



Standards on Auditing

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Standards on Auditing

SA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- This Standard establishes the independent auditor’s overall responsibilities when conducting an audit of financial statements in accordance with SAs.
- **Ethical Requirements Relating to an Audit of Financial Statements** — The auditor should apply the following fundamental principles of professional ethics relevant when conducting an audit of financial statement:
 - (a) **Integrity;**
 - (b) **Objectivity;**
 - (c) **Professional competence and due care;**
 - (d) **Confidentiality; and**
 - (e) **Professional behavior.**
- **Professional Skepticism**— Professional skepticism includes being alert to, for example:
 - (a) Audit evidence that **contradicts other audit evidence** obtained;
 - (b) Information that brings into question the **reliability of documents and responses to inquiries** to be used as audit evidence;
 - (c) Conditions that may indicate **possible fraud**; and
 - (d) Circumstances that suggest the **need for audit procedures in addition** to those required by the SAs.
- **Professional Judgment**— Professional judgment is necessary in particular regarding decisions about:
 - (a) **Materiality and audit risk;**
 - (b) The **nature, timing, and extent of audit procedures** used to meet the requirements of the SAs and gather audit evidence;
 - (c) Evaluating whether **sufficient appropriate audit evidence** has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor;

Standards on Auditing (Contd.)

SA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- d) The **evaluation of management's judgments** in applying the entity's applicable financial reporting framework; and
- e) The **drawing of conclusions** based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.
- **Sufficient Appropriate Audit Evidence and Audit Risk**— To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
 - a) **Sufficiency and Appropriateness of Audit Evidence** — Audit evidence is necessary to support the auditor's opinion and report. It is **cumulative in nature** and is primarily obtained from audit procedures performed during the course of the audit. **Sufficiency** is the measure of **quantity of audit evidence** whereas **appropriateness** is the measure of **quality of audit evidence**.
 - b) **Audit Risk** — Audit risk is a **function of the risks of material misstatement and detection risk**. The risks of material misstatement may exist at two levels:
 - The overall financial statement level; and
 - The assertion level for classes of transactions, account balances, and disclosures. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level.

Standards on Auditing (Contd.)

SA 315 – Identifying and Assessing the Risks of Material Misstatement through Understating the Entity and its Environment

- To provide a basis for identification and assessment of risks of material misstatement at the financial statement and assertion levels, the auditor shall perform risk assessment procedures. Thus procedures shall include:
 - **Inquiries with management;**
 - **Analytical Procedures;**
 - **Observation; and,**
 - **Inspection.**
- Where Auditor has performed other engagements with the entity, auditor shall consider whether information obtained is relevant for identifying the risk of material misstatement. If Auditor intends to **use his/her previous experiences with the entity**, he shall determine whether changes have occurred since previous audit that may affect its relevance on current audit
- To obtain an understanding of the following: **Industry, regulatory and other external factors; Nature of entity; Selection and application of accounting policies; Objectives, strategies and related business risks; Measurement and review of entity's financial performance; Internal control**
- SA 315 sets out five components of Internal control: **Control environment; Entity's risk assessment process; the information system**, including related business processes, relevant to financial reporting and communication; **Control activities** relevant to audit; **Monitoring of controls**
- **Audit planning ideally commences at the conclusion of previous year's audit**, and along with related programme, it should be reconsidered for modification as the audit of their compliance and substantive procedures progress. For an initial audit, auditor may need to expand the planning activities because the auditor does not ordinarily have previous experience with the entity that is considered when planning recurring engagements.

Standards on Auditing (Contd.)

SA 315 – Identifying and Assessing the Risks of Material Misstatement through Understating the Entity and its Environment

- Usually, those controls which pertain to entity's objective of preparing financial statements are subject to risk assessment procedures.
- Obtaining an understanding of entity and its environment including entity's internal control is a **continuous, dynamic process of gathering, updating and analyzing information** throughout the audit.
- To identify and assess risks of material misstatement at financial statement level, and at assertion level for classes of transactions, account balances and disclosures
- Auditors are required to: **Relate identified risks** to what can go wrong at assertion level; **Consider potential magnitude** of risks in the context of financial statements; **Consider the likelihood** that risks could result in a material misstatement of financial statements
- Documentation should cover:
 - **Discussion among engagement team;**
 - **Key elements of understanding obtained;**
 - **Sources of information;**
 - **Risk assessment process;**
 - **Identified and assessed risks;**
 - **Significant risks evaluated; and**
 - **Risks evaluated for which substantive procedures done.**
- Auditor uses professional judgment to determine the extent of understanding required. Auditor's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective stated in the SA

Standards on Auditing (Contd.)

SA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements

- **Non compliance:**-Acts of omission or commission which is not as per prevailing law and regulations. Eg: Non payment of Service Tax, non filing of TDS return, Failure to pay sales tax, Labour Law.
- **Management is responsible for compliance of Law & Regulation.** The auditor should apply procedures to find out the compliance of law is done on regular basis
- **Following are the indicators which may show that there is non compliance of Law and Regulation**
 - **Unusual payment** towards legal fees,
 - Being payment for **finances and penalties**,
 - **Enquiry** with Management and TCWG,
 - **Adverse media comments**, and
 - **Litigation & claims** as per legal council.
- **Following are the Management responsibility**
 - Monitoring **legal requirement**
 - Monitoring of **compliance of Conduct**
 - Better **internal control**
 - Engaging **legal advisors**

Standards on Auditing (Contd.)

SA 210 – Agreeing upon the terms of Engagement

Audit Engagement Letter	A Written Document containing all the conditions or premises or a base upon which the auditor is going to perform the audit of an entity.
Who prepares the Audit Engagement Letter	Auditor
For whom	The management of an entity
Reason for Audit Engagement Letter	To establish the base on which the audit has to be performed by: <ul style="list-style-type: none"> • Establishing whether the preconditions for an audit are present; • Confirming that there is a common understanding between the auditor & the management
Merits of an Audit Engagement Letter	An appropriate form to protect the auditor from various future uncertainties;
Preconditions for an Audit	<ul style="list-style-type: none"> • Determination of Applicable financial reporting framework; • Obtain an agreement from the management regarding its obligations of :- <ul style="list-style-type: none"> ○ Preparation & presentation of financial statements as per Applicable FRF; ○ Establishment of internal control necessary for preparation of financial statement free from material misstatement. • Rights of an auditor regarding :- <ul style="list-style-type: none"> ○ To access all books & accounts relevant for the audit; ○ To obtain the relevant information whenever required; ○ Unrestricted access to employees for audit evidence

Standards on Auditing (Contd.)

SA 210 – Agreeing upon the terms of Engagement

Mode of Audit Engagement Terms	All the agreed terms & conditions must be in written format either to be mentioned in audit engagement letter or any other written document.
In case of Recurring Audit	No need to issue fresh letter at every time until & unless the auditor is of opinion that:- <ul style="list-style-type: none"> • Circumstances require the terms of the audit engagement to be revised; • There is a need to remind the entity of the existing terms of the audit engagement
Rejection of audit engagement by the auditor	In case where the management imposed unreasonable or invalid limitations on the scope of the auditor's work.
Change in terms & condition requested by the management to the auditor	Check reasonability for doing so:- <ul style="list-style-type: none"> • If reasonable: - issue new engagement letter. • If not reasonable: – don't change the terms & conditions & continue with the existing terms & conditions.
In case the management does not permit to continue with the existing conditions	Auditor shall withdraw from the audit assignment, if permitted by the auditor to continue with the existing law & terms & conditions, determine any reporting requirements regarding resignation.

Standards on Auditing (Contd.)

SA 300 – Planning an Audit of Financial Statements

- Planning an audit involves **establishing the overall audit strategy** for the **engagement and developing an audit plan**. The objective of auditor is to plan the audit so that it will be performed in an effective manner.
- Once the overall audit strategy has been established, an audit plan can be developed to address various matters identified in the overall audit strategy, considering the **need to achieve the audit objectives through efficient use of auditor's resources**.
- To consider various matters in developing the overall plan like: **terms of engagement; nature and timing of reports; applicable legal or statutory requirements; accounting policies adopted by the client; identification of significant audit areas; setting of materiality levels**, etc.
- To obtain a level of **knowledge of client's business** that will enable them to **identify events, transactions and practices** that, in their judgment, may have a **significant effect on financial information**. Audit plan is more detailed than overall audit strategy that includes the **nature, timing and extent of audit procedures to be performed by engagement team members**.
- **Engagement partner and other key members of engagement team shall be involved** in planning the audit, including planning and participating in the discussion among engagement team members so as to enhance effectiveness and efficiency of planning process.
- **To plan the nature, timing and extent of direction and supervision** of engagement team members and review of their work. Auditor shall document overall audit strategy, audit plan and any significant changes made during audit engagement to the overall audit strategy or audit plan, and reasons for such changes.
- **Audit planning ideally commences at the conclusion of previous year's audit**, and along with related programme, it should be reconsidered for modification as the audit of their compliance and substantive procedures progress. For an initial audit, auditor may need to expand the planning activities because the auditor does not ordinarily have previous experience with the entity that is considered when planning recurring engagements.

Standards on Auditing (Contd.)

SA 320 – Materiality in Planning and Performing an Audit

- SA 320 deals with the **auditor's responsibility to apply the concept of materiality** in planning and performing an audit of financial statements
- In planning the audit, the auditor makes judgments about the **size of misstatements that will be considered material**
- These judgments provide a basis for:
 - **Determining the nature, timing and extent** of risk assessment procedures;
 - **Identifying and assessing the risks** of material misstatement; and
 - **Determining the nature, timing and extent of further audit procedures**
- For purposes of the SAs, **performance materiality means the amount or amounts set by the auditor at less than materiality** for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures
- **The auditor shall revise materiality for the financial statements as a whole** (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially
- The **audit documentation shall include** the following amounts and the factors considered in their determination:
 - a) **Materiality for the financial statements** as a whole;
 - b) If applicable, **the materiality level or levels** for particular classes of transactions, account balances or disclosures;
 - c) **Performance materiality**; and
 - d) **Any revision of above** as the audit progressed.

Standards on Auditing (Contd.)

SA 402 – Audit Considerations Relating to an Entity Using a Service Organization

- **This SA specifically expands on how the user auditor applies SA 315 and SA 330**
- **The objectives of the auditor are:**
 - a) **To obtain an understanding of the nature and significance** of services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
 - b) **To design and perform audit procedures** responsive to those risks
- The user auditor should **obtain an understanding of the services provided by a service organization**, including internal control
- **The user auditor shall modify the opinion in the user auditor's report in accordance with SA 705** if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements
- **The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion** unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion
- **If reference to the work of a service auditor is relevant** to an understanding of a modification to the user auditor's opinion, **the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion**

Standards on Auditing (Contd.)

SA 510 – Initial Audit Engagements – Opening Balances

- In conducting an initial audit engagement, **the auditor should obtain sufficient appropriate audit evidence** that closing balances of preceding period have been correctly brought forward to current period or when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss, the opening balances do not contain misstatements that materially affect financial statements for the current period and appropriate accounting policies are consistently applied
- **To consider whether accounting policies followed in preceding period**, based on which opening balances have been arrived at, **were appropriate and that those policies are consistently applied**. If the auditor concludes that the accounting policies have not been consistently applied or properly accounted for, the auditor has to express either a qualified or adverse opinion, as may be appropriate
- Ordinarily, **current auditor can place reliance on closing balances contained in financial statements for preceding period**, except when during performance of audit procedures for current period the possibility of misstatements in opening balances is indicated
- **When financial statements of preceding period were not audited, auditor must adopt other procedures** such as for current assets and liabilities. Some audit evidence can ordinarily be obtained as part of audit procedures performed during the current period and for non-current assets and liabilities such as fixed assets, investments and long-term debt, the auditor could ordinarily examine records underlying the opening balances
- **To evaluate matters giving rise to modifications in prior period's financial statements** for assessing the risk of material misstatement. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with SA 315

SA 530 – Audit Sampling

- **Audit sampling** – The application is such that all sampling units have a **chance of selection in order to draw conclusion about the entire population.**
- **Sampling Risk** – It can lead to two types of erroneous conclusions:
 - i. **Affecting audit effectiveness** – where in case of test of controls, that controls are more effective than they actually are, or in the case of test of details, that a material misstatement does not exist when in fact it does.
 - ii. **Affecting audit efficiency** – where in case of test of controls, that controls are less effective than they actually are, or in the case of test of details, that a material misstatement exists when in fact it does not.
- **Statistical Sampling** – An approach to sampling that has the following characteristics:
 - i. Random selection – generally using random number tables in MS Excel;
 - ii. Use of probability theory to evaluate sample results, including measurement of sampling risk; and
 - iii. Statistical sampling is not being applied, then fall back on non-statistical sampling.
- **Tolerable Misstatement** – To obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement. It may be the same amount or an amount lower than performance materiality.
- **Tolerable rate of deviation** – To obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation.

Testing methodology

Test Scope

Controls to be tested will be defined by three criteria:

- 1. Process selection:** Processes that were initially documented will be in scope for testing.
- 2. Location selection:** Testing will occur at the locations where documentation was performed. If a location was not in scope for documentation, controls at this location will not be tested.
- 3. Control selection:** Only primary controls will be tested. Controls categorized as “secondary” will not be tested during initial testing. Primary controls are controls that directly mitigate a risk and achieve an assertion. They are management’s primary means of control risk within various processes.

Testing methodology (Contd.)

Suggested sample size:

Frequency of Control	Population Size	Suggested Sample Size
Continuous	Varies	1
Ad Hoc	Various	Varies – See Below
Daily – Multiple	261+	25
Daily – Once	260	20
Weekly	52	5
Monthly	12	3
Quarterly	4	Q1 or Q2 and Q3
Annually	1	1

Testing methodology (Contd.)

Sample size splitting protocols:

Our goal is to verify that controls are operating throughout the year. In addition, because management's opinion on interval controls is as of (end of fiscal year - insert date), we need to have evidence that the controls are operating near year-end. To achieve this objective, we will need to explicitly validate them near year-end through refresh testing.

If the control has been in force for the entire year, the sampling will be as follows:

<u>Frequency of Control</u>	<u>If you're testing in May/June</u>	<u>If you're testing in July/Aug/Sept</u>	<u>For Year-end/Refresh Testing on Controls</u>	
			<u>Tested Earlier in the Year</u>	<u>Required portion of sample to be from 4th Quarter</u>
Daily - Multiple	15 Items	18 Items	Remaining portion of required sample size of 25	7 Items
Daily	12 Days	15 Days	Remaining portion of required sample size of 20	5 Days
Weekly	2 Weeks	3 Weeks	Remaining portion of required sample size of 5	2 Weeks
Monthly	1 Month	2 Months	Remaining portion of required sample size of 3	1 Month
Quarterly	1 st Quarter	1 st or 2 nd Quarter	3 rd Quarter	0
Annual controls will be tested once in January 20XX				

Testing methodology (Contd.)

Sample size splitting protocols:

If the Control is a new control in the current year (remediate after January 1, 20XX):

First Month of control operation

<u>Control Frequency</u>	<u>January through March</u>	<u>April – June</u>	<u>July – Aug - Sept</u>	
	Follow the field work testing guidelines above for controls effective all year	These controls can be tested in July - Sept using the following samples sizes, with year-end/refresh required to round out the samples:	Perform testing on these in December using full sample sizes:	<u>Required portion of sample to be from 4th Quarter</u>
Daily – Multiple		15 Items	25 Items	7 Items
Daily		12 Days	20 Days	5 Days
Weekly		2 Weeks	5 Weeks	2 Weeks
Monthly		1 Month	3 Months	1 Month
Quarterly		2 nd Quarter	3 rd and 4 th Quarter	0

Sample size splitting protocols:

In order to reduce Company X testing efforts, we are splitting our samples on controls that happen at multiple locations. For example, if facilities at (insert location), (insert location), (insert location) and (insert location) all have a similar daily multiple control that in substance is the same, we can split our daily multiple sample sizes across the 4 locations.

Testing methodology (Contd.)

We will use the following steps to determine sample sizes to be used when we split them across multiple locations:

- Determine the number of locations where the control exists.
- Determine the frequency of the control.
- Based on the frequency and number of locations, use the table below to determine the sample size.
- Judgmentally allocate the sample across the locations.

Protocols on splitting sample sizes across multiple locations for similar controls:

<u>Frequency of Control</u>	<u>Sample Size for Split Controls (Doubled From Normal Sample)</u>
Daily Multiple	50
Daily	40
Weekly	10
Monthly	6
Quarterly controls will be tested using full samples regardless of similarities across locations	
Annual controls will be tested once in January 20XX at all locations	

Testing methodology (Contd.)

Test Procedures:

There are four types of testing techniques performed to obtain evidence about the operating effectiveness of controls. Those types are (listed in order of highest to lowest level of assurance obtained): Re-performance, Inspection/Examination, Observation and Inquiry.

- **Re-performance** gives the greatest assurance that a control is operating effectively. The testing team will perform validation procedures for selected controls. This type of test is where the control activity is re-performed. An example of when this would be used is in testing a physical inventory control when you would observe a count and perform an independent test of quantities. This should be used when a high-degree of confidence in the control is necessary.
- The next level assurance can be obtained through **Inspection/Examination** procedures. This will be the most frequently used techniques. This includes reviewing documents that are used in the application of the control or result from the operation of the control. An example would be reviewing evidence that controls are being performed, reconciliations are prepared and signed off by supervisors; exception reports are reviewed and marked with check marks or written explanations. This is used when there is evidence of a manual control being performed.
- **Observation** is used when no documentation exists and is often used in combination with inquiry. This is used frequently with system controls where an error message or validation check cannot be easily evidenced via a paper trail, however can be seen on the operator's screen.
- **Inquiry** should be used in combination with the other controls to gain an understanding of the control being performed and gather information about the control. This involves questioning or interviewing the person performing the control and can be oral or written. For example, inquiry is used when questioning an accountant on what documents are necessary and how they perform the reconciliation.

Testing methodology (Contd.)

Testing Frequency

For fiscal year 20XX, testing will be performed in two stages – initial (portion of the full sample will be tested at this time) and refresh testing (remainder to be captured in refresh testing to serve as evidence of the control functionality throughout the year.). If necessary, remediation testing may also need to be performed for controls that fail initial testing.

Testing Exceptions

Test exceptions will be identified when a control does not meet the specifications in the test or evidence of the control performance does not exist. In these situations, inquiry should be performed to determine if it is an isolated incident. For controls that fail testing through September 20XX, action plans will be implemented by Company X Management to fix the issue. For control failures identified after September 20XX, the SOX PMO will determine whether an action plan should be implemented before year-end or whether the sample will be expanded. If the control is a failure, an action plan will be drafted and implemented and the control will need to be retested during remediation testing in Q3/Q4.

The testing period for remediation testing starts whenever the action plan was implemented as a result of the control failure. If a control was identified during initial testing as an exception, and an action plan was implemented as of July 1st, the testing period would start on July 1st, 20XX. There would also need to be a minimum length of time that a remediated control needs to be in place before an adequate sample can be available and the control can be relied on.

Testing methodology (Contd.)

Evaluate the Test Results

The **objective** of evaluating test results is **to conclude whether the controls are operating effectively to support the financial statement assertions**. For example, consider the review and sign-off of a reconciliation of a subsidiary ledger for sales to the general ledger. Management must conclude, on the basis of the testing performed, whether the control effectively supports the completeness assertion. Other controls in the sales process would be tested to ensure that all sales transactions have been posted in the subsidiary ledger to support further the completeness assertion. And, still other controls would be tested to support the other relevant assertions such as valuation, existence, rights and obligations, and presentation and disclosure.

When evaluating the results and related evidence of specific tests, the following questions may be useful for consideration:

- What risk is the control intended to mitigate?
- Were exceptions found?
- Were exceptions resolved?
- Is there a process for correcting recurring exceptions?

In general, controls are tested on an accept/reject basis (i.e., a control is either working reliably or it is not). **If the control is deemed deficient, Company X Management will assess whether other controls help to mitigate the risk, and the impact/significance of the deficiency.**

Standards on Auditing (Contd.)

SA 520 – Analytical Procedures

- **The objectives of the auditor are:**
 - a) **To obtain relevant and reliable audit evidence** when using substantive analytical procedures; and
 - b) **To design and perform analytical procedures near the end of audit** that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with auditor's understanding of the entity.
- **Auditor should apply analytical procedures at overall review stages of audit** as well as while applying substantive procedures
- **Application of analytical procedures is based on the expectation that relationships among data exist and continue** in absence of known conditions to the contrary. Presence of these relationships provides audit evidence as to completeness, accuracy and validity of data produced by the accounting system. However, reliance on results of analytical procedures will depend on auditor's assessment of the risk that analytical procedures may identify relationships as expected when, in fact, a material misstatement exists
- **When analytical procedures identify significant fluctuations or relationships that are inconsistent** with other relevant information or that deviate from predicted amounts, **the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence**

Standards on Auditing (Contd.)

