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Assurance Engagement Standard -
Part 2 : Conducting Assurance Engagements for All Matters Other Than Statutory
Financial Information – Guidance
(First Revision)

ICS 03.100.01

Social Responsibility	Sectional	Last Date for receipt of Comments is
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Foreword

This Indian Standard (Part 2) was adopted by the Bureau of Indian Standards, after the draft finalized by the Social Responsibility Sectional Committee had been approved by the Management and Systems Division Council.

This Indian Standard is published in several parts. The other parts in this series are:

- | | |
|--------|--|
| Part 1 | Conducting assurance engagements for all matters other than statutory financial information — Requirement |
| Part 3 | Competence of individual applicant and firm for conducting assurance engagements — Competence requirements |

The composition of the Committee responsible for the formulation of this standard is given in Annex A.

INTRODUCTION

The task of providing an assurance service has to be done wholeheartedly, sincerely and earnestly with consideration of appropriate due diligence, by persons who have the actual competence on the subject matter. It is therefore imperative that professionals who are in possession of appropriate educational qualification, technical understanding, knowledge, expertise and skill-set conduct such engagements.

The emanating pressure from various peers and relevant stakeholders in conjunction with relevant business and regulatory requirements have been encouraging organizations in India to periodically disclose various non-financial based information such as, water acidification, ground water recharged, health and safety matters, green-house gas emitted, matters specific to sustainability/green bonds, environmental pollution burden, environmental or social externalities, social benefits to communities, environmental-social-governance, medical negligence cases, cyber security, non-financial compliances, etc. In Indian context, organizations are capturing information of such non-financial subject matters and reporting on the same in alignment with the requirements of various Global and National standards, such as Global Reporting Initiative, United Nation's Global Compact, UN's Sustainable Development Goals, Department of Public Enterprise's Sustainability and CSR Guidelines, SEBI's Business Reporting and Sustainability Reporting (BRSR) framework, National Guidelines on Responsible Business Conduct (NGRBCs), Integrated Reports as per IIRC (International Integrated Reporting Council) framework, CSR performance as per CSR Rules, etc.

A lot of such advanced level non-financial, with an emphasis on science based information facilitates in decision making, primarily for the customers, communities, investors and regulators, apart from other relevant stakeholders. In order to instill confidence in the mind of such specific stakeholders, organizations these days are seeking a third-party opinion for such reported performance. These have in turn resulted in the surge of assurance/audit services of non-financial performance, which are currently being conducted by various firms in India on the basis of various international assurance based standards, inclusive of the standards released by International Organization for Standardization (ISO), such as ISO 14064 (Green house gas series), ISO 14046 (Environmental management — Water footprint series), ISO 14016 (Environmental management — Guidelines on the assurance of environmental reports), etc.

These days, in order to be able to take informed decisions, progressive customers, investors, regulators and other interested stakeholders lay a lot of emphasis on non-financial performance that are reported by organizations to understand and get a grasp of the organization's ability to sustain as a business entity. Such interested stakeholders therefore put a high level of reliance and emphasis on internal and or external audit opinions, on the basis of an appropriate assurance standard for subject matters and information that are of specific relevance to them.

These assurance standards will provide consistency and uniformity for conducting non-financial based assurance engagements by appropriate professionals/firms.

This part of the Assurance Engagement Standard aims to assist an assurance engagement team, a firm or a reporting entity to get clarity of the challenges that could emanate from the various kinds of engagement risks, while being in adherence with the requirements of the essential virtues; nature of safeguards that could be applied for mitigating and or neutralizing the identified engagement risks; and in establishing an effective quality control process for accepting, conducting, reviewing, maintaining and conducting independent quality control review of assurance engagements.

Indian Standard

**ASSURANCE ENGAGEMENT
PART 2 CONDUCTING ASSURANCE ENGAGEMENTS FOR ALL MATTERS
OTHER THAN STATUTORY FINANCIAL INFORMATION — GUIDANCE**

1 SCOPE

1.1 This standard (Part 2) provides guidance to assurance engagement team for conducting assurance engagements, an organization or a reporting entity for implementation of Part 1 of this standard on the following:

- a) to identify potential scenarios that could pose a challenge to the engagement risks for complying and adherence with the requirements of the essential virtues;
- b) nature of safeguards that could be applied for mitigating and or neutralizing the identified engagement risks; and
- c) in establishing an effective quality control system (QCS), supported by effective process and procedures for accepting, conducting, reviewing, maintaining and conducting independent quality control review of assurance engagements.

Notes:

1. This standard applies to an assurance engagement team and or a quality control reviewer (QCR) and or an organization and or a reporting entity that intends to conduct internal and or external assurance engagement as per Part 1 of this Standard.
2. Some specific clauses of this standard are denoted in the form of the superscript 'NAFIAE' (not applicable for internal assurance engagements). Such clauses are not applicable from the perspective of conducting an internal assurance engagement, as per Part 1 of this Standard.

2 REFERENCES

The following documents are referred to in the text in such a way that some or all of their content constitutes requirements of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies:

<i>IS No.</i>	<i>Title</i>
26002 (Part 1) : 2021	Assurance engagement standard — Conducting assurance engagements for all matters other than statutory financial information — Requirement

3 TERMS AND DEFINITIONS

3.1 The terms and definitions given in Part 1 of this standard (IS 26000 (Part 1):2021 – Conducting assurance engagements for sustainability matters – terminology and requirements) shall apply.

4 ADHERENCE AND COMPLIANCE WITH THE QUALITIES OF THE ESSENTIAL VIRTUES

4.1 General

In an assurance engagement, it is imperative that an assurance engagement team and QCR should:

- a) accept the responsibility to act in the interest of concerned stakeholders, without compromising the objective and quality of the report;
- b) understand, apply and strictly comply with the essential virtues while conducting an internal and or external assurance engagement;
- c) understand, assess and identify the engagement risks and the appropriate safeguards that one needs to apply to mitigate and or neutralize the risks; and
- d) not compromise the ethical requirements that are integral to any assurance engagement nor engage in any form of activity that impairs integrity, objectivity or the good reputation of an assurance profession.

