



# Contents of effective Audit Report under Companies Act, 2013

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# What the New Act Seeks to

- ▶ The Companies Act, 2013 seeks to
  - ▶ Corporate Governance
  - ▶ Corporate Social Responsibility
  - ▶ Audit Accountability and increased focus on professionals/auditors
  - ▶ Enhanced disclosure norms
  - ▶ Related party transactions – from control based norms to disclosure based norms
  - ▶ Prohibition of insider trading and forward deals
  - ▶ Fraud defined wider than Indian Contract Act
  - ▶ Regulation of the Act under Central Government



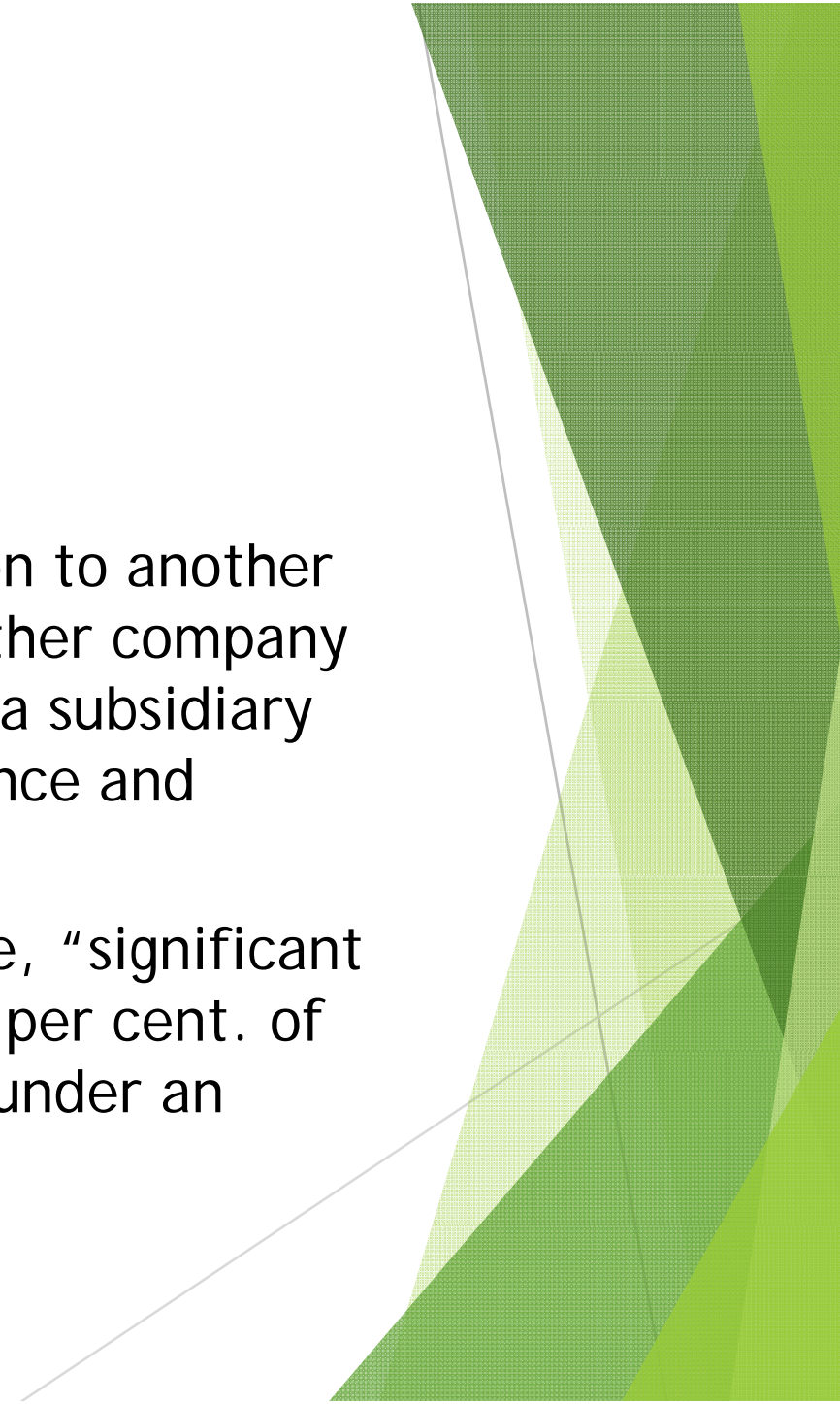
# Provisions relating to Audit and Auditors

## ▶ The Broader Perspective

- ▶ At par with global practices
- ▶ Flexibility in accounting
- ▶ Compliance focused
- ▶ Enhanced accountability on the part of companies.
- ▶ Audit accountability
- ▶ Vigil mechanism introduced
- ▶ Class Action suits
- ▶ Enhanced monitoring of quality and new regulatory structure (NFRA)
- ▶ Innovative concepts - Audit rotation, re-opening of past financial statements, auditing standards, experts, KMP.

# Definitions

- ▶ **Associate Company [Section 2(6)]**
- ▶ 2(6) defines “Associate company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- ▶ *Explanation.*—For the purposes of this clause, “significant influence” means control of at least twenty per cent. of total share capital, or of business decisions under an agreement;

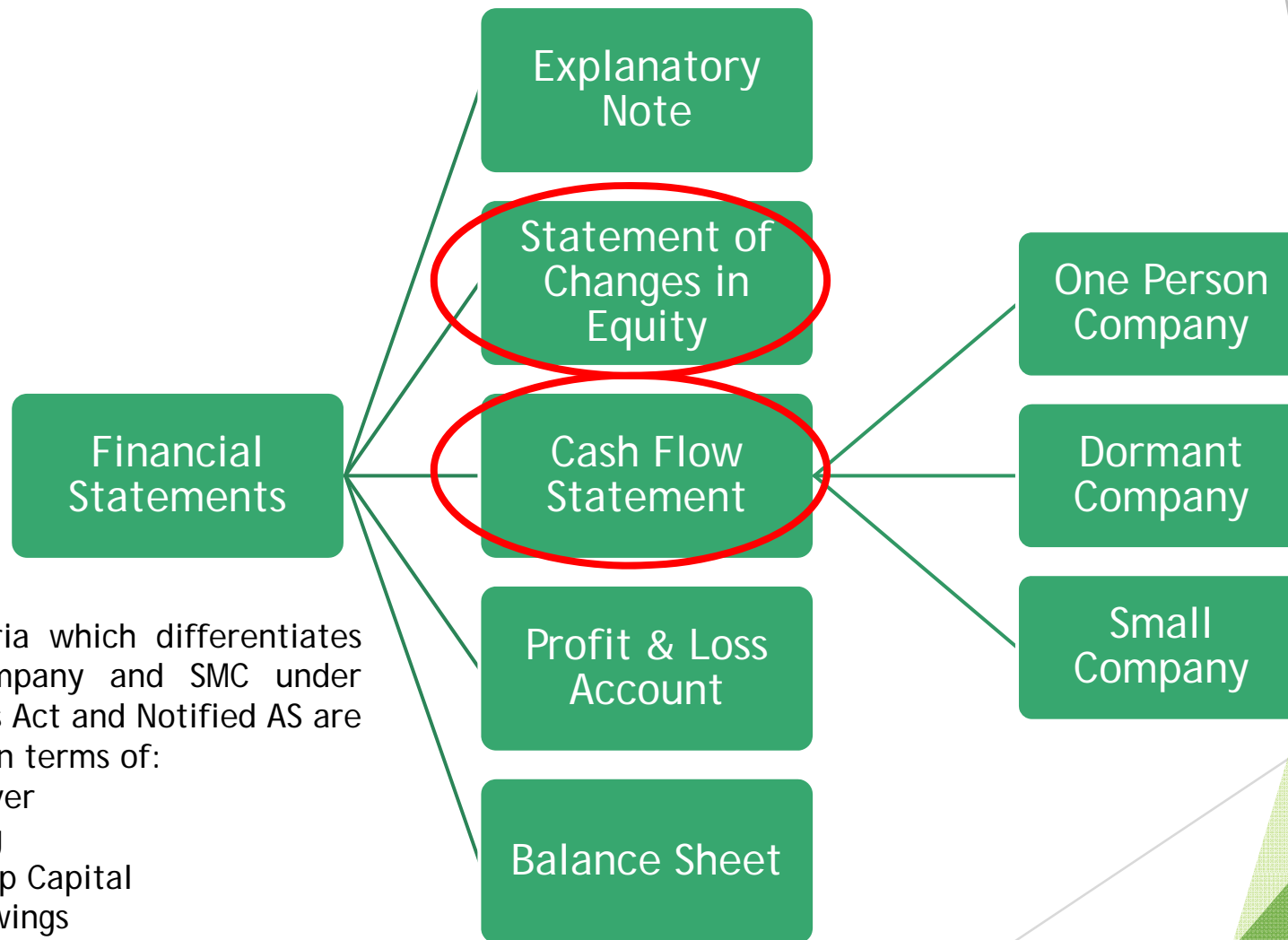


# Definitions

## ▶ Financial Statements [Section 2(40)]

- ▶ defines “financial statement” in relation to a company, includes—
  - ▶ (i) a balance sheet as at the end of the financial year;
  - ▶ (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
  - ▶ (iii) cash flow statement for the financial year;
  - ▶ (iv) a statement of changes in equity, if applicable; and
  - ▶ (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv);
- ▶ Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement;

# Financial Statements [Section 2(40)]



The Criteria which differentiates Small Company and SMC under Companies Act and Notified AS are Different in terms of:

- a) Turnover
- b) Listing
- c) Paid-up Capital
- d) Borrowings

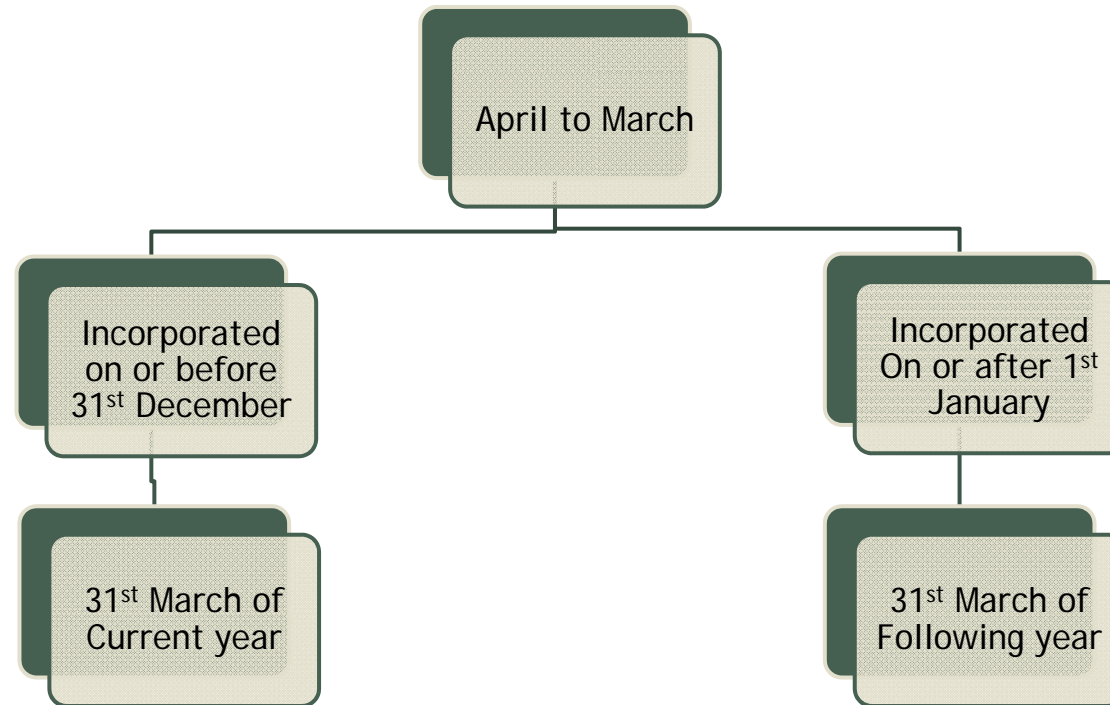
NOT APPLICABLE

# Definitions

## ▶ Financial Year [Section 2(41)]

- ▶ 2(41) defines “financial year”, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up:
- ▶ Provided that on an application made by a company or body corporate, which is a holding company or a subsidiary of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year:
- ▶ Provided further that a company or body corporate, existing on the commencement of this Act, shall, within a period of two years from such commencement, align its financial year as per the provisions of this clause;

# Financial Year



Adopt different Financial Year on application to the Tribunal. By companies having holding or subsidiary company outside India and require to prepare consolidation financial statements outside India. (No other reason for application) Not necessary to have 12 months for those companies

Existing companies get two years to toe the line.



# Definitions

- **Small Company [Section 2(85)]**
  - ▶ “small company” means a company, other than a public company,—
    - ▶ (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; and *[the word ‘or was replaced by the word ‘and’ vide Order No. S.O. 504(E) dated 13-2-2015 by the Ministry of Corporate Affairs]*
    - ▶ (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:
  - ▶ Provided that nothing in this clause shall apply to—
    - ▶ (A) a holding company or a subsidiary company;
    - ▶ (B) a company registered under section 8; or
    - ▶ (C) a company or body corporate governed by any special Act;

# Definitions

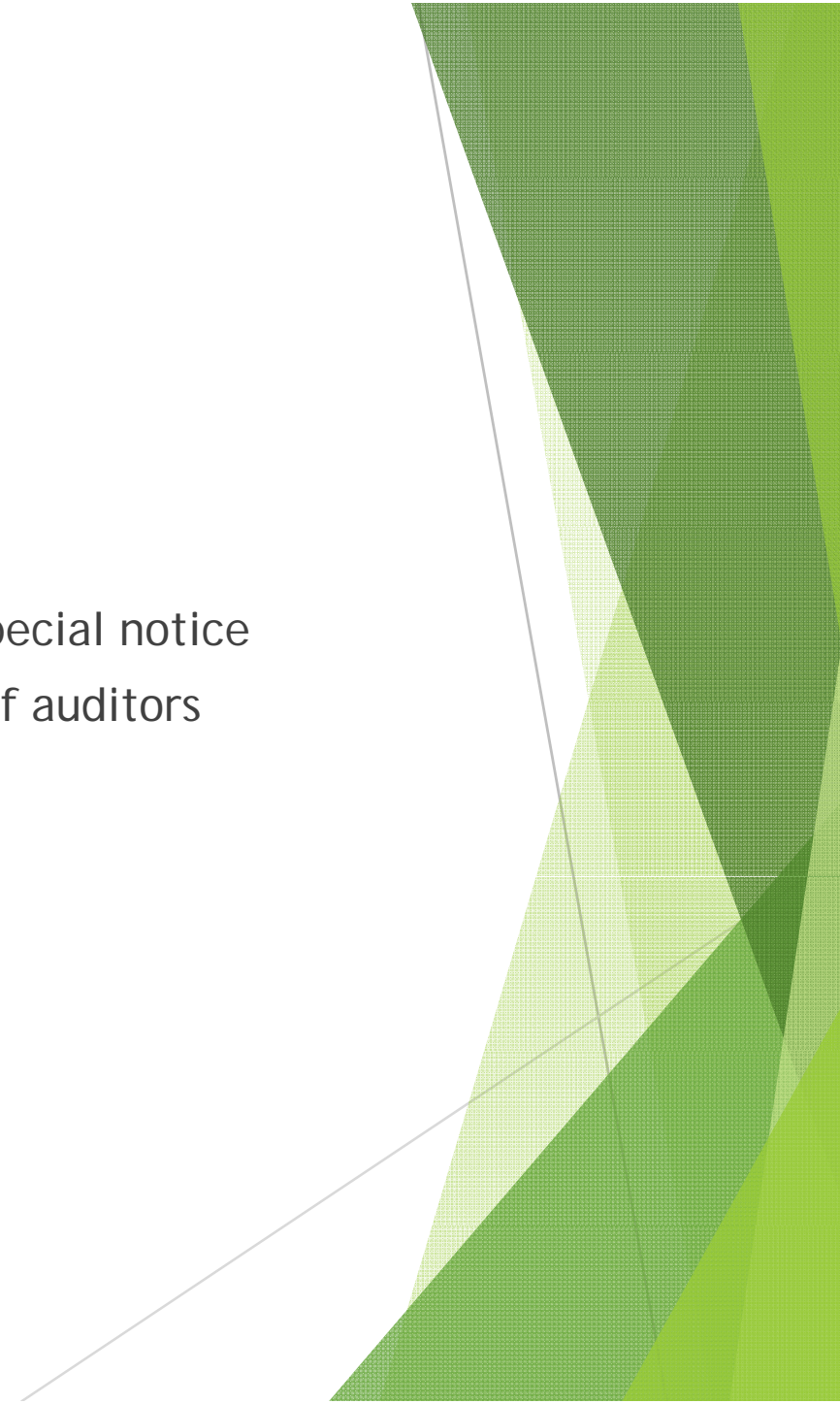
- ▶ **Subsidiary company [Section 2(87)]**
- ▶ “subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company—
- ▶ (i) controls the composition of the Board of Directors; or
- ▶ (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:
- ▶ Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.
- ▶ *Explanation.*—For the purposes of this clause,—
- ▶ (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- ▶ (b) the composition of a company’s Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- ▶ (c) the expression “company” includes any body corporate;
- ▶ (d) “layer” in relation to a holding company means its subsidiary or subsidiaries;

# Definitions

- ▶ **Sick Company [Section 253(1)]**
  - ▶ “Where on a demand by the secured creditors of a company representing fifty per cent. or more of its outstanding amount of debt, the company has failed to pay the debt within a period of thirty days of the service of the notice of demand or to secure or compound it to the reasonable satisfaction of the creditors, any secured creditor may file an application to the Tribunal in the prescribed manner along with the relevant evidence for such default, non-repayment or failure to offer security or compound it, for a determination that the company be declared as a sick company.