SA 330 – The Auditor's Responses to Assessed Risks

- **The objective is to obtain sufficient appropriate audit evidence about assessed risks of material misstatement, through designing and implementing appropriate responses to those risks**
- **Auditor shall design and implement overall responses to address assessed risks of material misstatement at financial statement level.** To design and perform further audit procedures whose nature, timing and extent are based on and are responsive to assessed risks of material misstatement at assertion level
- In designing further audit procedures to be performed, the auditor shall:
 - (a) Consider reasons for the assessment given to risk of material misstatement** at the assertion level for each class of transactions, account balance, and disclosure
 - (b) Obtain more persuasive audit evidence** – the higher the auditor's assessment of risk
- When the auditor obtains audit evidence about operating effectiveness of controls during an interim period, the auditor shall:
 - (a) Obtain audit evidence about significant changes** to those controls subsequent to the interim period; and
 - (b) Determine additional audit evidence to be obtained** for the remaining period
- Based on the audit procedures performed and audit evidence obtained, **auditor shall evaluate before conclusion of audit whether assessments of risks of material misstatement** at assertion level remain appropriate
- **Auditor shall conclude whether sufficient appropriate audit evidence has been obtained.** In forming an opinion, auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict assertions in financial statements
- **If the auditor has not obtained sufficient appropriate audit evidence** as to a material financial statement assertion, **the auditor shall attempt to obtain further audit evidence.** If the auditor is unable to obtain sufficient appropriate audit evidence, auditor shall express a qualified opinion or a disclaimer of opinion

Standards on Auditing (Contd.)

SA 265 – Communication of Deficiencies in Internal Control to TCWG

- Internal Controls are the plans, policies or procedures of the organization to ensure that business is conducted in an efficient and effective manner.

Deficiency in Internal Control

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graph TD; A[Deficiency in Internal Control] --- B[When Internal Control are unable to prevent, detect any mis statement]; A --- C[When Internal Control are missing to prevent, detect any mis statement];
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When Internal Control are unable to prevent, detect any mis statement

When Internal Control are missing to prevent, detect any mis statement

- **The following factors are considered for the purpose of communication:**
 - Disclosure of material mis-statement due to fraud or error where the Management also involved
 - Evidence of ineffective response by Management
 - Management failure to implement remedial action
 - Identification of fraud where Management is also involved
 - Evidence of ineffective Risk assessment procedure



Internal Financial Controls (IFC)

Internal Financial Controls (IFC) - Background

A substantial step in making regulations more coherent, Companies Act, 2013 had introduced the concept of Internal Financial Controls (IFC) under section 134. Directors' responsibilities on IFC is laid down under section 134 (3) (c) read with section 134 (5) (e). The Auditor's responsibilities towards IFC reporting was laid down in section 143 (3) (i). The Audit Committee's terms of reference on IFC is laid down under section 177 (4) (vii).

IFCs have been defined under section 134 (5) (e) as following:

'The policies and procedures adopted by the company to ensure orderly and efficient conduct of its business, including adherence to company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records, and the timely preparation of reliable financial information.'

This initiative needs a complete mandate from the Board and should be lead by the CEO/MD. There should be clear sponsorship and the 'tone at the top' which is the whole essence of IFC.

Statutory Requirements on IFC – Companies Act, 2013

Considering the overhaul required in the Risk Management function of the Indian industries, the government had introduced few new compliances that every organization needs to follow. Key compliance requirement , as envisaged in the Companies Act, 2013, are as follows:

- **Section 134** – Directors of all listed companies have to report that the laid down IFCs of the company have been followed and that such IFC are adequate and were operating effectively.
- **Section 177** – Every audit committee shall act in accordance with the terms of reference specified in writing by the board which shall, inter alia, include, evaluation of internal financial controls and risk management systems.
- **Section 143** - The auditor's report should also state for all companies, whether the company has adequate IFC system in place and the operating effectiveness of such controls.
- **Schedule IV** – The independent directors shall satisfy themselves on the integrity of financial information and that financial controls and the system of risk management are robust and defensible.

Clause 49 Listing requirement

- As per part II of clause 49 listing agreement, role of Audit Committee shall include evaluation of internal control and risk management.
- As per part V of clause 49 listing agreement, the CEO / CFO of he company shall certify the effectiveness and adequacy of internal controls over financial reporting.

Applicability of IFC

Section	Responsibility	Listed Company	Unlisted Public Company	Private Company
134(3) (c) read with 134 (5) (e)	Directors' Responsibility Statement	Yes	Yes*, Note 1	No , Note 1
177 (4) (vii) and 177 (5)	Audit Committee	Yes	Yes**, Note 2	No**, Note 2
143 (3) (i)	Audit Report*** Note 3	Yes	Yes	Yes Note 4
Section 149 (8) read with Schedule IV	Independent Directors	Yes	Yes**, Note 2	No**, Note 2

* Note 1 : Whilst the Act specifies on listed companies, Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 read with Rule 8(4) talks about listed and unlisted public companies only with paid up capital of Rs 25 crore or more calculated at the end of the preceding financial year.

** Note 2 : All Public Companies with paid up capital of INR 10 crore or more, Turnover of INR 100 crores or more and Loan, borrowing, debentures and deposits of INR 50 crores or more in aggregate. Private companies may require to adopt the same as well.

*** Note 3 : Auditor Report comment upon IFC is limited to ICFR as per ICAI guidelines.

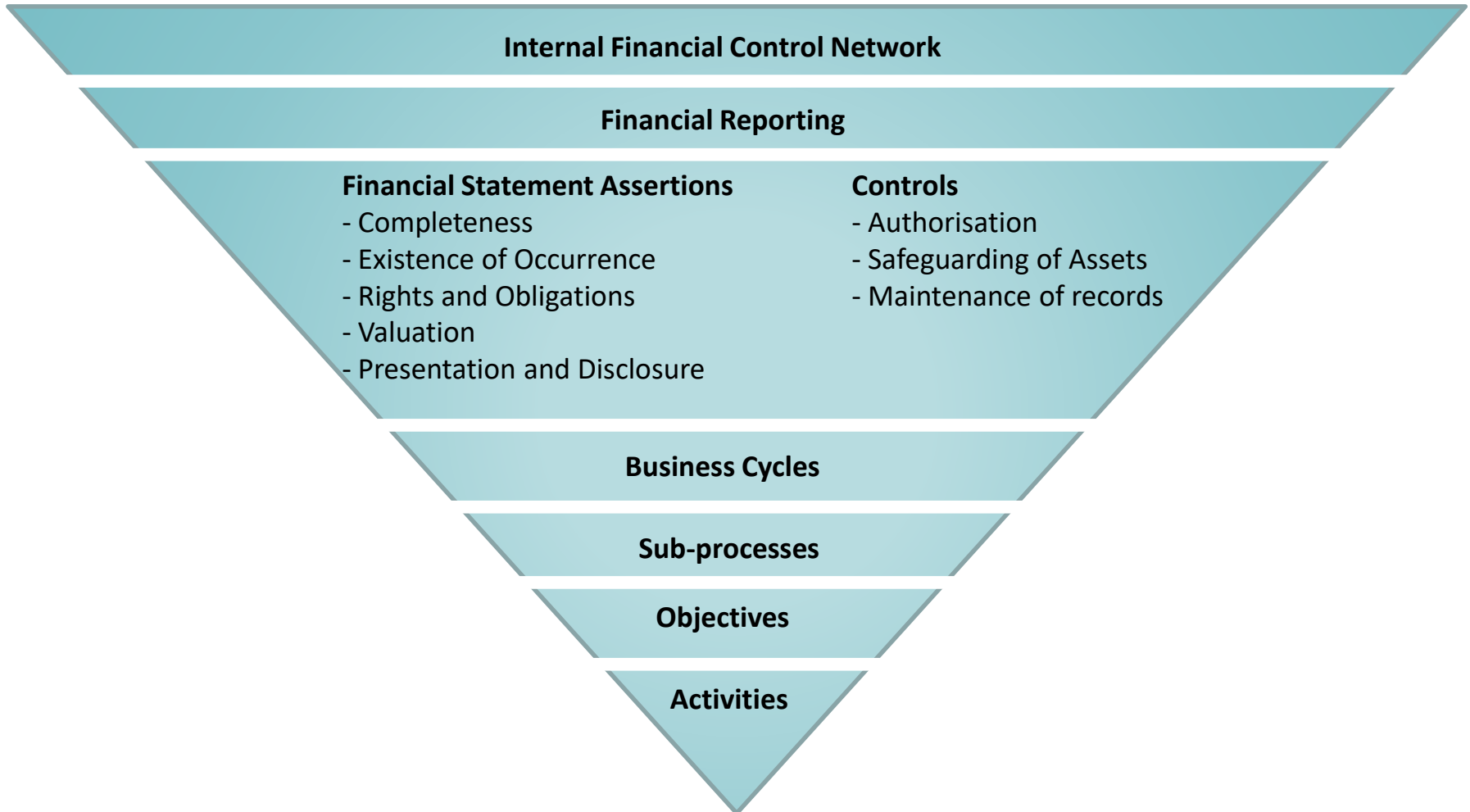
**** Note 4 : Chapter X, clause (i) of sub-section (3) of section 143 One person company or Small company or Private Company which has a turnover of less than 50 Crore as per the latest Audited Financial Statements or which has an aggregate borrowing from Banks or FIs or any Body Corporate at any point of time during the financial year less than Rs. 25 Crore have been granted exempted from reporting on adequacy of internal financial controls system and operating effectiveness of such controls provided that the private company has not committed a default in filing its financial statements u/s 137 of the Companies Act 2013 or annual return u/s 92 of the Companies Act 201 with the Registrar.(As per MCA notification G.S.R. 583(E)



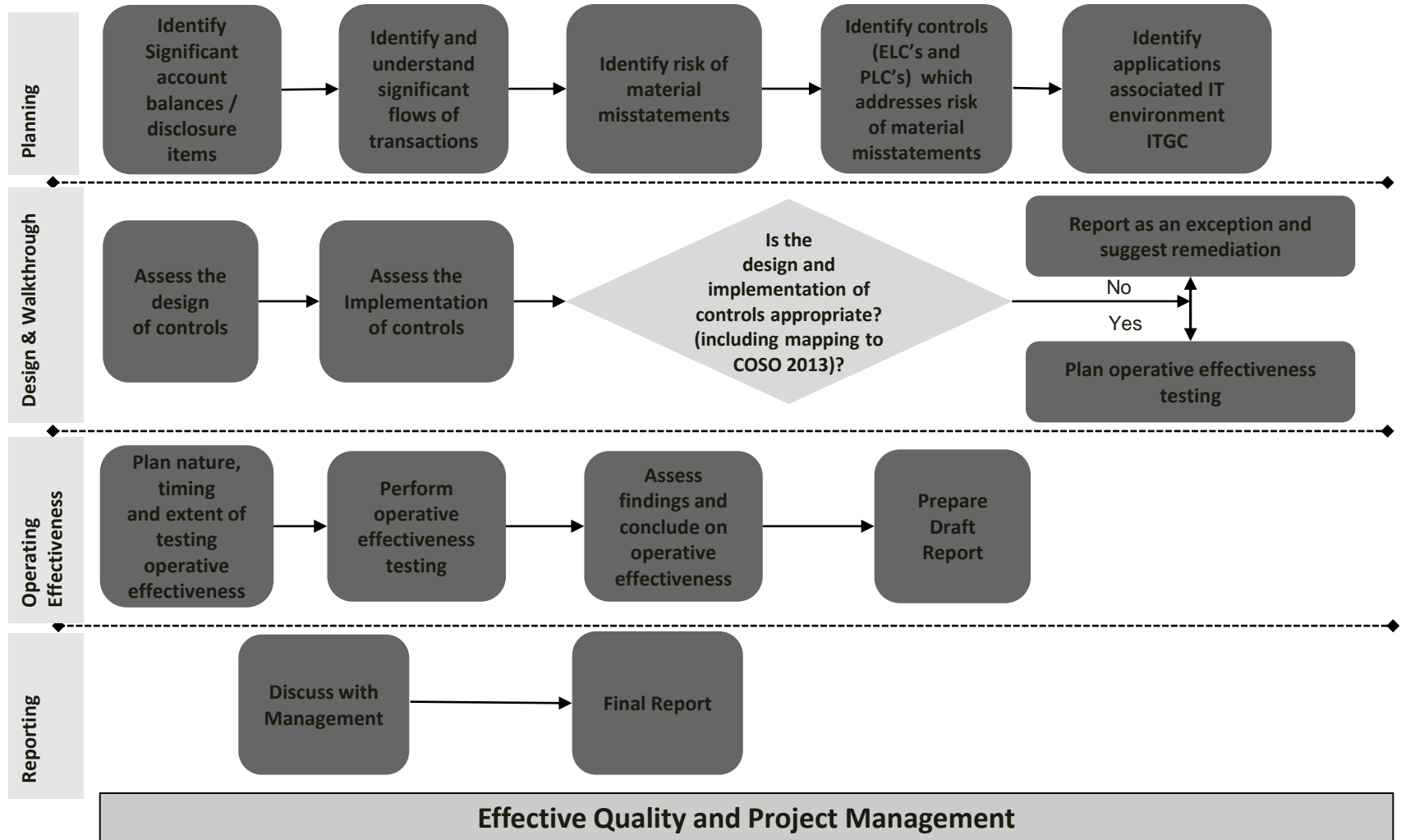
Approach & Methodology under IFC

IFCs Project Approach – Top-Down Risk Based Scoping

A top down approach (suggested by ICAI) while developing / reviewing internal financial controls over financial reporting framework for the company is graphically represented below:



IFCs Project Approach – Graphical Representation



Standards on Auditing (Contd.)

SA 240 – The Auditor’s Responsibilities Relating to Fraud

- **Scope of SA 240** - This Standard on Auditing (SA) deals with the auditor’s responsibilities relating to fraud in an audit of financial statements.
- **Characteristics of Fraud:**
 - The auditor is concerned with **fraud** that causes a **material misstatement** in the financial statements.
 - Two types of **intentional misstatements** are relevant to the auditor:
 - ✓ Misstatements resulting from **fraudulent financial reporting**
 - ✓ Misstatements resulting from **misappropriation of assets**
- **Responsibility for Prevention and Detection of Fraud:**
 - The **primary responsibility** for the **prevention and detection** of fraud rests with both **those charged with governance** of the entity and management.
 - The auditor is responsible for **obtaining reasonable assurance** that the **financial statements** taken as a whole are **free from material misstatement**, whether caused by **fraud or error**.
- **Objective of the auditor:**
 - To identify and assess the risks of material misstatement in the financial statements due to fraud;
 - To **obtain sufficient appropriate audit evidence** about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
 - To **respond appropriately** to identified or suspected fraud.

SA 240 – The Auditor’s Responsibilities Relating to Fraud

- **Responses to Assessed Risks of Material Misstatement Due to Fraud:** The auditor shall:
 - Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities;
 - Evaluate the **selection and application** of accounting policies by the entity;
 - Incorporate an element of **unpredictability** in the selection of the **nature, timing and extent of audit procedures**;
 - Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. For this, the auditor shall:
 - ✓ Make **inquiries** of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
 - ✓ Select journal entries and other adjustments made at the end of a reporting period; and
 - ✓ Consider the need to test journal entries and other adjustments throughout the period.

- **Auditor Unable to Continue the Engagement:**

If the auditor encounters **exceptional circumstances** that bring into question the auditor’s **ability to continue** performing the audit, the auditor shall:

 - Determine the **professional and legal** responsibilities
 - Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is **legally permitted**
 - If the auditor withdraws:
 - ✓ Discuss with the appropriate level of management and those charged with governance
 - ✓ Determine whether there is a professional or legal requirement to report to any authority

SA 240 – The Auditor’s Responsibilities Relating to Fraud

➤ **Communications to Management and with Those charged with Governance:**

- If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management
- If the auditor has identified or suspects fraud involving management, employees having significant roles in internal control or others where the fraud results in a material misstatement in the financial statements, the auditor shall communicate these matters to those charged with governance unless, they are also involved in managing the entity

➤ **Documentation:** The auditor’s documentation shall include:

- The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity’s financial statements to material misstatement due to fraud; and
- The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.
- The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level;
- The results of the audit procedures, including those designed to address the risk of management override of controls.
- Communications about fraud made to management, those charged with governance, regulators and others.
- Where the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion.

Overview of section 143(12) of the Companies Act, 2013

Background

Section 143 of the Companies Act, 2013 (2013 Act) has been effective from 1 April 2014.

The **Central Government seeks the support of auditors** in bringing:

- **transparency** and
- **discipline**

in the corporate world to **protect the interests of the shareholders and public at large.**

Defining Fraud

Fraud

Section 447 (Punishment for fraud) explains fraud as: “fraud” in relation to affairs of a company or any body corporate and 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**.

Overview of section 143(12) of the Companies Act, 2013

Section 143(12) requires that:

If an auditor of a company

- in the **course of the performance** of his duties as an 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
- shall immediately **report** the matter to the **Central Government** within such time and in manner as prescribed **considering threshold limit**
- If fraud is **less than specified amount, report to ACM/Board**

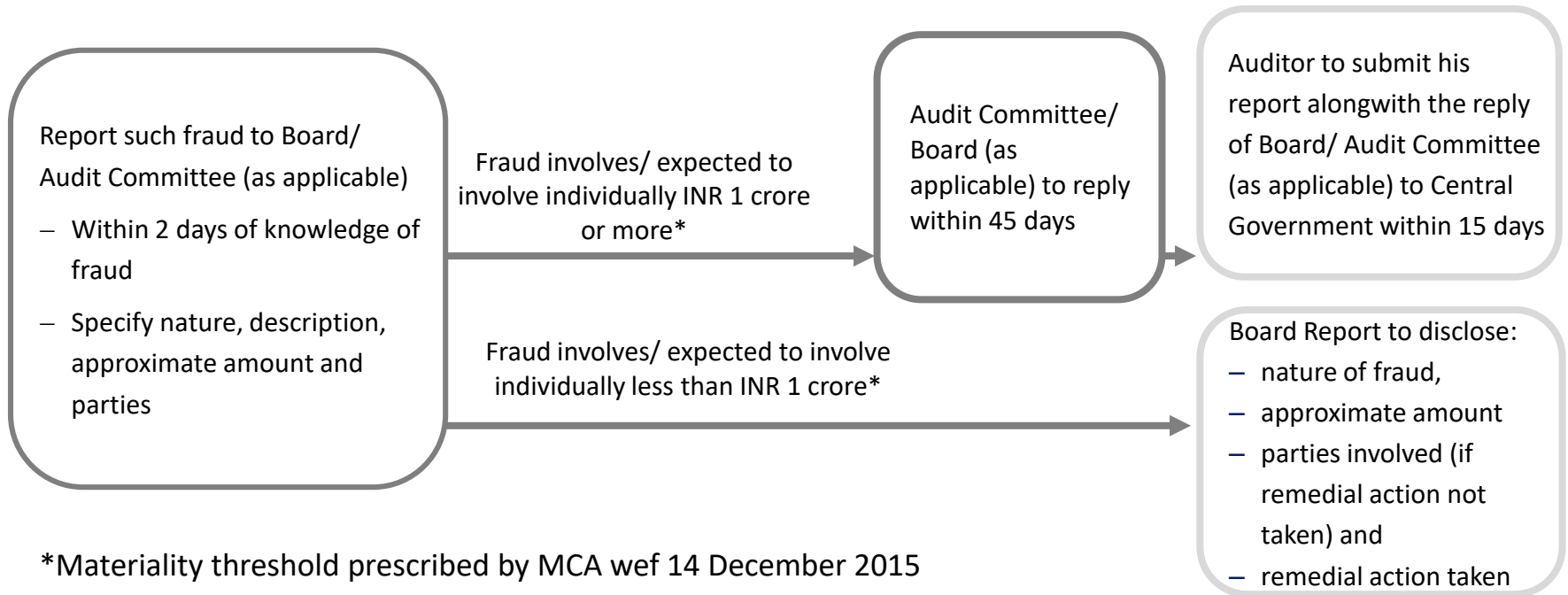
When does an auditor commence reporting under section 143(12) of the Companies Act, 2013



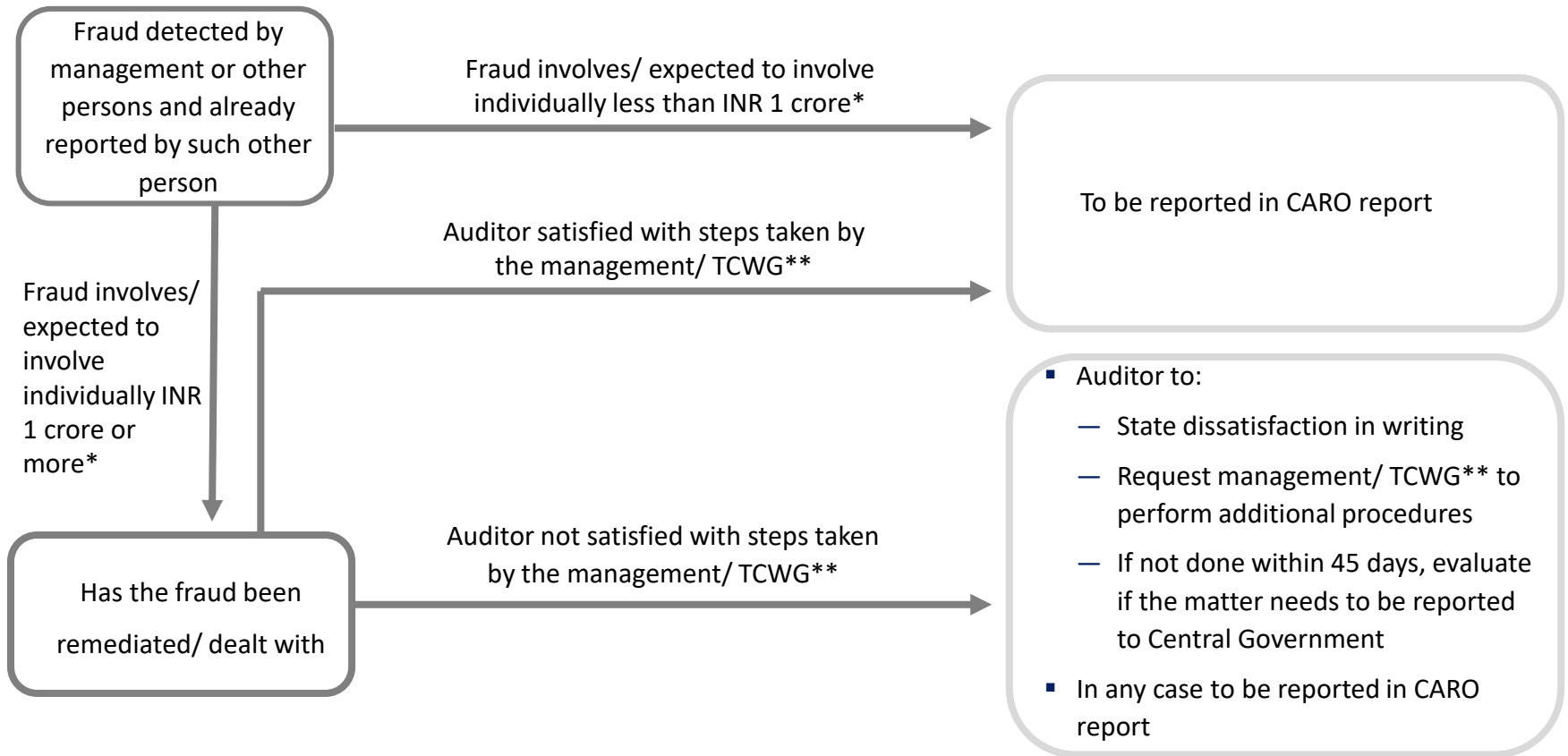
Reporting of fraud (by officers or employees) identified by Auditor – ICAI Guidance

Auditor in course of performance of duties has reasons to believe that fraud is being/ has been committed against company by its officers or employees

In its Revised Guidance Note (February 2016) ICAI has inter alia given guidance/ interpretations of section 143(12)



Reporting of fraud (by officers or employees) identified by Auditor – ICAI Guidance



*Materiality threshold prescribed by MCA wef 14 December 2015

**TCWG: Those charged with governance

Responsibility of the management for prevention and detection of fraud

As per section 134(5) (c) of the 2013 Act, directors responsibilities include safeguarding of the assets of the Company and preventing and detecting fraud and other irregularities.