Note: Essential virtues are defined in Part 1 of this Standard

4.2 Assurance Engagement Team Member's and / or QCR's Independence

The stakeholders, such as investors, regulators, local community, etc. emphasize on the integrity of an assurance report, in conjunction with that of the assurance engagement team and /or the QCR and / or the organization, to take key decisions that are material. It is critical for an assurance engagement team, the QCR of an organization and/ or the reporting entity (as the case may be depending on whether the assurance engagement is internal and or external) to remain:

- a) honest and sincere to the role assigned to them;
- b) maintain integrity, due professional care and competence, confidentiality and appropriate independence during the period of conducting an assurance engagement; and
- c) provide an unbiased and appropriate professional assurance opinion.

5 IDENTIFICATION AND MANAGEMENT OF ENGAGEMENT RISKS

5.1 An Understanding of engagement risks and its broad level management

Various types of risks may emanate while conducting an assurance engagement that could lead to conflicting relationships/interests and situations that may pose a challenge to an assurance engagement team and /or the QCR and or the organization, which may become a threat to the integrity and independence of an assurance engagement team member and /or QCR and/ or the organization.

5.1.1 Managing the Engagement Risks

It is necessary that an assurance engagement team member and/ or the QCR considers the following:

- a) Prior to the start of any assurance engagement:
 - 1) identifies the engagement risk;
 - 2) evaluates the significance of the identified engagement risk; and
 - 3) develops appropriate safeguards to completely eliminate or reduce or control the risk and bring it to an acceptable level or otherwise, refrain from conducting the assurance engagement.
- b) Post acceptance of any assurance engagement — post signing or during the progress of an assurance agreement, if the assurance engagement team and/ or QCR becomes aware of certain risks, which, if the assurance engagement team had known earlier, the practitioner would not have considered signing the formal contractual agreement with the reporting entity and /or in continuing the assurance engagement; in such circumstances, the practitioner in consultation with the QCR should give reasonable justification to the authorized representative of the reporting entity and resign from the assurance engagement.

5.2 Situations that Could Lead to Rise of Engagement Risks

Some examples have been provided below to facilitate an understanding of the nature of various kinds of risks that could be experienced by assurance engagement team member and or the QCR and or the organization while conducting an assurance engagement.

5.2.1 Self-assessment Risk

- a) If engaged in providing external assurance engagement services to the same reporting entity, to which the organization has also provided consulting or advisory services for the same subject matter and information and development of relevant process and procedures (NAFIAE);
- b) If the engagement team member and/ or a QCR is currently in employment with the reporting entity but had recently been in employment with the organization or any of its associate and member organizations with direct exposure to the assurance engagement; and has the ability to manipulate the process of assurance engagement and or exert influence over the assurance engagement team member (NAFIAE); and
- c) If the engagement team member and/ or a QCR was an employee with a reporting entity in the recent past; and had joined as an assurance engagement team member for conducting an external assurance for the same reporting entity, prior to the completion of the stipulated cooling period (NAFIAE);

5.2.2 Over Confidence Risk

- a) If blindly relied on the work performed by the previous assurance engagement team member(s) without appropriately evaluating their previous work; and

- b) If blindly relied on the work performed by a reputed professional organization or an individual without appropriately evaluating the work or conducting appropriate due diligence.

5.2.3 Personal-interest Risk

- a) If in possession of financial interest in the reporting entity, such as receipt of loan or is under a financial obligation, to an extent it is deemed to be significant and inappropriate (NAFIAE);
- b) If engaged in a close business relationship with the reporting entity and is concerned of losing future business opportunities or is unduly dependent for the fees to be recovered from the reporting entity (NAFIAE);
- c) If engaged in discussion for potential employment with the reporting entity (NAFIAE);
- d) If engagement team member and/ or a QCR runs the risk of impacting one's own performance, thereby losing the opportunity of a promotion or incentives or bonus, should the reporting entity not give a satisfactory feedback for the work performed by the assurance engagement team member and or the QCR; and
- e) If identified a material mistake committed by the previous assurance engagement team of the same organization, which may have serious implication for the team inclusive of self and hence, decides to intentionally ignore such mistakes.

5.2.4 Advocacy Type of Risk (NAFIAE)

- a) If engaged in advocating on behalf of a reporting entity, in promotional and or marketing matters with other third parties;
- b) If engaged in representing the reporting entity, in litigations or dispute related matters with other third parties;
- c) If engaged in promoting the business or shares of a reporting entity;
- d) If engaged in elevating oneself, or a reporting entity or a key employer of the reporting entity, engaged in the assurance engagement, to such an extent out of enthusiasm and or excitement that the independence gets compromised;
- e) If engaged in promoting the reporting entity through any form of discussion or marketing or presentation of its work, in any event, public platform, online forums, etc. to such a point in that their objectivity is potentially compromised

5.2.5 Long-association type of risk

- a) If having a close or immediate family relationship with an employee or in the board of the reporting entity, who plays an active role in the assurance engagement;
- b) If the engagement team member and/ or a QCR has been accepting gifts or promotional offers or other types benefits of preferential treatment from a reporting entity due to long standing relationship, which is incidentally of a significant value or is above the pre-defined limit set by the organization for acceptance of gifts from reporting entities (NAFIAE);
- c) If engaged in a long-standing relationship with the personnel of the reporting entity and therefore on the basis of their understanding of the behavior of the person of the reporting

entity, the assurance engagement team member and or the QCR may not conduct an appropriate audit/review, thereby running the risk of compromising the quality of audit (NAFIAE); and

- d) If the information sought by engagement team member and or a QCR are not produced by the reporting entity, rather they end up relying on the face value of the representatives of the reporting entity (NAFIAE).