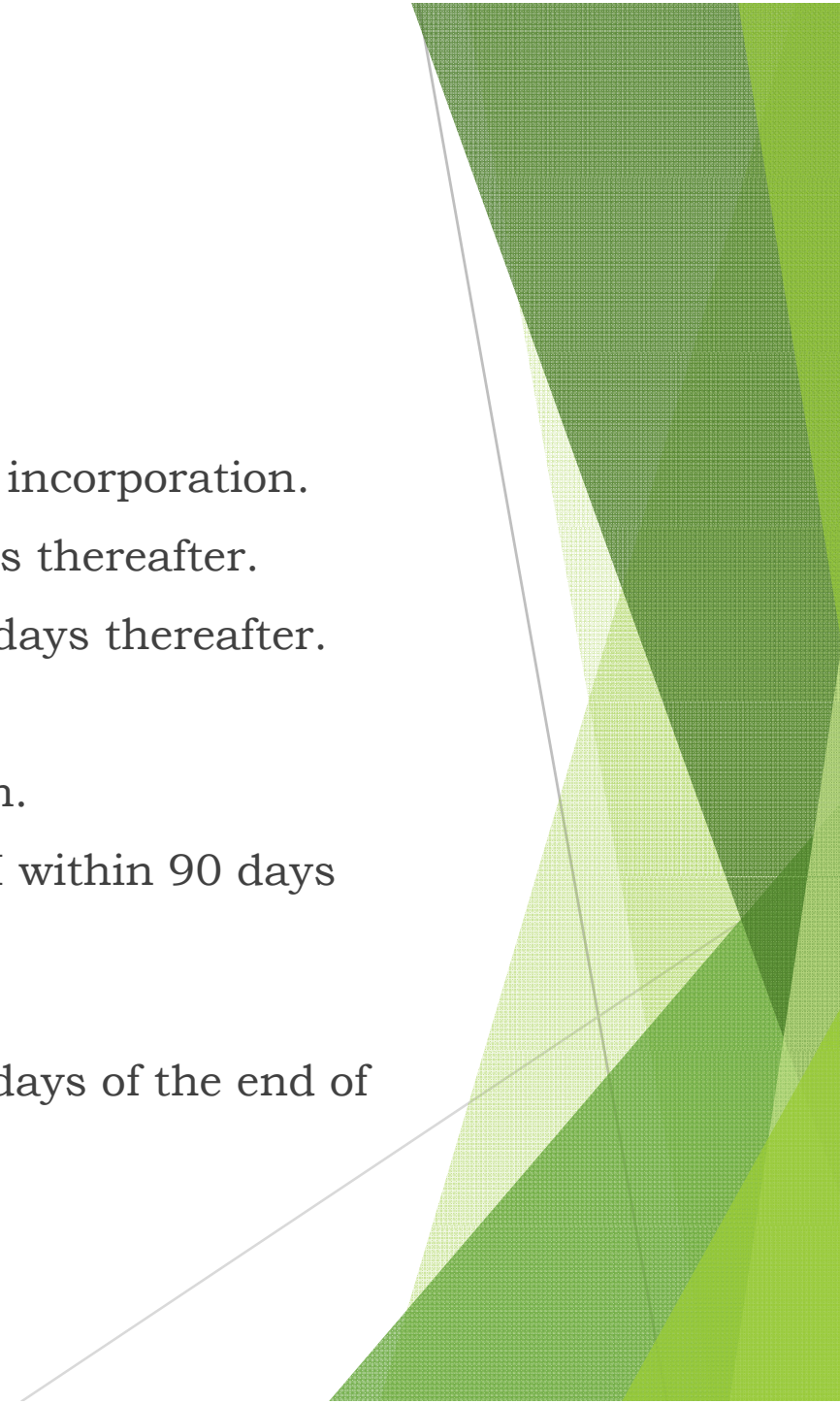
# Audit & Auditors

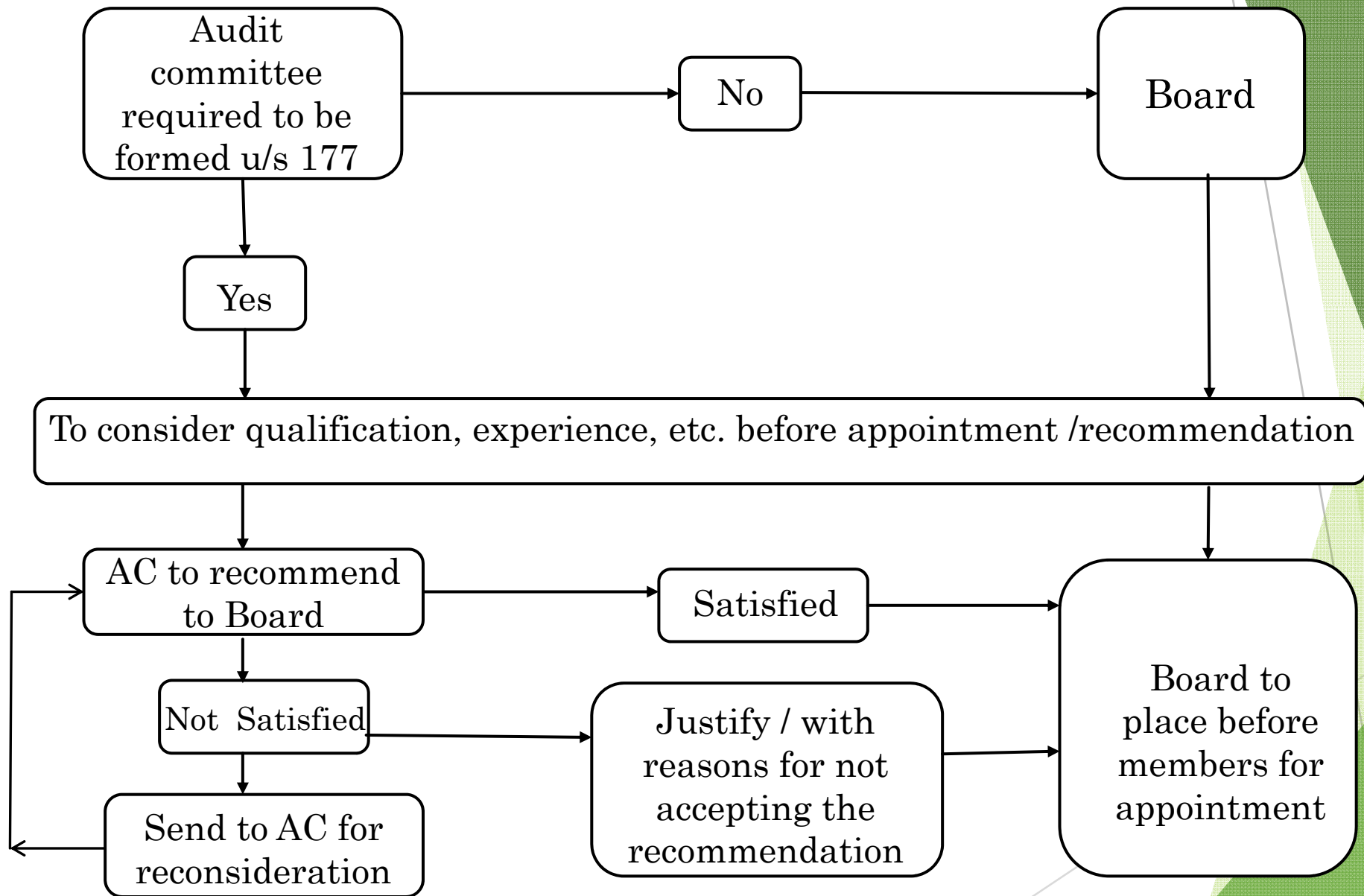
- ▶ Section 138: Internal Audit
- ▶ Section 139: Appointment of auditors
- ▶ Section 140: Removal, resignation of auditor and giving of special notice
- ▶ Section 141: Eligibility, Qualifications and Disqualifications of auditors
- ▶ Section 142: Remuneration of Auditors
- ▶ Section 143 : Powers & Duties of auditors
- ▶ Section 144 : Auditor not to render certain services
- ▶ Section 145 : Auditors to sign audit reports etc.
- ▶ Section 146 : Auditors to attend General Meeting
- ▶ Section 147 : Punishment for contravention

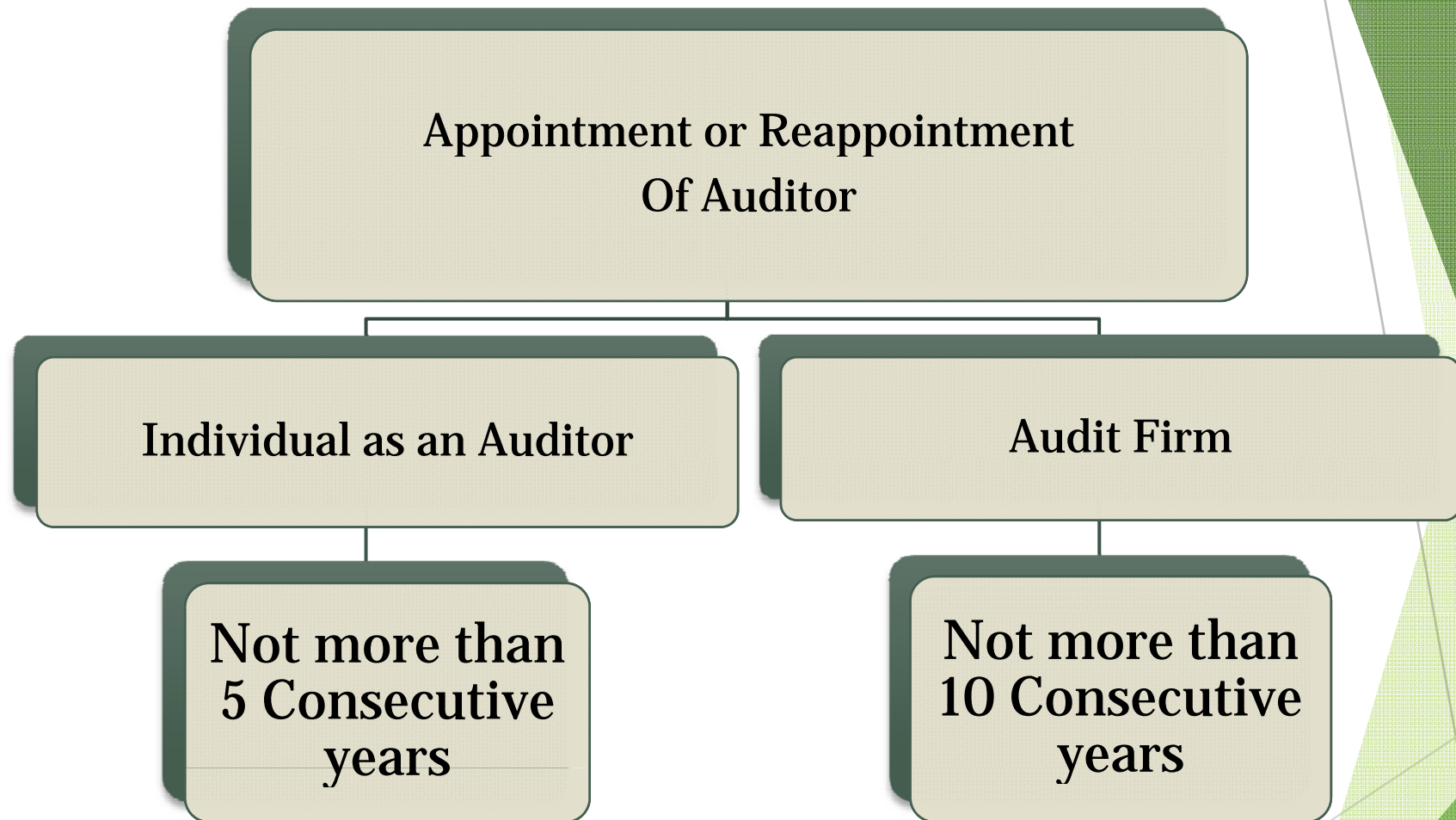


# Audit & Auditors

- ▶ Appointment of First Auditors
  - ▶ For Government Companies –
    - ▶ CAG\* to appoint first auditors within 60 days of its incorporation.
    - ▶ If not so appointed, Board to appoint within 30 days thereafter.
    - ▶ If not so appointed, Members to appoint within 60 days thereafter.
  - ▶ For Companies other than Government Companies –
    - ▶ Board to appoint within 30 days of its incorporation.
    - ▶ If not so appointed, Members to appoint at an EGM within 90 days thereafter.
- ▶ Appointment valid till the 1<sup>st</sup> AGM
- ▶ \*Subsequent auditors to be appointed by CAG within 180 days of the end of the financial year.







# Audit & Auditors

- ▶ Auditors – Individual practising Chartered accountant or a firm of chartered accountants can be appointed as auditors.
- ▶ LLPs can be appointed as auditors, In case of multi-disciplinary partnership firms, the financial statements to be signed by CA. Guidelines yet to be issued by ICAI.
- ▶ Term of Appointment – Individual  $\leq 5$  years\*
- ▶ - Firm  $\leq 10$  years\*
- ▶ \* ratification at each AGM
- ▶ Proposed auditor to submit certificate of eligibility u/s Section 141 of the Act. File notice of appointment within 15 days thereof with ROC by the company [Form No. ADT 1]
- ▶ Cooling period of 5 years after above term
- ▶ File the fact of appointment in Form No. ADT 1



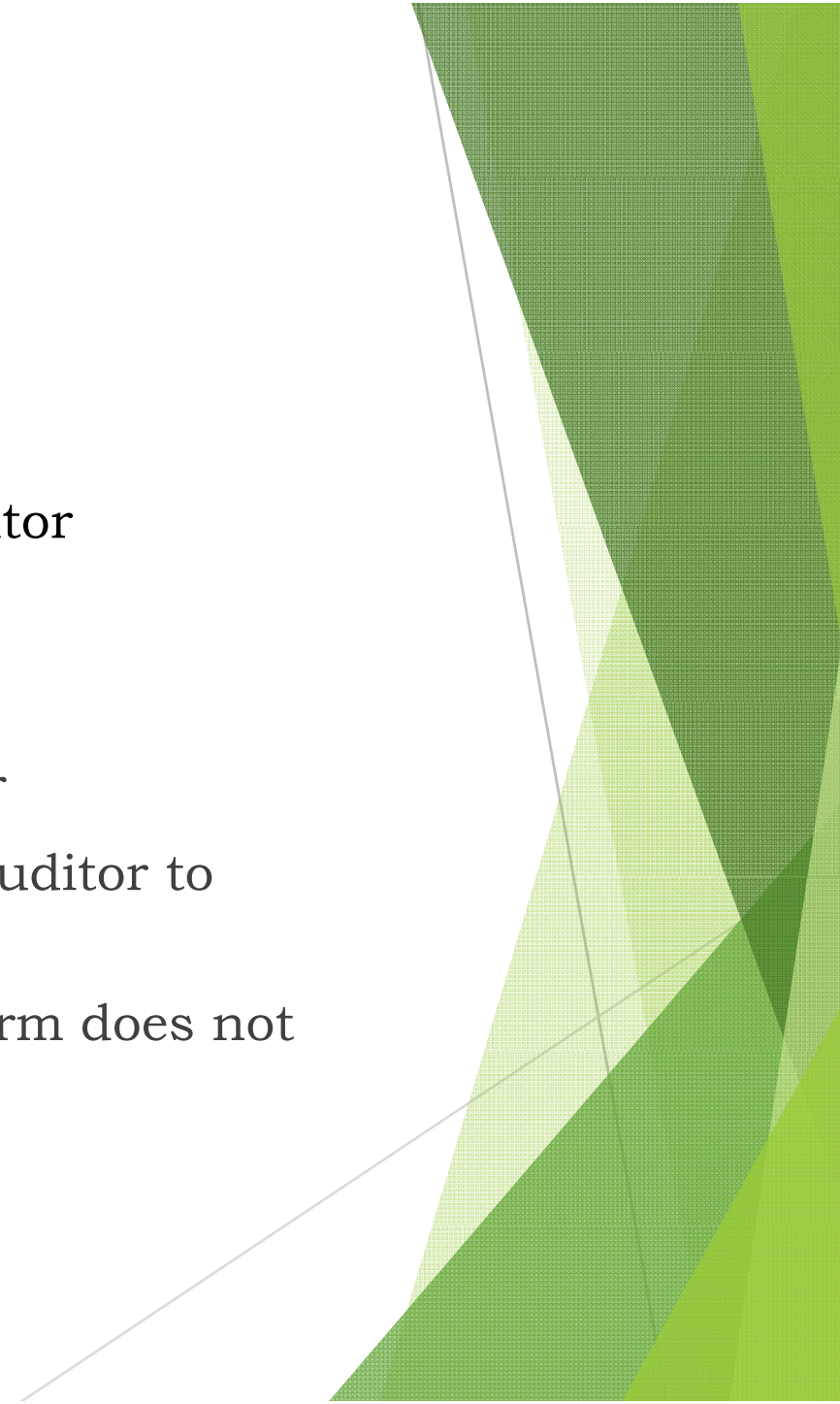


# Illustration

Number of Consecutive years for which an audit firm has been functioning as an auditor in the same company as on today	Maximum number of consecutive years for which the firm may still be appointed in the same company (including transitional period)	Aggregate period for which the firm can be appointed auditor
10 years or more	3 years	13 years or more
9 years	3 years	12 years
8 years	3 years	11 years
7 years	3 years	10 years
6 years	4 years	10 years
5 years	5 years	10 years
4 years	6 years	10 years
3 years	7 years	10 years
2 years	8 years	10 years
1 year	9 years	10 years

# Audit & Auditors

- ▶ Retiring auditor re-appointed unless:
  - ▶ He is disqualified for appointment as auditor
  - ▶ Has expressed his unwillingness to act as auditor
  - ▶ Special resolution passed to
    - ▶ Appoint another person as auditor
    - ▶ Refuse to appoint him/her/them as auditor
- ▶ Where no new auditor is appointed, the existing auditor to continue.
- ▶ Joint auditors can be appointed, provided their term does not complete in the same year.