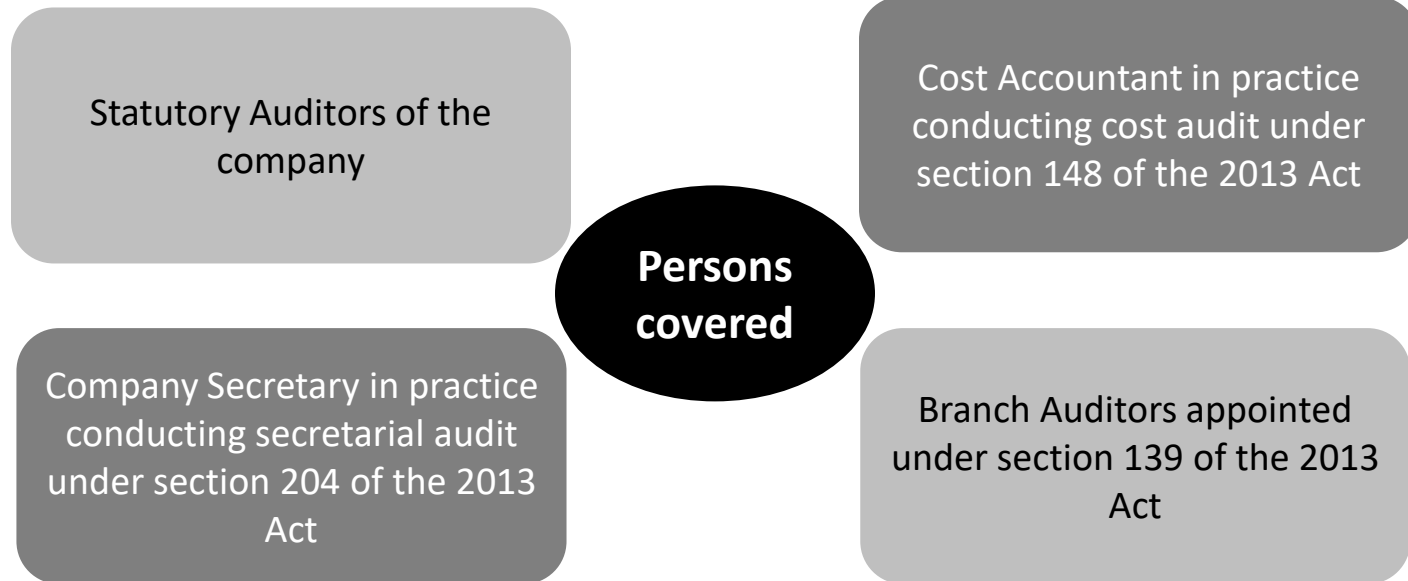
- **Primary responsibility** for the prevention and detection of fraud rests with both **those charged with governance** of the entity **and management**
- Board's report to include a **responsibility statement**, *inter alia*, that the **directors** had taken **proper and sufficient** care for safeguarding the assets of the company and preventing and detecting fraud and other irregularities.

Auditor responsibility for consideration of fraud in an audit of financial statements

Scope of the guidance note is as follows:

- Frauds detected '*in the course of performance of duties as an auditor*' implies in the course of performing an audit as per the Standards on Auditing.
- An auditor has to consider the requirements of Standards on Auditing for assessing risk of fraud.
- Reporting is applicable only when an auditor has **evidence that fraud exists**.
- Fraud by **officers or employees of the company and not by third parties** such as, vendors and customers.

Persons covered for reporting under section 143(12) of the Companies Act, 2013



Persons not covered

Other professionals appointed under other statutes rendering other services to the company such as a tax auditor appointed under Income tax act, Sales tax or VAT auditors appointed under the respective Sales tax or VAT legislations.

Internal Auditors

Reporting on frauds in various scenarios

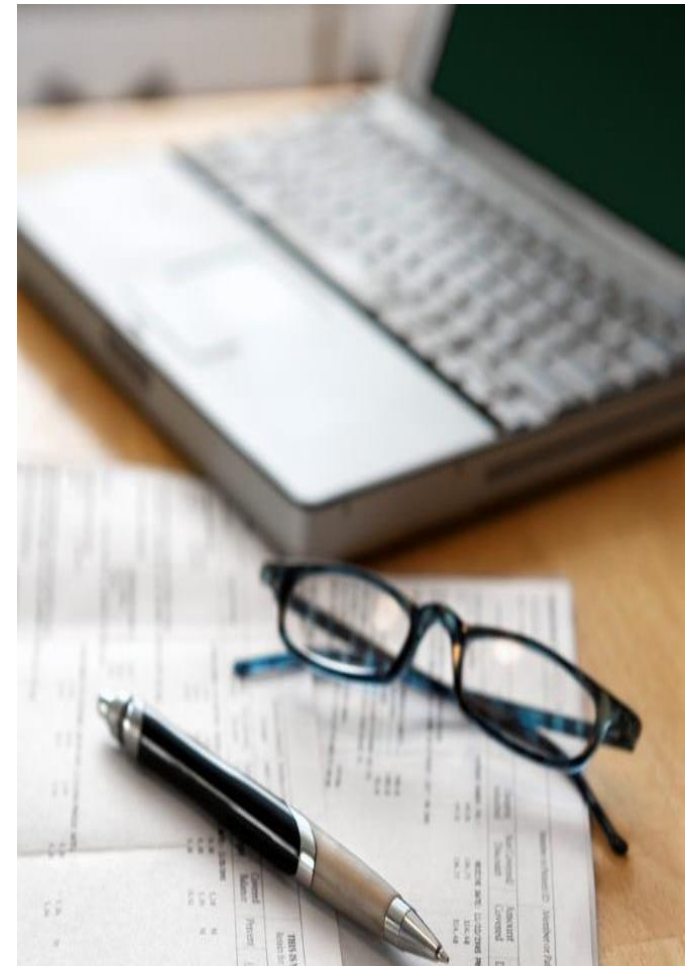
It would be an auditor's responsibility to report about frauds in the following scenarios:

Fraud noted by an auditor first before the management

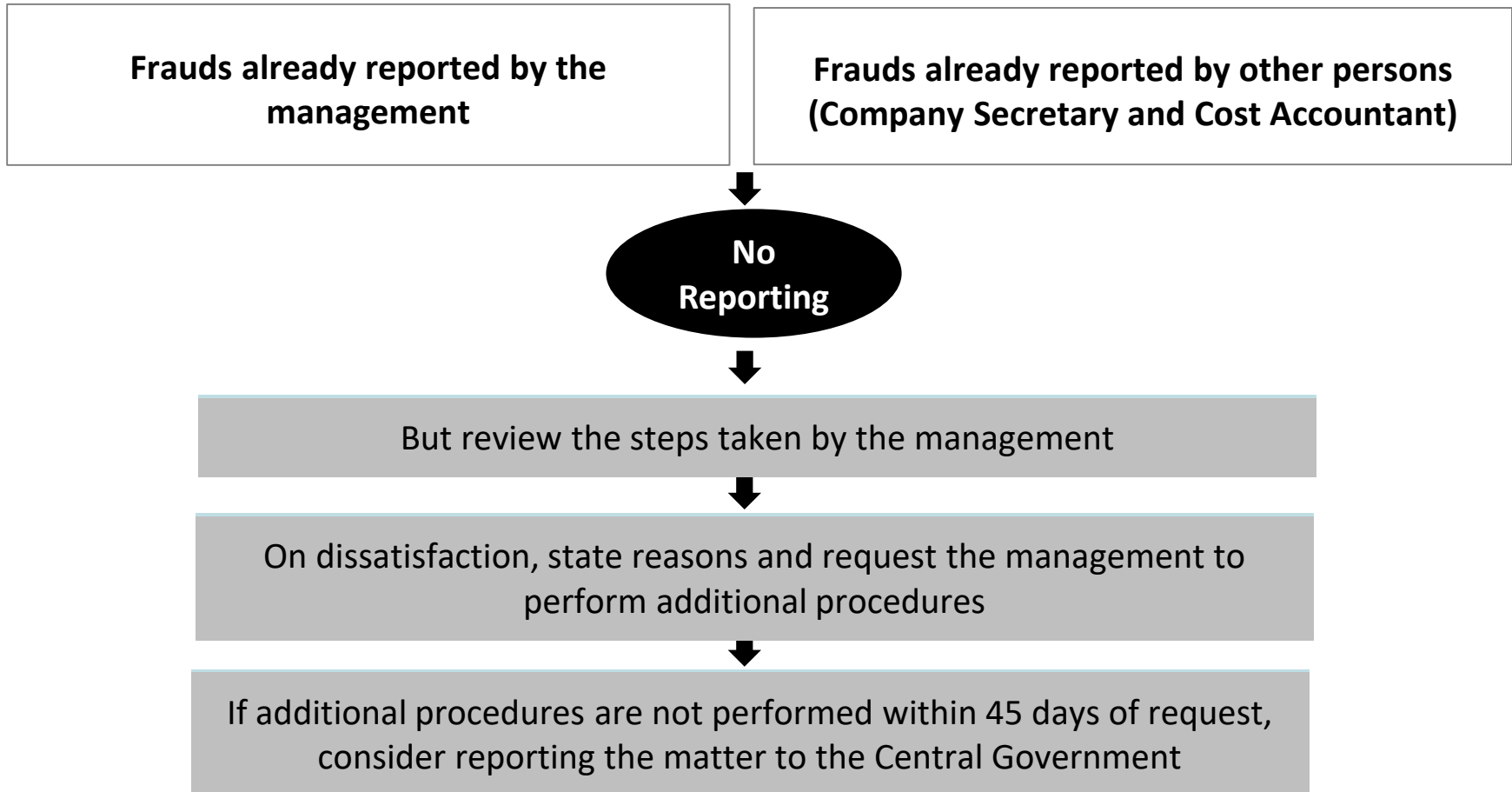
- Report to the management first and then the Central Government.

While providing attest or non-attest services, audit/limited review of interim period financial statements/results

- Exercise professional judgement to evaluate materiality of the information
- Uses or intends to use the information obtained in the course of attest or non-attest services when performing an audit under the 2013 Act.



Reporting on frauds in various scenarios



Reporting on frauds in various scenarios

Reporting in case of Consolidated Financial Statements: for frauds in any subsidiary, joint venture or associate:

- An auditor of the **parent company is not required to report on frauds** under section 143(12) if frauds are not being or have **not been committed against the parent company** by the officers or employees of the parent company but relate to frauds in:
 - a component which is an Indian company as the auditor of that Indian company has the responsibility
 - a foreign corporate component that is not a company.
- An auditor of the **parent company to report frauds** in a component of the parent company **only if**:
 - **fraud has been committed by employees or officers of the parent company** and
 - such fraud is against the parent company.

Reporting on frauds in various scenarios

Reporting when fraud relates to periods prior to the 2013 Act became effective

- An auditor would report on fraud relating to earlier years under section 143(12) of the 2013 Act only if:
 - The suspected offence involving fraud is identified by the auditor in the course of performance of his duties as an auditor during the financial years beginning **on or after 1 April 2014**, and
 - To the extent that the **same was not dealt with in the prior financial years** either in the financial statements or in the audit report.

Reporting on frauds in various scenarios

Reporting when fraud relates to Corruption, Bribery, Money Laundering and Non-compliance with other laws and regulations

- An auditor would report on fraud on the above matters under section 143(12) of the 2013 Act only if:
 - Such acts have been carried out by officers or employees of the company, and
 - Also take into account guidance in para 28 of SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

Reporting on frauds in various scenarios

Reporting in case of fraud noted in an audit of a bank

- An auditor would report on fraud in this case under section 143(12) of the 2013 Act to:
 - the **Reserve Bank of India** in addition to the Chairman/ Managing Director/ Chief Executive of the concerned bank
 - if the **bank is a company** under the 2013 Act, then to the **Central Government**.

SA 230 – Audit Documentation

- **Scope of SA 230** - This Standard on Auditing (SA) deals with the auditor’s responsibility **to prepare audit documentation for an audit of financial statements**. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The specific documentation requirements of other SAs do not limit the application of this SA. Laws or regulations may establish additional documentation requirements.
- **Audit documentation serves a number of additional purposes, including the following:**
 - Assisting audit team to plan and perform direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220.
 - Enabling the engagement team to be accountable for its work
 - Retaining a record of matters of continuing significance to future audits
 - Enabling the conduct of quality control reviews and inspections in accordance with SQC
 - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements
- **Definition**
 - **Audit documentation** – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “work papers” are also sometimes used).
 - **Audit file** – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

SA 230 – Audit Documentation

➤ Requirement

- Timely Preparation of Audit Documentation
- Documentation of the Audit Procedures Performed and Audit Evidence Obtained
- Form, Content and Extent of Audit Documentation
 - The **nature, timing, and extent of the audit procedures** performed to comply with the SAs and applicable legal and regulatory requirements
 - The **results of the audit procedures** performed, and the audit evidence obtained
 - **Identifying characteristics** of the specific items or matters tested
 - Who performed the audit work and the date such work was completed; and who reviewed the audit work performed and the date and extent of such review.
 - The auditor shall document discussions of **significant matters with management, those charged with governance, and others**, including the nature of the significant matters discussed and when and with whom the discussions took place
 - If the **auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency**
- Departure from a Relevant Requirement
- Matters Arising after the Date of the Auditor's Report
- Assembly of the Final Audit File
- Ownership of Audit Documentation

Standards on Auditing (Contd.)

SA 230 – Audit Documentation

Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).

The auditor shall prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand results of audit procedures and significant matters.

Audit documentation is **property of auditor**.

Minimum period of retention of engagement documentation is **10 years**.

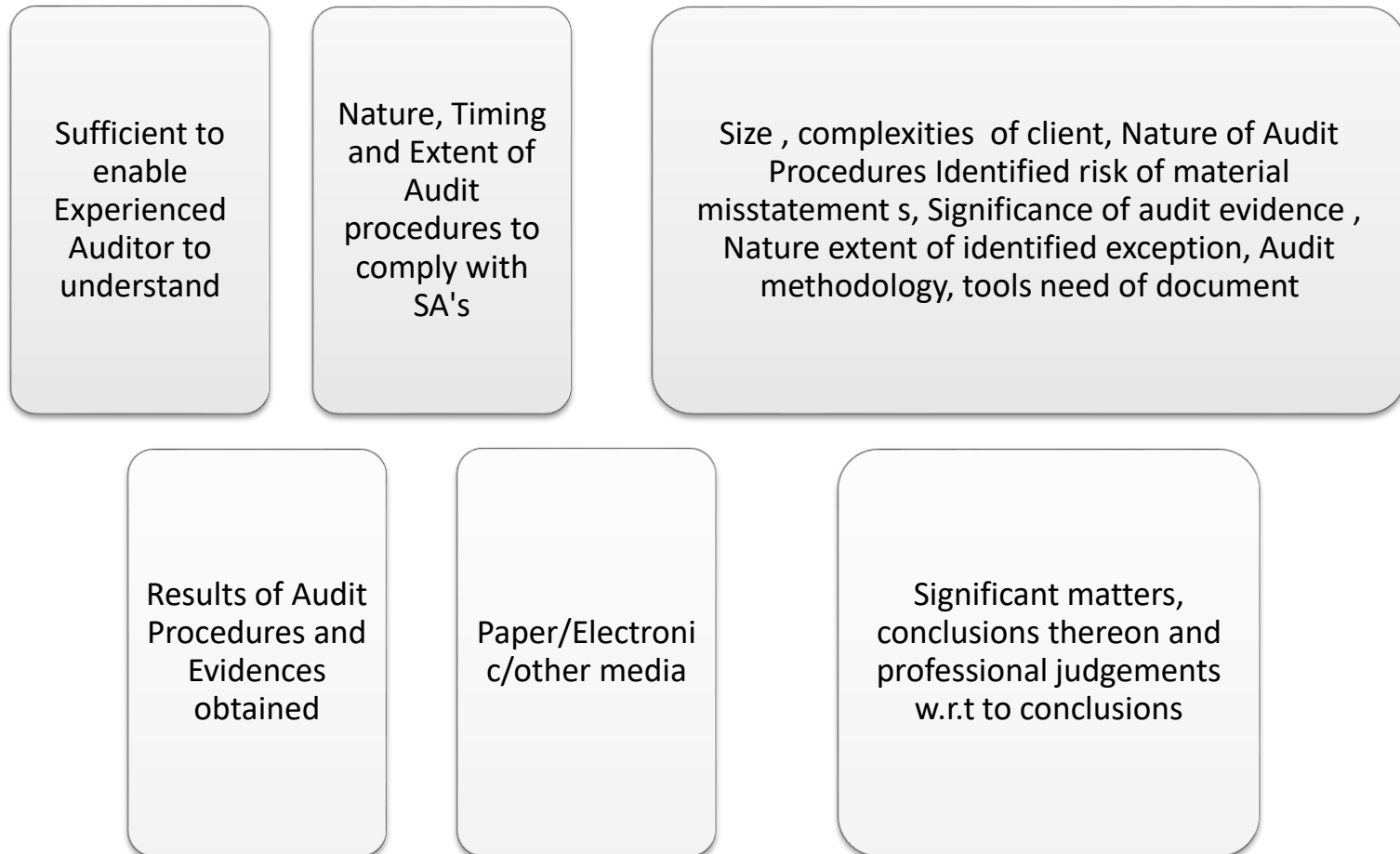
Auditor shall document following:

- Discussions of significant matters with management
- Information inconsistent with auditor’s final conclusion regarding a significant matter,
- How the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure if the auditor judges it necessary to depart from a requirement in a SA
- New conclusions after the date of the auditor’s report
- Documentation of How Inconsistencies have been addressed

However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit.

SA 230 – Audit Documentation

SA 230 which is briefly described below in flowchart:



Standards on Auditing (Contd.)

SA	Description	Required Documentations/Analysis/Evidences
SA 200	Specifies the requirement of Sufficient Appropriate Evidences to be obtained	Relevant Papers Collection at each stage of Audit as necessary
SA 210	Agreeing with Audit Engagement Terms	Audit Engagement Letter
SA 220	Quality Control for an Audit of Financial Statements	Quality Control Policies and Procedures by Auditing Firms for Audit Plans, Personnel, etc.
SA 230	Audit Documentation (Most Important)	<ul style="list-style-type: none"> - Audit programs. - Analyses. - Issues memoranda. - Summaries of significant matters. - Letters of confirmation and representation. - Checklists. - Correspondence (including e-mail) concerning significant matters. <p>The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation, however, is not a substitute for the entity's accounting records.</p>
SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	<ul style="list-style-type: none"> - Industry specific Risk Identifying factors - Documents on understanding of Internal Control Process - Inquiries and communication with entity's employees /management
SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	List of Relevant Registration with various states, legislations along with responsible person's inquiry, Checklist of Compliances for prevention and detection from non compliances

Standards on Auditing (Contd.)