5.2.6 Unsettling Type of Risk

- a) If threatened with dismissal or replacement by another resource in an assurance engagement;
- b) If threatened with litigation;
- c) If pressurized to complete an engagement within a very time, which is not sufficient for conducting and completing the assurance engagement, thereby resulting in inappropriate reduction in the extent of procedures to be conducted which may eventually lead in the compromise of the quality of the assurance engagement;
- d) If restrained by some members of the assurance engagement team who fail to understand or appreciate the higher expertise/knowledge that a team member possesses on the subject matter;
- e) If pressurized by the practitioner to accept something which an assurance engagement team member considers is not appropriate to the circumstances but is otherwise, faced with the risk of losing the job or losing out on further promotion or incentive or bonus or eviction from the assurance engagement or future engagements;
- f) If threatened with cancellation of contract by the reporting entity, which may otherwise hurt the revenue target of the assurance engagement team (NAFIAE);
- g) If blackmailed or threatened to be dragged to the court of law, for a misconduct and or professional error conducted by an assurance engagement team member and/ or the QCR earlier that may hurt the credibility before the eyes of current and/ or other potential reporting entities and /or other type of clients to which the assurance engagement team and QCR provides services, as the case may be, which in turn, may result in disciplinary action and seriously detract from acting objectively in the fear of impacting one's professional career;
- h) If being given threats to harm family members, relatives or loved ones; and
- j) deprived of the basic needs at the premises, where an assurance engagement is being conducted.

5.3 Safeguards for Management of Engagement Risks

Safeguards are relevant measures that are applied to eliminate, reduce or control the engagement risks and accordingly manage the risks to an acceptable level. An assurance engagement team member may apply any safeguard that could be more appropriate and adequate to contain the risks, in a given circumstance. There are three categories of safeguards that could be created to mitigate, neutralize and manage the risks, which are mentioned below:

- a) Professional or regulatory safeguard;
- b) Work environment safeguard; and

- c) Safeguards while conducting an assurance engagement.

An organization should have a defined procedure to identify the threats emanating from the various type of engagement risks and accordingly, should lay down appropriate procedures to mitigate and or neutralize the risks.

The following discusses select examples of various kinds of safeguards that could be created by the assurance engagement team and /or the QCR to manage various kinds of engagement risks. Such safeguards, if effectively applied by an assurance engagement team member and/ or a QCR, may be able to eliminate, reduce or control the significance of an identified risk to a substantial extent.

5.3.1 Safeguards that are created by professional and regulatory requirements

Select examples are provided below:

- a) An assurance engagement team member and /or the QCR should:
 - 1) have basic formal educational qualification relevant to the subject matter, appropriate training, experience and professional requirements, as applicable; and
 - 2) continue with appropriate professional development for enhancing the competence and skill-set.
- b) An organization and/ or reporting entity, as applicable, should comply with applicable requirements of regulatory bodies and /or any other authority(ies) for effective governance.
- c) The organization should obtain annual written confirmation from the assurance engagement team members, QCRs, subject matter experts (SMEs) and sole practitioners that there was no /would not be any conflict with the reporting entity in any assurance engagement. While the signed and filled-in documents should be retained by the organization, the signed format should be submitted to the competent authority, duly attested by the authorized QCR of the organization, within the prescribed time period as mentioned in part 1 of this standard (NAFIAE).
- d) The organization should set procedures for upgrading the professional standards, monitoring the performance development, and taking appropriate disciplinary actions, as and when required.

5.3.2 Safeguards that are created in the work environment

Select examples are mentioned below:

- a) Commitment by leadership

The leadership should:

- 1) stress on the importance of being in compliance with the essential virtues and should sensitize the members of an assurance engagement team and the QCR on the necessity to act in the interest of relevant stakeholders;
- 2) designate appropriate personnel in the senior management, who should be responsible for overseeing and ensuring adequate quality control for the assurance engagements conducted; and
- 3) promote the culture of compliance with QCS policies, process and procedures.

b) Minimizing financial risks and impacts

The organization should (NAFIAE):

- 1) have a mix of clients of multiple reporting entities, instead of being dependent on a single client for sustenance of business, to the extent possible;
- 2) have appropriate procedures to ensure timely release of payment by the reporting entity, especially, if the fee is significantly high; and
- 3) provision of adequate funds and arrangements, such as appropriate insurance to cover liabilities and compensation sought for damages caused to any stakeholder, who may have relied on the assurance report for their business decisions.

c) Development of appropriate process and procedures

The following should be ensured:

- 1) development of documented process and procedures to identify engagement risks; evaluate the significance of such risks; and identification of appropriate safeguards to eliminate or reduce or control such threats to an acceptable level;
- 2) all QCS policies, process and procedures are in place for an assurance engagement for the respective stages of prior to acceptance, during execution; and closure of the assurance engagement;
- 3) conducting appropriate quality control assessment of assurance engagements; and QCS;
- 4) prohibit individuals who are not members of an engagement team and/ or the QCR, from inappropriately influencing the assurance engagement team in conducting and /or generating a vested interest and/or any other benefit from an assurance engagement.
- 5) develop and document all such appropriate process and procedures that should be circumstances of conflicts while conducting an assurance engagement, for effective communication (to assurance engagement team and /or QCRs or SMEs and/ or sole practitioners to be engaged) and implementation; and
- 6) timely communication of the policies and procedures, inclusive of changes made and appropriate training on the same.

d) Maintenance of appropriate independence and ethics

The following should be ensured:

- 1) empowerment of assurance engagement team members and QCR to report issues to senior levels of the organization, without any fear or reappraisal;
- 2) an assurance engagement team should not restrict in assurance services and should give the complete freedom to execute engagement as per appropriate and delineated process and procedures;
- 3) the assurance engagement team members and/ or the QCR should work without fear of losing any potential or future business opportunities from the reporting entity (NAFIAE);
- 4) not to engage in the assurance engagement for the minimum cooling period that has been prescribed in part 1 of this Standard (NAFIAE);
- 5) not to entertain any request from any reporting entity to advocate the reporting entity's performance on the subject matter opined, in any form to any concerned stakeholders with special mention to the reporting entity's investors (NAFIAE);
- 6) not be under any undue or undesirable pressure from the reporting entity or any member of the assurance engagement team and/ or the QCR of the organization/reporting entity, to overlook any such matter;
- 7) ensure that no assurance engagement team member or the QCR who should conduct the assurance engagement has any interest in the reporting entity, which may otherwise impact their independence in the assurance engagement;
- 8) that every assurance engagement team member and /or the QCR is free of any bias to conduct an assurance engagement fairly;
- 9) the organization's assurance engagement team should not offer its services along with a consulting/advisory service for the same subject matter (NAFIAE);
- 10) non-engagement of a SME or a sole practitioner for conducting an assurance engagement, who:
 - (i) could be biased and inclined towards the interest of the reporting entity;
 - (ii) has been engaged by the reporting entity for providing advisory service for any subject matter that could result in conflict with the assurance engagement;
 - (iii) has been recommended or conditionally referred for being taken in the assurance engagement by any such source; or
 - (iv) is perceived to be potentially in conflict during the tenure of conducting the assurance engagement.