# Audit & Auditors

- ▶ Rotation of auditors
- ▶ Applicability
  - ▶ All listed companies
  - ▶ Unlisted public companies with paid-up capital > Rs. 10 crores
  - ▶ Private companies with paid-up capital > Rs. 20 crores
  - ▶ All companies with outstanding loans/deposits > Rs. 50 crores
- ▶ Transition period three years. Provisions to apply retrospectively. Individuals/ Firms who are auditors for the last five/ten (as the case may be) consecutive years as on the date of appointment in September, 2014 can be re-appointed for a maximum period 3 years.
- ▶ Not applicable to OPC and small companies.

# Audit & Auditors

Members in AGM may decide to rotate audit signing partner/team

Incoming auditor not eligible for appointment, if:

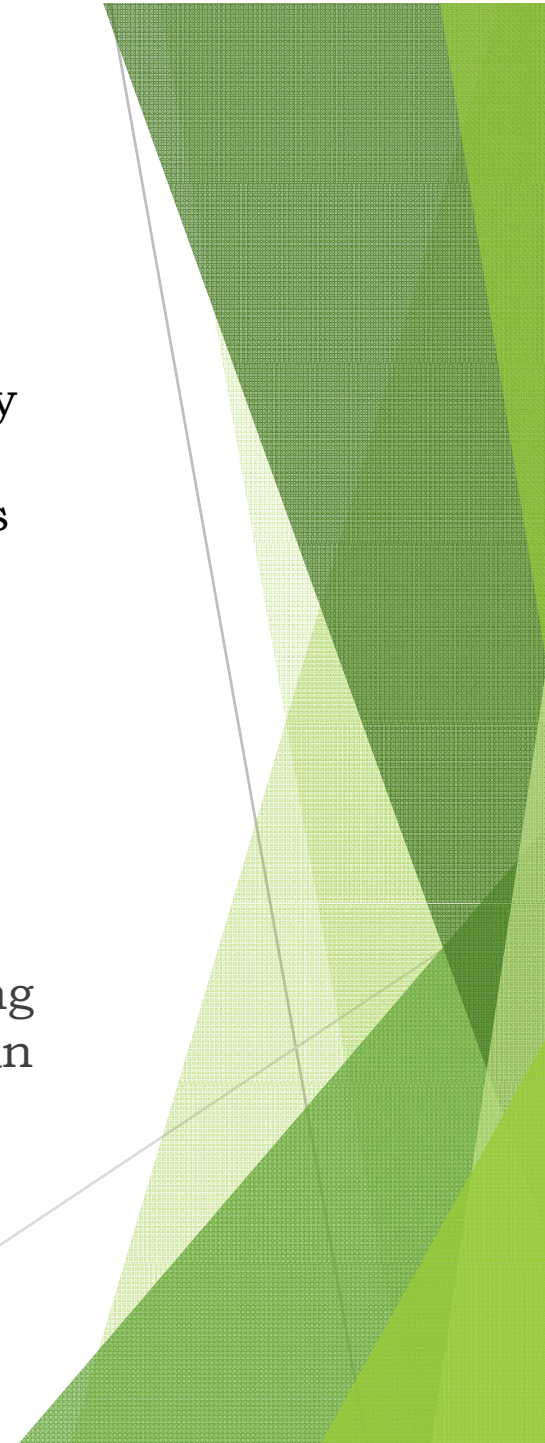
- ▶ It has common partner in the outgoing audit firm
- ▶ It is associated with outgoing auditor under same network, trade mark or brand.

Branch Auditors

- ▶ By the auditor of the company or by any CA (in case of a foreign branch, a person duly qualified to act as auditor), appointed by the company.
- ▶ Branch auditor to submit report to the statutory auditor
- ▶ All powers and responsibilities, similar to that of statutory auditor. Duty to report fraud under Section 143(12) extended to branch auditors

# Audit & Auditors

- ▶ Qualifications
  - ▶ Should be a chartered accountant or a firm/LLP, whereof majority of the partners are chartered accountants practising in India. In case of LLP, only chartered accountants eligible to act and sign as auditor(s).
- ▶ Disqualifications:
  - ▶ A body corporate other than a LLP
  - ▶ An officer or an employee of a company
  - ▶ A person who or his partner/relative
    - ▶ Holds securities or interest in the company/subsidiary/holding or its associate.[Limit of holding security of the company, by an auditor or his partner or his relative – Section 141(d)(i)]



# Audit & Auditors

- ▶ Disqualifications (Contd.):
  - ▶ A person who or his partner/relative (Contd.)
    - ▶ Is indebted or has given guarantee for indebtedness of third person, to the company/subsidiary/holding or its associate. [Limit of indebtedness or guarantee to the company, by an auditor or his partner or his relative – fixed at Rs. 100,000. Section 141(d)(ii) and (iii)]
  - ▶ A person or the firm has business relationship with the company/subsidiary/holding or its/their associate.
    - ▶ Business relationship defined as any transaction entered into for commercial purpose except:
      - ▶ Commercial transactions which are in the nature of professional services permitted under the Act and Rules.
      - ▶ Commercial transactions which are in the ordinary course of business at arm's length price.

# Audit & Auditors

- ▶ Disqualifications (Contd.):
  - ▶ A person whose relative is a director or is in the employment of the company as a director or Key Mgmt. Personnel.
  - ▶ A person or the firm, as the case may be, has audits of more than **twenty companies\*** on the date of such appointment.
  - ▶ A person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed since such conviction.
  - ▶ Any person, whose subsidiary or associate or any other form of entity is engaged in specified consulting and specialised services
- ▶ **\* in case of private companies – other than OPC, dormant companies, small companies and private companies having paid up share capital less than one hundred companies**

- ▶ Exclusions for determining the limit of twenty companies
- ▶ One Person Company (OPC) ;
- ▶ Dormant companies ;
- ▶ Small companies; and
- ▶ private companies having paid up share capital less than one hundred crores.

▶ Thus, the limits include:

- ▶ Public companies
- ▶ Private companies having paid up capital of rupees one hundred crores or more.
- ▶ Section 8 companies limited by guarantee having no share capital
- ▶ Section 8 companies limited by guarantee having paid up capital of rupees one hundred crores or more.





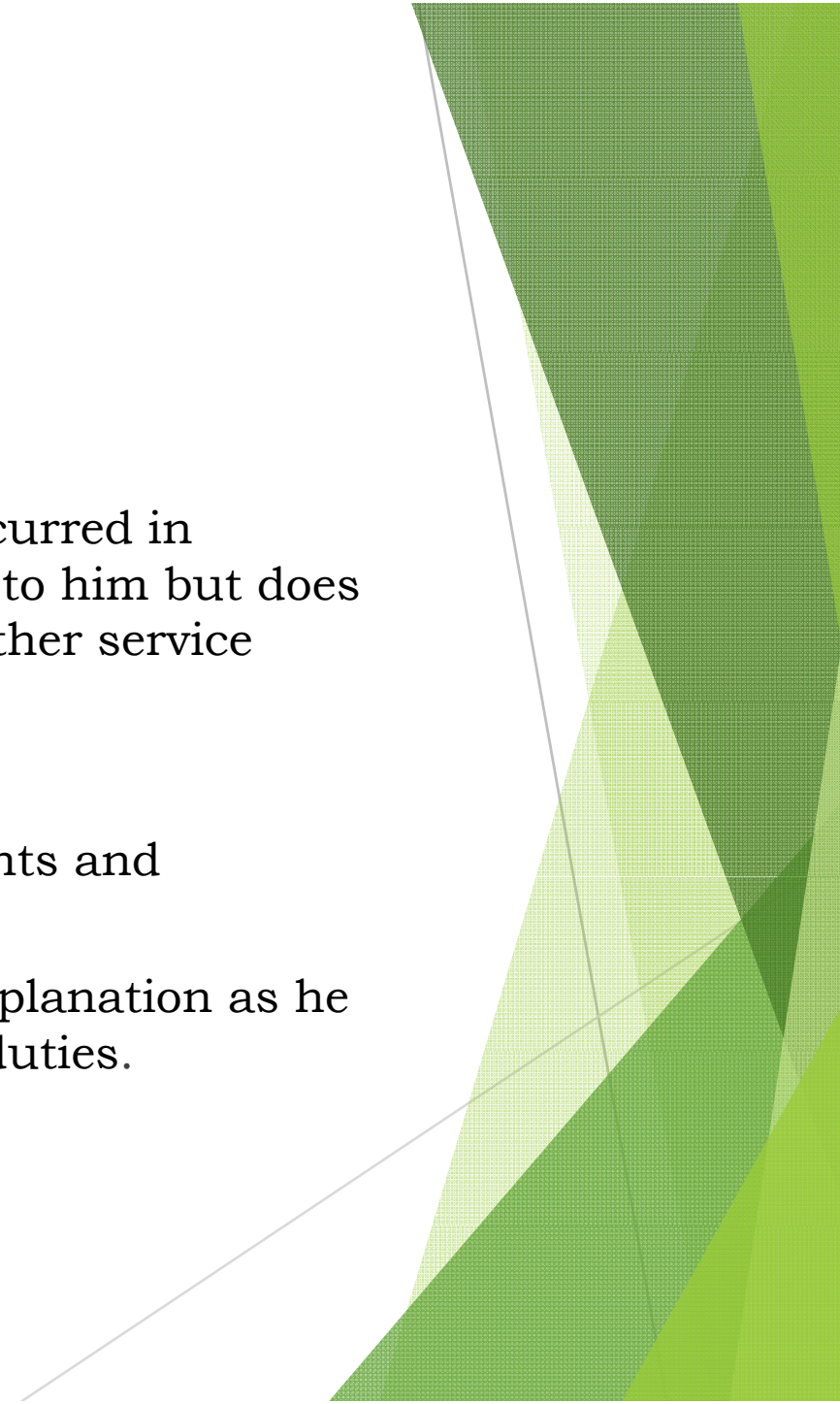
# Audit & Auditors

## ▶ Remuneration

- ▶ First Auditors – By the Board/Shareholders
- ▶ Subsequent Auditors – Shareholders
- ▶ Remuneration to include out-of-pocket expenses incurred in connection with the audit and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

## ▶ Powers

- ▶ Shall have access at all times to the books of accounts and vouchers
- ▶ Shall be entitled to require such information and explanation as he may consider necessary for the performance of his duties.



# Audit & Auditors

- ▶ Where any matter to be reported by the auditor is answered in the negative, or with a qualification, state the reasons therefor.
- ▶ Every auditor shall comply with the auditing standards prescribed by the Central Government as recommended by the ICAI and after consultation with NFRA. In case such standards are not notified by CG, standards issued by ICAI shall be complied with.
- ▶ CG in consultation with NFRA, may direct the auditor to report on such matters as may be specified in that Order (corresponding to CARO)



# Audit & Auditors

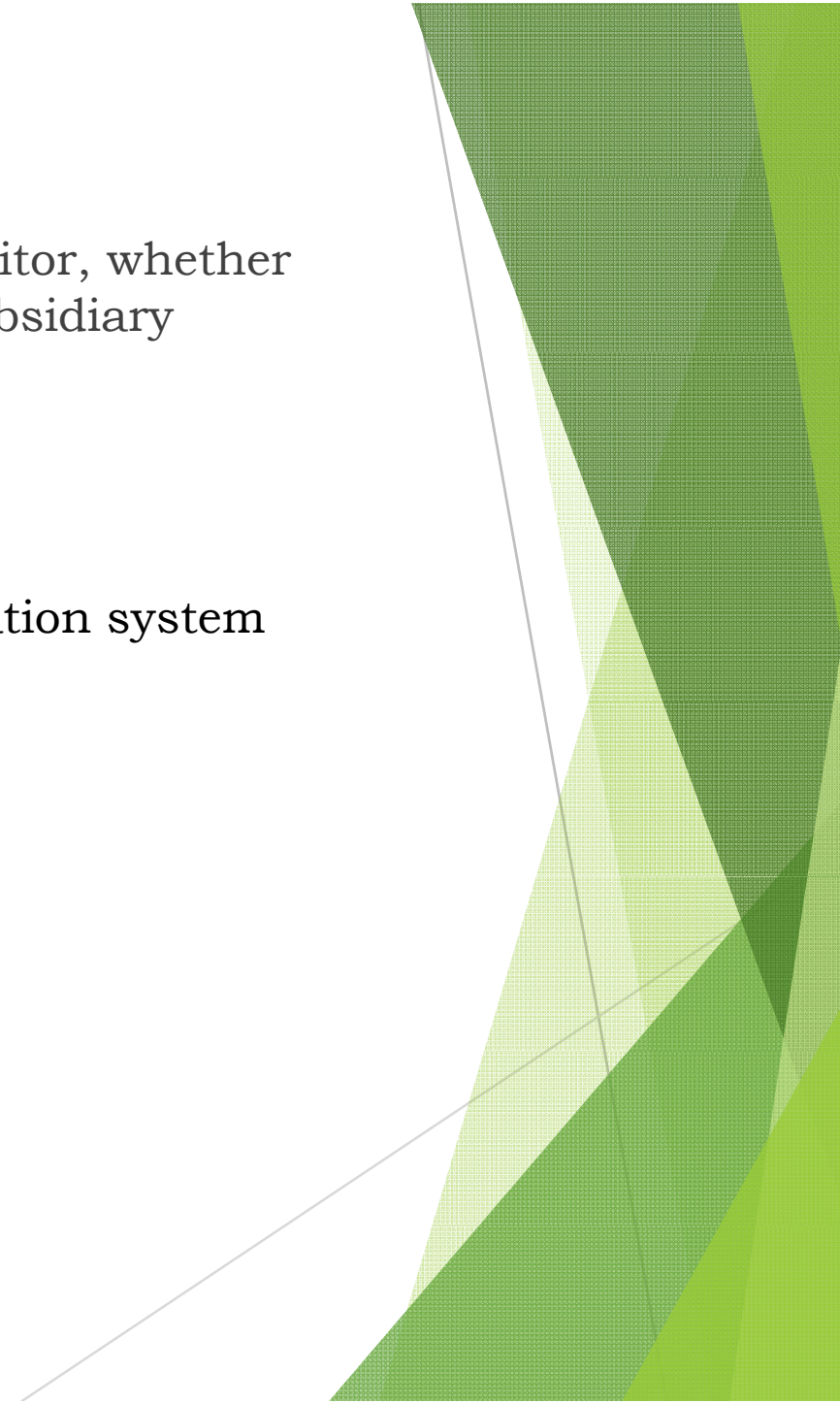
- ▶ Audits of Government Companies
  - ▶ CAG to appoint and direct the manner in which audit to be conducted and reported upon.
  - ▶ CAG can conduct supplementary audit within 60 days from the receipt of the audit report. Alternatively comment thereupon.
  - ▶ CAG comments to be circulated among the members
  - ▶ CAG can conduct test audit of any Government company.

# Audit & Auditors

- ▶ Duty to report Fraud
  - ▶ In the course of his duties, if the auditor has reasons to believe that an offence involving fraud is being or has been committed against the company by its officers/employees, he shall immediately report within the prescribed time.
  - ▶ The auditor shall not have contravened any provisions relating to his duties, merely because he has reported the fraud in good faith.
  - ▶ The above provisions are applicable to the cost accountants as well as company secretaries mutatis mutandis to the cost audit/secretarial audit conducted by them.
  - ▶ Penalty ranging from Rs. 1 lakh to Rs. 25 lakh
  - ▶ Procedure for reporting fraud prescribed.