SA	Description	Required Documentations/Analysis/Evidences
SA 260	Communication with those Charged with Governance	Not necessarily required to be documented unless some specific considerations
SA 265	Communicating Deficiencies in Internal Control to those Charged with Governance and Management	Obtaining reply for the same is required.
SA 299	Responsibility of Joint Auditors	Clear bifurcation of scope and responsibility is to be done.
SA 300	Planning an Audit of Financial Statements	Audit Strategy and Audit Plan Update Audit Plans as per need like unexpected events , changes in conditions, Before starting initial audit engagement – Client acceptance and previous auditor communications/correspondence
SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment	Factors, Operations, Ownership, Internal Control understanding, as well documenting.
SA 320	Materiality in Planning and Performing an Audit	Selection of Samples , Quantitative and Qualitative factors for materiality
SA 330	The Auditor's Responses to Assessed Risks	Material misstatement addressed to management, test of controls for its effectiveness
SA 402	Audit Considerations Relating to an Entity Using a Service Organization	Differs from Service to Service
SA 450	Evaluation of Misstatements Identified during the Audit	Needs to be documented with proper evaluation and conclusion.
SA 500	Audit Evidence	Reliability of relevant test of evidences, non conflict with other evidences on same matter
SA 501	Audit Evidence — Specific Considerations for Selected Items	Reliability of relevant test of evidences, non conflict with other evidences on same matter
SA 505	External Confirmations	Procedures for confirmation requests from related to third parties – For e.g. Bank, Receivable, Payable, Stock, Loans, Investment

Standards on Auditing (Contd.)

SA	Description	Required Documentations/Analysis/Evidences
SA 510	Initial Audit Engagements – Opening Balances	Recent financial statements and previous auditor report
SA 520	Analytical Procedures	Comparison of information for prior period, data reliability, significant fluctuations
SA 530	Audit Sampling	The technical analysis for sample selection sustentative procedures, etc.
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	Management Representation Letter with appropriate assumptions made and its reasonableness
SA 550	Related Parties	List of parties transactions entered, minutes books relevant details , Identifications of information provided by management transactions,
SA 560	Subsequent Events	Adequate disclosure representation from those charged with governance
SA 570	Going Concern	Relevant factors of sustainability
SA 580	Written Representations	Specifying each and every item disclosed in balance sheet
SA 600	Using the work of Another Auditor	Division of Responsibility
SA 610	Using the work of Internal Auditors	Report and Summary of Internal Audit report
SA 620	Using the Work of an Auditor’s Expert	Reliance and reliability of work performed
SA 710	Comparative Information– Corresponding Figures and Comparative Financial Statements	needs to be given and working paper e kept

Standards on Auditing (Contd.)

SA	Description	Required Documentations/Analysis/Evidences
SA 720	The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements	Financial and Non Financial Information required as per law regulation or custom (other than financial statements and auditor's report) , Inconsistent information
SA 800	Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Engagement Letter, Purpose and Intended users, Steps to determine applicable framework by management, Factors having impact on information presented. Interpretation is significant when Adoption of Another reasonable Interpretation would have produced a material difference in the information presented in the financial statements Examples of special purpose frameworks are: Cash Receipts and Disbursements – Cash Flow Reporting provisions contained in Contract - like loan agreement, project grant or bond indenture
SA 805	Special Considerations— Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Engagement Letter with clear scope Identifying factors of the matters to be reported Examples: Single Financial Statement – only cash flow Element – Account or Group including relevant notes (Account Receivable, Schedule of externally managed assets, etc.)
SA 810	Engagements to Report on Summary Financial Statements	Agreement with management for understanding scope of audit of summary financial statements in event of non acceptance of such agreement this audit reporting shall not be taken Evaluation sheet Management criteria and its acceptance Audited Financial Statement Comparative list of summary with complete set of financial statement

Standards on Auditing (Contd.)

SA 500 – Audit Evidence

- Auditor is required to obtain sufficient appropriate audit evidence **to enable them to draw reasonable conclusions on which they can base their opinion on financial information**
- **Auditor normally relies on evidence that is persuasive** rather than conclusive in nature. Auditor may obtain evidence on a selective basis by way of either judgmental or statistical sampling procedures. Evidence is obtained through performance of compliance and substantive procedures
- Compliance procedures are tests designed **to obtain reasonable assurance that internal controls on which audit reliance is placed are in effect**. Substantive procedures are designed to obtain evidence as to completeness, accuracy and validity of data produced by accounting system
- **Obtaining audit evidence from compliance procedures** is intended to reasonably assure the auditor in respect of assertions of existence, effectiveness and continuity. Obtaining audit evidence from substantive procedures is intended to reasonably assure the auditor in respect of assertions of existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure
- To test the reliability, few generalizations are useful such as **external evidence is more reliable than internal evidence, written evidence is more reliable than oral evidence and self obtained evidence is more reliable than obtained through the entity**
- **Auditor gains increased assurance when audit evidence obtained from different sources is consistent**. Various methods for obtaining audit evidence include inspection, observation, inquiry and confirmation, computation and analytical review
- **Emphasis is to be laid on considering relevance and reliability of audit evidence** obtained during the course of audit, and focus is to be laid on designing and performing audit procedures to obtain relevant and reliable audit evidence

Standards on Auditing (Contd.)

SA 501 – Audit Evidence — Specific Considerations for Selected Items

- This Standard on Auditing (SA) deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with SA 330, SA 500 (Revised) and other relevant SAs, with respect to certain aspects of **inventory, litigation and claims involving the entity, and segment information in an audit of financial statements**
- **Inventories: Management ordinarily establishes procedures under which inventory is physically counted at least once in a year** to serve as a basis for preparation of financial statements or to ascertain reliability of perpetual inventory system. When inventory is material to financial statements, auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable. If unable to attend physical inventory count on the date planned due to unforeseen circumstances, auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether changes in inventory between date of physical count and period end date are correctly recorded
- **Litigation and Claims: The auditor shall design and perform audit procedures in order to identify litigation and claims** involving the entity which may give rise to a risk of material misstatement, including:
 - (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;
 - (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and
 - (c) Reviewing legal expense accounts.
- **Segment Information: Auditor considers segment information in relation to financial statements taken as a whole**, and is not required to apply auditing procedures that would be necessary to express an opinion on segment information standing alone.

Standards on Auditing (Contd.)

SA 505 – External Confirmations

- External confirmation is the **process of obtaining and evaluating audit evidence through a direct communication from a third party** in response to a request for information about a particular item
- Before making use of external confirmations, **auditor should consider materiality, the assessed level of inherent and control risk, and how the evidence from other planned audit procedures will reduce audit risk** to an acceptably low level
- To employ external confirmation procedures in consultation with the management. External confirmations are mostly sought for **account balances and their components** but they are not to be restricted to these items only
- The use of confirmation procedures may be effective in providing sufficient appropriate audit evidence when **auditor determines higher level of assessed inherent and control risk**
- The request for confirmations is to be made either at the **date of financial statements or at a date close to it**. Requests are to be designed to specific audit objectives
- **Auditor's understanding of client's arrangements and transactions with third parties** is important in determining the information to be confirmed. Auditor may use positive or negative external confirmation requests or a combination of both
- **To consider whether there is any indication that external confirmations received may not be reliable**. To evaluate the conformity between results of external confirmation process together with results from any other procedures performed. If Auditor seeks for an external confirmation and management requests the auditor not to do so, auditor should consider whether there are valid grounds for such a request and obtain evidence to support validity of management's requests

Standards on Auditing (Contd.)

SA 580 – Written Representations

- Written representations are **written statements** used to corroborate the validity of the premises, relating to management's responsibilities, on which an audit is conducted; and other audit evidence obtained with regard to specific assertions in financial statements
- Written representations in this context **do not include financial statements, the assertions** therein, or supporting **books and records**
- To request written representations from management with appropriate responsibilities for financial statements and knowledge of matters concerned
- To request management to provide a written representation that it has **fulfilled its responsibility for the preparation and presentation of financial statements** as set out in the terms of the audit engagement; and in accordance with applicable financial reporting framework; designing, implementing and maintaining of adequate internal control system; and completeness of information made available to the auditor
- To **determine relevant parties** from whom general and specific written representations are to be requested
- To **evaluate the reliability of written representations** and in case of doubt, should **reconsider the reliability of other written representations** and, take appropriate action. A management representation letter should be addressed to the auditor containing relevant information and be appropriately dated and signed
- A management representation letter should ordinarily be **signed by members of management who have primary responsibility** for the entity and its financial aspects, e.g., Managing Director, Finance Director. Auditor should disclaim an opinion on financial statements when the requested general written representations are not provided or are unreliable, and the auditor is unable to obtain sufficient appropriate audit evidence

Standards on Auditing (Contd.)

SA 220 – Quality Control for an Audit of Financial Statements

- Quality control policies and procedures should be implemented at both level — of audit firm and on individual audits
- To implement **quality control policies and procedures** designed to ensure that all audits are conducted in accordance with Standards of Auditing
- Objectives of quality control policies to be adopted will incorporate Professional Requirements, Skills and Competence, Assignment, Delegation, Consultation, Acceptance and Retention of Clients.
- To be **communicated to its personnel** in a manner that provides reasonable assurance that the policies and procedures are understood and implemented
- To implement those quality control procedures which are, in the context of policies and procedures of the firm, appropriate to individual audit. To consider professional competence of assistants performing work delegated to them when deciding **extent of direction, supervision and review** appropriate for each assistant. Assistants to whom work is delegated need appropriate direction, supervision and review of audit work performed by them

Standards on Auditing (Contd.)

SA 260 – Communication with TCWG

- To communicate with those charged with governance, auditor's responsibilities in relation to financial statements audit, an overview of planned scope and timing of audit and significant findings from the audit
- Such matters include: **Overall scope of audit; selection of/ changes in significant accounting policies;** potential effect on financial statements of any **significant risks and exposures**, such as **pending litigation; adjustments to financial statements** arising out of audit that have a significant effect on entity's financial statements; **material uncertainties** related to events and conditions that may cast significant doubt on entity's ability to continue as a going concern, **disagreements with management** about matters that could be significant to entity's financial statements or auditor's report; **expected modifications to auditor's report**. Auditors should communicate matters of governance interest on **timely basis**.
- Auditor's communication may be made **orally or in writing**. In case of oral communication, auditor should document their oral communications and response thereof
- The following **factors** are also considered for modes of communication:
 - **Size, Operating structure and controlling environment** of the organization;
 - **Legal requirements;**
 - **Expectation of TCWG; and**
 - **Changes in TCWG** or Governing body.

Standards on Auditing (Contd.)

SA 700 – Forming an opinion and reporting on financial statements

- **Title – “independent”** auditor’s report
- **Addressee-** those for whom the report is prepared
- **Introductory paragraph** - title of each statement ,date/period covered

- **Management’s Responsibility** – Board of Directors is responsible for matters stated in Section 134(5) of the Companies Act, 2013(Act) with respect to preparation of financial statement that give true and fair view of the financials position of the company in accordance with the accounting principles generally accepted in India, including the Accounting Standard specified under Sec 133 of the act, read with Rule 7 of the companies (Accounts) Rules 2014.

- **Auditor’s Responsibility** – express opinion on financial statements taking into account provisions of Act, relevant Rules, and Standards on Auditing specified u/s/ 143(10) of the Act and obtain reasonable assurance about whether the financial statements(FS) are free from material misstatement.
 - ❑ **An Audit involves:**
 - a) Performing procedures to obtain audit evidence about amounts and disclosures in FS based on auditor’s judgement and company’s internal control.
 - b) Evaluating appropriateness of accounting policies, reasonableness of accounting estimates of management and overall presentation of FS.

Standards on Auditing (Contd.)

SA 700 – Forming an opinion and reporting on financial statements

- **Opinion** - “ In our opinion and to best of our information and according to the explanations given to us , the aforesaid standalone financial statement give the information required by the act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31st March, 20XX, and its cash flows for the year ended on the date”.
- **Report on other legal and regulatory requirements** – As required by the companies (Auditor’s Report) Order, 2015 issued by the central Government in terms of Sec 143 (11) of the act and as required by section 143(3) of the Act.
- **Signature** – For XYZ & Co, Chartered Accountants (Firm’s Registration No.) Signature (xxx.xxx), (Designation) (Membership No. XXXXX)
- **Place & Date** – Place of Signature and Date

Standards on Auditing (Contd.)

SA 701 – Communicating Key Audit Matters in the Independent Auditor's Report

- SA 701 is intended for addressing both the judgment of an auditor as to what is required to be communicated in his/her audit report and the content and form of such communication.
- The **purpose of communicating key audit matters** is:
 - Enhancing the **communicative value** of the report of the auditor by offering better transparency about the audit which was executed.
 - It offers **additional information to users** of such financial statements in assisting them to understand those matters which in the professional judgment of the auditor, were of critical importance in the audit of financial statements of the relevant period.
 - It might also assist the users of such financial statements to **understand the entity** and also help in **understanding the areas of crucial management judgment** in such audited financial statements.
- Communicating the key audit matters in the report of the auditor is with respect to an auditor having formed his/her opinion on financial statements overall. However, **communicating the key audit matters** in auditor's report is:
 - **Not a substitute for the disclosures in financial statements** that relevant financial reporting framework necessitates management to make, or which are otherwise essential for achieving fair presentation
 - **Not a substitute for an auditor expressing his/her modified opinion** when circumstances of any specific audit engagement require such expression as per SA 705 (Revised)
 - **Not a substitute to report as per SA 570 (Revised)** when any material uncertainty exists with respect to conditions or events which might bring substantial doubt on the ability of the entity in continuing as a going concern
 - **Not a separate opinion** on the individual matters

Standards on Auditing (Contd.)

SA 701 – Communicating Key Audit Matters in the Independent Auditor’s Report

➤ **Determining Key Audit Matters**

The auditor should determine those matters which mandated significant attention of the auditor in executing the audit. While determining this, the auditor should take into consideration the followings:

- Areas pertaining to **higher assessed risk of the material misstatement**, or **substantial risks identified** as per SA 315,
- **Substantial judgments of the auditor** regarding areas in financial statements which had noteworthy management judgment, that includes accounting estimates which were identified with high uncertainty,
- The **effect of substantial transactions or events** which occurred during the relevant period.

➤ **Communication with Person(s) Charged with Governance**

An auditor should **communicate with the person(s) charged with governance**:

- Matters which **the auditor considers key audit matters**
- In case applicable, the determination of the auditor that there **aren’t any key audit matters** for the purpose of communicating in his/her report

➤ **Documentation**

An auditor should include in his/her audit documentation:

- Matters which required his/her significant attention, and the basis for his/her determination whether such matter is a key audit matter;
- Where applicable, the basis for the auditor in determining that there aren’t key audit matters for the purpose of communicating with him/her; and
- Where applicable, the basis for the auditor in determining not to communicate in his/her report a matter which was considered to be a key audit matter.

Standards on Auditing (Contd.)

SA 705-Modifications to the opinion in the independent auditor`s report

If sufficient appropriate audit evidence is not obtained, then auditor is unable to conclude whether Financial Statement as a whole are free from material misstatement.

Evidence	Misstatements	Opinion
Obtained or not	Material but not pervasive	Qualified
Obtained	Material and pervasive	Adverse
Not obtained	Material and pervasive	Disclaimer
Even though Obtained	Uncertain	Disclaimer

- Report shall contain all elements as per SA 700 + Basis for modification para (describing matter of modification) placed just above opinion para.
- Modifications and their wordings should be communicated to **those charged with Governance (TCWG)**.

Misstatements/possible misstatements are pervasive or not depend on following:

- 1) Whether they are not confined to specific components accounts or items.
- 2) If so confined, represent a substantial portion.
- 3) Where pertaining to disclosures, are fundamental to user`s understanding of **Financial Statement (FS)**.

SA 705-Modifications to the opinion in the independent auditor`s report

- **Pervasive** have been defined as following: A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor`s judgment:
- **Pervasive misstatement does not automatically means that it is material as well. Same goes for material misstatement which is not always pervasive also.**
- However, usually pervasive misstatement may amount to material misstatement as well. For example, cash embezzlement by cashier is discovered. This fraud be material in nature but it will hardly be pervasive whereas if the same embezzlement is discovered in relation to key personnel in the management then it is bound to have pervasive effect as many other assertions might also be misstated. Audit has to consider both characteristics of the misstatements in order to correctly understand the implications of misstatements on the financial statements and auditor`s report. That is why auditor always evaluate whether uncorrected, undetected misstatements are:
 - material and pervasive in which case auditor will give adverse or disclaimer of opinion according to the circumstances or
 - just material but not pervasive in which case the auditor will express a qualified opinion.

It is auditor who determines whether misstatements are both material and pervasive or not using his professional judgement.

Standards on Auditing (Contd.)

SA 705-Modifications to the opinion in the independent auditor`s report

- **Scope limitation imposed by management** after accepting engagement, **may result in qualified opinion or disclaimer** and **management does not remove the scope limitation** even after request made by auditor, then **auditor can consider alternative procedures or can communicate to TCWG**. If sufficient appropriate audit evidence is not obtained and concludes the effect of undetected misstatements as:
 - 1) Material but not pervasive, then he shall **qualify**.
 - 2) Material and pervasive, then he shall resign if allowed else give **disclaimer**.
- When expressing **adverse opinion or disclaiming opinion on FS as a whole**, auditor **CANNOT also express unmodified opinion on one or more specific elements**, accounts or items in FS with respect to same financial reporting framework.
- The **effect of misstatement** should be **described and quantified in audit report** and **if not possible** explain how disclosures are misstated and state **reason for why sufficient appropriate audit evidence was unavailable**.
- In case of non disclosure, auditor shall discuss with TCWG and describe omitted information.
- Where **adverse or disclaimer of opinion is expressed**, but **there are other matters that would have required modification**, state reasons and effects of such other matters in basis of modification para.

Standards on Auditing (Contd.)

SA 705-Modifications to the opinion in the independent auditor`s report

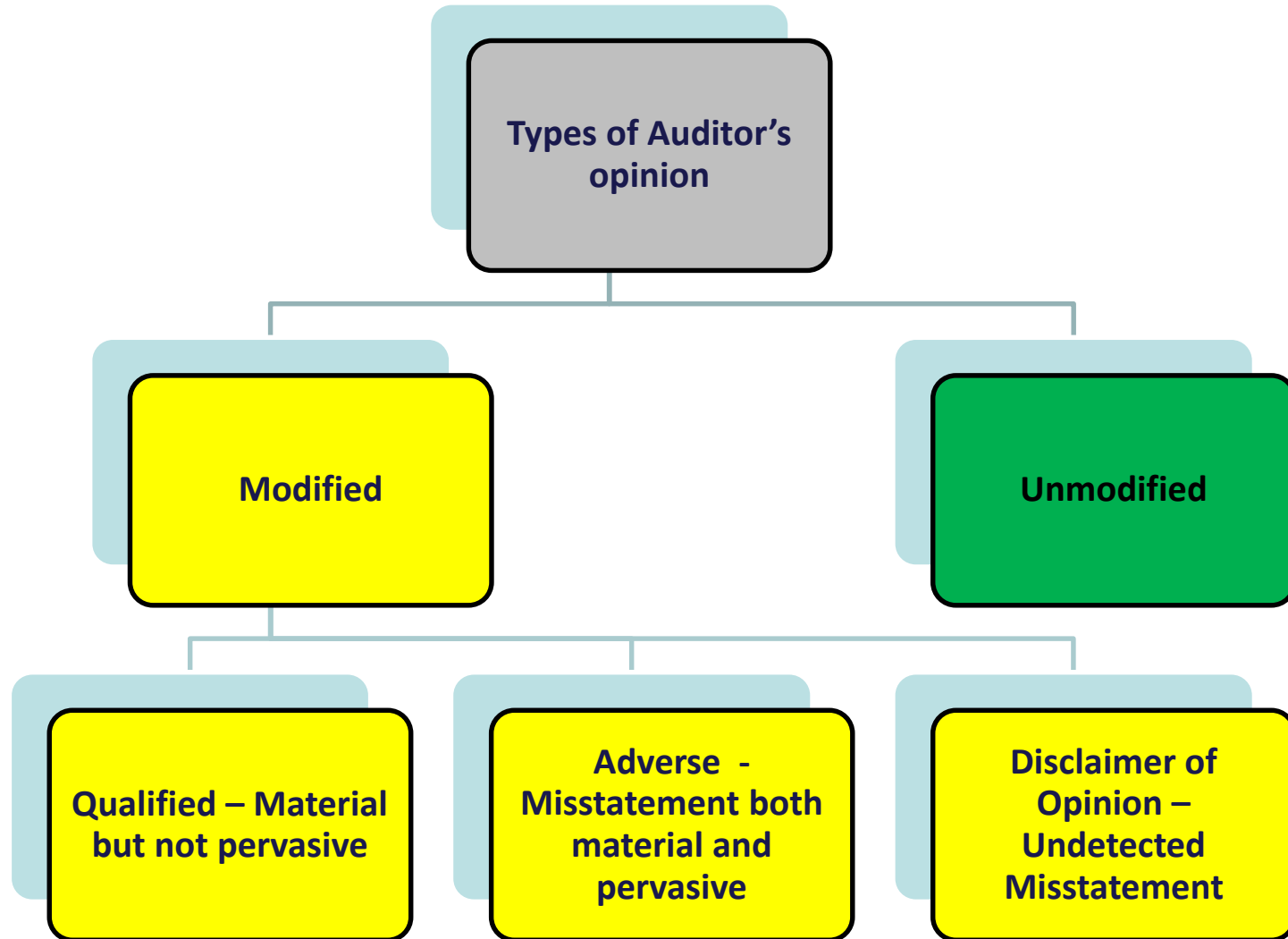
Type of Opinion	Example of Opinion	Auditor`s Responsibility Para
Qualified due to material misstatement	In our opinion, except for effect of matters in basis of qualified opinion para, FS.....	Audit Evidence is sufficient and appropriate to provide basis for modified audit opinion
Qualified as sufficient appropriate audit evidence (SAAE)not obtainedexcept for the possible effects of matter....	Same as above
Adverse	Because of significance of matter	Same as above
Disclaimer	Because of significance of matterauditor has not been able to obtain SAAE to provide basis and does not express opinion....	Because of matter described in basis for disclaimer of opinion para, however, we were not able to obtain SAAE to provide basis for an audit opinion.

