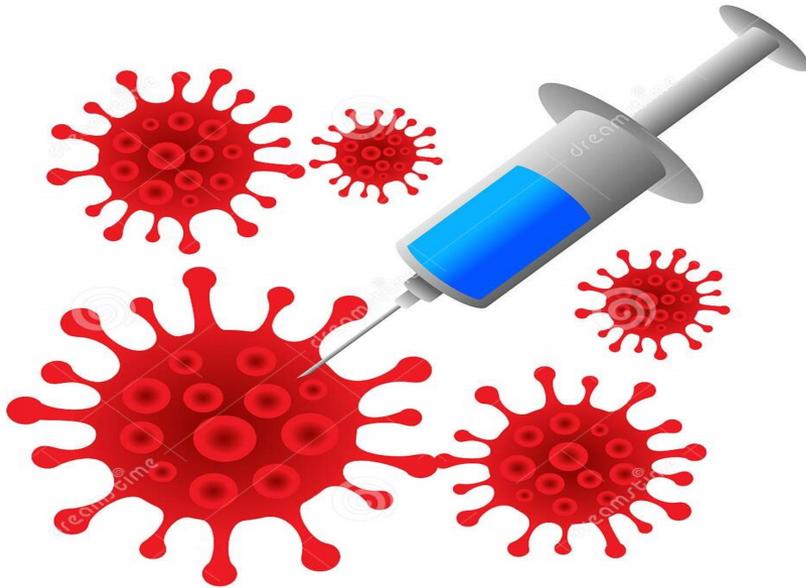


REORGANISING THE SMP PRACTICE IN THE WAKE OF COVID

19

Presentation by CA Charanjot Singh Nanda

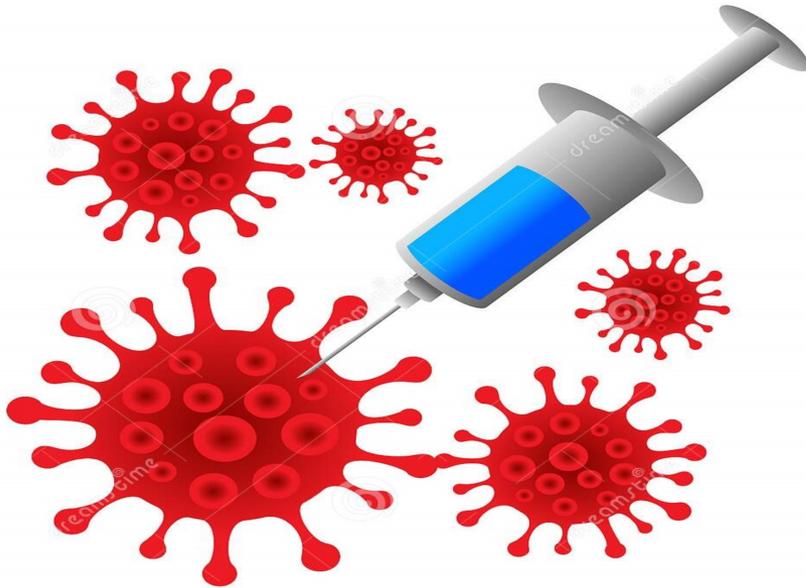
INTRODUCTION



- The historical moment we are living is quite hard, we are struggling against an invisible enemy which is dramatically changing our lives. While the first concern is related to guarantee public health, it is clear that the impact this emergency will have on global economies and on small and medium practitioners is huge.
- While for some practitioners the Covid-19 impact has been devastating, there are others who are seeing this change as an opportunity.