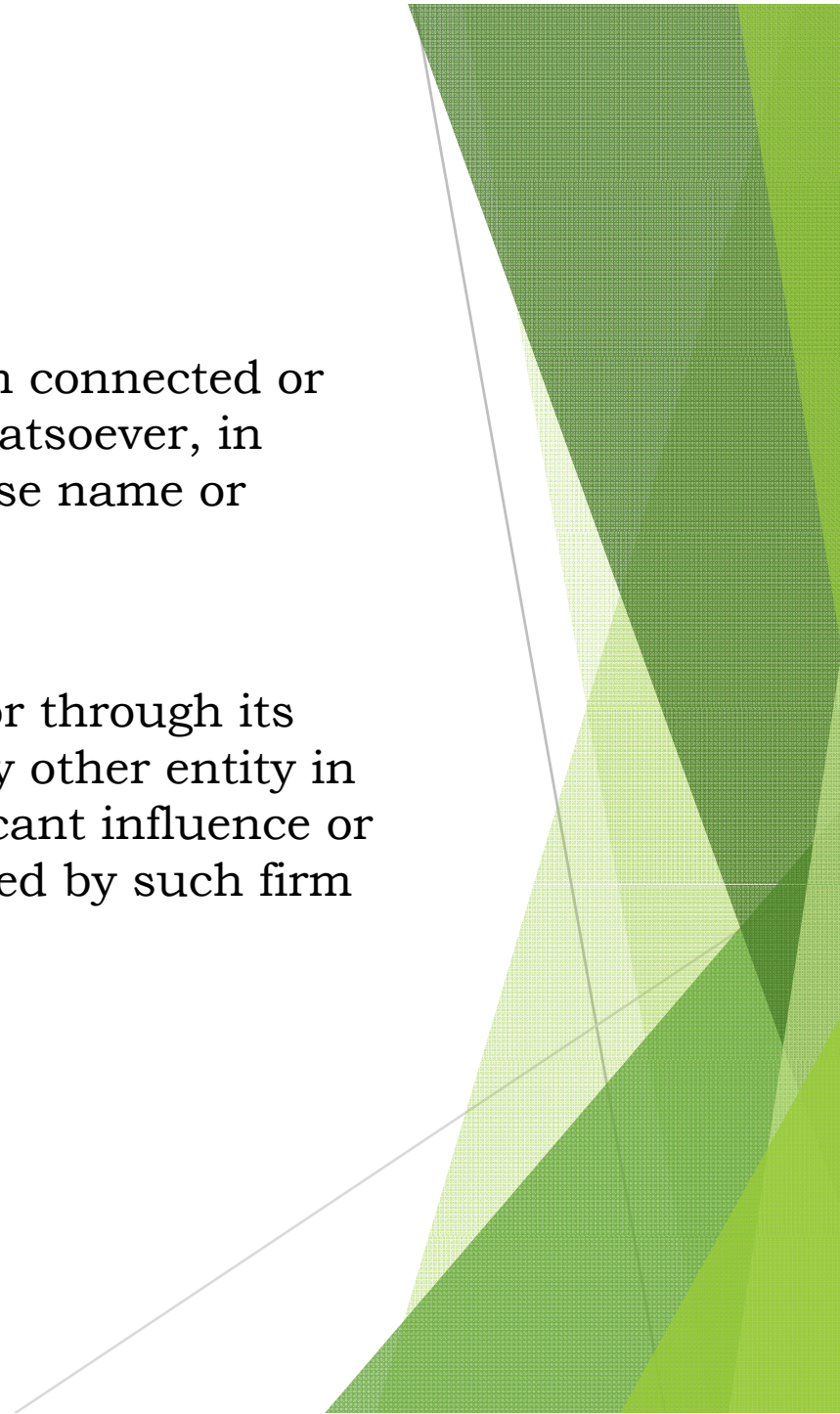
# Audit & Auditors

- ▶ Prohibition of certain services to be rendered by an auditor, whether directly or indirectly, to the company, or its holding/subsidiary company:
  - ▶ Accounting and book-keeping services
  - ▶ Internal Audit
  - ▶ Design and implementation of any financial information system
  - ▶ Actuarial services
  - ▶ Investment advisory services
  - ▶ Investment banking services
  - ▶ Rendering of outsourced financial services
  - ▶ Management services
  - ▶ Other services as may be prescribed.



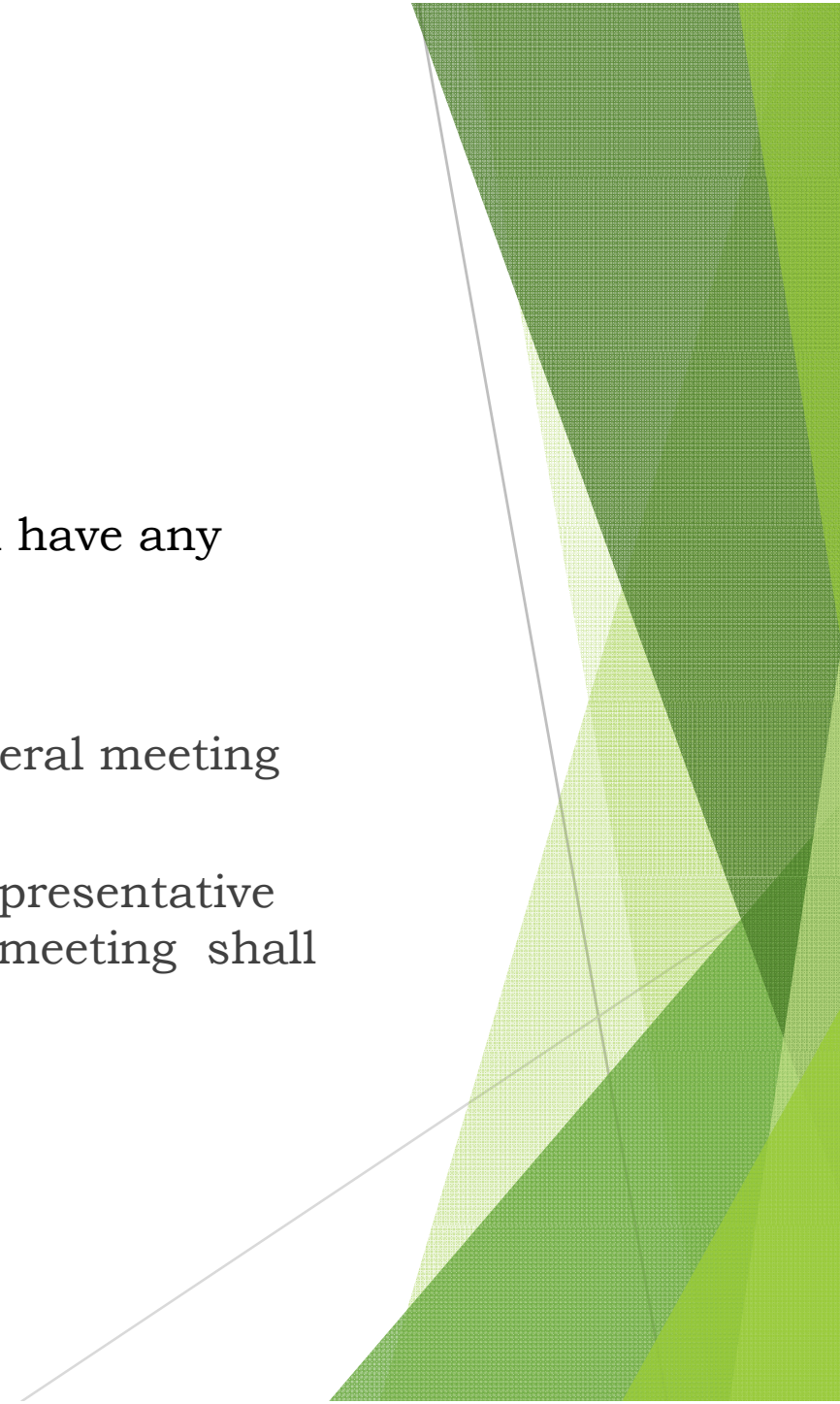
# Audit & Auditors

- ▶ Directly or indirectly means:
  - ▶ Either himself, or through his relative, or any person connected or associated with him or through any other entity, whatsoever, in which he has significant influence or control or whose name or trade mark or brand is used by such individual.
  - ▶ Either the firm itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity in which the firm or any partner of the firm has significant influence or control or whose name or trade mark or brand is used by such firm



# Audit & Auditors

- ▶ The Auditor's report and other documents
  - ▶ Shall be signed by the auditor
  - ▶ Shall be kept open for inspection
  - ▶ The qualifications, observations or comments which have any adverse effect shall be read at the general meeting.
- ▶ All notices of and other communications relating to general meeting shall be forwarded to the auditor
- ▶ The auditor, shall, himself or through his authorised representative who shall also be qualified to be an auditor, any general meeting shall have the right to be heard on matters concerning him



# Audit & Auditors

- ▶ Penalties on auditor for non-compliance [Section 147]
  - ▶ Non-compliance of Sections 139, 143, 144 or 145 – fine ranging from Rs.25,000 to Rs.100,000. [section 147(2)]
  - ▶ Where the contravention has been done knowingly or willingly with the intention to deceive – punishable with imprisonment upto one year and fine ranging from Rs.100,000 to Rs.25,00,000. Besides the auditor shall be liable to refund the remuneration received by him and pay for damages to the company, statutory bodies or authorities or any other person for loss arising out of incorrect or misleading statements in his report [section 147(3)]
  - ▶ Where it is proved that the auditor has acted in a fraudulent manner or abetted or colluded in any fraud, the partner as well as the firm shall be liable, jointly and severally. [section 147(5)], Criminal liability to devolve on concerned partner only.



# Audit & Auditors

- ▶ Casual Vacancy
  - ▶ In case of government companies:
    - ▶ to be filled by CAG within 30 days .
    - ▶ If not , The Board shall fill the vacancy within 30 days thereafter.
  - ▶ In case of other companies
    - ▶ In case of vacancy caused due to reasons other than resignation by the auditor: To be filled by the Board within 30 days
    - ▶ In case of vacancy caused by resignation of the auditor: To be filled by the Board and thereafter confirmed by the members at an EGM convened within 3 months

# Audit & Auditors

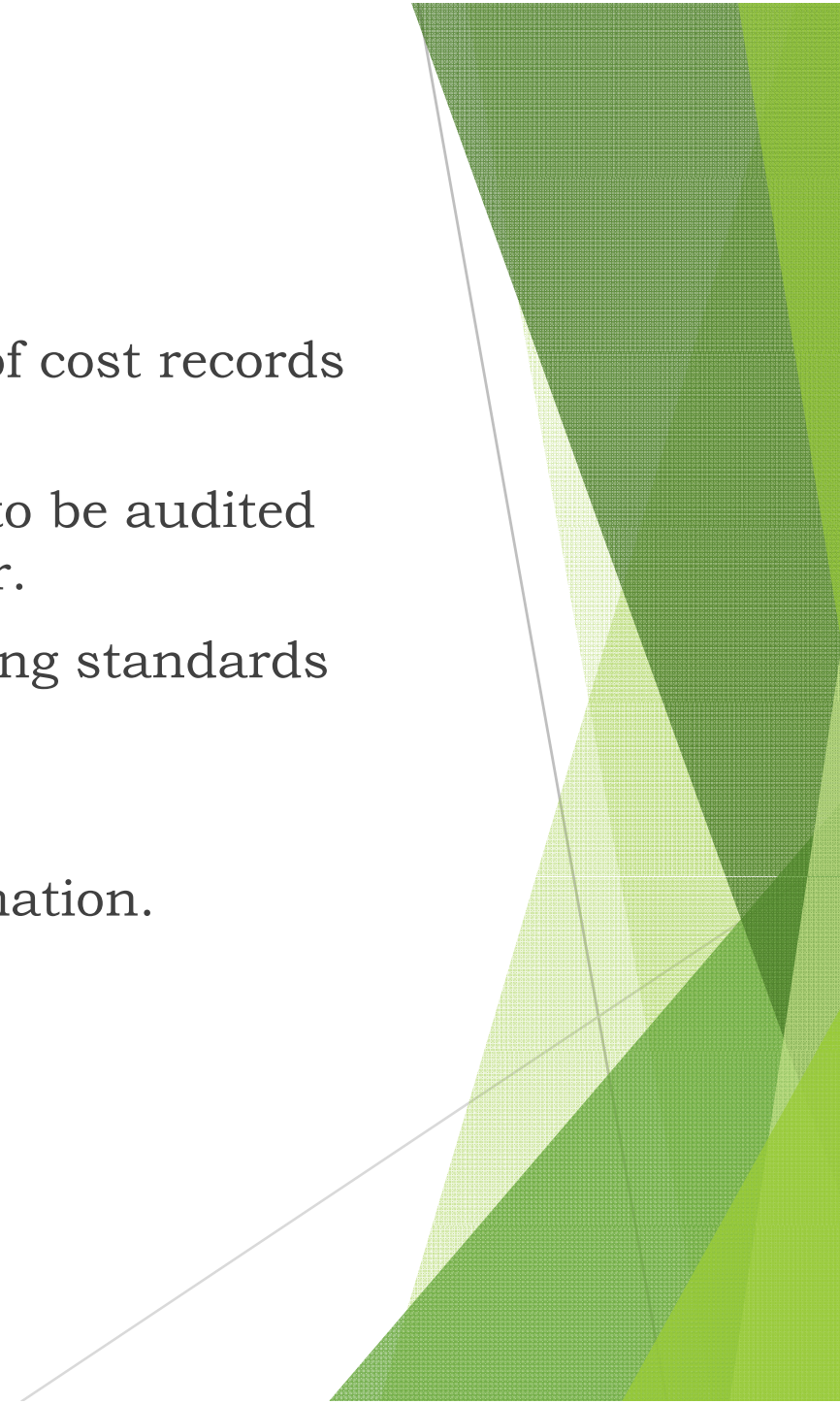
- ▶ Removal of Auditors by the company
  - ▶ Application to be made to Central Government within 30 days in Form No. ADT 2.
  - ▶ EGM to be held for removal within 60 days of the approval from CG. Removal valid on passing of the special resolution at the EGM
- ▶ Removal by Tribunal
  - ▶ Either suo muto or on an application by the CG, direct the company to change the auditor or CG can appoint a new auditor, if the existing auditor had acted in a fraudulent manner. Application to be disposed of within 15 days.
  - ▶ Removed auditor not eligible for re-appointment for 5 years

# Audit & Auditors

- ▶ Branch auditors
  - ▶ Duties and Powers same as company's statutory auditors as specified in Section 143 (1) to (4)
  - ▶ Duty to report fraud under Section 143(12) extended to branch auditors
  - ▶ Branch auditor or to report to company's auditor
- ▶ Procedure for reporting of fraud to Central Government
  - ▶ Forward report to Board/Audit Committee seeking their reply/observations within 45 days.
  - ▶ Send the report alongwith the reply received from the Board/Audit Committee to the Central Government within 15 days thereof.
  - ▶ In case no reply is received from the Board/Audit Committee, send his report alongwith a note containing the details of his report to the Board/Audit Committee, to the Central Government.
  - ▶ Report should be sent in Form No. ADT 4.

# Audit & Auditors

- ▶ Cost Audit
- ▶ Power of Central Govt. to prescribe maintenance of cost records by certain class of companies.
- ▶ Power of Central Govt. to require the cost records to be audited by a cost accountant not being a statutory auditor.
- ▶ Cost Audit shall be in accordance with cost auditing standards issued by ICWAI.
- ▶ Submission of cost audit report
- ▶ Power of Central Govt. to call for additional information.
- ▶ Penalty for non-compliance as per Section 147



# Internal Auditor

- ▶ Following companies to appoint internal auditor :
    - Listed companies
    - Public company having
      - paid up capital of 10 crores or more
      - Turnover of Rs 200 crores or more
      - Outstanding loans & borrowings of 25 crores or more or
      - Accepted Deposits are 25 crores or more
    - Private company whose :
      - Turnover of Rs 200 crores or more
      - Outstanding loans & borrowings of 25 crores or more
- in previous financial year
- ▶ He may be an employee / external professional
  - ▶ Formulation of scope, functioning, periodicity and methodology



# Summary Of Types of Audit

	Statutory	Internal	Secretarial	Cost
Relevant sections	139-147	138	204	147
Applicability	All companies	Listed and public Cos having capital > 10 crores or loans > 25 crores	Listed Cos and Public Cos with capital > 100 crores	To be notified
Who can conduct	CA / CA firm /LLP	Employee or external [CA / Cost Actt.]	CS in Practice	Cost Actt. in practice
Scope of Audit	Financial Statements	Functions and activities	Secretarial and related records	Cost records
Standards applicable	NFRA notified	ICAI (optional)	ICSI Standards	ICWAI
Frequency	Annual	Board to decide	Annual	Annual
Report to be given to	Members	Board	Members	Board

- ▶ Audit Report under old Law
  - ▶ Companies Act, 1956
    - ▶ Section 227 (1A)
    - ▶ Section 227(2)
    - ▶ Section 227(3)
    - ▶ Section 227(4A) – Companies (Auditor’s Report) Order 2003
    - ▶ Section 228
    - ▶ Section 619
  - ▶ Standards of Auditing
  - ▶ Accounting Standards
  - ▶ Auditing pronouncements by ICAI
  - ▶ Section 45MA of the Reserve Bank of India Act, 1934



- ▶ Audit Report under new Law
  - ▶ Companies Act, 2013
    - ▶ Section 143 (1)
    - ▶ Section 143(2)
    - ▶ Section 143(3)
    - ▶ Section 143(5)
    - ▶ Section 143(11)
    - ▶ Section 145
  - ▶ Standards of Auditing – Section 143(9) and 143(10)
  - ▶ Indian Accounting Standards – Section 129 read with Section 133
  - ▶ Company (Audit & Auditors) Rules, 2014
  - ▶ Auditing pronouncements by ICAI
  - ▶ Section 45MA of the Reserve Bank of India Act, 1934





## Section 143 (1) of the Companies Act, 2013

- ▶ (The auditor shall)..... amongst other matters ***inquire*** into the following matters, namely:—
  - ▶ (a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
  - ▶ (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
  - ▶ (c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
  - ▶ (d) whether loans and advances made by the company have been shown as deposits;
  - ▶ (e) whether personal expenses have been charged to revenue account;
  - ▶ (f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

## Section 143 (2) of the Companies Act, 2013

- ▶ The auditor shall make a report to the members of the company
  - ▶ on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and
  - ▶ the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11) and
  - ▶ to the best of his information and knowledge, the said accounts, financial statements **give a true and fair view** of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year
  - ▶ and such other matters as may be prescribed.