Standards on Auditing (Contd.)

SA 706 – EOM para and OM para in independent auditor`s report

Emphasis of Matter	Other Matter
Draw user`s attention to matters presented/disclosed in FS that are fundamental to user`s understanding of FS	Draw user`s attention to matters NOT presented/disclosed in FS that are fundamental to user`s understanding of audit, auditor`s responsibilities or auditor`s report.
Obtain SAAE for matter is not materially misstated	
Placed AFTER opinion para	Placed AFTER opinion and EOM para, but may also be placed in Other Reporting Responsibilities section if its contents relate to such responsibilities.
Reference to where matter emphasized can be found in FS should be given	
Indicate that auditor`s opinion is NOT MODIFIED in respect of matter emphasized	

Types of Auditor's Opinion



Standards on Auditing (Contd.)

ICAI announcement on component of reporting

Component	Disclosure in principal auditor`s report
Unaudited, not material	Disclosure optional; If disclosed – in other matter
Audited by another auditor, not material	Disclosure optional; If disclosed – in other matter
Unaudited, material	Report to be modified
Audited by another auditor, material	Disclosure to be made in other matter

ICAI announcement on CARO reporting

For clauses of CARO that are not applicable, there was mixed practice where some auditors mentioned non-applicability for each clause separately and other clubbed all non-applicable clauses in an opening para. ICAI permits both practices



Illustrations of Audit Report



Unmodified Report Illustration

Important Illustrations of Audit Report

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF INFOSYS LIMITED

Report on the Financial Statements

We have audited the accompanying standalone financial statements of Infosys Limited ('the Company'), which comprise the balance sheet as at 31 March 2015, the statement of profit and loss and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation and presentation of these standalone financial statements 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 adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate 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 there under.

Important Illustrations of Audit Report (Contd.)

We **conducted** our audit in accordance with the **Standards on Auditing** specified under Section 143(10) of the 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.

An audit involves **performing procedures to obtain audit evidence** about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

Opinion

In **our opinion and to the best of our information** and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and **give a true and fair view** in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2015 and its profit and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2015 ('the Order') issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure a statement on the matters specified in the paragraph 3 and 4 of the Order, to the extent applicable.

Important Illustrations of Audit Report (Contd.)

2. As required by Section 143 (3) of the Act, we report that :

a. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

b. in our opinion proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

c. the balance sheet, the statement of profit and loss and the cash flow statement dealt with by this Report are in agreement with the books of account;

d. in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;

e. on the basis of the written representations received from the directors as on 31 March 2015 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2015 from being appointed as a director in terms of Section 164 (2) of the Act; and

f. with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us :

i. the Company has **disclosed the impact of pending litigations** on its financial position in its financial statements – Refer **Note 2.20 and 2.37** to the financial statements;

ii. the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – **Refer Note 2.7** to the financial statements;

iii. There has been **no delay** in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

2.20 Contingent liabilities and commitments (to the extent not provided for)

in ₹ crore

Particulars	As at March 31,	
	2015	2014
Contingent liabilities		
Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favor of various government authorities and others	22	24
Claims against the Company, not acknowledged as debts ⁽ⁱ⁾	167	169
[Net of amount paid to statutory authorities ₹ 3,572 crore (₹ 1,716 crore)]		
Commitments		
Estimated amount of unexecuted capital contracts (net of advances and deposits)	1,272	827

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

2.37 Litigation

In 2011, U.S. Department of Homeland Security ('DHS') reviewed the Company's employer eligibility verifications on Form I-9 with respect to its employees working in the United States. In connection with this review, the Company was advised that the DHS has found errors in a significant percentage of its Forms I-9.

On October 30, 2013, the Company settled the foregoing matters and entered into a Settlement Agreement ('Settlement Agreement') with the U.S. Attorney, the DHS and the United States Department of State ('State', and collectively with the U.S. Attorney and the DHS, 'the United States').

In the Settlement Agreement, the Company denied and disputed all allegations made by the United States, except for the allegation that the Company failed to maintain accurate Forms I-9 records for many of its foreign nationals in the United States in 2010 and 2011 as required by law, and that such failure constituted civil violations of certain laws.

During the year ended March 31, 2014, the Company **recorded a charge** related to the **settlement agreement** (including **legal costs**) of **Rs. 219** crore related to the matters that were the subject of the Settlement Agreement. The said amount was paid prior to December 31, 2013.

In addition, **the Company is subject to legal proceedings and claims**, which have arisen in the **ordinary course** of business. The Management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the Company's results of operations or financial condition.

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

2.7 Short-term provisions

in ₹ crore

Particulars	Year ended March 31,	
	2015	2014
Provision for employee benefits		
Unavailed leave	907	798
Others		
Proposed dividend	3,388	2,469
Provision for		
Tax on dividend	690	420
Income taxes (net of advance tax and TDS)	2,678	2,105
Post-sales client support and warranties and other provisions	382	325
Provision towards visa-related matters (Refer to Note 2.37)	—	—
	8,045	6,117

Important Illustrations of Audit Report (Contd.)

Annexure to the Auditors' Report:

The Annexure referred to in our Independent Auditors' Report to the members of the Company on the standalone financial statements for the year ended 31 March 2015, we report that :

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The Company has a regular programme of physical verification of its fixed assets by which fixed assets are verified in a phased manner over a period of three years. In accordance with this programme, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets.

(ii) The Company is a service company, primarily rendering software services. Accordingly, it does not hold any physical inventories. Thus, paragraph 3(ii) of the Order is not applicable.

(iii) (a) The Company has granted loans to three bodies corporate covered in the register maintained under section 189 of the Companies Act, 2013 ('the Act').

(b) In the case of the loans granted to the bodies corporate listed in the register maintained under section 189 of the Act, the borrowers have been regular in the payment of the interest as stipulated. The terms of arrangements do not stipulate any repayment schedule and the loans are repayable on demand. Accordingly, paragraph 3(iii)(b) of the Order is not applicable to the Company in respect of repayment of the principal amount.

(c) There are no overdue amounts of more than rupees one lakh in respect of the loans granted to the bodies corporate listed in the register maintained under section 189 of the Act.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any

Important Illustrations of Audit Report (Contd.)

major weakness in the internal control system during the course of the audit.

(v) The Company has not accepted any deposits from the public.

(vi) The Central Government has not prescribed the maintenance of cost records under section 148(1) of the Act, for any of the services rendered by the Company.

(vii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted / accrued in the books of account in respect of undisputed statutory dues including provident fund, income tax, sales tax, wealth tax, service tax, duty of customs, value added tax, cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of employees' state insurance and duty of excise.

According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, income tax, sales tax, wealth tax, service tax, duty of customs, value added tax, cess and other material statutory dues were in arrears as at 31 March 2015 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no material dues of wealth tax, duty of customs and cess which have not been deposited with the appropriate authorities on account of any dispute. However, according to information and explanations given to us, the following dues of income tax, sales tax, service tax and value added tax have not been deposited by the Company on account of disputes

c) According to the information and explanations given to us the amounts which were required to be transferred to the investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules there under has been transferred to such fund within time.

(viii) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

Important Illustrations of Audit Report (Contd.)

(ix) The Company did not have any outstanding dues to financial institutions, banks or debenture holders during the year.

(x) In our opinion and according to the information and the explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xi) The Company did not have any term loans outstanding during the year.

(xii) According to the information and explanations given to us, no material fraud on or by the Company has been noticed or reported during the course of our audit.

for B S R & Co. LLP

Chartered Accountants

Firm's registration number : 101248W/W-100022

Akhil Bansal

Partner

Membership number 090906

Place : Chennai

Date : 24 April, 2015



Qualified Report Illustrations

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TECH MAHINDRA LIMITED

Report on the Standalone Financial Statements

We have audited the accompanying standalone financial statements of Tech Mahindra Limited (the Company), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 (the Act) with respect to the preparation of these standalone financial statements 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 adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate 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 there under.

Important Illustrations of Audit Report (Contd.)

We conducted our audit in accordance with the **Standards on Auditing** specified under Section 143(10) of the 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. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a **true and fair** view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. **We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.**

Basis for Qualified Opinion

Attention is invited to the following matter in respect of the erstwhile Satyam Computer Services Limited (erstwhile Satyam), amalgamated with the Company with effect from April 1, 2011:

As stated in **Note 26.3**, the **alleged advances** to the erstwhile **Satyam**, amounting to Rs. 12,304 Million (net) relating to **prior** years has been **presented** separately under "**Amounts pending investigation suspense account (net)**" in the Balance Sheet. The details of these claims and the related developments are more fully described in the said Note.

Further, as stated in the said Note, the Company's Management is of the view that the claim regarding repayment of the **alleged advances not being legally tenable has been reinforced in view of the developments described in the said Note including based on legal opinion**. However, pending the final outcome of the recovery suit filed by the 37 companies in the City Civil Court and the Enforcement Directorate matter under the Prevention of Money Laundering Act pending before the Honorable High Court, the Company, as a matter of prudence, at this point of time, is continuing to classify the amounts of

Important Illustrations of Audit Report (Contd.)

City Civil Court and the Enforcement Directorate matter under the Prevention of Money Laundering Act pending before the Honorable High Court, the Company, as a matter of prudence, at this point of time, is continuing to classify the amounts of the alleged advances as "**Amounts pending investigation suspense account (net)**", and the same would be appropriately dealt with / reclassified when the final outcome becomes clearer. Also, in the opinion of the Company's Management, even if the principal amounts of such claims are held to be tenable and the Company is required to repay these amounts, such an eventuality should not have an adverse bearing on either the Company's profits or its reserves in that period, since the Company has been legally advised that no damages / compensation / interest would be payable even in such an unlikely event. In the absence of complete / required information, and since the matter is subjudice, we are unable to comment on the accounting treatment / adjustments / disclosures relating to the aforesaid alleged advances amounting to Rs. 12,304 Million (net) and the related claims for damages / compensation / interest, which may become necessary as a result of the ongoing legal proceedings and the consequential impact, if any, on these financial statements. **However, in the eventuality of any payment up to Rs. 12,304 Million, against the aforesaid claims for the principal amounts of the alleged advances, there should be no impact on the profits / losses or reserves of the Company.**

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the matter described in the Basis for Qualified Opinion in paragraph above, the consequential effects, if any, of which are not quantifiable, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2015, and its profit and its cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to the following matters:

a) **Notes 26.1 and 26.2** – In respect of the financial irregularities in the erstwhile **Satyam relating to prior years identified**

Important Illustrations of Audit Report (Contd.)

consequent to the letter dated January 7, 2009 of the then Chairman of erstwhile Satyam, various regulators/investigating agencies initiated their investigations and legal proceedings, which are ongoing.

The Company's Management is of the view that the above investigations / proceedings would not result in any additional material provisions/ write-offs/ adjustments (other than those already provided for/ written-off or disclosed) in the financial statements of the Company.

b) In respect of the non-compliances/breaches in the erstwhile Satyam relating to certain provisions of the Companies Act, 1956, certain employee stock option guidelines issued by the Securities Exchange Board of India and certain matters under the provisions of FEMA, observed in the prior years under its erstwhile management (prior to the appointment of Government nominated Board).

As per the Company's Management, any adjustments, if required, in the financial statements of the Company would be made as and when the outcomes of the above matters are concluded.

c) **Note 24.5** – Appeals against the order by the single judge of the Honourable High Court of Andhra Pradesh approving the Scheme of merger have been filed by 37 companies before the Division Bench of the Honorable High Court of Andhra Pradesh. No interim orders have been passed and the appeals are pending hearing.

d) As stated in **Note 29.5.2.v**, erstwhile **Satyam was carrying a total amount of Rs.4,989 Million (net of taxes paid) as at March 31, 2013 (that is, before giving effect to its amalgamation with the Company) towards provision for taxation, including for the prior years for which the assessments are under dispute.** Subsequent to the amalgamation, duly considering the professional advice obtained in the matter, the Company's Management has re-evaluated the effects of the possible **outcomes of the tax matters in dispute relating to erstwhile Satyam and the estimated excess tax provision amounting to Rs.2,266 Million determined based on such evaluation in respect of the prior years has been written back during the year ended March 31, 2014.** The Company's Management is of the view that the balance provision for taxation carried in the books with respect to the prior year disputes relating to erstwhile Satyam is adequate.

Important Illustrations of Audit Report (Contd.)

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2015 (the Order) issued by the Central Government in terms of Section 143(11) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. As required by Section 143 (3) of the Act, we report that:

(a) Except for the effects of the matter described in the Basis for Qualified Opinion in paragraph above, we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) Except for the effects of the matter described in the Basis for Qualified Opinion in paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

(c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;

(d) Except for the effects of the matter described in the Basis for Qualified Opinion in paragraph above, in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;

(e) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company;

(f) On the basis of the written representations received from the Directors as on March 31, 2015 taken on record by the Board of Directors, none of the Directors is disqualified as on March 31, 2015 from being appointed as a Director in terms of Section 164 (2) of the Act.

Important Illustrations of Audit Report (Contd.)

(g) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.

(h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. The Company has **disclosed the impact of pending litigations on its financial position** in its financial statements – Refer **Note 26, 27, 28, 29, 30 and 32** to the financial statements;

ii. The Company **has made provision**, as required under the applicable law or accounting standards, **for material foreseeable losses, if any, on long-term contracts including derivative contracts**;

iii. There has been **no delay in transferring amounts**, required to be transferred, to the **Investor Education and Protection Fund** by the Company.

ANNEXURE TO THE INDEPENDENT AUDITORS' REPORT Re: TECH MAHINDRA LIMITED

(Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

(i) In respect of its fixed assets..... **(Contd)**

Important Illustrations of Audit Report (Contd.)

24.5 Appeals against the order sanctioning the Scheme

Appeals against the order by the single judge of the Honourable High Court of Andhra Pradesh approving the Scheme of merger have been filed by 37 companies before the Division Bench of the Honourable High Court of Andhra Pradesh. No interim orders have been passed and the appeals are pending hearing.

One of the said company has also appealed against the order of the single judge rejecting the Petition for winding up of erstwhile Satyam. The matter has been combined with the above appeals for hearing.

26. Certain matters relating to investigations pertaining to erstwhile Satyam Computer Services Limited (erstwhile Satyam):

26.1 Investigation by authorities in India

In the letter of January 7, 2009 (the “letter”) of Mr. B. Ramalinga Raju, the then Chairman of erstwhile Satyam, admitted that the Balance Sheet of erstwhile Satyam as at September 30, 2008 carried an inflated cash and bank balances, non-existent accrued interest, an understated liability and an overstated debtors position. Consequently, various regulators/ investigating agencies such as the Central Bureau of Investigation (CBI), Serious Fraud Investigation Office (SFIO)/ Registrar of Companies (ROC), Directorate of Enforcement (ED), etc., had initiated their investigation on various matters. On April 09, 2015, the Special Session Court in its judgment has sentenced rigorous imprisonment to B. Ramlinga Raju including others for offence punishable under various sections of Indian Penal Code.

On May 22, 2013, the ED has issued a show-cause notice to erstwhile Satyam for contravention of provisions of the Foreign Exchange Management Act, 1999 (FEMA) for alleged non-repatriation of ADS proceeds aggregating USD 39.2 Million. The Company has responded to the show-cause notice.

Important Illustrations of Audit Report (Contd.)

Certain agencies viz., SFIO and ED, pursuant to the matters stated above, had conducted inspections and issued notices calling for information from certain subsidiaries which have been responded / in the process of being responded to. In furtherance to the investigation of erstwhile Satyam, certain Regulatory Agencies in India sought assistance from Overseas Regulators and accordingly, sought information from certain overseas subsidiaries.

As per the assessment of the Management, based on the forensic investigation and the information available up to this stage, all identified / required adjustments / disclosures arising from the identified financial irregularities, had been made in the financial statements of erstwhile Satyam as at March 31, 2009.

Considerable time has elapsed after the initiation of investigation by various agencies and erstwhile Satyam had not received any further information as a result of the various ongoing investigations against erstwhile Satyam which required adjustments to the financial statements.

Further, in the opinion of the Management, no new claims have been made when the Andhra Pradesh High Court considered and approved the merger, which need any further evaluation / adjustment / disclosure in the books, and all existing claims have been appropriately dealt with / recorded / disclosed in the books based on their current status.

Considering the above, **notwithstanding the pendency of the various investigations/ proceedings, the Management is of the view that the above investigations / proceedings would not result in any additional material provisions / write-offs / adjustments (other than those already provided for, written-off or disclosed) in the financial statements of the Company.**

26.2 Forensic investigation and nature of financial irregularities

Consequent to the aforesaid letter, the **Government nominated Board of Directors of erstwhile Satyam appointed**

Important Illustrations of Audit Report (Contd.)

an independent counsel (“Counsel”) to conduct an investigation of the financial irregularities. The Counsel appointed forensic accountants to assist in the investigation (referred to as “forensic investigation”) and preparation of the financial statements of erstwhile Satyam.

The forensic investigation conducted by the forensic accountants investigated accounting records to identify the extent of financial irregularities and mainly focused on the period from April 1, 2002 to September 30, 2008, being the last date up to which erstwhile Satyam published its financial results prior to the date of the letter. In certain instances, the forensic accountants conducted investigation procedures outside this period.

The forensic investigation had originally indicated possible diversion aggregating USD 41 Million from the proceeds of the American Depositary Shares (ADS) relating to erstwhile Satyam. The amount was revised to USD 19 Million based on the further details of utilisation of ADS proceeds obtained by erstwhile Satyam.

The overall impact of the fictitious entries and unrecorded transactions arising out of the forensic investigation, to the extent determined was accounted in the financial statements for the financial year ended March 31, 2009 of erstwhile Satyam.

Based on the forensic investigation, an aggregate amount of **Rs.11,393 Million (net debit) was identified in the financial statements of erstwhile Satyam as at March 31, 2009 under “Unexplained differences suspense account (net)” comprising of fictitious assets, unrecorded loans or where complete information is not available.** On grounds of prudence, these amounts had been provided for by erstwhile Satyam in the financial year ended March 31, 2009 and since there is no further information available with the Management even after the lapse of more than four years, the said amount has been completely written off in the books of account of the Company during the year ended March 31, 2014.

Important Illustrations of Audit Report (Contd.)

The forensic investigation was unable to identify the nature of certain alleged transactions aggregating Rs.12,304 Million (net receipt) against which erstwhile Satyam had received legal notices from 37 companies claiming repayment of this amount which was allegedly given as temporary advances. Refer note 26.3 below.

26.3 Alleged Advances

Consequent to the letter of the erstwhile Chairman, on January 8, 2009, the erstwhile Satyam received letters from thirty seven companies requesting confirmation by way of acknowledgement for receipt of certain alleged amounts referred to as “alleged advances”. **These letters were followed by legal notices from these companies dated August 4/5, 2009, claiming repayment of Rs.12,304 Million allegedly given as temporary advances.**

The 37 companies had filed petitions / suits for recovery against the erstwhile Satyam before the City Civil Court, Secunderabad (“Court”), with a prayer that these companies be declared as indigent persons for seeking exemption from payment of requisite court fees.

One petition where court fees have been paid and the pauper petition converted into a suit which is pending disposal and petitions filed by remaining 36 companies are before the Court, at various stages of rejection of pauperism / trial of pauperism / inquiry in condone delay applications.

The remaining petitions are at a preliminary stage before the Court, for considering condonation of delay in re-submission of paper petitions. **In one petition, the delay had been condoned by the Court and the Company has obtained an interim stay order from the Honourable High Court of Andhra Pradesh. The Hon’ble High Court after hearing the parties has remanded the matter to the lower directing to consider the application afresh.**

The erstwhile Satyam had received legal notices from nearly all of the above companies, calling for payment of the amounts allegedly advanced by them (including interest and damages), failing which they would be constrained to

Important Illustrations of Audit Report (Contd.)

file a petition for winding up the affairs of Satyam. In pursuance thereof, one of the aforesaid companies filed a winding up petition that was dismissed by the High Court. Against the said order of dismissal, the aforementioned company has filed an appeal before the Division Bench of High Court of Andhra Pradesh which is pending hearing.

Furthermore, even in connection with the merger proceedings, the erstwhile Satyam had received letters from the aforesaid companies claiming themselves to be “creditors”. They had pleaded inter-alia before the High Court (hearing the merger petition of the erstwhile Satyam with the Company) that the mandatory provisions governing the scheme under the Companies Act, 1956 have not been complied with in so far as convening a meeting of the creditors is concerned. They contended that without convening a meeting of the creditors and hearing their objections, the merger scheme could not be proceeded with.

The High Court based on the report of an independent firm of Chartered Accountants appointed by the Court and the contentions of the erstwhile Satyam, held inter-alia, in its order approving the merger of the erstwhile Satyam with the Company, that the contention of the 37 companies that Satyam is retaining the money of the “creditors” and not paying them does not appear to be valid and further held that any right of the objecting creditors can be considered only if the genuineness of the debt is proved beyond doubt which is not so in this case.

