



# KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION (R)



CA. Raghavendra T.N.  
President

CA. Chandrashekara Shetty  
Secretary

To,

Date: 16<sup>th</sup> March 2018

The Director of Municipal Administration  
V.V. Towers, Dr. Ambedkar Road  
Bengaluru

Dear Sir,

**Subject: Empanelment of CA Firms for Financial Statements audit of ULBs**

**Reference: (1) RFP No. 20246 DMA 18 KMDS 2017-18**  
**(2) Our meeting on 12<sup>th</sup> March 2018 and Pre-bid meeting on 15<sup>th</sup> March 2018**

The Karnataka State Chartered Accountants Association (R) (in short 'KSCAA') is an association of Chartered Accountants, registered under the Karnataka Societies Registration Act, in the year 1957. KSCAA is primarily formed for the welfare of Chartered Accountants and represents before various regulatory authorities to resolve the professional problems faced by chartered accountants and business community. With this backdrop, we have written to your good selves earlier populating issues in RFP and possible solutions.

At the outset, we wish to thank you for acknowledging our previous submissions and recognizing the concerns expressed by our fraternity.

We understand your concern about quality of financial statements audit and your expectation of follow-up and hand-holding by the financial statements auditors. The role of a Financial Statements Auditor (for short 'FSA') is clearly defined in KMABR, 2006 and the RFP. FSA shall audit the books of accounts and other relevant records and express his independent opinion on the financial statements prepared by ULB. He should also undertake correction of wrong entries observed during the course of his audit and ensure that 'the financial statements reflect a true and fair view of the state of affairs'. Irrespective of whether the audit is going to be carried out by a big firm, or small/mid- sized firm, the FSA must comply with the mandate of the statute. In that direction, we wish to make following suggestions that would bring improvements in the ULB accounting as well as auditing.

## **1. Introduction of internal audit:**

An FSA's role starts from the date of his appointment and ends with submission of the audit report. After the audit is completed, DMA office makes fresh appointment for next year. Since there is no continuity of his service, the FSA is not in a position to go back to the ULB and check compliance of his observations. This is in stark contrast to the role of an internal auditor whose duties, responsibilities and tenure are defined by the terms of his appointment. Internal audit is a more detailed audit that

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focuses on internal control weaknesses and gives suggestions for improvement. The periodicity of the audit could be monthly/quarterly/half-yearly or yearly depending on the terms of his appointment. As internal auditor's visits are more frequent and repetitive, he can check and report on compliance of his audit observations. The Directorate may consider introduction of internal audit especially in bigger ULBs and in ULBs where there are issues of concern, for evaluating and improving the effectiveness of risk management, and internal controls.

## 2. Suggestions for improving the efficiency of FS audit:

- The tenure of an auditor of an ULB to be for a period of three continuous years. The continuity of his tenure would enable him to monitor compliance of the previous audit reports.
- The main audit report is an expression of auditor's opinion on the financial statements. In addition, he shall also report on additional matters as per Schedule IX of KMABR, 2006. Other than these standard reports, an auditor can also give qualifying or adverse comments or disclaimers wherever he finds matters affecting the reliability of financial statements. The role of audit review committee is very important for the effectiveness of audit, since the auditor's term ends on submission of audit report. The audit review committee can make a list of audit observations which are qualifying/adverse/ disclaimer in nature and call for explanations from concerned ULBs. Every year, after the ULB audits are over, the Committee can call meetings of FSA to discuss specific audit related issues.
- After the empanelment process, and before commencement of ULB audits, DMA/KMDS may hold a meeting of empanelled auditors and ULB accountants to have a common understanding of the audit requirements, preparedness of ULBs in terms of closure of accounts, as well as the facilities to be provided by ULBs. The auditors may also be asked to cover specific additional areas which DMA/KMDS feel necessary to be covered.
- ULB staff and officers need to be given training on facilitating audit, and on making use of the audit to improve their efficiency and effectiveness.

## 3. C & AG and MEF empanelment:

It was explained to us in the Meeting that the scoring norms used in the RFP is taken from C & AG norms. We would like to point out that:

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- Though C & AG and MEF (ICAI) award marks for number of FCAs/ACAs and number of years in practice, these marks are used only for categorization of CA Firms, and not for empanelment. Also, there are no maximum marks for eligibility. There are several small/mid-sized firms which are in both the panels, and they are allotted PSU and bank audits. Most of the CA firms who were in KMDS panel earlier, were empanelled with C & AG, and were also carrying out C & AG audit.
- Most of the ULBs are much smaller in size as compared to PSUs and banks. Therefore, we request your kind selves not to consider the size of the audit firms as a criterion for empanelment for audit of ULBs. Instead, C & AG empanelment may be given a weightage as in the case of earlier EOI.

#### 4. Audit Fees:

The audit fees for ULB audit was fixed for the first time in 2007 when ULB audits first came into existence. There has been no revision in the audit fees since then. We request for an enhancement in audit fees by 50% across all slabs, to make it commensurate with the increased cost of conducting audits in the past ten years.

#### 5. Proposed Empanelment Criteria and marks:

Since terms and conditions of earlier empanelment has withstood the test of time and the ULBs were audited successfully for past three years, we propose to your kind selves to retain the same. We have reproduced the empanelment criteria of previous RFP for the sake of ease of reference.

Sl. No.	Criteria
1.	<b>Turnover</b>
	Rs. 25 lakhs
	Rs. 25 lakhs to Rs. 35 lakhs
	Above Rs. 35 lakhs
2.	<b>Experience in accounting and auditing (Appointment letter copies/certificates to be produced).</b>
	03 years
	3-5 years
	Above 5 years
3.	<b>CA firms should have completed audit transactions not less than the amounts specified below, in State/Central Govt undertakings including ULBs in last 5 years</b>

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	Rs. 25 crores
	Rs. 25 crores to Rs. 50 crores
	Above Rs. 50 crores
4.	<b>CA firms should have completed 2 statutory audits in last five years of corporate entities/trusts each having a turnover of not less than:</b>
5.	<b>Knowledge of Kannada is mandatory, and the Proprietor/Partner should produce necessary proof of the same.</b>
6.	<b>CAG Empanelment is mandatory and the necessary proof to be enclosed.</b>
7.	<b>Head Office of the CA Firm should be in Karnataka and the necessary proof to be attached.</b>

We request you to kindly have a re-look at the eligibility conditions of the current RFP and marks for individual items may be awarded as per your discretion.

We will request all our members through our official communique to make sincere and honest efforts to improve the quality of audit and bring noticeable changes in ULBs.

Thanking you,

Yours sincerely,

For **Karnataka State Chartered Accountants Association ®**

CA. Raghavendra T.N.  
President

CA. Chandrashekara Shetty  
Secretary

CA. Vijay Sagar Shenoy  
Chairman  
Representation Committee