e) Engagement with appropriate stakeholders

Wherever appropriate, engagement with:

- 1) additional practitioners or QCRs for review of the assurance engagement or work completed;
- 2) independent third party, or a committee of independent directors, a professional regulatory body or another practitioner, as felt necessary;
- 3) governing body for discussing ethical issues; and
- 4) another assurance engagement team member and /or QCR to perform or re-perform part or whole of the engagement, in the event the existing assurance engagement team member and/ or QCR is in conflict and/ or is incapable to perform and/ or manage the assurance engagement.

f) Legally enforceable arrangement

An agreement in writing should be in place with the reporting entity to agree through a legal agreement on the following:

- 1) all limitations envisaged, in the assurance engagement to be conducted; and
- 2) that the assurance report to be issued should not be in part, for what-so-ever purpose it may be, which could otherwise be misleading for a reader or a decision maker.

5.3.3 Safeguards while Conducting an Assurance Engagement

Following are some safeguards that could be exercised by an assurance engagement team and /or the QCR and/ or organization and/ or reporting entity while performing an assurance engagement:

a) Safeguards to be applied prior to acceptance of assurance engagement

The assurance engagement team and/ or the QCR should:

- 1) Have a clear understanding of the reporting entity, assurance engagement, its objectives, nature and scope. Accordingly, the assurance engagement team should:
 - (i) conduct a due diligence of the reporting entity through information that is available internally and /or on the website or social media or other sources, in order to have sufficient understanding of the reporting entity. The information may include nature of the business, reputation of the organization and promoters who are responsible for overall governance, compliance with applicable legal requirements and ethics, the good practices, relevant challenges, complexities of their business operations, the governance model, ethical issues, criminal activities, robustness of their in-house management systems and any other national/international frameworks or any other information about the affairs of the responsible party, and
 - (ii) assess if assurance engagement for the reporting entity could lead to potential conflicts or non-compliance with the essential virtues, mentioned in the part 1 of this standard.
- 2) have appropriate educational and professional qualifications, expertise and competencies to execute the assurance engagement in accordance with part 1 of this standard, ensuring that the quality control in the course of conducting the assurance engagement is not compromised.
- 3) obtain the necessary approvals from an existing client (reporting entity) for entering into a business relationship and /or for conducting an assurance engagement with another reporting entity or any other business organization, if it is perceived to result in any conflict.
- 4) agree on a time frame for the completion of the assurance engagement with the reporting entity.

- 5) be able to assess the challenges that could emanate from the risks identified and accordingly evaluate the significance of the effects; and accordingly apply appropriate safeguards, as felt necessary to eliminate, reduce or control such threats to an acceptable level.
 - 6) not accept the assurance engagement, in the event, such risks cannot be brought to an acceptable level, and accordingly communicate to the reporting entity the reason for non-acceptance of the assurance engagement.
- b) Safeguards to be applied post resignation by an assurance engagement team or QCR, while an assurance engagement is in progress

The assurance engagement team and /or the QCR and/ or the organization/reporting entity should:

- 1) assess the reasons behind the resignation of any of the assurance engagement team member and/ or the QCR, of an ongoing assurance engagement and record reasons for the same, and should ensure that such a resignation does not lead to any conflict in the conduct of the ongoing assurance engagement, and
 - 2) ensure the appointment of an appropriate assurance engagement team member and/ or a QCR who has the appropriate expertise to conduct the assurance engagement for the subject matter. The expertise and relevant details of the newly appointed assurance engagement team member and /or QCR should be communicated to the reporting entity and seek his formal approval of acceptance (NAFIAE).
- c) Exploring safeguard by seeking a second opinion on an issued assurance report

To rule out ambiguities or conflicts and to obtain better clarity, a reporting entity may seek another opinion on the draft assurance report submitted by a practitioner for an assurance engagement. Under such circumstances, to avoid ambiguities and miscommunication, it is important for the newly appointed practitioner should apply appropriate safeguards to eliminate or reduce or control the risks to an acceptable level.

The newly appointed practitioner, in this regard should:

- 1) seek all relevant information that had been provided to the then existing assurance engagement team by the reporting entity, so that all assessment could be carried out on a comparative basis,
 - 2) consider the changes occurred at the site or on the basis of amended legal notifications or documentations, if any, and
 - 3) be given an approval to contact the existing practitioner, for seeking clarification, if any. In case, no such approval is given by the reporting entity, the practitioner should convey the possibilities of an altered view, which may not give the actual representation. Or otherwise, may decide to opt out of the assurance engagement.
- d) Safeguards to be applied while offering a very low fee in an assurance engagement

Some practitioners may charge very low fee with other objectives of business interest. This may at times, result in compromise in the quality of the assurance engagement to be delivered. In view of such potential risks to the assurance engagement, it is important for the practitioner and the reporting entity to maintain records of actual effort that is required at respective levels of performing the assurance engagement. The practitioner may like to maintain the internal records for the reasons for offering such discounts, if any (NAFIAE).

e) Safeguards to be applied while marketing assurance engagement

The assurance engagement team and /or the QCR, for the assurance engagement to be conducted, should:

- 1) be honest and truthful;
- 2) refrain from making any exaggerated claims;
- 3) refrain from making uncorroborated references and/ or abstain from making unnecessary comparison of the work of other assurance engagement team members and /or QCRs;
- 4) not advocate the work of the responsible party to such an extent, which may otherwise impact the independence and objectivity (NAFIAE); and
- 5) seek advice from relevant personnel of the organization with which the practitioner works and/ or with relevant personnel of any professional and /or regulatory body for approval of a proposed form of advertising or marketing of services (NAFIAE).

f) Safeguards to be applied to prevent compromise in independence and/ or for prevention of unnecessary amplification by the media

An assurance engagement team member and/ or a QCR should not:

- 1) engage as employees with the reporting entity and/ or any other subsidiaries, or associates or joint ventures that may pose a conflict/breach to the independence during the course of no-conflict period as mentioned in part 1 of this standard;
- 2) receive any favour or gift from the reporting entity, directly or indirectly, which may not commensurate with the nature, value and intent behind the offer (NAFIAE);
- 3) keep in their custody any of the reporting party's assets, unless these are legally approved, such as non-taxable money;
- 4) make a request for offer of job for their immediate family members or kin, nor should accept such an offer from the reporting entity (NAFIAE);
- 5) pay or receive a referral fee from any external party, in context of the assurance engagement (NAFIAE);
- 6) breach confidentiality or disclose confidential information and /or documentations of the reporting entity to any other party or any professional or legal body, who is not intended for the receipt of such information unless approved by the reporting entity or is on legal grounds; and
- 7) hold any financial or other vested interest that may not be appropriate, such as holding significant stocks, loan at a lower interest rate, etc. during the tenure of

conducting the assurance engagement (NAFIAE).

Besides, non-compliance with the above scenarios may cause substantial damage to the reputation of the assurance engagement team and/ or the QCR and or to the organization and reporting entity, if such matters are made public and further amplified by the media. Appropriate safeguards in the form of appropriate process and procedures may be developed for the assurance engagement team members and /or the organization and/ or QCR in this context.

g) Safeguards from being dependent on professional fee (NAFIAE)

It is critical for an assurance engagement team and/ or the QCR to ensure that no financial or vested interest impact their independence and objectivity, regardless of any temptation and /or pressure by the reporting entity and /or any other member of the assurance engagement team and/ or the QCR and /or any other member of the organization that they work for, during the tenure of conducting an assurance engagement. In this context, it is critical that:

- 1) the organization avoids being highly dependent on the professional fee from the reporting entity and/ or its group members to the extent possible. It is advisable that such dependency does not exceed 50% of the total professional fee of the overall business target of the practitioner, which in event of non-realization of the fee from the reporting entity, may impact the performance of the practitioner and/ or other members of the assurance engagement team (NAFIAE).
- 2) professional fee is preferably received by the organization prior to the start of an assurance engagement, to ensure absolute independence of mind while conducting an assurance engagement (NAFIAE).
- 3) under no circumstances, an assurance engagement should be conducted by the organization on the basis of success fee (NAFIAE).

5.4 Managing Conflicts, Breaches, Complaints, Allegations and Inconsistencies

5.4.1 General

The reporting entity and /or an organization should develop appropriate process and procedures to address and resolve conflicts, breaches, complaints, allegations and inconsistencies.

The individuals of an assurance engagement team may likely have conflicting views on certain matters pertaining to an assurance engagement, which is actually or is perceived to be a potential risk. Also, there is possibility that while conducting an assurance engagement, assurance engagement team member(s) and/ or the QCR may breach the policies and procedures that need to followed while performing an assurance engagement.

To manage conflicts and breaches, it is therefore important to:

- a) explore options to eliminate, reduce or control the risk to an acceptable level, through the application of appropriate safeguards; and
- b) post implementation of the identified safeguards and/ or if it is envisaged that the safeguards identified for implementation may not be adequate to contain and /or manage the risks, the practitioner having reviewed the circumstances of the assurance engagement team, and post consultation with the QCR, may consider the option of withdrawing and /or resigning from the assurance engagement and inform the same to the reporting entity.

5.4.2 Managing Conflicts, Breaches, Complaints, Allegations and Material Inconsistencies

The nature and degree of significance of risks resulting from breaches, conflicts, complaints, allegations and material inconsistencies may vary depending on the nature of services provided to a reporting entity. Accordingly, appropriate safeguards need to be applied for mitigating and or neutralizing the effects that could emanate from the breaches, conflicts, complaints, allegations and material inconsistencies.

- a) An assurance engagement team member and /or the QCR may breach or be in conflict with the qualities that are mentioned in the essential virtues of part 1 of the standard. In such circumstances, the following should be ensured by the assurance engagement team and /or the QCR:
 - 1) consider a detailed understanding of the relevant facts;
 - 2) without any hesitation seek clarification or discuss with relevant members of the assurance engagement team, inclusive of the practitioner and /or the QCR, as felt necessary;
 - 3) avoid finding faults or taking sides and remain absolutely ethical, unbiased, patient and resist the temptation to jump to conclusions; and
 - 4) ensure that the qualities mentioned in the essential virtues are not compromised, while exploring a common consensus for considering an acceptable solution.
- b) If the matter still remains unresolved post discussion with the relevant internal and/ or external stakeholder, the practitioner in consultation with the QCR, may like to consult with some other appropriate internal and /or external person that is felt appropriate, to resolve the matter. Despite of such a measure, if the conflict could not be resolved, then the practitioner and QCR may consider:
 - 1) the option of withdrawing from the assurance engagement or resign altogether from the assurance engagement, if felt necessary; and
 - 2) exploring and seeking advice from appropriate legal advisors, in case of a completed assurance engagement, whereby, an assurance report has already been delivered (NAFIAE).
- c) An assurance engagement team and/ or the QCR may be in receipt of complaints and information pertaining to material inconsistencies, prior to conducting or while an assurance engagement is in progress or post the release of an assurance report. The

assurance engagement team and or the QCR under such circumstances, should:

