of 20%.
- Price bands restrict extreme price movements and thereby resist price manipulation. These protect investors from extreme fluctuations in a panic market created by rumours and short term fears.

Market Wide Circuit Breakers (MWCB) - Market wide circuit breakers do the same job for

- The entire market what circuit filters do for individual scrips. MWCB has been introduced to control excessive market movements in BSE sensex and Nifty. SEBI has introduced MWCB at 10-15-20% of the movements in these indices.
- The stock exchange on a daily basis shall translate the 10%, 15% and 20% circuit breaker limits of marketwide index variation based on the previous day's closing level of the index. These breakers provide the time to participants to react to the movement by way of the trading halt. Additionally, a 15 minutes pre-opening session post each trading halt has been
- introduced vide SEBI Circular No.CIR/MRD/DP/25/2013 dated September 3, 2013. The trigger limits and the respective halt duration is given below:
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Trigger	Limit	Trigger Time Trading halt duration Pre-opening session	duration post each
10%	Before 1 P.M.	45 Minutes	15 Minutes
	On or After 1 P.M. to 2.30 P.M.	15 Minutes	15 Minutes
	On or after 2.30 P.M.	No Trading Halt	_
5%	Before 1 P.M.	1 Hour 45 minutes	15 Minutes
	On or after 1 P.M. before 2 P.M.	45 Minutes	15 Minutes
	On or after 2 P.M.	Trading halt for the remaining period of the day.	
20%	Any time of the day	Trading halt for the remaining period of the day.	

Ceiling on Number of Company Audits: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time Employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies, other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ` 100 crore.

Income Computation and Disclosure Standards (ICDS): Section 145 of the Income

Tax Act, 1961 deals with the method of accounting.
Under section 145(1), income chargeable under the heads "Profits and gains of business or profession" or "Income from other sources" shall be computed in accordance with either the cash or mercantile system of accounting regularly employed by the assessee.
Section 145(2) empowers the Central Government to notify in the Official Gazette from time to time, income computation and disclosure standards to be followed by any class of assessees or in respect of any class of income.
Accordingly, the Central Government has, in exercise of the powers conferred under section 145(2), notified ten income computation and disclosure standards (ICDSs) to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profit and gains of business or profession" or " Income from other sources". This notification shall come into force with effect from 1st April, 2015, and shall accordingly apply to the Assessment Year 2016-17 and subsequent assessment years.
All the notified ICDSs are applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts. In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent. The Central Government has prescribed 10 Income Computation and Disclosure Standards (ICDSs) as under:

A. ICDS I relating to Accounting Policies.
B. ICDS II relating to Valuation of Inventories.
C. ICDS III relating to Construction Contracts.
D. ICDS IV relating to Revenue Recognition.
E. ICDS V relating to Tangible Fixed Assets.
F. ICDS VI relating to the Effects of Changes in Foreign Exchange Rates.
G. ICDS VII relating to Government Grants.
H. ICDS VIII relating to Securities.
I. ICDS IX relating to Borrowing Costs.
J. ICDS X relating to Provisions, Contingent Liabilities and Contingent Assets.

Insurance Laws (Amendment) Act, 2015:

The Ministry of Law and Justice has amended the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and

Development Authority Act, 1999 through the Insurance Laws (Amendment) Act, 2015 dated 20th March, 2015.

(i) According to section 2(9) of the Insurance Act, 1938, 'Insurer' means-

(a) an Indian Insurance Company, or

(b) a statutory body established by an Act of Parliament to carry on insurance business, or

(c) an insurance co-operative society, or

(d) a foreign company engaged in re-insurance business through a branch established in India.It may be noted that a "foreign company" shall mean a company or body established or incorporated under a law of any country outside India and includes Lloyd's established under the Lloyd's Act, 1871 (United Kingdom) or any of its Members.

(ii) According to section 2(7A) of the Insurance Act, 1938, 'Indian insurance company' means any insurer, being a company which is limited by shares, and,-

(a) which is formed and registered under the Companies Act, 2013 as a public company or is converted into such a company within one year of the commencement of the Insurance Laws (Amendment) Act, 2015.

(b) in which the aggregate holdings of equity shares by foreign investors, including portfolio investors, does not exceed 49% of the paid up equity capital of such Indian Insurance company, which is Indian owned and controlled, in such manner as may be prescribed.

Here, the expression 'control' shall include the right to appoint a majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

(c) whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business or health insurance business.

(iii) Requirements as to the Minimum Paid-up Capital- The minimum paid-up equity share capital of an Indian insurance company carrying on general insurance business should be ` 100 crores excluding preliminary expenses incurred in the formation and registration of company. The insurer may enhance the same in accordance with the provisions of the Companies Act, 2013, SEBI Act, 1992 and the rules, regulations or directions issued thereunder or any other law for the time being in force.

Unexpired Risks Reserve-

The need for Unexpired Risks Reserve arises from the fact that all policies are renewed annually except in specific cases where short period policies are issued. Since the insurers close their accounts on a particular date, not all risks under policies expire on that date. Many policies normally extend beyond this date into the following year during which risks continue. In other words, at the closing date, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the year end. As per section 64V of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015, for the purpose of compliance with the provisions of maintaining control level of solvency margin, a proper value of every item of liability of the insurer shall be placed in the manner as may be specified by the regulations made in this behalf.

Solvency Margin-

Section 64VA of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015 requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the regulations