## Section 143 (3) of the Companies Act, 2013

- ▶ The auditor's report shall also state—
  - ▶ (a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
  - ▶ (b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
  - ▶ (c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;

## Section 143 (3) (Contd.) of the Companies Act, 2013

- ▶ (d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
- ▶ (e) whether, in his opinion, the financial statements comply with the accounting standards;
- ▶ (f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
- ▶ (g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;
- ▶ (h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- ▶ (i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;

**Note;** Auditor reporting on existence and operation of internal financial controls made optional for the year ending March 31, 2015. However, Directors reporting obligations to continue

- ▶ (j) such other matters as may be prescribed.

## Section 143 (3)(f) of the Companies Act, 2013

(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

“the expression ‘adverse effect of the functioning of the company’ should not be interpreted to mean that any event affecting the functioning of the company, observed by the auditor, should be reported upon, even though it does not affect the financial statements”

Concept of materiality is to be applied. – SA 200

Ordinarily matters that are pervasive in nature such as going concern or matters that will significantly impact the operations of the company due to its size and nature will need to be reported under this clause.

There is no change in the objective and scope of an audit of financial statements due to the inclusion of this clause.

Matters to be reported under this clause even if such observation did not result in a modification to the audit opinion on the financial statements of the company.

## Section 143 (3)(h) of the Companies Act, 2013

- (h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- The words - qualification, adverse remark, or reservation shall be construed as qualified opinion, adverse opinion and disclaimer of opinion as referred to SA 705.
- Reporting under this clause will not be required if there are no modifications i.e. no qualified, adverse or disclaimer of opinion and there are no such observations under Section 143(3)(b) of the said Act, regarding books of accounts kept by the company.
- An emphasis of matter is not in the nature of a qualification, reservation or adverse remark.

## Section 143 (4)

- ▶ 227 (4) of the Old Act : Where any of the matters referred to in clauses (i) and (ii) of sub-section (2) or in clauses (a), (b), (bb), **3**[(c) and (d)] of sub-section (3) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.
- ▶ 143(4) of the New Act : Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.

## Section 143 (5) of the Companies Act, 2013

- ▶ In the case of a Government company, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.
- ▶ Corresponding to Section 619 of the Old Act.



## Section 143 (8)

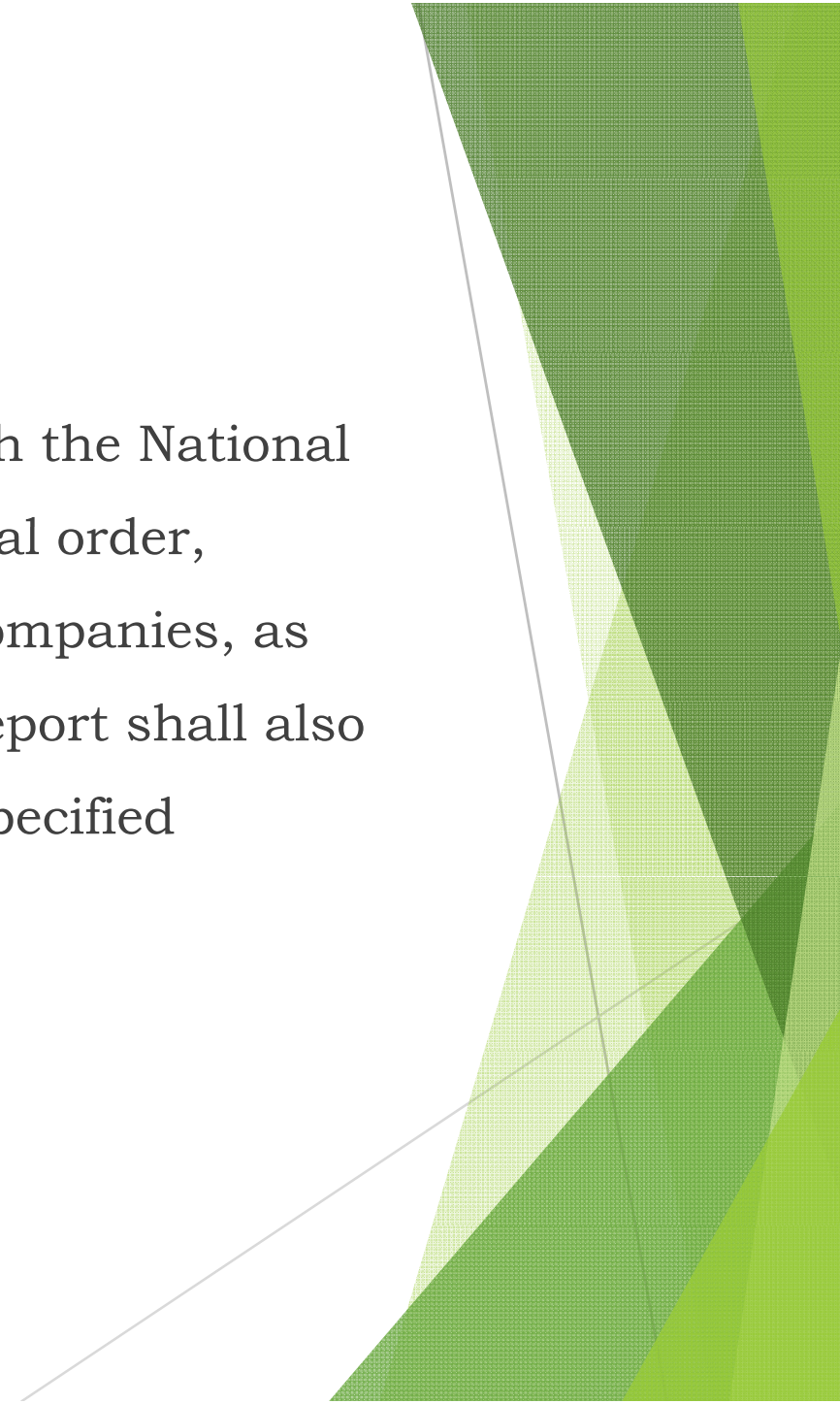
- ▶ Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:
- ▶ Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
- ▶ Corresponding to Section 228 of the Old Act.

- ▶ Every auditor shall comply with the auditing standards [Section 143(9)]
- ▶ The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:
- ▶ Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

– [Section 143 (10)]

## Section 143 (11) of the Companies Act, 2013

- ▶ The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.



- ▶ [CARO, 2003] 227 (4A) of the Old Act : The Central Government may, by general or special order\*, direct that, in the case of such class or description of companies as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein :

**Provided** that before making any such order the Central Government may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949), in regard to the class or description of companies and other ancillary matters proposed to be specified therein unless the Government decides that such consultation is not necessary or expedient in the circumstances of the case.

[\*Companies (Auditor's Report) Order 2015 issued on 10<sup>th</sup> April 2015]

- ▶ 143 (11) of the new Act : The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

## Section 143(12)

- ▶ Notwithstanding anything contained in this section, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

# Companies (Audit & Auditors) Rules, 2014

## ▶ **Rule 13. Reporting of frauds by auditor.-**

▶ (1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

- ▶ (i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
- ▶ (ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee alongwith his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
- ▶ (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government alongwith a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

## Companies (Audit & Auditors) Rules, 2014

- ▶ **Rule 13. Reporting of frauds by auditor (Contd.) :-**
- ▶ (2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.
- ▶ (3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
- ▶ (4) The report shall be in the form of a statement as specified in Form **ADT-4**.
- ▶ (5) The provision of this rule shall also apply, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively.

## Definition of Fraud

- ▶ Explanation to Section 447 of the Act defines fraud:
- ▶ (i) “fraud” in relation to affairs of a company or any body corporate, includes
  - ▶ any act, omission, concealment of any fact or abuse of position
  - ▶ committed by any person or any other person with the connivance in any manner,
  - ▶ with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person,
  - ▶ whether or not there is any wrongful gain or wrongful loss;
- ▶ (ii) “wrongful gain” means the gain by unlawful means of property to which the person gaining is not legally entitled;
- ▶ (iii) “wrongful loss” means the loss by unlawful means of property to which the person losing is legally entitled.



## Companies (Audit & Auditors) Rules, 2014

### ► **Rules 11 : Other matters to be included in auditors report.-**

► The auditor's report shall also include their views and comments on the following matters, namely:-

- (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
- (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

## Auditing Standards issued by ICAI

- ▶ SQC – 1 : Standards on Quality
- ▶ SA 200 : Overall objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards of Auditing
- ▶ SA 210 : Agreeing the terms of Audit Engagement
- ▶ SA 220 : Quality Control of an Audit of Financial Statements
- ▶ SA 230 : Audit Documentation
- ▶ SA 240 : Auditor's responsibilities relating to Fraud in an audit of financial statements.
- ▶ SA 250 : The Auditor's responsibilities relating to Laws and Regulations in an audit of financial statements.
- ▶ SA 260 : Communication with those charged with governance.
- ▶ SA 265 : Communicating deficiencies in Internal Control to those charged with governance and management

## Auditing Standards issued by ICAI (Contd.,)

- ▶ SA 299 : Responsibility of Joint Auditors
- ▶ SA 300 : Planning an audit of Financial Statements
- ▶ SA 315 : Identifying and assessing the risk of material mis-statement through understanding the Entity and its environment
- ▶ SA 320 : Materiality in Planning and performing an audit.
- ▶ SA 330 : The auditor's responses to assessed risks
- ▶ SA 402 : Audit considerations relating to an entity using a service organisation.
- ▶ SA 450 : Evaluation of misstatements identified during the audit.
- ▶ SA 500 : Audit Evidence.
- ▶ SA 501 : Audit Evidence – Specific considerations for selected items
- ▶ SA 505 : External Confirmation

## Auditing Standards issued by ICAI (Contd.,)

- ▶ SA 510 : Initial Audit Engagement – Opening Balance
- ▶ SA 520 : Analytical Procedures.
- ▶ SA 530 : Audit Sampling.
- ▶ SA 540 : Auditing Accounting Estimates including fair value accounting estimates and related disclosures.
- ▶ SA 550 : Related Parties.
- ▶ SA 560 : Subsequent events.
- ▶ SA 570 : Going Concern.
- ▶ SA 580 : Written Representations.
- ▶ SA 600 : Using the work of Another Auditor
- ▶ SA 610 : Using the work of Internal Auditor.
- ▶ SA 620 : Using the work of an Auditor's Expert

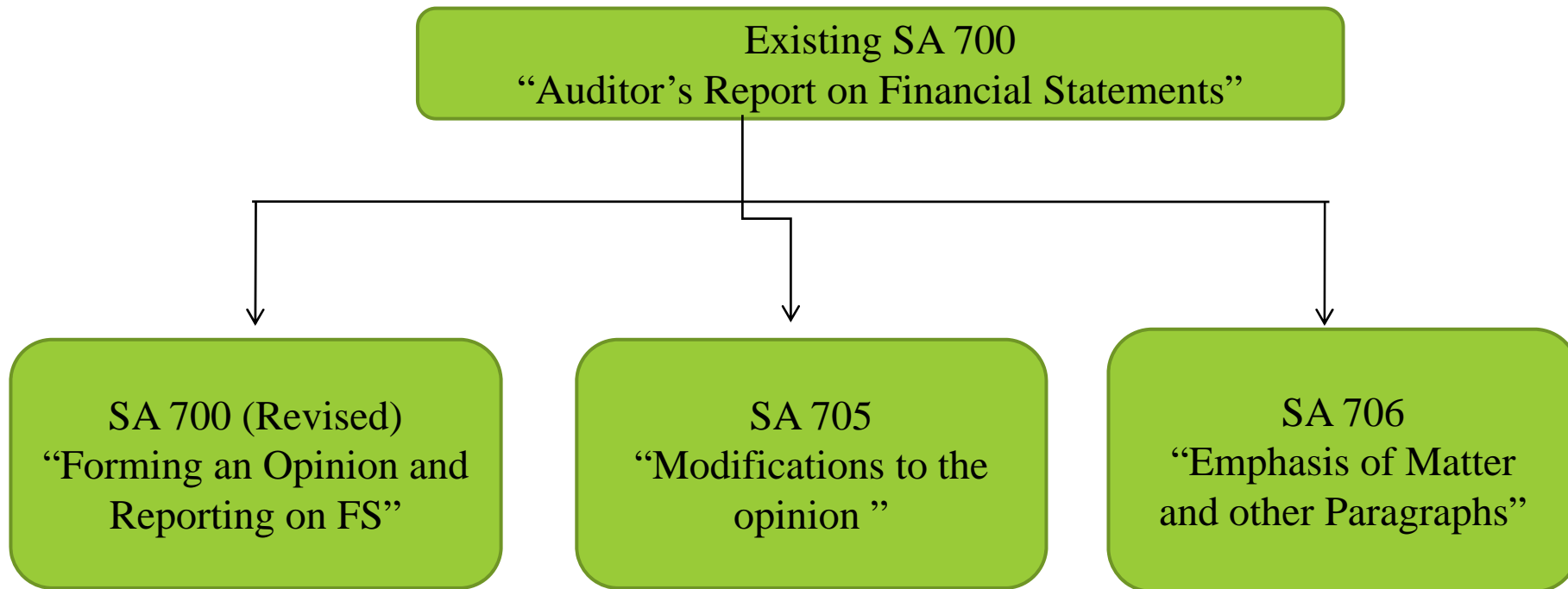
## Auditing Standards issued by ICAI (Contd.,)

- ▶ SA 700 : Forming an opinion and reporting on financial statements
- ▶ SA 705 : Modifications to the opinion in the Independent Auditor's report.
- ▶ SA 706 : Emphasis of Matter paragraphs and Other matter paragraphs in the Independent auditor's report.
- ▶ SA 710 : Comparative Information – Corresponding figures and comparative financial statements.
- ▶ SA 720 : The Auditor's responsibility in relation to other information in documents containing audited financial statements.
- ▶ SA 800 : Special Considerations – Audits of financial statements prepared in accordance with special purpose framework.
- ▶ SA 805 : Special Considerations – Audit of Single Financial statements and specific elements, accounts or items of a financial statement.
- ▶ SA 810 : Engagement to report on summary financial statements.

## Other Standards issued by ICAI

- ▶ Standards on Review Engagements
  - ▶ SRE 2400 : Engagements to review financial statements.
  - ▶ SRE 2410 : Review of Interim Financial Information performed by the independent auditor of the entity.
  
- ▶ Standards on Assurance Engagements
  - ▶ SAE 3400 : The Examination of prospective financial information.
  
- ▶ Standards on Related Services
  - ▶ SRS 4400 : Engagement to perform agreed upon procedures regarding financial information.
  - ▶ SRS 4410 : Engagement to compile financial information
  - ▶ SA 800 : Special Considerations – Audits of financial statements prepared in accordance with special purpose framework.

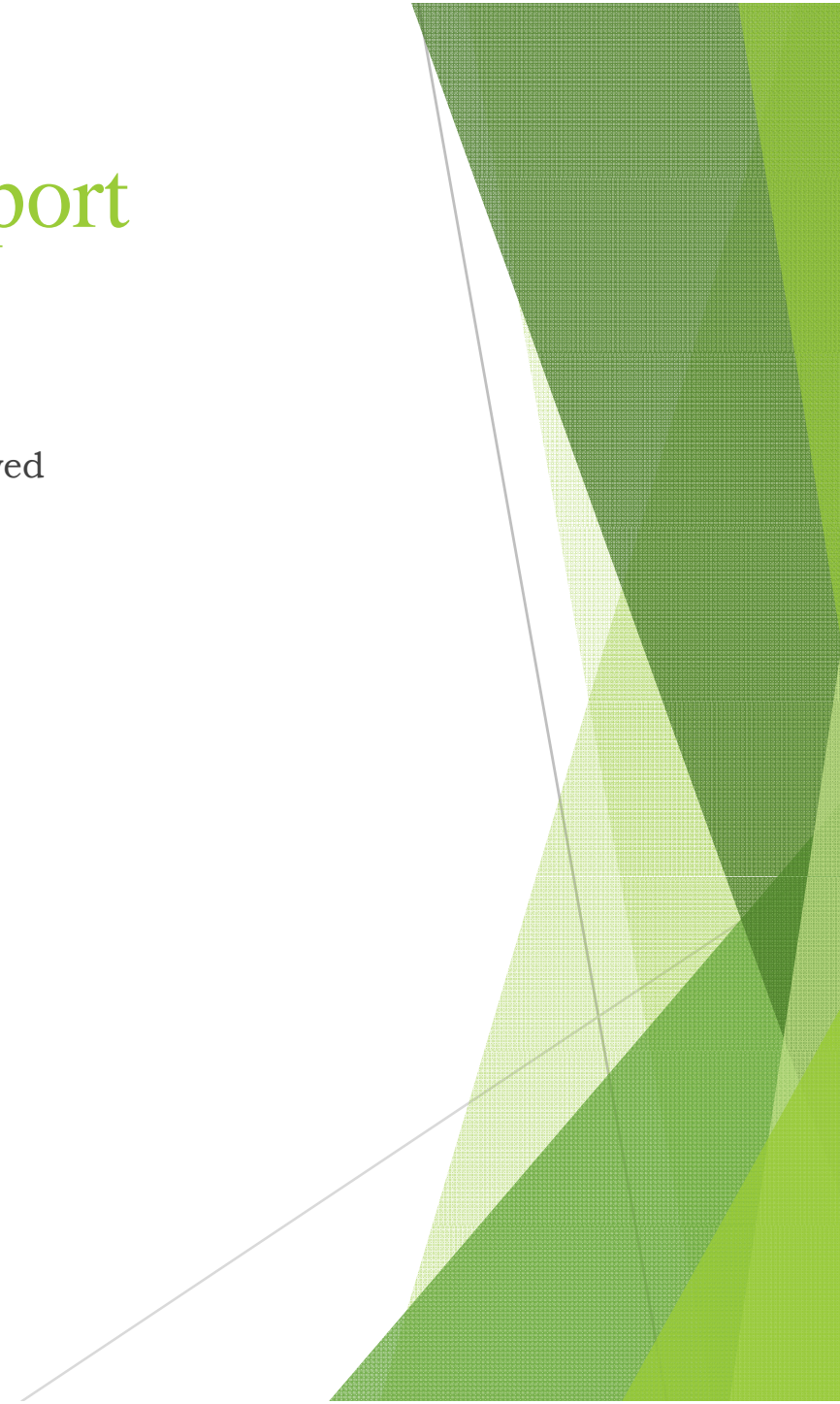
# *Introduction*



- ✓ FS under special purpose framework are dealt by SA 800 & SA 805

# The Purpose of the Audit Report

- Definition of auditing: “... communicating results to interested users.”
- Indicate whether the FS are in accordance with GAAP
  - ✓ Provide indication of what the FS would be like if GAAP were followed
  - ✓ Provide any company-omitted disclosures
- Indicate any unusual aspects of the audit examination
  - ✓ Scope limitations
  - ✓ Division of responsibility
- Indicate any unusual matters related to the company
  - ✓ Going concern uncertainty
  - ✓ Consistency
  - ✓ Emphasize a matter







► **Unmodified Opinion** –

- ✓ A True and Fair View
- ✓ Accordance with FRF
- ✓ GAAP consistently applied
- ✓ Complies with relevant statutory requirements
- ✓ Adequate disclosure of all material matters relevant to proper presentation subject to statutory requirements.