- 1) consider significance of the complaints, and inconsistency reported; weighing the risks and possible consequences that have occurred or are likely to occur, subsequent to the period of identification of the complaints, indications, allegations and inconsistency, and options and decide on the appropriate course of action; and
 - 2) discuss with the reporting entity and /or concerned legal authority and/ or a professional body, as felt appropriate and consider the option of withdrawing from the assurance engagement or resign altogether from the assurance engagement, as applicable.
- d) After submission of the assurance report, some new information may come to the practitioner. If such information was available earlier, the practitioner may not have submitted the assurance report. Under such circumstances, the practitioner, in consultation with the reporting entity, may revise or amend or modify the report and communicate the same to the concerned stakeholders. Alternatively, the practitioner in consultation with the QCR, may consider reporting the matter to the appropriate regulatory authorities and seek appropriate legal support.
- e) If the matter involves a conflict with someone in the engagement team and /or with QCR and/ or with someone in the role of governance, an assurance engagement team member may discuss the matter with the board of directors and the audit committee. Records should be kept.
- f) All documentations pertaining to conflicts, breaches, complaints and material inconsistencies and the decisions taken thereunder, should be documented appropriately by the assurance engagement team and /or the QCR.

6 DEVELOPMENT OF AN EFFECTIVE QUALITY CONTROL SYSTEM (QCS)

This clause of the standard enables an organization or a reporting entity (depending on whether it would like to conduct internal and or external assurance engagement) to establish and maintain documented QCS. Such a QCS should be able to provide reasonable assurance to the concerned stakeholders that the assurance engagement team and /or the QCR and /or the organization as applicable, comply with applicable professional and/ or regulatory requirements and the assurance reports issued by them are appropriate to the then situations. The QCS framework to be developed should have an appropriate QCS manual which may be supported by relevant forms and formats, which addresses the following components:

6.1 QCS Policy

The QCS policy should mention and commit for the specific requirements specified in part 1 of this Standard. The QCS policy should be approved by the CEO or any designate of the top management. The policy should be documented, reviewed and revised at an appropriate interval, communicated to all employees and made available to concerned public on demand.

6.2 Leadership

Responsibilities of top management in ensuring appropriate QCS across the organization should include the following:

- a) The QCS policies and procedures should be driven by the CEO or an equivalent person, in coordination and consultation with the Board of Directors and /or Governing council or any other relevant personnel.
- b) An appropriate QCR, with relevant and sufficient experience and capabilities, should ensure appropriate quality control while performing an assurance engagement. QCR should be provided with sufficient and appropriate resources for the development, implementation, maintenance, evaluation and review of the policy, processes and procedures of the QCS.
- c) The QCS Policy, the relevant processes and procedures developed should be communicated to all concerned who are engaged in an assurance engagement. It should also include in it the following:
 - 1) The role and responsibilities of every individual who is directly and /or indirectly engaged in conducting an assurance engagement for ensuring compliance with the QCS;
 - 2) The expectation that every individual should strive for delivering quality and comply with the requirements of the policy; and
 - 3) Encouraging every individual to give his feedback on how to make the policy and the QCS more effective.
- d) The QCR should ensure imparting appropriate training of its policy, processes and procedures through induction programs, trainings, seminars, formal or informal meetings, newsletters, briefing memoranda, etc.
- e) The effective implementation of QCS should be an integral part of the performance appraisal process of the engagement team, QCR(s) and other relevant personnel who are responsible for ensuring compliance and maintenance of QCS, may be linked with the compensation, incentives and promotion process of concerned individuals at respective levels.
- f) The QCS should be documented, revised, reviewed, maintained and updated alongwith its retention and disposal for a known time span that is considered appropriate to the circumstances of the assurance engagement or as per terms and conditions of the organization or as agreed by the organization with the reporting entity or as per regulatory requirements.

6.3 Ethical Requirements

The organization should define processes and procedures to:

- a) assess the background check of internal stakeholders, such as reporting entity's promoters, senior management, business practice and external stakeholders (such as, existing practitioners, sole practitioners, SMEs, bankers, legal counsel, industry peers, regulators, local community etc) before engaging them on professional and or business matters.
- b) assess the strong moral and ethical values, with a focus on the qualities defined in the essential virtues for assurance engagement team members.
- c) assess the ethical and moral responsibility of the reporting entity in:
 - 1) subjecting auditing organizations for aggressive bargaining and or a lower professional fee, which may result in the compromise in the quality of service to be offered;
 - 2) inappropriately or mischievously or intentionally limiting the scope of work;
 - 3) intentionally giving constrained time-span for conducting the assurance engagement;
 - and
 - 4) any other matter which may be considered as ethically and or morally unacceptable.
- d) assess the robustness of the in-house built QCS framework.
- e) notify the relevant personnel for breaches, conflicts, complaints, and material inconsistencies, if any, to be able to apply appropriate safeguards.
- f) seek conformations from the assurance engagement team members and /or the QCR on their compliance with QCS and maintenance of independence during assurance engagement, and to ensure adherence and compliance with the qualities defined in the essential virtues of part 1 of this standard.

6.4 Identification of risks

The organization should establish process and procedures to facilitate:

- a) the identification of the risks on account of the breaches, conflicts, complaints, and material inconsistencies; followed by a process to assess the significance of such risks and the procedural means to eliminate or reduce or control such risks to an acceptable level.
- b) providing reasonable confidence to the assurance engagement team, whether to accept and /or to continue with an assurance engagement with the reporting entity.
- c) acceptance of assurance engagement, only if:
 - 1) The organization is not in conflict or is not perceived to be in any conflict with reporting entity during the tenure of performing the assurance engagement.
 - 2) The assurance engagement team members and or the QCR are:

- (i) Technically and professionally qualified and competent, apart from having the appropriate expertise, skills experience and training,
 - (ii) In adherence and in compliance with the qualities of the Essential Virtues that are specified in Part 1 of this Standard, and
 - (iii) Confident that the assurance engagement should be completed within the agreed time-frame without any compromise in the quality of the job.
- d) consultation with appropriate personnel if the risks identified cannot be mitigated or neutralized through any safeguard to an acceptable level of confidence.
 - e) in case the appropriate safeguards to mitigate and /or neutralize the risks cannot be applied or effectively implemented, the practitioner may feel appropriate to resign from the assurance engagement, by providing the reporting entity an appropriate reason for the same.
 - f) discussion with internal and or external experts, inclusive of legal advisors in case of appropriate safeguards could not be identified by the assurance engagement team; and accordingly, consider their suggestions and or opinions in considering appropriate future action plan.