The High Court in its order, further held that in the absence of Board resolutions and documents evidencing acceptance of unsecured loans by the former management of the erstwhile Satyam, the new management of the erstwhile Satyam is justified in not crediting the amounts received in their names and not showing them as creditors and further reflecting such amounts as Amounts pending investigation suspense account (net).

The Directorate of Enforcement (ED) is investigating the matter under the Prevention of Money Laundering Act, 2002 (“PMLA”) and directed the erstwhile Satyam to furnish details with regard to the alleged advances and has also directed it not to return the alleged advances until further instructions from the ED. In furtherance to the

Important Illustrations of Audit Report (Contd.)

investigation by the ED, the erstwhile Satyam was served with a provisional attachment order dated October 18, 2012 issued by the Joint Director, Directorate of Enforcement, Hyderabad under Section 5(1) of the PMLA (“the Order”), provisionally attaching certain Fixed Deposit accounts of the Company then aggregating to Rs.8,220 Million for a period of 150 days. As stated in the Order, the investigations of the ED revealed that Rs.8,220 Million constitutes “proceeds of crime” as defined in the PMLA. The erstwhile Satyam had challenged the Order in the Honourable High Court of Andhra Pradesh (“the Writ”). The Honourable High Court of Andhra Pradesh (“the High Court”) has, pending further orders, granted stay of the said Order and all proceedings pursuant thereto vide its interim order dated December 11, 2012. The ED had challenged the interim order before the Division Bench of the Honourable High Court of Andhra Pradesh. By an order dated December 31, 2014, the Hon’ble High court has dismissed the Appeal filed by ED and continued the stay granted.

The criminal case has been commenced before the “Honourable XXI Additional Chief Metropolitan Magistrate, Hyderabad cum Special Sessions Court” by the Enforcement Directorate under the Prevention of Money Laundering Act, 2002 against erstwhile Satyam, since merged with the Company, along with 212 Accused persons. In the complaint, ED has alleged that the Company has been involved in the offence of money laundering by possessing the proceeds of crime and projecting them as untainted. The Company had challenged the above complaint before the Honourable High Court of Hyderabad and the Hon’ble High court has quashed the criminal complaint against the Company vide its order dated December 22, 2014. On appeal, the Divisional Bench of the High Court, however passed an interim order allowing the hearing for framing ‘Charges’. On Special Leave Petition before the Supreme Court of the India, the Hon’ble Supreme Court directed the Hon’ble High Court of Andhra Pradesh to dispose of the writ appeal within a period of four months and further directed the trial court to defer the trial till the Hon’ble High Court of Andhra Pradesh disposes of the writ appeal.

In view of the aforesaid developments and also based on legal opinion, the erstwhile Satyam’s management’s view, which is also the Company’s Management’s view, that the claim regarding the repayment of “alleged advances”

Important Illustrations of Audit Report (Contd.)

(including interest thereon) of the 37 companies are not legally tenable has been reinforced.

However, notwithstanding the above, pending the final outcome of the recovery suit filed by the 37 companies in the City Civil Court and the ED matter under the PMLA pending before the High Court, the Company, as a matter of prudence, at this point of time, is continuing to classify the amounts of the alleged advances as “Amounts Pending Investigation Suspense Account (net)”, and the same would be accordingly dealt with / reclassified as and when appropriate.

26.4 Documents seized by CBI/other authorities

Pursuant to the investigations conducted by CBI / other authorities, most of the relevant documents in possession of erstwhile Satyam relating to period affected by the financial irregularities were seized by the CBI. On petitions filed by erstwhile Satyam, the ACMM granted partial access to it including for taking photo copies of the relevant documents as may be required in the presence of the CBI officials. Further, there were also certain documents which were seized by other authorities such as the Income Tax Authorities, of which erstwhile Satyam could only obtain photo copies.

26.5 Management’s assessment of the identified financial irregularities

As per the assessment of the Management, based on the forensic investigation and the information available upto this stage, all identified / required adjustments / disclosures arising from the identified financial irregularities, had been made in the financial statements of erstwhile Satyam as at March 31, 2009.

Considerable time has elapsed after the initiation of investigation by various regulators / agencies and the erstwhile Satyam has not received any further information as a result of the various ongoing investigations against the erstwhile Satyam which requires adjustments to the financial statements.

Further, in the opinion of the Management, no new claims have been made when the Andhra Pradesh High Court

Important Illustrations of Audit Report (Contd.)

considered and approved the merger, which need any further evaluation / adjustment / disclosure in the books, and all existing claims have been appropriately dealt with / recorded / disclosed in the books based on their current status.

Considering the above, notwithstanding the pendency of the various investigations / proceedings, the Management is of the view that the above investigations / proceedings would not result in any additional material provisions / write-offs / adjustments (other than those already provided for, written-off or disclosed) in the financial statements of the Company.

27. Aberdeen action (USA)

On November 13, 2009, a trustee of two trusts that are purported assignees of the claims of twenty investors who had invested in the erstwhile Satyam's ADS and common stock, filed a complaint against erstwhile Satyam, its former auditors and others (the "Action") alleging the losses suffered by the twenty investors (Claimants) is over USD 68 Million.

On July 27, 2012, the erstwhile Satyam entered into an Agreement of Settlement ("the Settlement") with Aberdeen Claims Administration, Inc., the trustee for the two trusts and twenty underlying investors.

The obligations incurred pursuant to the Settlement are in full and final disposition of the Action and the appropriate consent order of the Court in the Southern District of New York has been received on July 30, 2012. In terms of the Settlement, erstwhile Satyam has deposited in an Escrow Account an amount of USD 12 Million ("Settlement Amount") during the financial year ended March 31, 2013. Remittance out of the Escrow is subject to determination of appropriate withholding tax by the Authority for Advance Ruling (AAR).

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28. Aberdeen (UK) complaint

In April 2012, erstwhile Satyam was served with an Amended Claim Form and Amended Particulars of claim dated December 22, 2011, initiating proceedings in the Commercial Court in London (“the English Court”) by Aberdeen Asset Management PLC on behalf of 23 “Claimants” who are said to represent 30 funds who had invested in the Company’s common stock that traded on the exchanges in India. On December 12, 2012, the Company entered into a confidential Settlement Agreement (“the Settlement”) settling claims brought in the English Court by Aberdeen Global and twenty-two other funds (collectively, the “Claimants”) managed by Aberdeen Asset Management PLC (“Aberdeen”) and/or its subsidiaries (the “Claims”). The Claims included certain allegations of fraudulent misrepresentations said to have been made by the former management of erstwhile Satyam in London and relied upon by the Claimants’ investment manager and/ or communicated in meetings alleged to have taken place in London. The Claimants have claimed that they have suffered losses of an estimated sum of USD 298 Million and additional consequential losses. By virtue of the Settlement, the Claims have been fully and finally disposed off on the basis of, inter-alia, for a payment to be made by the Company of USD 68 Million (“Settlement Amount”).

In terms of the Settlement, erstwhile Satyam has deposited a total amount of USD 68.16 Million towards the Settlement Amount and interest in an Escrow Account during financial year ended March 31, 2013. Remittance out of the Escrow is subject to determination of appropriate withholding tax by the Authority for Advance Ruling (AAR).

29. Commitment and Contingencies

29.1 Capital Commitments

- i. The estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for as at March 31, 2015 is Rs.5,821 Million (March 31, 2014: Rs.9,441 Million).

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ii. In respect of land, refer note 31(c).

29.2 Purchase commitments In respect of investments

i. On July 2, 2014, the Company entered in to a joint venture agreement with Midad Holdings in Saudi Arabia. As per agreement, the Company will hold 51% stake in that entity i.e. Tech Mahindra Arabia. The said entity is yet to be incorporated as at March 31, 2015.

ii. Sofgen Holdings Limited (Refer note 35 (k))

iii. Avion Networks Inc. (Refer note 35 (o))

iv. On April 25, 2015 the Company has entered into a tripartite Joint Venture Agreement to form a limited liability company (“LLC”) with Qatar Engineering Trading & Contracting Company (QETCC) and KPC Aurion Holding WLL (Aurion). This LLC would be incorporated in the State of Qatar with a paid-up capital of QAR 0.36 Million out of which equivalent to USD 0.02 Million would be contributed by the Company. The Company would hold 20% Equity Ownership in the LLC. The said entity is yet to be incorporated and no investment has been made by the Company.

v. Tech Mahindra Servicos De Informatica LTDA (Refer note 35 (n))

29.3 Other commitments

i. On April 2, 2013, the Company had taken over certain LAB equipments and 7 associates from one of its customers in Sweden vide its agreement dated March 21, 2013 for a purchase consideration of USD 6 Million (Rs.326 Million). As per the terms of agreement, the purchase consideration shall be discharged by the Company by providing services

Important Illustrations of Audit Report (Contd.)

for next three years. As at March 31, 2015 the Company, against the said purchase consideration, has provided services amounting to USD 6 Million (Rs.326 Million) (March 31, 2014: USD 2.90 Million (Rs.157 Million)). As per the terms of agreement, we have provided full services amounting to USD 6 Million (Rs.326 Million).

ii. The company has outstanding commitments with respect to discharge of services to an international sports federation amounting to Rs.27 Million as at March 31, 2015. (March 31, 2014: Rs.380 Million).

29.4 Contingent Liabilities

i. Bank Guarantees / comfort letters/ corporate guarantee outstanding as at March 31, 2015: Rs.9,592 Million (March 31, 2014: Rs.9,761 Million).

ii. During the year ended March 31, 2015, the Company has given letter of support of USD 91 Million (Rs.5,687 Million) to banks for loans availed by Lightbridge Communications Corporation (100% subsidiary of the Company).

iii. Outstanding Bill discounting as at March 31, 2015 Rs.2,696 Million (March 31, 2014: Rs.Nil).

29.5 Income Taxes

29.5.1 Income Taxes / Fringe Benefit Tax

The Company has received demand notices from Income Tax Authorities resulting in a contingent liability of Rs.4,663 Million (March 31, 2014: Rs.4,407 Million). This is mainly on account of the following:

Important Illustrations of Audit Report (Contd.)

- i. An amount of Rs.1,137 Million (March 31, 2014: Rs.822 Million) relating to Transfer pricing adjustment on account of arm's length transactions. The Company has filed an appeal against the same. For the Assessment Year 2011-12, the Company has received draft assessment order, against which the Company has filed an appeal before Dispute Resolution Panel ("DRP").
- ii. An amount of Rs.742 Million (March 31, 2014: Rs.818 Million) on account of adjustment of expenditure in foreign currency being excluded only from Export turnover and not from Total turnover. The Company has already won the appeal before the Commissioner of Income Tax (Appeals) "CIT(A)" for Assessment Year 2004-05, 2005-06, 2006-07, 2007-08. Income Tax Department is in appeal before the Income Tax Appellate Tribunal ("ITAT") against the Order of CIT (A) for above mentioned Assessment Years, except for Assessment Year 2006-07, for which the company is in Appeal before ITAT against the order of DRP.
- iii. An amount of Rs.2,769 Million (March 31, 2014: Rs.2,751 Million) relating to Assessment Year 2007-08 for denial of deduction under section 10A of the Income Tax Act, 1961 on transfer pricing adjustment. The Company has won the appeal before CIT (A) and the Income Tax department has filed an appeal before ITAT.
- iv. An amount of Rs.16 Million (March 31, 2014: Rs.16 Million) relating to Fringe Benefit Tax. The Company has won the appeal before ITAT. The Income Tax department may intend to appeal before High Court against the ITAT order.

29.5.2 Income tax matters related to erstwhile Satyam

- i. **Financial years 2002-03 to 2005-06.** Consequent to the letter of the erstwhile Chairman of the erstwhile Satyam, the Assessing Officer rectified the assessments earlier completed for the financial years 2002-03 to 2005-06, by passing rectification orders under Section 154 of the Income-tax Act, 1961 by withdrawing foreign tax credits and

Important Illustrations of Audit Report (Contd.)

raising net tax demands aggregating Rs.2,358 Million (including interest) against which refunds of financial years 2007-08 and 2009-10 aggregating Rs.17 Million have been adjusted. During the financial year ended March 31, 2010, erstwhile Satyam had filed an appeal with the Commissioner of Income Tax (Appeals) (CIT (A)). In August, 2010 the CIT (A) dismissed the appeals. Subsequently, erstwhile Satyam had filed appeals before the Income Tax Appellate Tribunal (ITAT) for the aforesaid years which are pending disposal as on date. During the financial year 2010-11, the assessments (in the normal course of assessment) for the financial years 2004-05 and 2005-06 were further modified by issuing consequential orders re-computing the tax exemptions claimed by the erstwhile Satyam and enhancing the tax demands. The total contingent liability resulting for these years including consequential orders is Rs.576 Million. Against the consequential orders, erstwhile Satyam has filed appeals before CIT (A) against the said enhancement of tax for the aforesaid years which are pending disposal as on date.

ii. Financial year 2007-08. Erstwhile Satyam has received a demand notice from Additional Commissioner of Income Tax by disallowing the foreign tax credits claimed in the return resulting in a contingent liability of Rs.2,765 Million (including interest). The revised return filed by erstwhile Satyam was rejected by the Income Tax Department. Erstwhile Satyam has filed an appeal against the said order which is pending before the ITAT.

Erstwhile Satyam's contention with respect to the above tax demands is that the Income Tax Department should take a holistic view of the assessments and exclude the fictitious sales and fictitious interest income. If the said contention of erstwhile Satyam is accepted, there would be no tax demand payable.

iii. Petition before Honourable High Court of Judicature at Hyderabad: Financial years 2002-03 to 2007-08

Erstwhile Satyam had filed various petitions before Central Board of Direct Taxes (CBDT) requesting for stay of demands for the financial years 2002-03 to 2007-08 till the correct quantification of income and taxes payable is done for the respective years. In March 2011, the CBDT rejected erstwhile Satyam's petition and erstwhile Satyam filed a Special Leave Petition before the Honourable Supreme Court which directed erstwhile Satyam to file a

Important Illustrations of Audit Report (Contd.)

comprehensive petition / representation before CBDT giving all requisite details / particulars in support of its case for re-quantification / re-assessment of income for the aforesaid years and to submit a Bank Guarantee (BG) for Rs.6,170 Million. Pursuant to the direction by the Honourable Supreme Court, erstwhile Satyam submitted the aforesaid BG favouring the Assistant Commissioner of Income tax and also filed a comprehensive petition before the CBDT in April 2011.

The CBDT, vide its order dated July 11, 2011, disposed off the erstwhile Satyam's petition directing it to make its submissions before the Assessing Officer in course of the ongoing proceedings for the aforesaid years and directed the Income Tax Department not to encash the BG furnished by erstwhile Satyam till December 31, 2011. Aggrieved by CBDT's order, erstwhile Satyam filed a writ petition before the Honourable High Court of Judicature at Hyderabad on August 16, 2011.

The Honourable High Court of Judicature at Hyderabad, vide its order dated January 31, 2012, directed the parties to maintain status quo and directed the Income Tax Department not to encash the BG until further orders. The BG has been extended upto October 16, 2015.

In the meanwhile, the Assessing Officer served an order dated January 30, 2012, for provisional attachment of properties under Section 281B of the Income Tax Act, 1961 attaching certain immovable assets of erstwhile Satyam on the grounds that there is every likelihood of a large demand to be raised against erstwhile Satyam for the financial years 2002-03 to 2008-09 along with interest liability. Aggrieved by such order, erstwhile Satyam filed a writ petition in the Honourable High Court of Judicature at Hyderabad that has granted a stay on the operation of the provisional attachment order until disposal of this writ.

iv. Appointment of Special Auditor and re-assessment proceedings a. Financial year 1998-99

In November 2014, the company has received a notice from Income tax department for filing of petition in

Important Illustrations of Audit Report (Contd.)

Honourable High Court of Judicature at Hyderabad against the ITAT order for financial year 1998-99. The Income tax department has raised demand of Rs.13 Million on account of dispute in treatment of foreign taxes payment treated as self-assessment tax thereby levying Interest u/s.234B & 234C.

b. Financial years 2001-02 and 2006-07

The Assessing Officer had commissioned a special audit which has been challenged by the erstwhile Satyam on its validity and terms vide writ petitions filed before the Honourable High Court of Judicature at Hyderabad. The said petitions are pending disposal.

In August, 2011, the Additional Commissioner of Income Tax issued the Draft of Proposed Assessment Orders accompanied with the Draft Notices of demand resulting in a contingent liability of Rs.7,948 Million and Rs.10,329 Million for the financial years 2001-02 and 2006-07, respectively, proposing variations to the total income, including variations on account of Transfer Pricing adjustments. Erstwhile Satyam has filed its objections to the Draft of Proposed Assessment Orders for the aforesaid years on September 16, 2011 with the Dispute Resolution Panel, Hyderabad, which is pending disposal.

c. Financial years 2002-03 and 2007-08

In December 2011, the Additional Commissioner of Income Tax appointed a Special Auditor under section 142(2A) of the Income Tax Act, 1961 to audit the accounts of erstwhile Satyam for the financial years 2002-03 and 2007-08. Erstwhile Satyam had filed a writ petition before Honourable High Court of Judicature at Hyderabad challenging the special audit.

The proceedings set out above are also subject to the Honourable High Court of Judicature at Hyderabad order dated January 31, 2012, referred to in note 29.5.2.iii directing the parties to maintain status quo.

Important Illustrations of Audit Report (Contd.)

d. Financial year 2003-04

In December 2014, the Company has received a notice from Income tax department for filing of petition in High Court of Judicature at Hyderabad against the ITAT order for financial year 2003-04. The Income tax department has raised demand of Rs.173 Million on account of dispute in treatment of foreign taxes payment treated as self-assessment tax, not allowing setoff of losses of eligible STPI units and levying Interest u/s. 234B & 234C. In February 27, 2015 the Company has filed counter affidavit challenging IT department's petition filed with Honourable High Court, pending hearing.

e. Financial year 2008-09

In January 2013, the Additional Commissioner of Income Tax appointed a Special Auditor under section 142(2A) of the Income Tax Act, 1961 to audit the accounts of erstwhile Satyam for the financial year 2008-09. Erstwhile Satyam has challenged the appointment and terms of reference of the special audit by filing a writ petition before the Honourable High Court of Judicature at Hyderabad and the Court vide its interim order dated April 22, 2013, has directed parties to maintain status quo. The writ petition is pending hearing.

f. Financial year 2009-10

In March 2014, the Deputy Commissioner of Income Tax appointed a Special Auditor under section 142(2A) of the Income Tax Act, 1961 to audit the accounts of erstwhile Satyam for the financial year 2009-10. The audit was completed on September 17, 2014 with certain observations made by the Special Auditor. The Special Audit report was submitted to Income tax Assessing officer for assessment. In January 2015, the Assessing officer has issued assessment order, making addition of Rs.1,106 Million. The Company has filed appeal before CIT (A) against the said Order.

g. Financial year 2010-11

On March, 30 2015, the Assessing officer has issued draft assessment order, making addition of Rs.379 Million. The

Important Illustrations of Audit Report (Contd.)

Company intends to file an Appeal with CIT (A) against final Order.

v. Provision for taxation

Erstwhile Satyam was carrying a total amount of Rs.4,989 Million (net of taxes paid) as at March 31, 2013 (before giving effect to its amalgamation with the Company) towards provision for taxation, including for the prior years for which the assessments are under dispute.

Subsequent to the amalgamation, duly considering the professional advice obtained in the matter, the Management has re-evaluated the effects of the possible outcomes of the tax matters in dispute relating to erstwhile Satyam and the estimated excess tax provision amounting to Rs.2,266 Million determined based on such evaluation in respect of the prior years have been written back during the previous year ended March 31, 2014. In the opinion of the Management the balance provision for taxation carried in the books with respect to the prior year disputes relating to erstwhile Satyam is adequate.

29.5.3 Income tax matters related to erstwhile Mahindra Engineering Services Limited

The Company has received demand notices from Income Tax Authorities resulting in a contingent liability of Rs.364 Million. This is mainly relating to denial of deduction under section 10A of the Income Tax Act, 1961 on account of Splitting up or the Reconstruction of the business already in existence.

29.5.4 Italian Tax claim

Italian Tax Authorities has levied tax demand of EUR 0.10 Million (Rs.8 Million). The Provincial Tax Commission rejected the Company's plea against which erstwhile MESL has filed an appeal in the Regional Court of Emilia Romagna.

Important Illustrations of Audit Report (Contd.)

29.5.5 Notice from Chad Tax Administration

The Company has received a notice from Chad Tax Administration for payment of FCFA 40 Million (Rs.4 Million) in relation to fiscal year 2012. This amount relates to dispute towards withholding taxes. The company has issued Bank Guarantee in favour of Deputy General Manager of Tax Authorities for the same.

29.6 Customs fine/penalty matters relating to erstwhile Mahindra Engineering Services Limited

i. Erstwhile MESL received a demand from Customs for import of vehicles for an amount of Rs.2 Million, which the company has paid the said amount “under protest” and filed an appeal before the Honourable Customs, Excise & Service Tax Appellate Tribunal (CESTAT) and pending hearing.

ii. Erstwhile Tech Mahindra (R & D Services) Limited (TMRDL) received demand (including fine and interest) from Commissioner of Customs amounting to Rs.2 Million (March 31, 2014: Rs.2 Million) related to misplace of imported capital goods bonded in the company premises during physical verification conducted by the customs authorities. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT).