▶ A FRF designed to meet common financial info needs of a wide range of users.

▶ **Fair Presentation Framework**

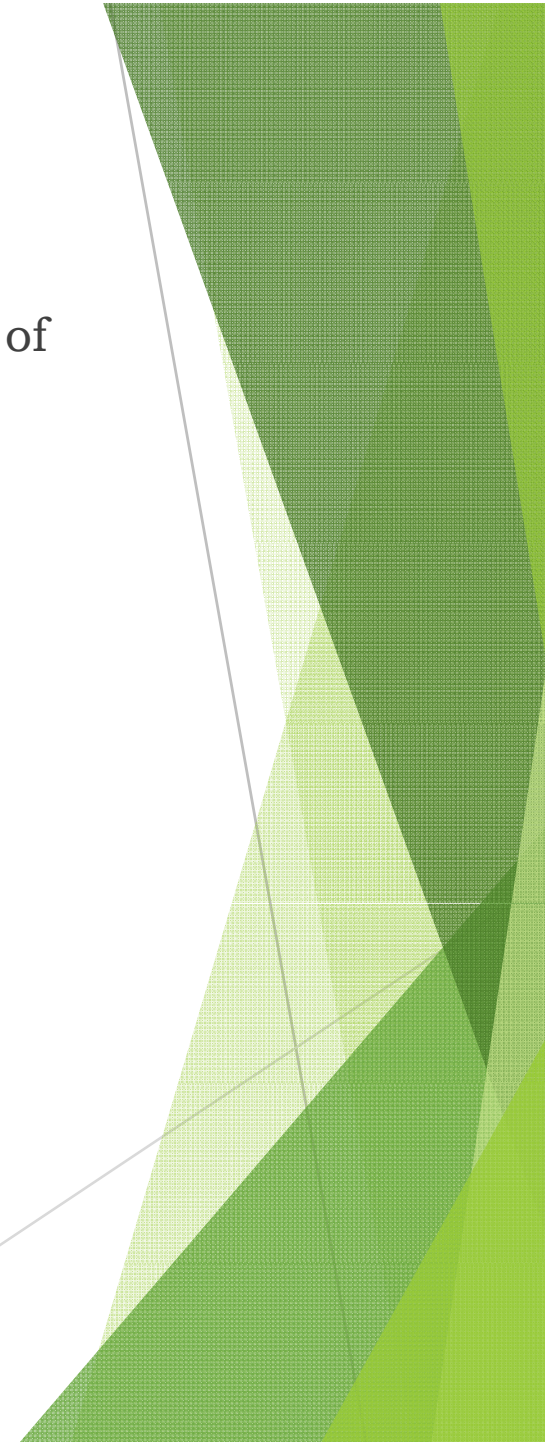
▶ Acknowledges explicitly/ implicitly that the following may be necessary for fair presentation of FS:


▶ management may need to provide disclosures beyond those specifically required by FRF

▶ management to depart (in extremely rare situations) from a requirement of framework

▶ **Compliance Framework**

▶ Refers to FRF that requires compliance with requirements of the framework but does not contain the acknowledgement as in Fair Presentation Framework



- 
- ▶ Additional communication in audit report (AR)
  - ▶ When auditor considers necessary
  - ▶ To draw users' attention to:
    - ▶ Matter/s presented or disclosed in FS that are of such importance that they are fundamental to users' understanding of FS

OR

- ▶ Matter/s other than those presented/ disclosed in FS that are relevant to users' understanding of audit/ auditor's responsibilities/ AR

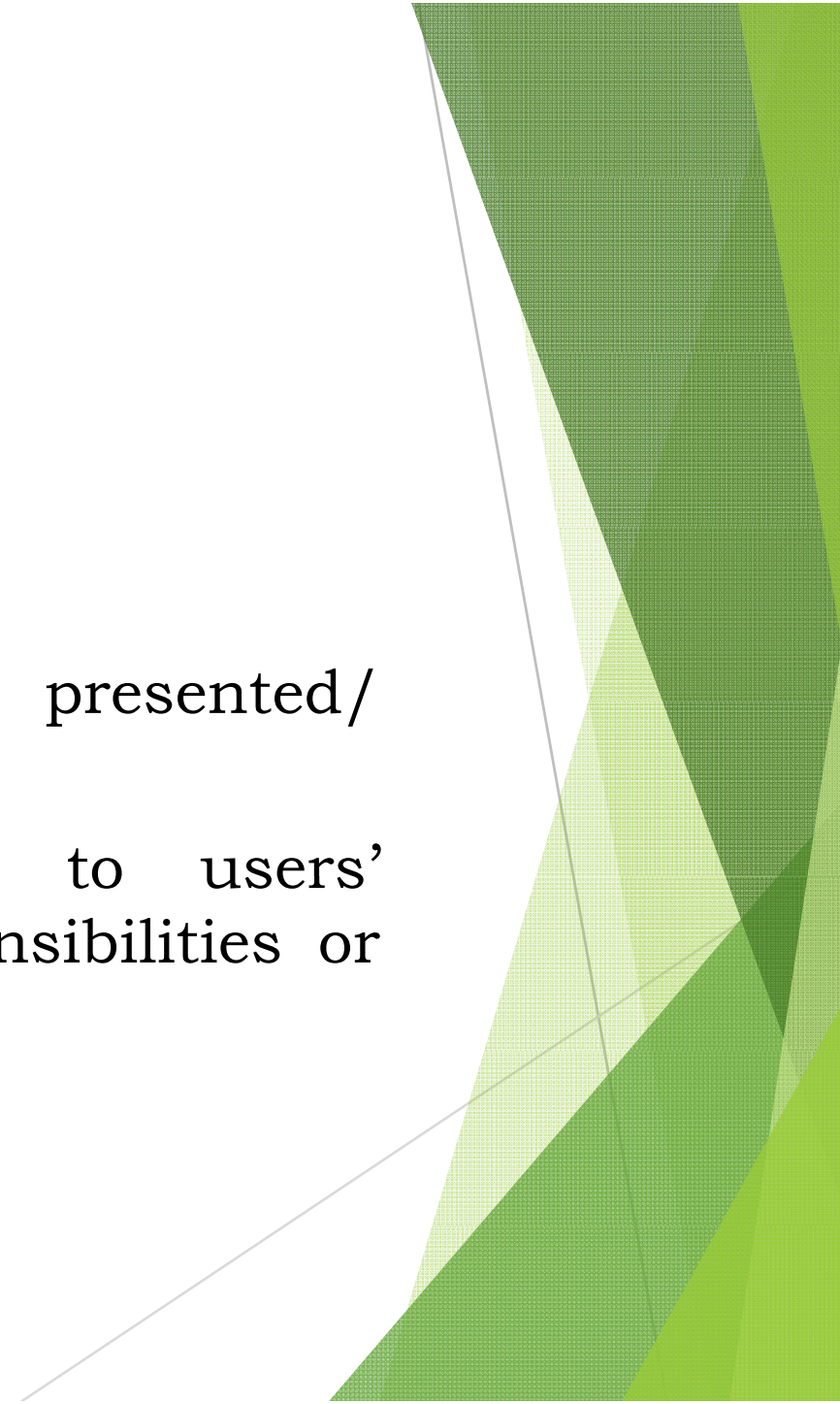
*Emphasis of Matter Paragraph (EoMP)* para included in  
AR

- ✓ refers to a matter appropriately presented/ disclosed in FS that
- ✓ in the auditor's judgment is of such importance that it is fundamental to users' understanding of FS



## *Other Matter Paragraph (OMP)*

- ✓ Para included in AR
- ✓ Refers to matter other than those presented/  
disclosed in FS
- ✓ In auditor's judgment, is relevant to users'  
understanding of audit, auditor's responsibilities or  
auditor's report



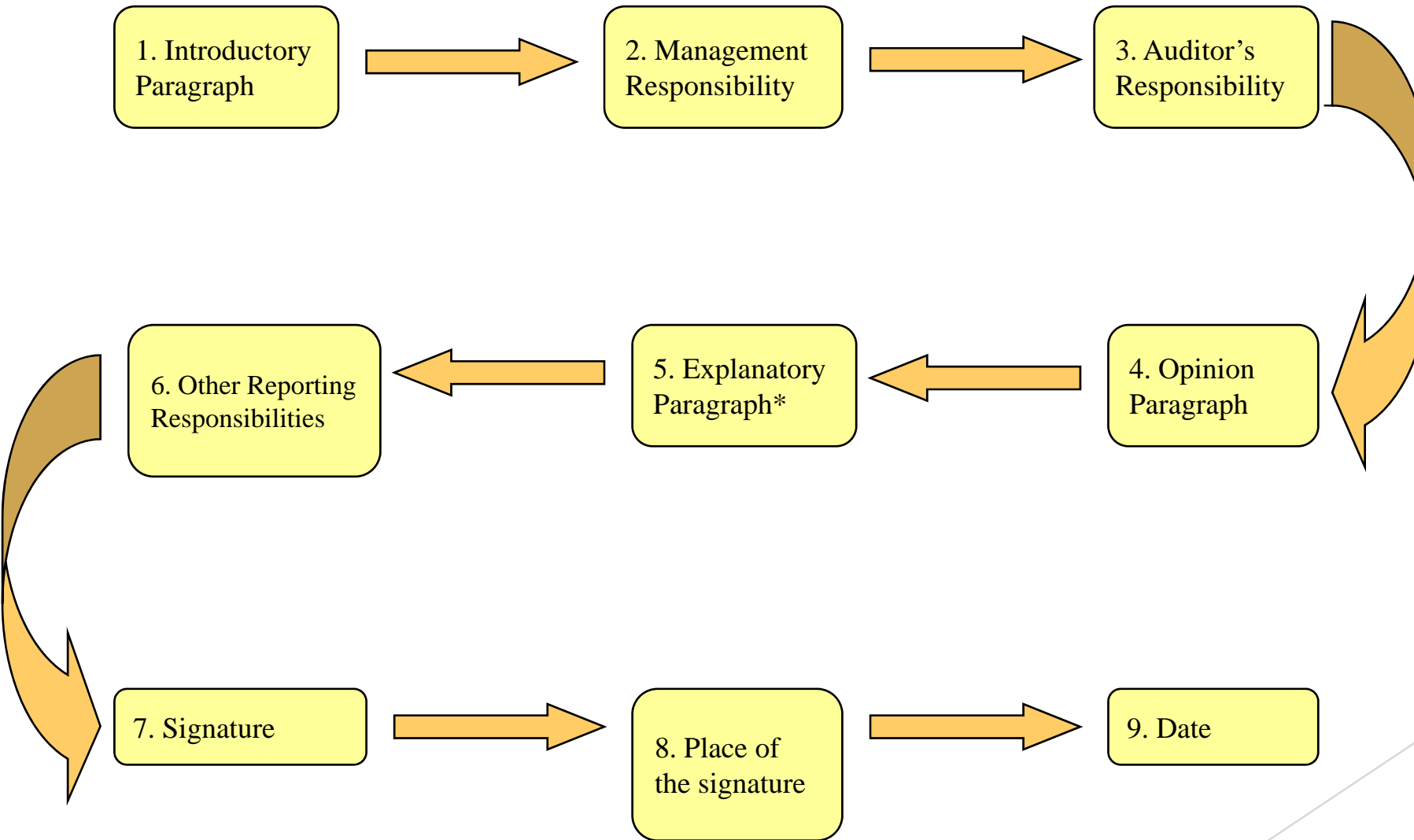
## Types of Audit Reports

Type of Report	Interpretation
Unqualified Opinion	Financial statements taken as a whole <i>present fairly</i> the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP).
Qualified Opinion	“ <i>Except for</i> ” the effects of a particular matter, the financial statements <i>present fairly</i> the financial position, results of operations, and cash flows in conformity with GAAP.
Adverse Opinion	Financial statements <i>do not present fairly</i> the financial position, results of operations, and cash flows in conformity with GAAP.
Disclaimer of Opinion	Auditor <i>does not express an opinion on</i> the financial position, results of operations, or cash flows.

## Contents of Audit Report

- ▶ A clear written expression of opinion on the whole.
- ▶ Basic Elements – Title / Addressee / Opening / Scope para / Opinion para / Auditor's Signature / Place / Date of Report
- ▶ Opening para
  - ▶ Identify FSs (Entity's name / Period/ Management's responsibility)
  - ▶ Auditor's Responsibility
- ▶ Scope – Description of Audit Function (Test check / Accounting Principles / Estimates / GAAP / Audit provides reasonable assurance)
- ▶ Opinion – Identify FRF / a true & fair view / statutory requirement
- ▶ Date – Date not earlier than date on which FSs are approved by the Management.
- ▶ Place of Signature – Specific location where auditor's report is signed.

# Contents of Audit Report





# What should be included in the Audit Report?

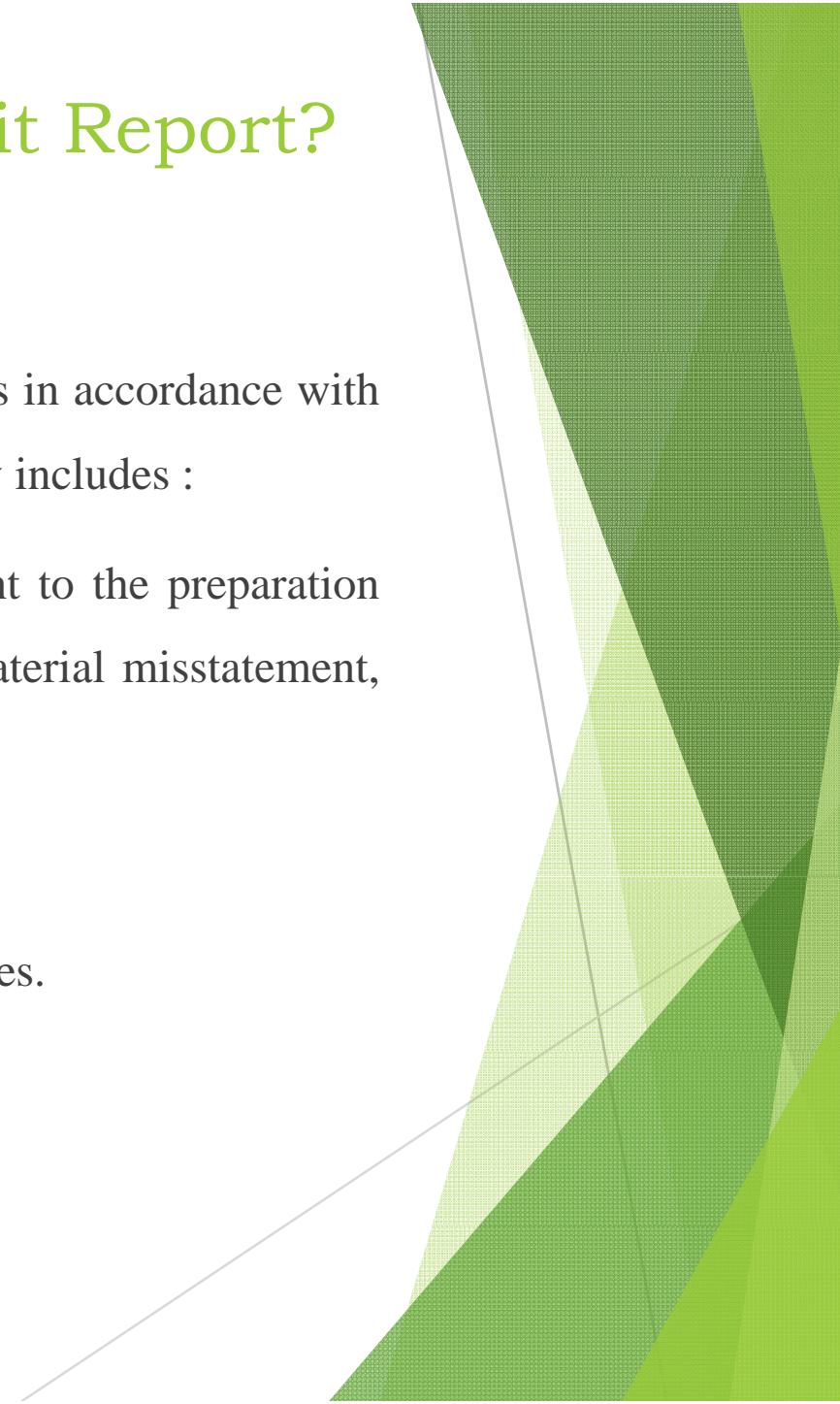
- ▶ **Title** : Clearly indicates that it is the report of an independent auditor
- ▶ **Addressee** : Those for whom the report is prepared
- ▶ **Introductory paragraph** : State the entity whose financial statements have been audited and should state that the financial statements have been audited. The introductory paragraph should also:
  - ▶ Identify the title of each of the financial statements that comprise the complete set of financial statements;
  - ▶ Refer to the summary of significant accounting policies and other explanatory notes; and
  - ▶ Specify the date and period covered by the financial statements.