6.5 Engaging appropriate resources and enhancing capacities

The organization should establish processes and procedures to:

- a) ensure engagement of appropriate resources.
- b) determine appropriate competence requirements of the assurance engagement team members.
- c) ensure availability of appropriate number of resources in the assurance engagement team and /or the QCR(s).
- d) ensure that sufficient resources are made available to perform and complete the assurance engagement within scheduled timeframe, without any compromise in quality control.
- e) lay down a defined and effective process of training, with a clear definition of the roles and responsibilities of concerned personnel while performing an assurance engagement.
- f) provide reasonable confidence to the reporting entity that the assurance engagement team and /or the QCR that at an individual and collective level are in possession of:
 - 1) Requisite educational and professional qualification; technical knowledge and expertise; competence; capabilities; experience and ability to apply professional judgment;
 - 2) A sound understanding of the following:
 - (i) The QCS policy and various other processes and procedures laid down in the QCS;

- (ii) Professional standards and commitment to enable them to competently perform an assurance engagement, in accordance with Part 1, 2 and 3 of this Standards; and
 - (iii) Other applicable professional and or regulatory requirements, if any.
- g) conduct periodic evaluation of the performance of the assurance engagement team by considering the following:
 - 1) Promoting them to the next level and by providing adequate compensation;
 - 2) Identification of appropriate training needs, inclusive of independence, education and effective coaching by their supervisors for continuation of professional development and furthering their career development; and
 - 3) Conduct appropriate quality control review by a designated QCR who has been independent in the conduct of assurance engagement.
- h) review and monitor the workload of assurance engagement team, so that they have sufficient time to adequately discharge their responsibilities and without compromising the quality of the assurance engagement.
- j) review QCS at an appropriate interval by a competent person (usually a QCR and or a very experienced practitioner).

6.6 Performing an Assurance Engagement

For conducting an assurance engagement in accordance with part 1 of this Standard and other applicable professional and /or regulatory requirements, the organization should establish appropriate processes and procedures to:

- a) enable the practitioner have sufficient confidence that the assurance engagement team is competent enough to appropriately perform the assurance engagement at individual and collective levels, to provide the practitioner the requisite confidence to issue an appropriate signed assurance report that is appropriate to the circumstances.
- b) perform robust quality review of the completed assurance engagement by a QCR, prior to the issuance of the assurance report to the reporting entity; and maintenance of appropriate documentation of the assurance engagement for future reference and reviews, if felt necessary.
- c) provide an environment that is free of any fear, while conducting an assurance engagement.
- d) provide opportunities of sufficient and appropriate consultation amongst relevant and sufficient resources who have good understanding of the subject matter, for resolving disputable matters and arriving at mutual consensus; followed by documenting the agreed actions for further implementation.
- e) promote quality at every stage of an assurance engagement, considering the following:

- 1) The assurance engagement team members and/ or the QCR are:
 - (i) aware of the scope of the work, their roles and responsibilities;
 - (ii) in compliance with professional requirements; and
 - (iii) given intermediate short training specific to the assurance engagement and supervised and their performance evaluated, if felt appropriate;
 - 2) The procedures that have been developed for conducting the assurance engagement are sufficient and appropriate to the circumstance of conducting the assurance engagement that is suitable for issuing an appropriate assurance report;
 - 3) Appropriate documentations of information collected and or generated, during the progress of an assurance engagement;
- f) ensure that the draft assurance report for the assurance engagement is not issued to the reporting entity, until the quality control review has been completed to the complete satisfaction of the QCR.
- g) ensure appropriate corrective actions, inclusive of consideration of disciplinary actions on concerned assurance engagement team members and or the QCR(s); and seek legal advices, if felt necessary.

6.7 Complaints, accusations, suggestions and/ or feedbacks

The organization should establish relevant processes and procedures for:

- a) receiving complaints and /or accusations and/ or feedbacks and /or suggestions:
 - i) from internal or external stakeholder(s) on matters pertaining to the assurance engagement, the work that had been performed by the assurance engagement team and /or the QCR and /or the SME and /or any other person/stakeholder, in context to the assurance engagement,
 - ii) non-compliance with professional and /or other applicable regulatory requirements, if any,
 - iii) material variations identified in the issued assurance report,
 - iv) non-compliance with the requirements defined in the QCS, and
 - v) further improvement of assurance engagement performance; and any other relevant matter, if any.
- b) providing appropriate protection to any person or stakeholder who raises an alarm or alerts or expresses any concern, either in documented and or undocumented form, such as verbally, without carrying the fear of any reprisal.
- c) identifying appropriate safeguards to mitigate and/ or neutralize the risks.
- d) communicating the actions that have been taken to mitigate and /or neutralize the risks to the concerned stakeholder; or otherwise in case of anonymous complaint, communicate the action plan on the public website.

- e) seeking appropriate legal safeguards, if the damage caused cannot be repaired.

The organization should take appropriate actions on assurance engagement team members and/ or QCR for serious or intentional misconducts while conducting an assurance engagement; and or implementing the QCS framework.

6.8 Review of the QCS

The organization should establish relevant process and procedure to:

- a) review of the assurance engagements and assurance reports that are critical and/ or are of high significance, to identify material inconsistencies or issues, if any.
- b) make necessary changes and document these changes made in the QCS, communicate the revisions that have been made in the QCS framework, and provide appropriate training to the concerned personnel on the changes made in the QCS framework for effective implementation of the QCS.

The aforesaid activities should be carried out at a periodic interval by an experienced QCR and or a practitioner.