29.7 Service Tax

The Company has received demand notices from Service Tax Authorities amounting to Rs.14,688 Million (net of provision), (March 31, 2014: Rs.883 Million (net of provision)) out of which:

i. Rs.389 Million (March 31, 2014: Rs.389 Million) relates to disallowance of input tax credits paid on services for the period March 2005 to March 2011 for erstwhile Satyam. An amount of Rs.55 Million has been paid “under protest”. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT) and is pending hearing.

Important Illustrations of Audit Report (Contd.)

- ii. Erstwhile Canvas received demand in March 2014 from Service tax department amounting to Rs.180 Million (March 31, 2014: Rs.180 Million) under reverse charge on onsite services rendered by overseas subsidiaries for the financial year 2010-11. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT) and is pending hearing.
- iii. Rs.77 Million (March 31, 2014: Rs.77 Million) relates to marketing and onsite services rendered by overseas subsidiaries for the financial years 2004-05 to 2007-08 for erstwhile Tech Mahindra (R & D Services) Limited (TMRDL). An amount of Rs.7 Million (March 31, 2014: Rs.7 Million) has been paid “under protest”. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT) and is pending hearing.
- iv. Rs.13 Million (March 31, 2014: Rs.13 Million) pertains towards services provided under Management Consultancy services for the Company for which the Company has filed a reply against the same.
- v. The Company received an order from Honorable High Court dated September 15, 2014, upholding the order passed by Honourable Customs, Excise & Service Tax Appellate Tribunal (CESTAT) issued in March 2013, wherein the services rendered onsite either by the Company’s subsidiary/ branch have been held as not export from India for the period November 2008 to February 2010 and the company paid the said amount of Rs.224 Million. Based on the legal opinion obtained, the company is of the view that the said amount is cenvatable and no provision is made in the books of account and the Company has filed an appeal before the Honorable Supreme Court.
- vi. The Company has received an order from Commissioner of service tax confirming demand for interest and penalty amounting to Rs.12 Million (March 31, 2014: Nil) on the short payment of service tax discharged under reverse charge as per the applicable rate of 10.30% and not as per revised rate of 12.36% for the period of February 2009. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate

Important Illustrations of Audit Report (Contd.)

Tribunal (CESTAT) and is pending hearing.

vii. The Company, during the year ended March 31, 2015, received a refund order issued by Deputy Commissioner of Service Tax after adjusting interest amounting to Rs.146 Million (March 31, 2014: Nil) on the liability of Rs.224 Million refunded by the department in earlier years giving effect to the order issued by Honorable High Court dated September 15, 2014. The Company has filed an appeal before the Commissioner (Appeals) against the said order.

viii. The company received an order from Commissioner of service tax confirming service tax demand, interest and penalty amounting to Rs.12,753 Million (March 31, 2014: Nil) under reverse charge on onsite services rendered by overseas branches for the period May 2008 to July 2013. The Company has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT).

ix. The Company has received an order from Commissioner (Appeals) of service tax allowing service tax refund amounting to Rs.894 Million (March 31, 2014: Nil) related to onsite services provided by subsidiary treated as export of services for the period July 2012 to June 2013. The Deputy Commissioner, Service tax has filed an appeal before the Honorable Customs, Excise & Service Tax Appellate Tribunal (CESTAT).

29.8 Value Added Tax / Central Sales Tax

i. The Company received a demand notice under Maharashtra Value Added Tax Act, 2002 (MVAT) for financial year 2008-09 relating to mismatch of input Vat credit availed in VAT return amounting to Rs.5 Million (including penalty and interest where applicable) (March 31, 2014: Rs.5 Million).

ii. The Company has received a demand notice under Himachal Pradesh Value Added Tax Act, 2005 (HPVAT) for the

Important Illustrations of Audit Report (Contd.)

period June 2013 to December 2014 considering the transaction as local sale and levying VAT liability amounting to Rs.10 Million (including penalty and interest) (March 31, 2014: Nil) on the material delivered by the vendor to the customer located in state of Himachal Pradesh. The Company has filed an appeal with Additional Excise and Taxation Commissioner Cum –Appellate Authority.

iii. The Company has received a demand notice under Maharashtra Value Added Tax Act, 2002 (MVAT) for financial year 2008-09 to 2011-12 relating to Entry tax on purchase of Air conditioner and part thereof and Tiles amounting to Rs.42 Million (including penalty and interest) (March 31, 2014: Nil) from outside the state of Maharashtra and import from outside India. The company has filed an appeal with Deputy Commissioner (Appeal).

iv. Erstwhile C & S had received a demand notice aggregating to Rs.12 Million (March 31, 2014: Rs.12 Million) (including penalty and interest) under Gujarat Value Added Tax Act, 2003 for financial year 2006-07 to financial year 2008-09 relating to charging the type of VAT i.e. Sales Transaction / Local Value Added Tax against which the company has paid an amount of Rs.7 Million under protest.

v. Erstwhile CanvasM has received demand notice under Delhi Value Added Tax Act, 2004 relating to levy of Central Sales Tax on handset taken for testing purpose (which are returned back after testing), aggregating to Rs.1 Million (March 31, 2014: Rs.1 Million) against which the Company has paid Rs.1 Million under protest.

vi. Erstwhile Satyam had received demand orders/claims relating to issues of applicability and classification aggregating Rs.463 Million (March 31, 2014: Rs.423 Million) (including penalty and interest, where applicable) against which the Company has paid an amount of Rs.258 Million (including penalty and interest, where applicable) under protest.

The above excludes show cause notices relating to Tamil Nadu General sales tax Act, 1959 amounting to Rs.4,555

Important Illustrations of Audit Report (Contd.)

Million (March 31, 2014 Rs.4,555 Million) and Andhra Pradesh Value Added Tax Act, 2005 amounting to Rs.2,717 Million (March 31, 2014 Rs.3,824 Million) (including penalty).

29.9 Foreign Exchange Management Act (FEMA), 1999

The Directorate of Enforcement has issued a show-cause notice to erstwhile Satyam for contravention of the provisions of the Foreign Exchange Management Act, 1999 and the Foreign Exchange Management (Realisation, Repatriation and Surrender of Foreign Exchange) Regulations, 2000, in respect of the realisation and repatriation of export proceeds to the extent of foreign exchange equivalent to Rs.506 Million for invoices raised during the period July 1997 to December 31, 2002. The erstwhile Satyam has responded to the show-cause notice and the matter is pending.

29.10 Other Claims on the Company not acknowledged as debt

- i. Alleged Advances: Refer note 26.3.
- ii. Claims against erstwhile Satyam not acknowledged as dues: Rs.1,000 Million and interest (March 31, 2014 Rs.1,000 Million).
- iii. Claims made on the erstwhile Satyam by vendors, its employees and customers: Rs.82 Million (March 31, 2014 Rs.68 Million).
- iv. Dispute in relation to a subsidiary, refer note 32.
- v. Claims made on the Company not acknowledged as debts: Rs.107 Million (March 31, 2014 Rs.107 Million).
- vi. Other claims: Rs.6 Million (March 31, 2014 Rs.6 Million) against which the erstwhile Satyam has paid an amount of Rs.3 Million under protest.
- vii. Claims on erstwhile MESL for disputed stamp duty of Rs.1 Million on sanction of credit facilities. The Appeal is pending before Honourable High Court of Karnataka.
- viii. Claims on erstwhile MESL under Motor vehicle Act, 1988 Rs.1 Million.

Important Illustrations of Audit Report (Contd.)

29.11 Management's assessment of contingencies / claims

The amounts disclosed under contingencies/claims represent the best possible estimates arrived at on the basis of the available information. Due to high degree of judgment required in determining the amount of potential loss related to the various claims and litigations mentioned above and the inherent uncertainty in predicting future settlements and judicial decisions, the Company cannot estimate a range of possible losses.

However, the Company is carrying a provision for contingencies as at March 31, 2015, which, in the opinion of the Management, is adequate to cover any probable losses in respect of the above litigations and claims.

30. Other regulatory non-compliances / breaches (of the erstwhile Satyam under erstwhile Management [prior to Government nominated Board])

The management of erstwhile Satyam had identified certain non-compliances / breaches of various laws and regulations by erstwhile Satyam under the erstwhile management (prior to Government nominated Board) including but not limited to the following - payment of remuneration / commission to whole-time directors / non-executive directors in excess of the limits prescribed under the Act, unauthorised borrowings, excess contributions to Satyam Foundation, loan to ASOP Trust (Satyam Associates Trust) without prior Board approval under the Act, delay in deposit of dividend in the bank, dividend paid without profits, non-transfer of profits to general reserve relating to interim dividend declared, utilisation of the Securities Premium account, declaration of bonus shares and violation of SEBI ESOP Guidelines. In respect of some of these matters, erstwhile Satyam (under the Management post Government nominated Board) has applied to the Honourable Company Law Board for condonation any adjustments, if required, in the financial statements of the Company, would be made as and when the outcomes of the above matters are concluded.

In respect of foreign currency receivables for the period's upto March 31, 2009, the required permission under the provisions of FEMA for extension of time had not been obtained from the appropriate authorities. Erstwhile Satyam

Important Illustrations of Audit Report (Contd.)

under the management post Government nominated Board has fully provided for these receivables.

32. Dispute with Venture Global Engineering LLC

Pursuant to a Joint Venture Agreement in 1999, the erstwhile Satyam and Venture Global Engineering LLC (VGE) incorporated Satyam Venture Engineering Services Private Limited (SVES) in India with an objective to provide engineering services to the automotive industry.

On or around March 20, 2003, numerous corporate affiliates of VGE filed for bankruptcy and consequently the erstwhile Satyam, exercised its option under the Shareholders Agreement (hereinafter referred to as “the SHA”), to purchase VGE’s shares in SVES. The erstwhile Satyam’s action, disputed by VGE, was upheld in arbitration by the London Court of International Arbitration vide its award in April 2006 (“the Award”).

The Courts in Michigan, USA, confirmed and directed enforcement of the Award. They also rejected VGE’s challenge to the Award. In 2008, the District Court of Michigan further held VGE in contempt for its failure to honour the Award and inter-alia directed VGE to dismiss the nominees of VGE on its Board and replace them with individuals nominated by the erstwhile Satyam. This Order was also confirmed by the Sixth Circuit Court of Appeals in 2009. Consequently, VGE the erstwhile Satyam’s nominees were appointed on the Board of SVES and SVES confirmed the appointment at its Board meeting held on June 26, 2008. The erstwhile Satyam was legally advised that SVES became its subsidiary only with effect from that date.

In the meantime, while proceedings were pending in the USA, VGE filed a suit in April 2006, before the District Court of Secunderabad in India for setting aside the Award. The City Civil Court, vide its judgment in January 2012, has set aside the Award, against which the erstwhile Satyam preferred an appeal (“Company Appeal”) before the High Court. VGE also filed a suit before the City Civil Court, Secunderabad inter alia seeking a direction to the Company to pay

Important Illustrations of Audit Report (Contd.)

sales commission that it was entitled to under the Shareholders Agreement. In the said suit, two ex-parte orders were issued directing the Company and Satyam to maintain status quo with regard to transfer of 50% shares of VGE and with regard to taking major decisions which are prejudicial to interest of VGE. The said suit filed by VGE is still pending before the Civil Court.

The Company has challenged the ex-parte orders of the City Civil Court Secunderabad, before the High Court (“SVES Appeal”).

The High Court of Andhra Pradesh consolidated all the Company appeals and by a common order dated August 23, 2013 set aside the Order of the City Civil Court, Hyderabad setting aside the award and also the ex-parte orders of the City Civil Court, Secunderabad. The High Court as an interim measure ordered status quo with regard to transfer of shares, originally given by Supreme Court to be maintained for four weeks which was extended for a further period of three weeks. VGE has filed special leave petition against the said Order before Supreme Court of India, which is currently pending. The Supreme Court by an interim Order dated October 21, 2013 extended the High Court order on the status-quo on transfer of shares. The Company has also filed a Special Leave Petition before the Supreme Court of India challenging the judgment of the High Court only on the limited issue as to whether the Civil Court has jurisdiction to entertain VGE’s challenge to the Award. The said Petition is pending before the Supreme Court.

In a related development, in December 2010, VGE and the sole shareholder of VGE (the “Trust”, and together with VGE, the “Plaintiffs”), filed a complaint against the erstwhile Satyam in the United States District Court for the Eastern District of Michigan (“District Court”) inter alia asserting claims under the Racketeer Influenced and Corrupt Organization Act, 1962 (RICO), fraudulent concealment and seeking monetary and exemplary damages (“the Complaint”). The District Court vide its order in March 2012 has dismissed the Plaintiffs Complaint. The District Court also rejected VGE’s petition to amend the complaint. In June 2013, VGE’s appeal against the order of the District Court has been allowed by the US Court of Appeals for the Sixth Circuit. The matter is currently before the District

Important Illustrations of Audit Report (Contd.)

Court and the Company has filed a petition before District Court seeking dismissal of the Plaintiff's Complaint. The said petition is pending before the District Court. On March 31, 2015, the US District Court stayed the matter pending hearing and decision by the Indian Supreme Court in the Special Leave Petitions filed by Venture and the Company.

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STEEL AUTHORITY OF INDIA LIMITED

Report on the Standalone Financial Statements

We have audited the accompanying Standalone financial statements of Steel Authority of India Limited (“the Company”), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss, the Cash Flow Statement and a summary of significant accounting policies and other explanatory information for the year then ended.

Management's Responsibility for the Standalone Financial Statements

The Company’s Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 (“the Act”) with respect to the preparation of these standalone financial statements 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 adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate 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 there under.

Important Illustrations of Audit Report (Contd.)

We conducted our audit in accordance with the **Standards on Auditing** specified under Section 143(10) of the 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. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a **true and fair** view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. **We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.**

Basis for Qualified Opinion

1. The Company has not provided for;

a) entry tax amounting to Rs. 94.89 crore (current year Rs. 3.34 crore) in the state of Uttar Pradesh, Rs. 1084.32 crore (current year Rs. 13.04 crore) in the state of Chhatisgarh and Rs. 333.95 crore (current year Rs. 119.14 crore) in the state of Odisha (refer note no.29.2(a));

b) amount paid to DVC against bills raised for supply of power and retained as advance by Bokaro Steel Plant amounting to Rs.393.59 crore (current year Rs. 101.83 crore) (refer note no. 29.2(b));

2. At Salem Steel Plant, inventory includes estimated quantity of 9089 MT of skull extractable from slag valued at Rs. 51.80 Crore. **Valuation of skull was not justified since there is no separate distinguishable physical existence of 9089 MT of skull and therefore cannot be considered as inventory as on 31-03-2015.** Further, this constitutes a departure from Para 9 of the

Important Illustrations of Audit Report (Contd.)

Guidance note on Audit of inventories, which states that all recorded inventories should exist at year end, as there is no identifiable skull as such and hence should not have been considered as inventory to that extent.

The total impact of above para (1) to (2) has resulted in, **overstatement of Profit before Tax for the year by Rs. 289.15 crore, overstatement of Reserves & Surplus by Rs. 1958.55 crore (Previous Year Rs. 1669.40 crore), understatement of Current Liabilities by Rs. 1906.75 crore (Previous Year Rs. 1669.40 crore) and overstatement of Current Assets by Rs. 51.80 crore (Previous Year `Nil).**

Qualified Opinion

In our **opinion and to the best of our information and according to the explanations** given to us, **except for the effects of the matter** described in the **Basis for Qualified Opinion** above, the aforesaid Standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2015;
- (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to; **contd...**

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

29.2 a) Pending final decision by the Hon'ble Supreme Court of India in Special Leave Petition against order by the Hon'ble High Court of Allahabad dismissing the writ petition of the Company, on levy of entry tax in the state of Uttar Pradesh, the entry tax amount includes disputed demand of Rs. 94.89 crore (Rs. 91.55 crore). The Company has deposited Rs. 96.45 crore (Rs. 79.21 crore) against the said demand which has been shown as deposit and disclosed under Long term Loans and Advances.

Pending final decision by the Hon'ble Supreme Court of India in SLP against order by the respective Hon'ble High Courts dismissing the writ petitions of the Company, **the entry tax amount includes disputed demands of Rs. 1084.32 crore (Rs. 1071.28 crore) in Chhattisgarh State and b**

In respect of the case pertaining to Chhattisgarh State, liability of Rs. 1251.41 crore (Rs. 1071.15 crore), based on legal opinion, has been provided in the books towards entry tax @3% against the demand @6%. **The Company has deposited Rs. 1251.41 crore (Rs. 1071.15 crore) and `103.27 crore (Rs. 78.12 crore) in Chhattisgarh and Odisha State respectively against the said demand which has been treated as Deposit and disclosed under Long term Loans and Advances.**

29.2 b) Pending decision by the Hon'ble Supreme Court of India in Special Leave Petition against order by the Hon'ble High Court of Jharkhand dismissing the writ petition of the Company, claims of Rs. 393.59 crore (Rs. 291.76 crore) made by Damodar Valley Corporation (DVC) in respect of electricity supplied to Bokaro Steel Plant of the Company, have been disclosed as contingent liability. Against the said claims, the entire amount have been paid to DVC against bills raised by them, and disclosed under short term loans and advances.

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STEEL AUTHORITY OF INDIA LIMITED

Report on the **Consolidated** Financial Statements

We have audited the accompanying consolidated financial statements of STEEL AUTHORITY OF INDIA LIMITED (hereinafter referred to as “the Holding Company”) and its Subsidiaries (the Holding Company and its subsidiaries together referred to as “the Group”), its Associate and Jointly controlled entities, comprising of the Consolidated Balance Sheet as at 31st March, 2015, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as “the consolidated financial statements”).

Management's Responsibility for the **Consolidated** Financial Statements

The Holding Company’s Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as “the Act”) that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group including its Associate and Jointly controlled entities 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. The respective Board of Directors of the companies included in the Group and of its associate and jointly controlled entities are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate 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, which have

Important Illustrations of Audit Report (Contd.)

been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the 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 Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Holding Company has an adequate internal financial controls system over financial reporting in place and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained and audit evidence obtained by other Auditor's in term of their report referred to in sub-paragraph (a) of the other matters paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

Basis for Qualified Opinion

1. The Holding Company has not provided for;

Important Illustrations of Audit Report (Contd.)

- a) entry tax amounting to Rs.94.89 crore(current year Rs.3.34 crore) in the state of Uttar Pradesh, Rs.1084.32 crore (current year Rs.13.04 crore) in the state of Chhatisgarh and Rs.333.95 crore (current year Rs.119.14 crore) in the state of Odisha (refer note no.31.2(a));
 - b) amount paid to DVC against bills raised for supply of power and retained as advance by Bokara Steel Plant amounting to Rs.393.59 crore (current year Rs.101.83 crore) (refer note no. 31.2(b));
2. At Salem Steel Plant, inventory includes estimated quantity of 9089 MT of skull extractable from slag valued at Rs.51.80 Crore. **Valuation of skull was not justified since there is no separate distinguishable physical existence of 9089 MT of skull and therefore cannot be considered as inventory as on 31-03-2015.** Further, this constitutes a departure from Para 9 of the Guidance note on Audit of inventories, which states that all recorded inventories should exist at year end, as there is no identifiable skull as such and hence should not have been considered as inventory to that extent. **The total impact of above para (1) to (2) has resulted in overstatement of Profit before Tax for the year by Rs.289.15 crore, overstatement of Reserves & Surplus by Rs.1958.55 crore (Previous Year (Rs.1669.40 crore), understatement of Current Liabilities by Rs.1906.75 crore (Previous Year (Rs.1669.40 crore) and overstatement of Current Assets by Rs.51.80 crore (Previous Year Nil).**

Qualified Opinion

In our **opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid Consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:**

(a) in the case of the Balance Sheet, of the consolidated state of affairs of the Group, its Associate and Jointly controlled entities as at March 31, 2015;

Important Illustrations of Audit Report (Contd.)

(b) in the case of the Statement of Profit and Loss, of their consolidated profit for the year ended on that date; and
(c) in the case of the Cash Flow Statement, of their consolidated cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to; **contd...**

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

31.2 a) Pending final decision by the **Hon'ble Supreme Court of India in Special Leave Petition against order by the Hon'ble High Court of Allahabad** dismissing the writ petition of the Company, on levy of entry tax in the state of Uttar Pradesh, **the entry tax amount includes disputed demand of Rs. 94.89 crore (Rs. 91.55 crore). The Company has deposited Rs. 96.45 crore (Rs. 79.21 crore) against the said demand which has been shown as deposit and disclosed under Long term Loans and Advances.**

Pending final decision by the Hon'ble Supreme Court of India in SLP against order by the respective Hon'ble High Courts dismissing the writ petitions of the Company, **the entry tax amount includes disputed demands of Rs. 1084.32 crore (Rs. 1071.28 crore) in Chhattisgarh State and Rs. 333.95 crore (Rs. 214.81 crore) in Odisha State respectively.**

In respect of the case pertaining to Chhattisgarh State, liability of Rs. 1251.41 crore (Rs. 1071.15 crore), based on legal opinion, has been provided in the books towards entry tax @3% against the demand @6%. **The Company has deposited Rs. 1251.41 crore (Rs. 1071.15 crore) and Rs. 103.27 crore (Rs. 78.12 crore) in Chhattisgarh and Odisha State respectively against the said demand which has been treated as Deposit and disclosed under Long term Loans and Advances.**

31.2 b) Pending decision by the Hon'ble Supreme Court of India in Special Leave Petition against order by the **Hon'ble High Court of Jharkhand** dismissing the writ petition of the Company, **claims of Rs. 393.59 crore (Rs. 291.76 crore) made by Damodar Valley Corporation (DVC) in respect of electricity supplied to Bokaro Steel Plant of the Company, have been disclosed as contingent liability included. Against the said claims, the entire amount have been paid to DVC against bills raised by them, and disclosed under short term loans and advances.**

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UNITECH LIMITED

Report on the Standalone Financial Statements

We have audited the accompanying Standalone Financial Statements of Unitech Limited (“the Company”), which comprise the Balance Sheet as at 31st March, 2015, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information, in which are incorporated the Returns for the year ended on that date audited by the Branch Auditors of the Company’s branches.