# What should be included in the Audit Report?

## **Management responsibility**

For the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes :

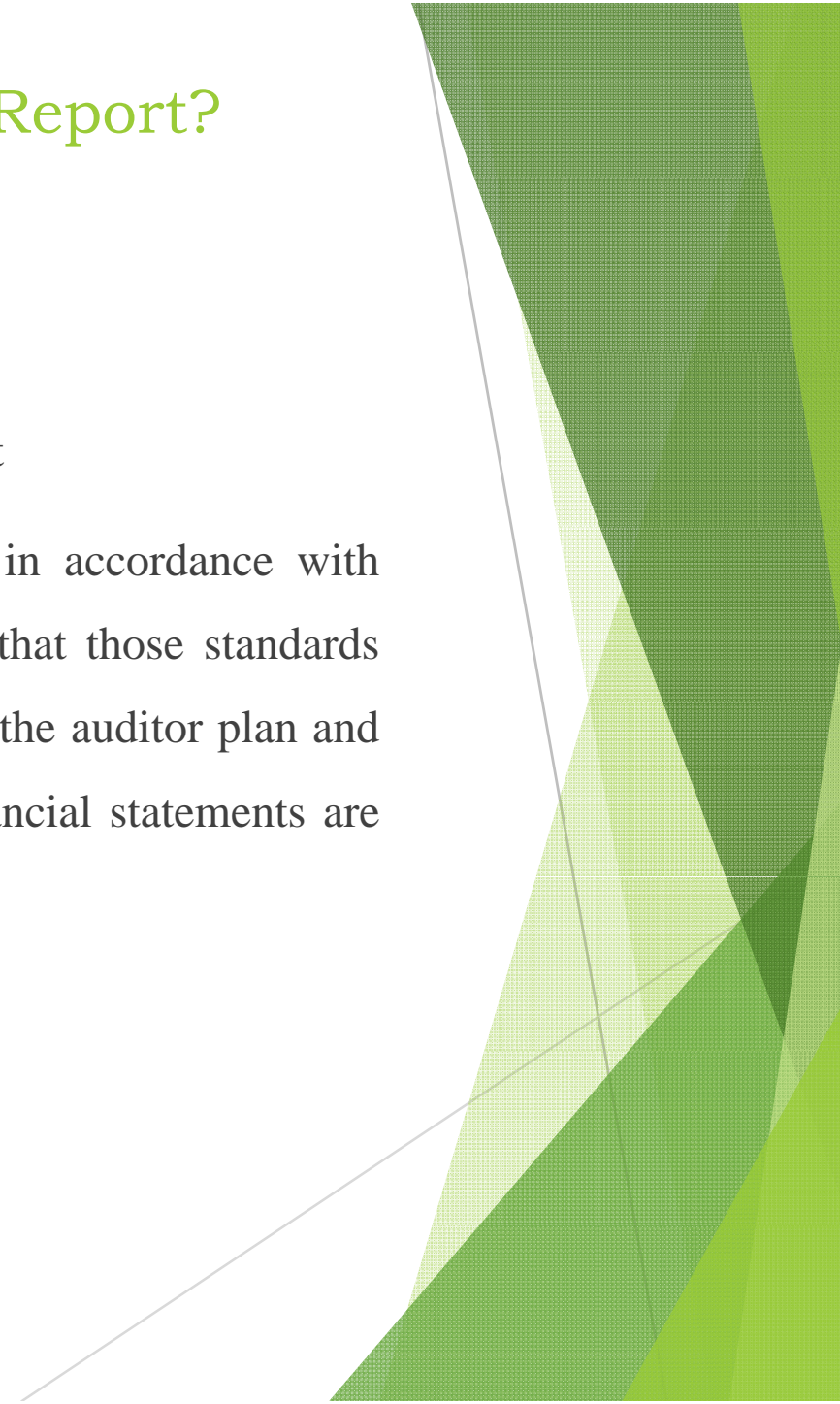
- ✓ Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ✓ Selecting and applying appropriate accounting policies; and
- ✓ Making accounting estimates that are reasonable in the circumstances.



# What should be included in the Audit Report?

## **Auditor responsibility**

- To express an opinion on the financial statements based on the audit
- The auditor's report should state that the audit was conducted in accordance with Standards on Auditing. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



## **Other Reporting Responsibilities**

- Include a sub heading: **“Report on Other Legal & Regulatory Requirements”**
- If audit report contains a separate section on other reporting responsibilities, then introductory para, management responsibility para and auditor’s responsibility para to be under main head **“Report on the FS”**

## Auditor's Signature

- ✓ Audit report to be signed
- ✓ To be signed in auditor's personal name
- ✓ Where firm appointed as auditor, report signed in personal name & in name of audit firm
- ✓ Also mention firm registration number & membership number of ICAI

## **Date of Audit Report**

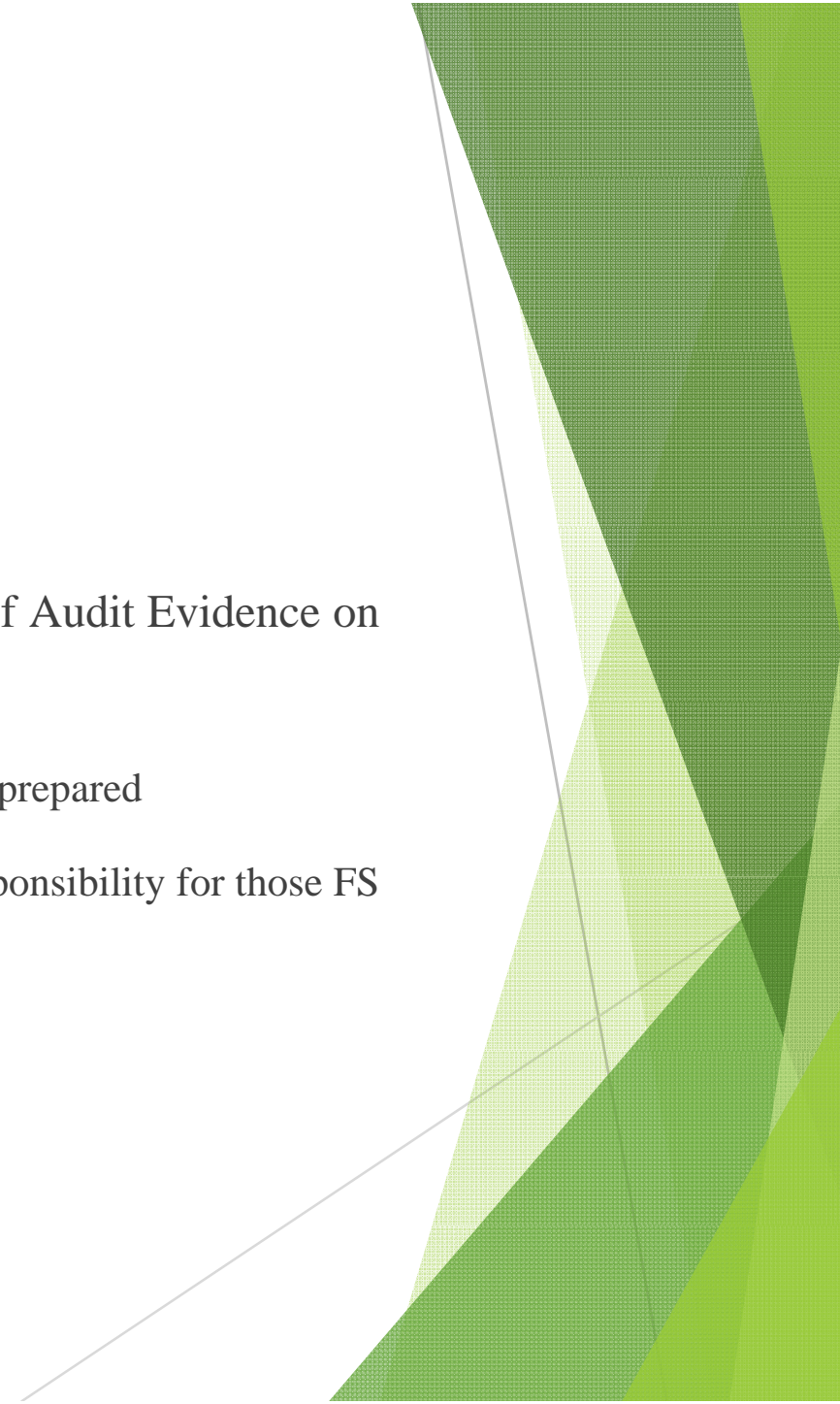
Not earlier than date on which auditor has obtained sufficient amount of Audit Evidence on which to base auditor's opinion:

- ✓ All statements that comprise FS including related notes that have been prepared
- ✓ Those with recognised authority have asserted that they have taken responsibility for those FS

## **Place of Signature**

➤ Name specific location

- ✓ Ordinarily the city where audit report is signed



# Supplementary Info Presented with FS

- Supplementary info presented but not required by FRF
  - ✓ Evaluate whether Supplementary Info clearly differentiated from audited FS
  - ✓ If not, ask mgt to change presentation of unaudited Supplementary Info
  - ✓ If mgt refuses, explain in Audit Report that Supplementary Info is unaudited
- If such Supplementary Info is nevertheless integral part of FS due to its nature & how it is presented, auditor to cover it in his audit opinion



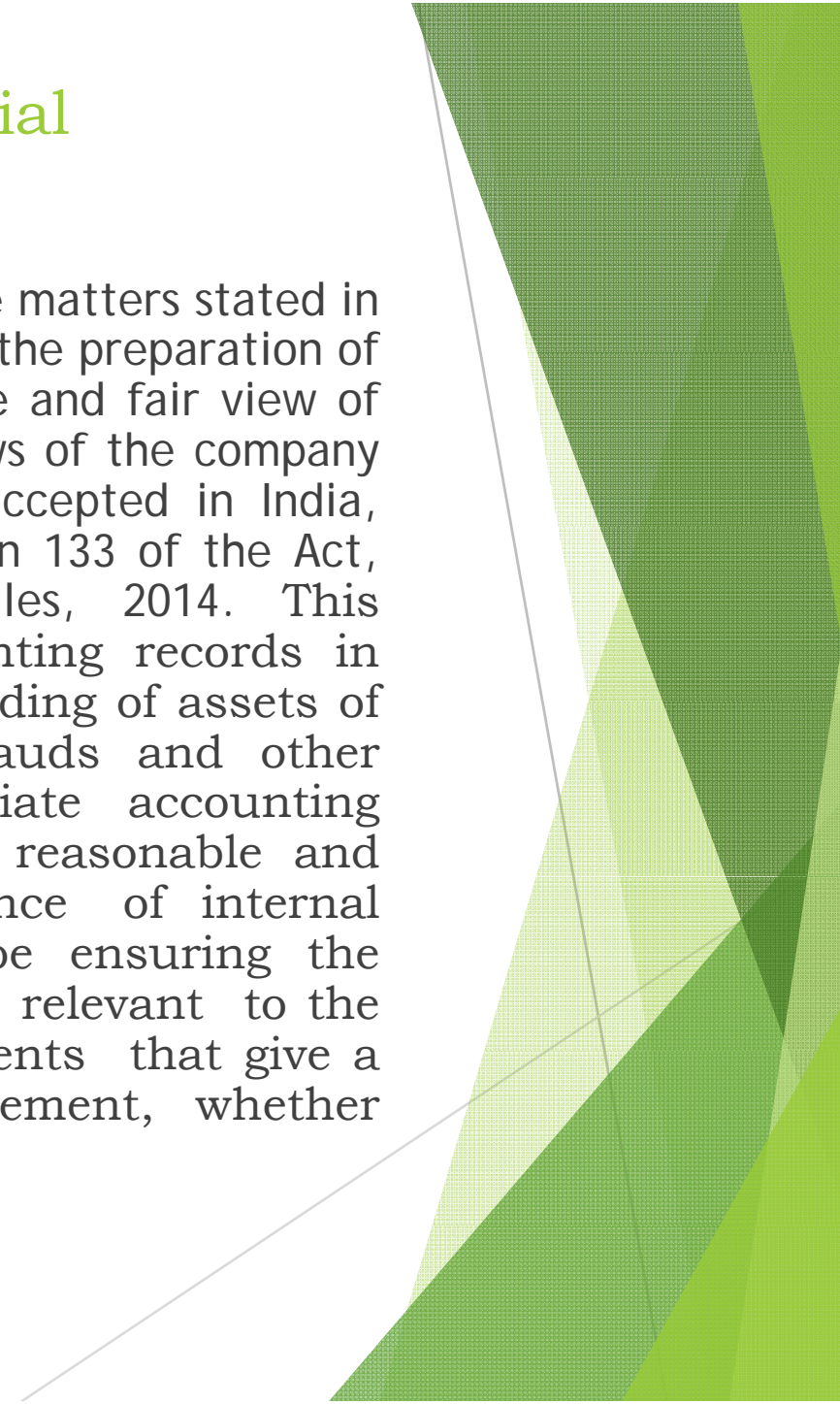
# Auditor's report

- ▶ To, The Shareholders/Members, of M/s. \_\_\_\_\_ Limited/Private Limited, Place
- ▶ We have audited the attached
  - ▶ Balance Sheet of \_\_\_\_\_ Limited/Private Limited as at 31<sup>st</sup> March 2015; and
  - ▶ the Statement of Profit and Loss for the period/year ended on that date; and
  - ▶ also the Cash Flow Statement for the period/year ended on that date
  - ▶ These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- ▶ We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- ▶ We believe that our audit provides a reasonable basis for our opinion.



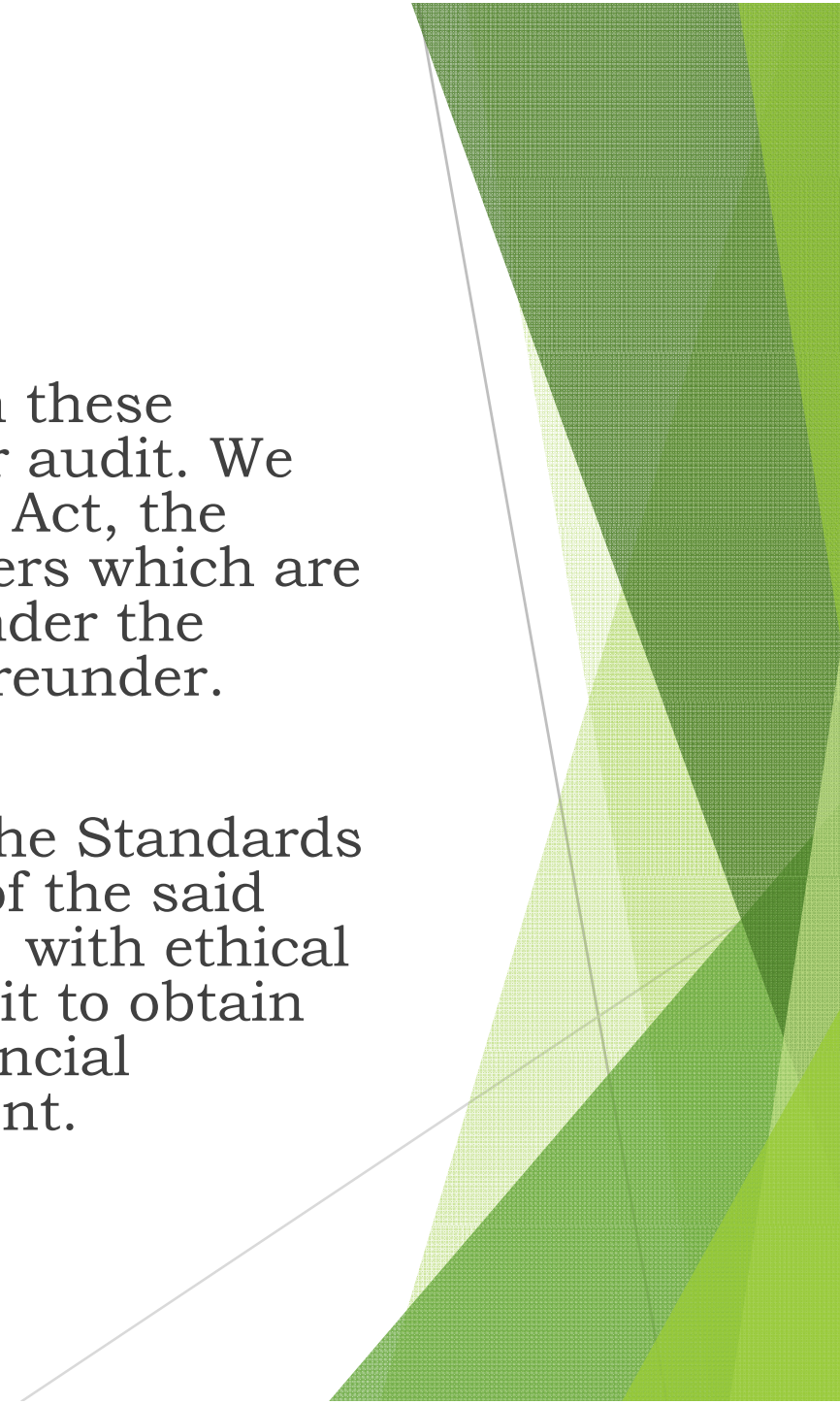
# Management's Responsibility for the Financial Statements