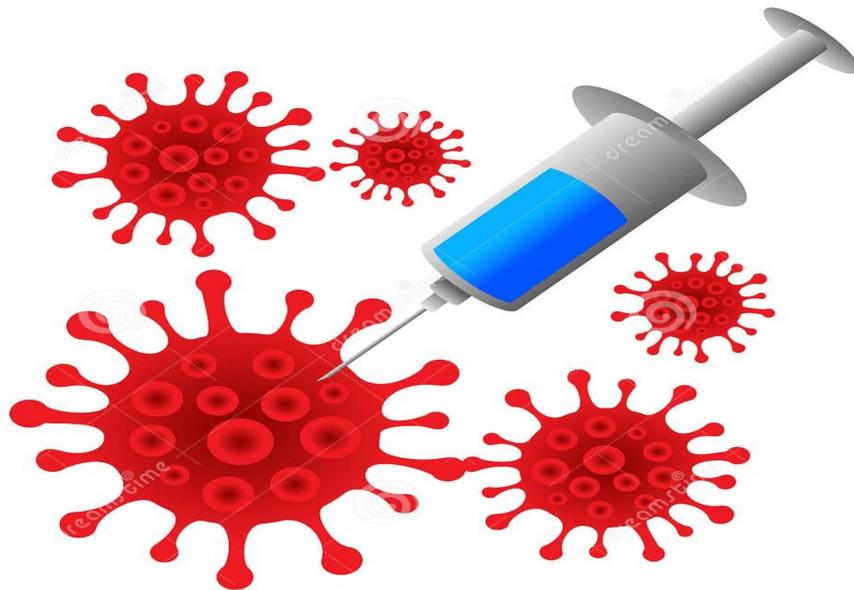
DEFINING SMPs



- **The definition of small- and medium-sized practice (SMP) will vary from one jurisdiction to another. The SMP Committee defines SMPs as practices that exhibit the following characteristics: its clients are mostly small- and medium-sized entities (SMEs); it uses external sources to supplement limited inhouse technical resources; and it employs a limited number of professional staff.**
- **SMPs typically offer a broad range of professional services that help their clients both comply with regulation and enhance their business performance. These services range from traditional accountancy-based services, such as audit, other assurance, accounting, and tax, to various forms of value-adding business advisory services, including advice on strategic planning, financial management, financing, and risk management. One of the ways that SMPs serve the diverse business needs of their clients is by maintaining relationships with trusted experts from other disciplines, including bankers, lawyers, and IT specialists, who also serve small businesses.**



BUSINESS SUPPORT SERVICES BY SMPs



NON- COMPLIANCE AREAS

- **Project Finance**
- **Due Diligence**
- **Insurance Area**
- **Insurance Litigation**
- **Risk Assessment**
- **Performance Measurement Services**
- **Business Performance Improvement**
- **Long-term Strategic Partner**
- **Arbitration and Conciliation**
- **Information Technology and Computer Software Related Services**
- **Service for Carbon Credit Mechanism**
- **Services Required for Environmental Laws**

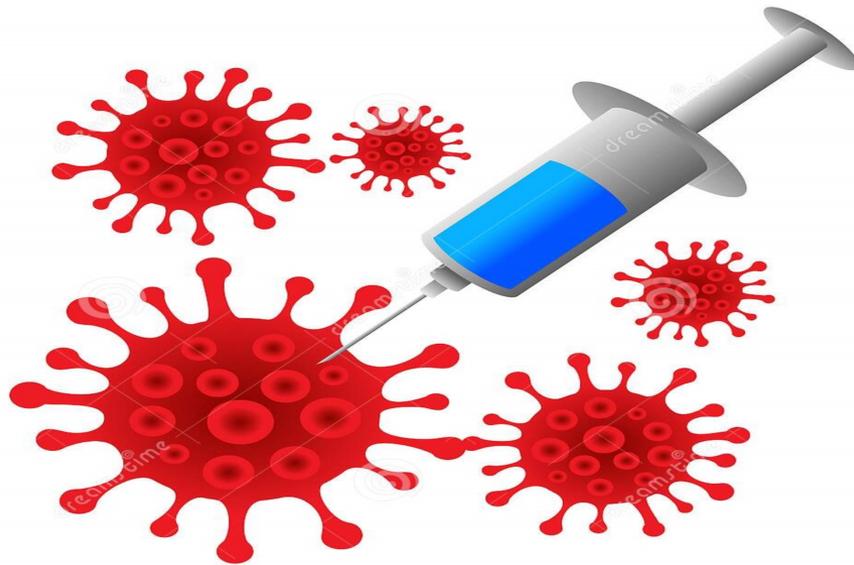


COMPLIANCE/STATUTORY WORK

- Preparation of Statutory Financial Accounts
- Audit of Accounts
- Compliance of Tax Laws
- Labour Laws
- The Foreign Contribution (Regulation) Act, 2010



IMPACT OF COVID 19 ON SMPs



- To reduce the spread of the corona virus or COVID-19, governments have placed restrictions on the movement of people to and from certain areas and countries. With wide-ranging COVID-19 travel restrictions in place for an undetermined period, auditors are encountering unanticipated barriers to obtaining the information needed to perform audit procedures and form conclusions.
- Planned audit procedures may no longer be capable of providing the anticipated audit evidence thus requiring auditors to make modifications to their audit approaches.
- Auditors may also find that they need to perform additional procedures to evaluate the appropriateness of management's assessment of the entity's ability to continue as a going concern and any asset impairment resulting from the direct impact of COVID-19 or the indirect impact of uncertainty in the business and wider economic environments.