ANNEX A (Foreword)

Composition Of Social Responsibility Sectional Committee, MSD 10

<i>Organization(S)</i>	<i>Representative(S)</i>
In personal capacity (CHAIRMAN, MSD 10) AROH Foundation, NOIDA	Dr. Bhaskar Chatterjee Dr. Neelam Gupta
Bharat Electronics Ltd., Sahibabad Cargill, New Delhi	Shri Rajeev Kumar Ms. Ekta Bhardwaj (<i>Alternative</i>) Ms. Dipanwita Chakraborty,
Cement Manufacturers' Association, New Delhi	Shri Ashwani Pahuja Dr. S.K. Saxena (<i>Alternate I</i>) Dr. Rachana Sharma (<i>Alternate II</i>)
Centre for Responsible Business, New Delhi	Dr. Bimal Arora Shri Rijit Sengupta (<i>Alternate</i>)
Charities Aid Foundation India,	Ms. Meenakshi Batra

Organization(S)

New Delhi
Coca Cola India,
Gurgaon
Deloitte Touche Tohmatsu India LLP

Department of Commerce, Ministry of
Commerce and Industry, New Delhi

Department of Consumer Affairs, Ministry
of CA, F and PD, New Delhi

Department of Industrial Policy and
Promotion, Ministry of Commerce and
Industry, New Delhi
Directorate General of Factory Advice
Service and Labour Institute (FASLI), New
Delhi
Directorate General of Quality Assurance,
New Delhi
FICCI, New Delhi

Hyderabad Business School GITAM,
Hyderabad
Indian Institute of Corporate Affairs,
(Ministry of Corporate Affairs), Manesar,
Haryana
Indian Oil Corporation Ltd., New Delhi

Infosys BPO Ltd., Bangalore
Institute of Chartered Accountants of India
Institute of Company Secretaries of India

L & T, Mumbai

Management Development
Institute, Gurgaon
Ministry of Corporate Affairs, New Delhi
Ministry of Labour, New Delhi
Ministry of Micro, Small and Medium
Enterprises, New Delhi
QCI, New Delhi

SBI, Mumbai

Representative(S)

Shri Avijeet Kumar (*Alternate*)
Shri Ishteyaque Ahmed
Ms Shubha Sekhar (*Alternate*)
Shri Sumit Makhija
Shri Saurabh Khosla (*Alternate*)
Ms. Jyoti Yadav

Ms. Tanu Singh (*Alternate*)
Shri Dharmesh Makwana

Shri A K Pandey (*Alternate*)
Shri Zakaria Khan Yusufzai
Shri Binod Kumar (*Alternate*)

Shri Sumit Roy
Shri Kunal Sharma (*Alternate*)

Col. Sandeep Acharyya
Shri P. Lokanath, SAO (*Alternate*)
Ms. Rita Roy Choudhury
Ms. Shruti (*Alternate*)
Ms. Divya Kirti Gupta

Shri Mukesh Kumar

Shri Bibhuti Pradhan

Shri Rajeev Thykatt
CA. Pramod Jain
CS Mamta Binani,

Shri N.Sathyan
Shri P. Sathish (*Alternate*)
Shri Ankur Roy

Shri K.M.S. Narayanan
Shri A.K. Samantaray
Shri Sanjeev Chawla
Shri Piyush Agarwal (*Alternate*)
Dr. Hari Prakash
Dr. S.K. Mishra (*Alternate*)
Shri Karnam Sekar

Organization(S)

Representative(S)

Steel Authority of India, Ranchi, Jharkhand
Tata Institute of Social Sciences

Shri Manoj Kumar
Prof. Rahul Sapkal

The Energy Research Institute (TERI), New
Delhi
Yes Bank, Mumbai

Dr. Annapurna Vancheswaran

Shri Shailesh Banta
Ms. Kriti Kuksal (*Alternate*)

Inspired4 Accounting and Advisory Services
LLP, New Delhi

Shri Rajib Kumar Debnath

In personal capacity, New Delhi

Ms Radhika Ralhan

In personal capacity, New Delhi

Shri Sandeep Saxena

In personal capacity, New Delhi

Shri Dinesh Agarwal,

In personal capacity, New Delhi

Dr. Lalit Kumar

BIS Directorate General

Mrs. Sneh Lata, Scientist 'F' and Head
(MSD) Representing Director General [*(Ex-officio)*]

Member Secretary

Mrs. Shalu Varshney,
Scientist 'D' (Management and Systems), BIS

Composition of Panel for Extra-financial Assurance Standard, MSD 10/P-7

<i>Representative(s)</i>	<i>Organization(s)</i>
1. Shri Rajib Kumar Debnath (<i>Convener</i>)	Inspired4 Accounting and Advisory Services LLP, New Delhi
2. Dr. Bhaskar Chatterjee (Chairman, MSD 10)	In personal capacity, New Delhi
3. Ms Dipanwita Chakraborty	Cargill, New Delhi
4. Shri Rijit Sengupta	Centre for Responsible Business, New Delhi
5. Shri Sumit Makhija Shri Saurabh Khosla (<i>Alternative</i>)	Deloitte Touche Tohmatsu India LLP
6. Dr. Madhukar Gupta	Department of Public Enterprises, Ministry of Heavy Industries & Public Enterprises, New Delhi
7. Ms. Rita Roy Choudhury	FICCI, New Delhi
Ms Himani Kulshreshtha (<i>Alternative</i>)	
8. Dr Divya Kirti Gupta	GITAM University
9. Ms. Seema Choudhary	GIZ
10. Shri Mukesh Kumar	Indian Institute of Corporate Affairs, (Ministry of Corporate Affairs), Manesar
11. Shri Bibhuti Pradhan	Indian Oil Corporation Ltd., New Delhi
12. CA Sanjay Vasudeva, FCA	Institute of Chartered Accountant, New Delhi
13. Shri Santhosh Jayaram Shri Prathmesh Raichura (<i>Alternative</i>)	KPMG (Sustainability and CSR Advisory)
14. Dr Ankur Roy	Management Development Institute, Gurgaon
15. Shri U.S.P. Yasdav	MSCD, BIS, New Delhi
16. Dr. Annapurna Vancheswaran	TERI
17. Late Shri Kamal Singh	United Nations Global Compact Network India, New Delhi
18. Mr. Hemant Sabharwal	In personal capacity, New Delhi
19. Shri Dinesh Agarwal	In personal capacity, New Delhi

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