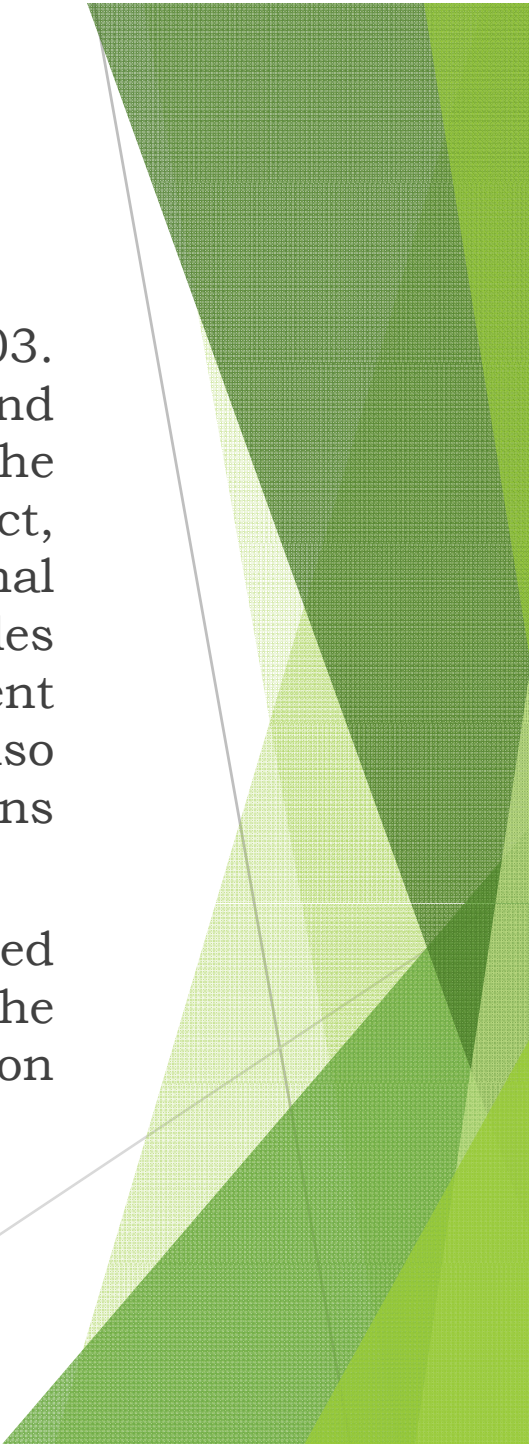
- ▶ The Board of Directors of the company is responsible for the matters stated in Section 134(5) of the Companies Act, 2013, with respect to the preparation of these standalone financial statements are that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of accounting records in accordance with the provisions of the Act for safeguarding of assets of the company and for preventing and detecting frauds and other regularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.





# Auditor's Responsibility

- ▶ Our responsibility is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
- ▶ We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the said Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



- 
- ▶ The company is governed by the Electricity Act 2003 w.e.f. 10.06.2003. Though the said Act has repealed the Electricity (Supply) Act 1948 and Electricity Regulatory Commission Act 1998, certain provisions, to the extent they are not inconsistent with the provisions of said Act, continued to be applied by the company while preparing the final statements. Further, the provisions of the said Act read with the rules thereunder, have prevailed wherever the same have been inconsistent with the provisions of the Companies Act, 1956. The company is also governed by the provisions of Delhi Electricity Regulatory Commissions Act, 2000.
  - ▶ 4. As required by the Companies (Auditor's Report) order, 2015, issued by the Central Government of India in terms of section 143(11) of the Companies Act, 2013, we enclose in the Annexure "A" a statement on the matters specified in paragraphs 4 and 5 of the said order.

- 
- ▶ Further to our comments in above we report that
    - ▶ we have sought and obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit:
    - ▶ In our opinion proper books of accounts as required by law under section 128 (1) of the Companies Act, 2013 have been kept by the company, so far as appears from our examinations of the books.
    - ▶ The Balance Sheet and Profit & Loss account dealt with by this report are in agreement with the Books of Account.
    - ▶ In our opinion and to the best of our information and according to explanations given to us, the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by this report are prepared in compliance with the applicable Accounting Standards referred to in Section 129 read with Section 133 of the Companies Act 2013 except as mentioned hereafter in our report.
  - ▶ The Government of National Capital Territory of Delhi are appointing nominee Directors who are exempt from provisions of section 164(2) of the Companies Act 2013 **in view of circular issued No 8/2002 dated 22.03.2002 by the Department of Company Affairs**

- 
- ▶ We also report that :
  - ▶ the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
  - ▶ the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
  - ▶ there have been no/minor delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
  - ▶ The statement of changes in equity during the year, has been prepared from the records of the company.

▶ We further report that: \_\_\_\_\_  
\_\_\_\_\_

▶ In our opinion and to the best of our information and according to the explanations given to us, the said accounts (financial statements), read with Notes on Accounts and Significant Accounting Policies and subject to our qualifications elsewhere in the report, give the information required by the Companies Act, 2013 in the manner so required and give true and fair view:

- ▶ In the case of the Balance Sheet, of the State of Affairs as at 31st March, 2015.
- ▶ In case of Statement of Profit & Loss, of the profit/(loss) for the year ended on that date.
- ▶ In case of cash flow statement, of the cash flows for the year ended on that date.

- ▶ For XYZ & Co.,
- ▶ Chartered Accountants,
- ▶ Firm Regn. No.: 999999A.
- ▶
- ▶
- ▶ XYX
- ▶ Proprietor/ Partner
- ▶ Membership No.: 99999
- ▶ Place: \_\_\_\_\_
- ▶ Date: \_\_\_\_\_.



# Companies (Auditor's Report) Order, 2003

In exercise of the powers conferred by sub-section (11) of Section 143 of the **Companies Act, 2013** (1 of 1956), read with the Notification of the Government of India in the Ministry of Company Affairs, number G.S.R. \_\_\_\_\_, dated 10<sup>th</sup> April, 2015, and after consultation with the Institute of Chartered Accountants of India [constituted under the Chartered Accountants Act, 1949 (38 of 1949)], in regard to class of companies to which this order applies and other ancillary matters, the Central Government hereby makes the Order.

▶ **CARO 2015, replaces CARO 2003**



# Auditor's Position

- ▶ Position of Auditor - Fiduciary relationship with shareholders
- ▶ Not an Adviser
- ▶ Not an insurer
- ▶ Not a critic of management decision
- ▶ A Watch-dog, Not a Bloodhound
- ▶ An agent of shareholders to a limited extent to audit the books of accounts.



## Companies (Auditor's Report) Order, 2015

► Applicability to every company including a foreign company

► Non-applicability:

- a) Banking Company
- b) Insurance Company
- c) Company licensed to operate u/s 8 of the Act.
- d) **One Person Company [Section 2(62)]**
- e) **Small Company [Section 2(85)]**
- f) Private Limited Company
  - with paid-up capital and reserves  $\leq$  50 lacs rupees and
  - loan outstanding  $\leq$  25 Lacs rupees from any bank or financial institution and
  - turnover  $\leq$  five crore rupeesat any point of time during the financial year

### 3(i) Fixed Assets:

- a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
- b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

### 3(ii) Inventory :

- a) whether physical verification of inventory has been conducted at reasonable intervals by the management;
- b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported;
- c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;

## 3(iii) Loans Given :

- a) *Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Act, and if so,*
  - a) *whether receipt of the principal amount and interest are also regular; and*
  - b) *if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery/ payment of the principal and interest;*

## (iv) Internal Control System :

- ▶ *is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system;*

## 3(v) Deposits from Public :

► in case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of *sections 73 to 76 or any relevant provisions of the Companies Act* and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; If an order has been passed by *Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal*, whether the same has been complied with or not?

### 3(vi) Cost Records :

where maintenance of cost records has been prescribed by the Central Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained;





### 3(vii)(a) Undisputed Statutory Dues :

a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, *Service Tax*, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

## 3(vii)(b) & (c) Disputed Statutory Dues :

- a) *Relating to undisputed statutory*
- b) *in case dues of income tax/sales tax/wealth tax/service tax/ customs duty/ excise duty/cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the Department shall not constitute the dispute).*
- c) *Whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 and rules made thereunder has been transferred to such fund within time.*

### 3(viii) Net-worth eroded Companies :

- ▶ whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and *in the immediately preceding financial year*;

### 3(ix) Dues to Banks, etc.:

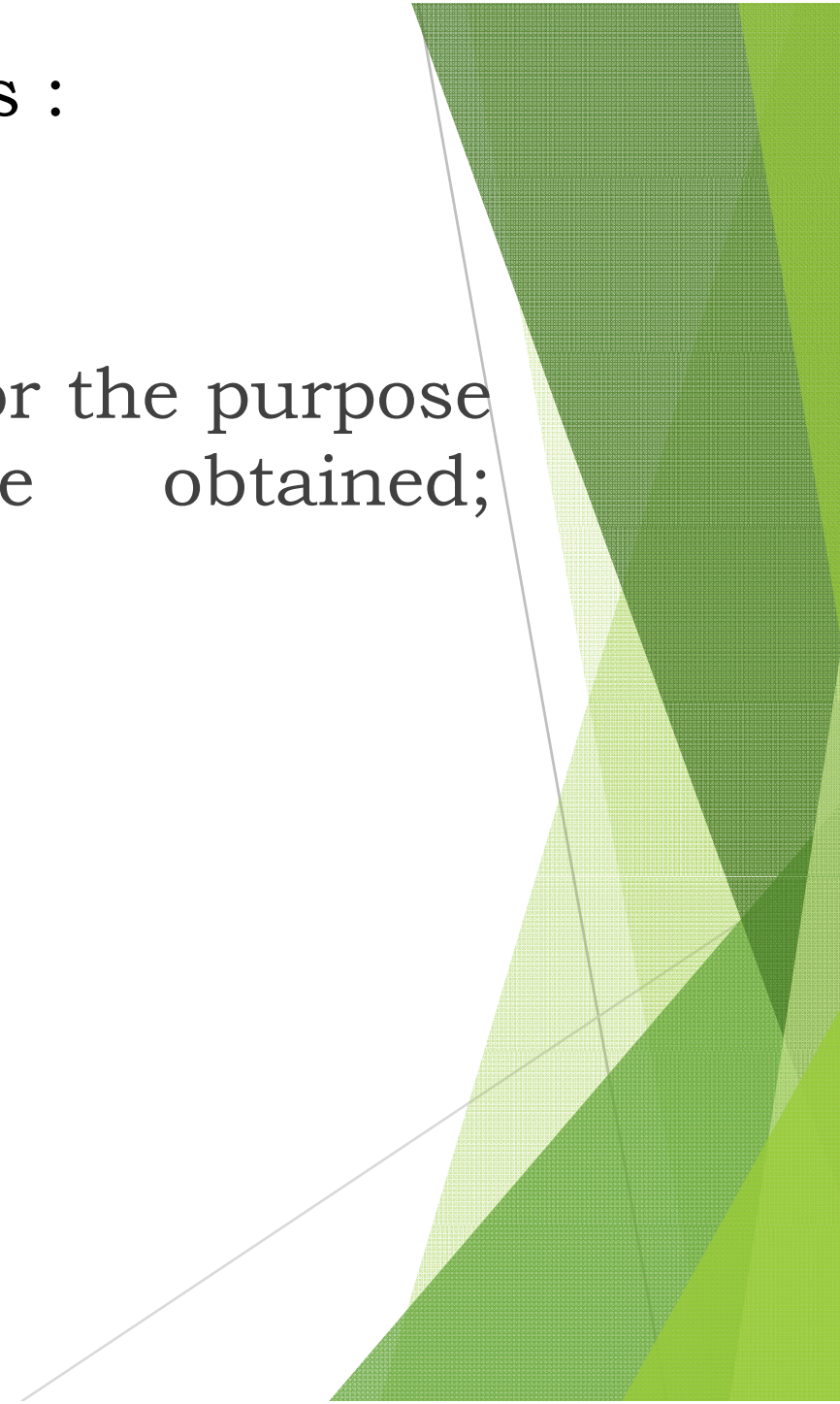
- ▶ whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported;

### 3(x) Terms and conditions of guarantees given :

- ▶ whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;

### 3(xi) Utilisation of term loans :

- ▶ whether term loans were applied for the purpose for which the loans were obtained;

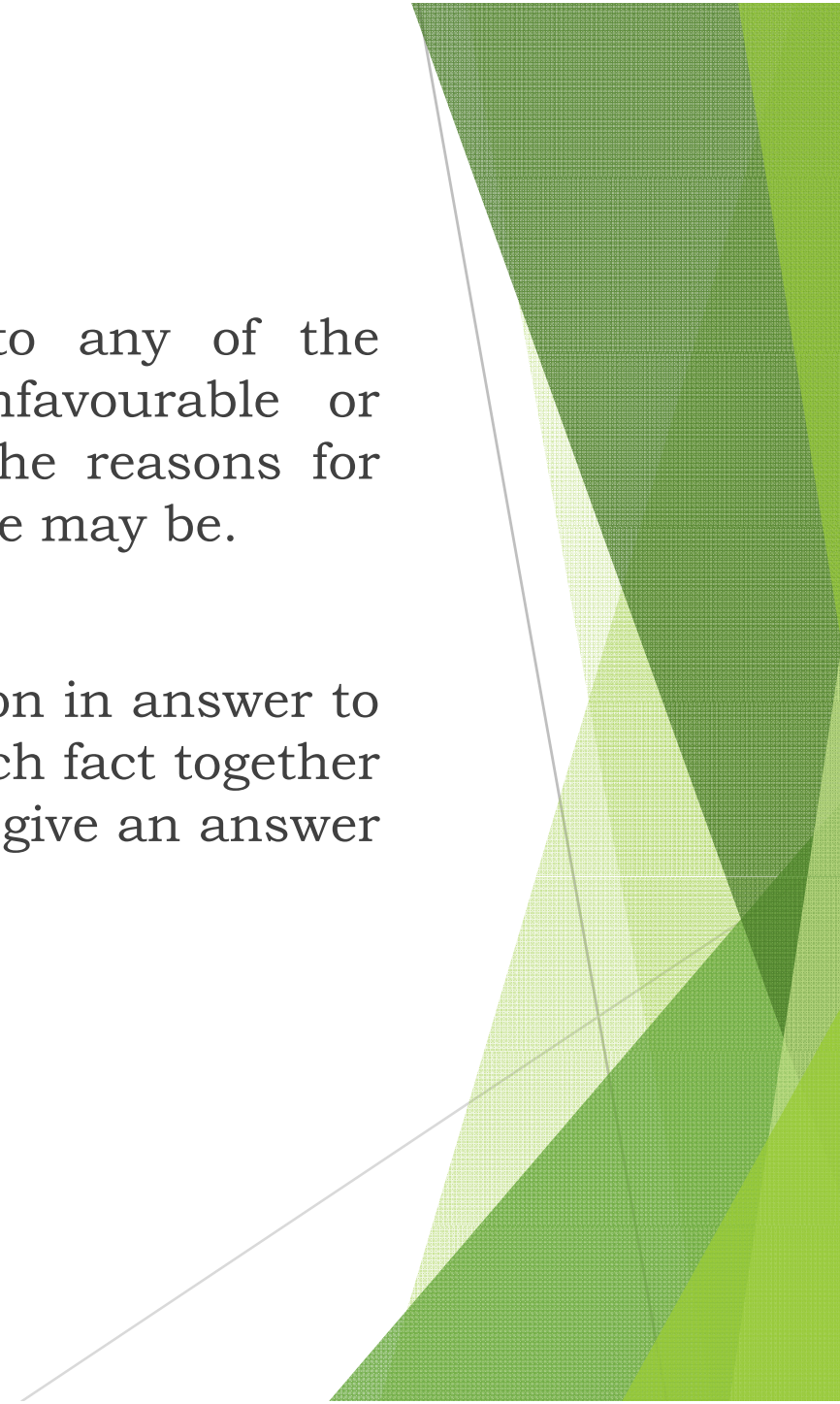


### 3(xii) Reporting on fraud :

- ▶ *Whether any fraud on or by the company has been noticed or reported during the year. If yes, the nature and amount involved is to be indicated.*

# Reporting requirements

- ▶ Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.
- ▶ Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.





# Auditor's Position

- ▶ Position of Auditor - Fiduciary relationship with shareholders
- ▶ Not an Adviser
- ▶ Not an insurer
- ▶ Not a critic of management decision
- ▶ A Watch-dog, Not a Bloodhound
- ▶ An agent of shareholders to a limited extent to audit the books of accounts.



# Auditor's focus areas – compliances and responsibilities

- ▶ Changes in provisions are not only in letter but compliance in spirit of law is desired.
  - ▶ Disqualifications
  - ▶ Prohibited services
- ▶ More responsibilities are cast on Key Managerial Personnel, auditors and other professionals
  - ▶ Reporting requirements
  - ▶ Class Action suits
- ▶ Penalties have been increased manifold

# Contents of effective Audit Report under Companies Act, 2013



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