REORGANISING THE SME PRACTICES



COMMUNICATION WITH THE REPORTING ENTITY

- Under such testing circumstances, the ability of reporting entities and auditors to communicate in a proactive and effective manner with each other is being put to the test. Close coordination among audit engagement teams, specialists and clients is as key as ever.
- Auditors should be communicating with their clients to understand the challenges brought about by COVID-19 including impacts on financials including going concern, areas of the financials that are not impacted, effects on the entity's ability to report externally on its financial, and related disclosures planned by the entity.
- COVID-19 will continue to test the ability of reporting entities, auditors and regulators to remain nimble in face of the evolving challenges to ensure external reporting obligations are discharged, and that shareholders and investors' interests continue to be safeguarded.



WAYS TO BE ADOPTED BY INTERNAL AUDITOR'S TO DEAL WITH COVID-19 PANDEMIC

- Internal audit executives have both an obligation and an opportunity to help their companies manage the most critical risks COVID-19 has either created or magnified.
- Internal auditor's need to focus on understanding the impact of COVID-19 on the particular industry (like aviation, Tourism, pharmaceuticals etc) and their policies to confront the pandemic.
- Internal auditor shall provide leadership and support to organisations for compliance framework , processes and control activities.
- Chartered accountants needs to follow proactive approach and access outside expertise to add real time value to business projects.



PROBLEMS BEING FACED BY BUSINESS ORGANISATIONS AND ROLE OF CA'S

- Covid -19 has impacted the supply chain of most of the business organisations as most of the raw material was being sourced from china , company were confronted with complex situations as warehouses, production units and suppliers resided in different places and were not accessible due to lockdown.

CA's can help an organisations to develop a supply chain by accurate assessment of critical areas and quantification of value at risk.

- With the outbreak of COVID-19, RBI has announced 3 month's moratorium on EMI's , role of professionals arises as banks wants to review the impact of moratorium on EMI's. This aspect also needs to be covered by auditors while performing Bank audits and internal audits for NBFC's.
- The following measures can help internal auditors to maximize its contribution to the COVID-19 response:
 - Automation/digitization of workstreams
 - Digital upskilling and training
 - Methodology transformation, using data and technology
 - Strategic transformations to reduce costs and improve compliance



COVID-19 ALSO PROMPTS REEVALUATION OF THESE INTERNAL CONTROL CONSIDERATIONS

○ Control environment changes

Assess monetary and regulatory changes proposed by RBI during lockdown and various statutory and regulatory compliances proposed by Minister of Finance to deal with pandemic. Various measures have been proposed both in direct and indirect taxes to pace up the economic slowdown.

○ Assessing operating effectiveness

Assess controls' operating effectiveness, including management review controls. Reevaluate control procedures' effectiveness due to remote work, facility closure, illness and other gaps. Identify alternative controls or other mitigation when existing controls can't be performed.

○ Financial reporting operating resiliency

Assess the business' capability to prepare financial statements completely, accurately and timely. Pandemic-related risk indicators include subsidiary locations in lockdown, attrition or illness of qualified personnel, and facilities or financial reporting hubs functioning remotely or going offline.



SPECIFIC CHALLENGES FACED BY AUDITORS

- Auditors will be exposed to greater risk because of the difficulties of obtaining evidence, performing audit testing and review, and making judgments. For example, in relation to markets that are no longer functioning because of lockdown on what basis will auditors be able to assess inventory valuation.
- It is likely that auditors will face considerable challenge from their clients in relation to any indication that they must qualify their opinion for lack of evidence or disagreements with directors on issues such material uncertainty.
- Companies and auditors will need to resort, even more than before, to the increased use of ranges for judgments and the extended use of scenarios when forecasting.
- Face to face discussions are often an important element of assessment of audit evidence (including the exercise of professional skepticism), partner reviews, reviews of component auditor work and quality control.
- . Firms will need to consider any local legal restrictions on data protection before making information available in open market.



MANAGING INTERNAL AUDIT ENVIRONMENT DURING CRISIS

- Meet with key members of management to reassess the enterprise risk assessment.
- Update the entity's top risks and define remediation plans for newly identified or prioritized risks.
- Aid management in assessing the company's business continuity plan and whether current and/or potential COVID-19 and recession-related events have been considered.
- Identify ways for the organization to cut costs to avoid layoffs by focusing on a combination of smaller reductions, such as eliminating pay increases and reducing unnecessary spending, rather than larger, disruptive changes.
- Initiate feasibility studies to expand the use of automation and data analytics in other areas.
- Be updated with all the policies and measures proposed by Government for the survival of economy.







CA. CHARANJOT SINGH NANDA

**7/24, SOUTH PATEL NAGAR
NEW DELHI-110008
MOBILE NO: +91-9212700353
EMAIL ID: CSNANDA@GMAIL.COM**

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