Management's Responsibility for the Standalone Financial Statements

The Company’s Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 (“the Act”) with respect to the preparation and presentation of these standalone financial statements 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 adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate 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

Important Illustrations of Audit Report (Contd.)

audit report under the provisions of the Act and the Rules made there under. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.

Basis for Qualified Opinion

1. Reference is invited to **Note 50** to the standalone financial statements according to which an amount of Rs. 7,242,711,244 (previous year Rs. 7,718,890,401) is outstanding which is **comprised of advances towards purchase of land, projects pending commencement, advances paid to joint ventures entities and collaborators**. The management has explained that such advances have been given in the normal course of business to land owning companies, collaborators, projects and for purchase of land. As per information made available to us and explanation given Rs. 476,179,157 (previous year Rs. 1,529,898,595) have been recovered / adjusted during the current financial year. **The management, based on internal assessments and evaluations, have represented that the balance outstanding advances are still recoverable/ adjustable** and that no accrual for diminution of advances is necessary as at balance sheet date. The management has further represented that as significant amounts have been recovered/adjusted during the previous and current financial year and since

Important Illustrations of Audit Report (Contd.)

constructive and sincere efforts are being put in for recovery of the said advances, they are confident of appropriately adjusting / recovering significant portions of the remaining outstanding balance of such amounts in the foreseeable future. However, **we are unable to ascertain whether all the remaining outstanding advances**, as above, are fully recoverable / adjustable since the outstanding balances as at balance sheet date are outstanding / remained unadjusted for a long period of time, and further that, neither the amount recovered nor rate of recovery of such long outstanding amounts in the current year, clearly indicate, in our opinion, that all of the remaining outstanding amounts may be fully recoverable, consequently, we are unable to ascertain whether all of the remaining balances as at balance sheet date are fully recoverable. Accordingly, we are unable to ascertain the impact, if any, that may arise in case any of these remaining advances are subsequently determined to be doubtful of recovery. **This matter was also qualified in our report on the financial statements for the year ended 31st March 2014.**

2. Reference is invited to **Note 51** to the standalone financial statements. **According to information available and explanations obtained, in respect of non-current investments (long term investments) in, and loans and advances given to, some subsidiaries, it has been observed from the perusal of financial statements of these subsidiaries that the subsidiaries have accumulated losses and their net worth have been fully / substantially eroded.** Further that, these **subsidiaries** have incurred **net loss during the current and previous year(s)** and, **current liabilities of these subsidiaries exceeded their current assets** as at the respective balance sheet dates. These conditions, along with absence of clear indications or plans for revival, in our opinion, indicate that there is significant uncertainty and doubt about the recovery of the loans and advances from these subsidiaries. Further, that there is a **clear indication that there is a decline in the carrying amount of these investments which is other than temporary.**

Consequently, in terms of stated accounting policies and applicable accounting standards, diminution in the value of investment which is other than temporary amounting to Rs. 1,002,590,750 and an accrual for diminution of doubtful debts and advances amounting to Rs. 21,279,415 need be accounted for in the financial statement for the year ended 31st March 2015. **Management is however of the firm view that the diminution is only temporary and that sufficient efforts are being undertaken to revive the said subsidiaries.**

Important Illustrations of Audit Report (Contd.)

However, in the absence of significant movement in the operations of the investee companies, and any adjustment for diminution of expenses in this regard, in our opinion, management has not adequately accounted for the imminent diminution. **Consequently, the loss for the year ended 31st March 2015 is understated and reserves as at 31st March 2015 are overstated to the extent of Rs. 1,023,870,165.**

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matters described in the 'Basis for Qualified Opinion' paragraph above, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2015, and its loss and its cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to; **contd...**

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

50.

Advances for purchase of land, projects pending commencement and to joint ventures and collaborators amounting to Rs.7,242,711,244 (previous year - Rs.7,718,890,401) included under the head “short term loans and advances” have been given in the normal course of business to land owning companies, collaborators, projects or for purchase of land. Further Rs.476,179,157 (previous year Rs.1,529,898,595) has been recovered/ adjusted during the current financial year. The management has been putting a constructive and sincere effort to recover/ adjust the said advances and has been successful in recovering / adjusting a significant amount out of the total advances, so no provision is necessary to be created for the outstanding advances as at the balance sheet date. Further, the **management is confident to recover/ adjust the balance outstanding amount in the foreseeable future.**

51.

The Company has **non-current investments (long term investments) in, and loans and advances given to, some subsidiaries which have accumulated losses.** These **subsidiaries have incurred loss during the current and previous year(s) and that current liabilities of these subsidiaries also exceed their current assets as at the respective balance sheet dates.** Management has evaluated this matter and is of the firm view that the diminution, if any, even if it exists is only temporary and that sufficient efforts are being undertaken to revive the said subsidiaries in the foreseeable future so as to recover carrying value of the investment. Further, management believes that the loans and advances given to these companies are considered good and recoverable based on the future projects in these subsidiaries and accordingly no provision other than those already accounted for, has been considered necessary.

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF GVK POWER & INFRASTRUCTURE LIMITED

Report on the Standalone Financial Statements

We have audited the accompanying standalone financial statements of GVK Power & Infrastructure Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with 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 adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial control 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 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

Important Illustrations of Audit Report (Contd.)

Auditing, issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.

Basis for Qualified Opinion

i. As discussed more fully in **Note 35** of the accompanying financial statements, **termination notice** has been served by a **subsidiary involved in oil & gas activity on Ministry of Petroleum and Natural Gas (Ministry)** for termination of productions sharing contract. The Management believes that Ministry will **reimburse the said subsidiary for costs incurred by it** and accordingly no adjustment is required to carrying value of investments and advances **aggregating to Rs. 10,161 lakhs**. However, in the **absence of sufficient appropriate evidence** in this regard, we are unable to comment upon recoverability of such advances and investment together with consequential impact, if any, arising out of the same in these Company's financial statements. Our audit report for previous year was also qualified in respect of this matter.

Important Illustrations of Audit Report (Contd.)

ii. As discussed more fully in **Note 36** to the accompanying financial statements, **the Hon'ble Supreme Court of India has de-allocated coal mine allocated to GVK Coal (Tokisud) Private Limited, subsidiary company and Nominated Authority has offered compensation of Rs. 11,129 lakhs as against carrying value of assets of Rs. 35,575 lakhs in books of subsidiary. In the absence of appropriate evidence, we are unable to comment upon recoverability of assets together with consequential impact, if any, arising out of the same in these accompanying financial statements.**

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph above, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2015, of its loss and its cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to; **contd...**

Important Illustrations of Audit Report (Contd.)

Notes to Accounts:

35.

During the **previous year, Termination Notice was served by GVK Oil & Gas Limited, a subsidiary involved in oil & gas activity on Ministry of Petroleum and Natural Gas (Ministry) for termination of Production Sharing Contract. The subsidiary had alleged that it has not been able to effectively carry out exploration operations in the Blocks allotted to it due to Ministry of Defense clearance issues. The Management believes that Ministry will reimburse subsidiary for costs incurred by it and accordingly no adjustment is required to balance carrying value of investments and advances aggregating to Rs. 10,161 (net of written off Rs. 7,590) (March 31, 2014: Rs. 17,745) and guarantee aggregating to Rs. Nil (March 31, 2014: Rs. 813) issued by the Company for subsidiary.**

36.

The **Honorable Supreme Court vide in decision of September 24, 2014** held that allotment of various coal blocks including those allotted to GVK Coal (Tokisud) Company Private Limited, **subsidiary of GVK Energy Limited is arbitrary and illegal and has cancelled the allotment.** Subsequently, the government promulgated The Coal Mines (Special Provisions) Ordinance 2014, which intends to take appropriate action to deal with situation arising pursuant to the Honorable Supreme Court's judgment. The subsidiary company has filed writ petition before the Hon'ble High Court of Delhi impugning the decision of the Nominated Authority, Ministry of Coal which quantified the compensation payable to the subsidiary company for taking over the Tokisud Coal Block as Rs. 11,129 against the carrying value of assets of Rs. 35,575 in the books of subsidiary company. **The Management believes that the subsidiary will be appropriately reimbursed for cancelled coal mine and accordingly no provision is required to be made to investments, including Compulsory Convertible Debentures, in GVK Energy Limited with carrying value of Rs. 108,323.**

Adverse Report Illustrations

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VICTORY PAPER AND BOARDS (INDIA) LIMITED

We have audited the accompanying financial statements of the Victory Paper and Boards (India) Ltd. Kunnamkulam, Thrissur 680503 ("the company") as at 31st March, 2014 which comprise the Balance sheet as at March 31, 2014 and the statement of Profit & Loss and the Cash Flow statement for the year then ended and a summary of significant accounting policies and other explanatory information annexed thereto.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control 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 financial statements based on our audit. We conducted our audit in accordance with the standards on auditing issued by the Institute of Chartered Accountants of India. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements, in order to

Important Illustrations of Audit Report (Contd.)

design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for adverse opinion

1. The company is manufacturer of different varieties of paper and has been in lock out from 30-08-2009. The **details of inventory valuation are not available** with the Company. Also **Inventory records** in respect of Raw materials, finished goods, Consumables, Stores and spares and semi-finished goods **were not made available** for our verification. Hence we are unable to verify compliance of Accounting Standard-2, Valuation of Inventories.
2. The Company has made **scrap sale of Rs.101.29 Lakhs** during the year. The **nature and description** of items **sold as scrap was not available**. Hence we are unable to verify the correctness of these transaction.
3. The company **has paid electricity charge and interest** thereon amounting to Rs.432.46 Lakhs to Kerala State Electricity Board and shown **under 'other receivables'**, which in our opinion should have been charged as a **revenue expenditure** in the year it was incurred.
4. According to our opinion, Trade Receivables of Rs.114.12 Lakhs and Advance for Fixed Assets of Rs.6.74 Lakhs is long outstanding and is doubtful of recovery.

Adverse Opinion

In **Our Opinion and to the best of our information and according to the explanations** given to us, and also for **the effects of the matter described in the basis for Adverse opinion paragraph** and the annexure to the Independent Auditors Report, the financial statements does not give the information required by the Companies Act, 1956 in the manner so required and **does not give a true and fair view** in conformity with the accounting principles generally accepted in India:

Important Illustrations of Audit Report (Contd.)

- a). In the case of the Balance sheet, of the state of affairs of the company as at March 31, 2014.
- b). In the case of the Profit and loss account, of the “Loss” for the year ended on that date.
- c). In case of the cash flow statement, of the cash flows for the year ended on that date.

Report on other legal and Regulatory Requirements

1. As required by the Companies (Auditors Report) Order, 2003 (**contd....**)

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MIDVALLEY ENTERTAINMENT LIMITED

We have audited the accompanying financial statements of M/S. MIDVALLEY ENTERTAINMENT LIMITED, which comprise the Balance Sheet as at 31st March, 2014, and the Statement of Profit and Loss for the period 01.05.2013 to 31.03.2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control 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 financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of

Important Illustrations of Audit Report (Contd.)

accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Basis for adverse opinion

1. The company has maintained records showing full particulars including **quantitative details** and situation of Fixed Assets. However, the **fixed asset register is yet to be updated**.
2. According to the records of the Company, the company is **not regular in depositing undisputed statutory dues** including Income **tax deducted at source**, Cess and **other statutory dues** with the appropriate authorities. The company **has to pay the income tax & Fringe Benefit tax** for the years **March 2006, March 2007, 2008, 2009 & 2010 amounting to Rs.36,42,653/-, Rs.5,75,40,364/-, Rs.3,51,17,320/- Rs.47,76,704/-and Rs.77,66,000/- & FBT Rs.1,65,000/- (excluding interest), TDS of Rs.9,90,1254/-, ESI, PF & Professional Tax of Rs.1,33,849/- respectively**. According to the information and explanation given to us **disputed Income Tax amounting to Rs.91.71 lacs/-** is outstanding as at 31st March 2014 out of which company had paid **Rs.30 lakhs under protest**, in respect of which the company has made an appeal with the CIT (appeals).
3. In the **absence of confirmation of parties** balances relating to **sundry debtors, loans and advances, the recoverability** of such amounts **appear to be in doubt**, in respect of which no provision has been made by the company and the consequent effect on the accounts of the company, the profits, the value of the assets and liabilities of the company which is not determinable.
4. The company has **not transacted any business during the year and hence raise serious doubts as to the company being a "going concern"**. However, the accounts have been prepared on a going concern basis.
5. The company **has not provided for gratuity on actuarial valuation basis**.
6. The company has **not filed its income tax return for the A.Y. 2010–2011, 2011–2012, 2012–2013 & 2013–2014**.

Important Illustrations of Audit Report (Contd.)

Adverse Opinion

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and subject to Note 1(g), 20 (c) and **basis of adverse opinion para 1 to 6 enumerated above give a true and fair view** in conformity with the accounting principles generally accepted in India:

- a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;
- b) in the case of the Profit and Loss Account, of the Loss for the period 01.05.2013 to 31.03.2014;
- c) in the case of the cash flow statement, for the period 01.05.2013 to 31.03.2014;

Report on other legal and Regulatory Requirements

1. As required by the Companies (Auditors Report) Order, 2003 (**contd....**)

Disclaimer Report Illustrations

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SECURE EARTH TECHNOLOGIES LIMITED

Report on the Standalone Financial Statements

We were engaged to audit the accompanying standalone financial statements of Secure Earth Technologies Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2015, and the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors are responsible for the matters stated in section 134(5) of the Companies Act 2013 ("the Act") with respect to the preparation of these standalone financial statements 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 adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating for ensuring 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 financial statements based on conducting our audit in accordance with the Standards on Auditing under Section 143(10) of the Act.

Important Illustrations of Audit Report (Contd.)

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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The management **was not able to produce the necessary bills and vouchers as a result of which accuracy and validity of expenses and income could not be justified.**

As a result of these matters, **we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded expenses, Incomes , accounts receivable and accounts payable in the Profit and Loss and Balance Sheet, and the corresponding elements making up the Statement of Profit and Loss and Cash Flow Statement.**

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, **(Contd...)**

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SVC RESOURCES LIMITED

Report on the Standalone Financial Statements

We have audited the accompanying financial statements of SVC Resources Limited ('the Company'), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the preparation of these financial statements in terms of the requirements of the Companies Act, 2013 ('the Act') 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. The respective Board of Directors of the Company are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the respective assets of the Company and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate 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, which have been used for the purpose of preparation of these financial statements by the Board of Directors of the Company.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

Important Illustrations of Audit Report (Contd.)

While conducting the 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 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. Page 37 of 51

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Board of Directors, as well as evaluating the overall presentation of the financial statements.

Basis for Disclaimer of Opinion

So far as information and explanations given to us, the **Old Management of the Company was removed in an Extraordinary General Meeting held on January 11, 2014 and supported by the an order of the Company Law Board, Delhi dated April 4, 2014. Thereafter, the Old Management did not hand over books of accounts, statutory records, minutes books, bank statements, subsidiary details and any other records/documents to the New Management.** Since then, the New Management of the Company is engaged in a legal battle with the Old Management. As such, the Company does not have books of accounts or any other records. In this regard, the Company had filed petition with the Company Law Board, Delhi. The case was decided in favor of the New Management on June 4, 2015. However, **the New Management are yet to receive the books of accounts and other records of the company from the Old Management.**

Important Illustrations of Audit Report (Contd.)

We have not been able to access the books of accounts and other records of the company; the elements making up the Balance Sheet and the Statement of Profit and Loss and Cash Flow.

Disclaimer of Opinion

Because of the **significance of the matters** described in the Basis of Disclaimer of Opinion paragraph, **we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.**

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, **(Contd...)**

Important Illustrations of Audit Report (Contd.)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CLASSIC DIAMONDS (INDIA)

We have audited the accompanying financial statements of CLASSIC DIAMONDS (INDIA) LIMITED (the Company), which comprise the Balance Sheet as at 31st March, 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 (the Act). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. However, because of the matters described in the Basis for Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. We could not observe the counting of physical inventories in the absence of information available and restriction placed by the Management. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31st March, 2013 and 31st March, 2014 which are stated in the Balance Sheet at Rs.44.11 Lakhs and Rs.44.11 Lakhs respectively.

Important Illustrations of Audit Report (Contd.)

2. In addition, we were **unable to confirm or verify by alternative means balance of accounts receivable Rs.295.78 crores and balance of accounts payable Rs.24.45 crores** and corresponding translation gain or loss, if any on these balance is not recorded for the year ended 31st March, 2014 and same matters was reported in previous year.

3. We are also **unable to confirm the bank balance** (including working capital facility and overdraft) and interest payable thereon **since the accounts are freezed by the consortium of banks and by income tax authorities** and as a result facility has been ceased to be operational and same matter was reported in previous year.

4. The Company has been **unable to renegotiate its borrowings from its bankers** and also incurred loss in current year and previous year. **Without such financial support there is substantial doubt that it will be able to continue as a going concern.** Consequently, adjustments may be required to the recorded asset amounts and classification of liabilities. **The financial statements (and notes thereto) do not disclose this fact.** As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, bank balance (including overdraft facilities) and interest payable thereon and accounts receivable/payable and the elements making up the Statement of Profit and Loss and the Cash Flow Statement.

Disclaimer of Opinion

Because of the **significance of the matters described in the Basis for Disclaimer of Opinion** paragraph above, we have not been able **to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion**. Accordingly, **we do not express an opinion** on the aforesaid financial statements.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 (the Order) issued by the Central Government in terms of Section 227(4A) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by Section 227(3) of the Act, we report that:

Important Illustrations of Audit Report (Contd.)

(a) As described in the Basis for Disclaimer of Opinion paragraph above, **we were unable to obtain all the information** and explanations which to the best of our knowledge and belief were necessary **for the purposes of our audit.**

(b) Due to the possible effects of the matters described in the Basis for Disclaimer of Opinion paragraph above, **we are unable to state whether proper books of account as required by law have been kept** by the Company so far as it appears from our examination of those books.

(c) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of account except for fixed assets register and other matter as referred in Basis for Disclaimer of Opinion.

(d) Due to the possible effects of the matters described in the Basis for Disclaimer of Opinion paragraph above, we are unable to state whether the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in Section 211(3C) of the Act.

(e) We are unable to comment on compliance of Section 274(1)(g) of the Act since none of the directors has submitted written representations with regards to being appointed as a director in terms of Section 274(1)(g) of the Act and consequently the same not been taken on record by the Board of Directors.

Annexure to Independent Auditors' Report Referred to in paragraph under the heading of Report on Other Legal and Regulatory Requirements of our Report of even date

i. In respect of its **fixed assets:**

a) The company has **not maintained proper records** showing full particulars including quantitative details and situation of its fixed assets.

b) As explained to us, the **fixed assets have not been physically verified** by the management during the year. Hence, we are unable to comment on discrepancies between book record and physical assets.

Important Illustrations of Audit Report (Contd.)

c) In the **absence of fixed assets register and physical verification report of fixed assets we are unable to comment on disposal of fixed assets.**

ii. In respect of its **inventories:**

a) As explained to us, the inventories other than those lying with outside parties were physically verified during the year by the management at reasonable intervals. However, records of such physical verification were not made available to us for verification.

b) In our opinion and according to the information and explanations given to us, we are unable to comment on the procedures of physical verification in the absence of appropriate audit evidence.

c) In our opinion and on the basis of our examination of the records, in the absence of appropriate audit evidence, we are unable to comment on discrepancy on physical verification of stocks by the management if any.

iii.

d) According to information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. As the Company has not granted any loans, the clause 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the Order are not applicable.

e) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured, to / from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956 except for interest free loan from the Director and relative of director. The maximum amount involved during the year was Rs. 2,49,409 and Rs. 89,313 respectively and year-end balance is Rs.7,494 and Nil respectively.

f) In our opinion and according to information and explanations given to us, in respect of such interest free unsecured loans taken by the Company, the other terms and conditions are prima facie, not prejudicial to the interest of the Company.

g) In respect of such loans taken by the Company, the principal amounts were repayable on demand.

Important Illustrations of Audit Report (Contd.)

iv. In our opinion, and according to the information and explanations given to us, there is an inadequate internal control system commensurate with the size of the Company and there are no sale of goods and services during the year. There are no purchases of inventory and fixed assets during the year.

v. In respect of contracts or arrangements entered in the Register maintained in pursuance of Section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us:

a) The particulars of contracts or arrangements referred to in Section 301 that needed to be entered in the Register maintained under the said Section have been so entered.

b) Where each of such transaction is in excess of Rs. 5 lakh in respect of any party, having regard to the explanation that some of the items sold during the year where the suitable alternative sources are not readily available for obtaining comparable quotations. Hence, we are unable to comment on transactions have been made at prices which are prima facie reasonable having regard to prevailing market prices at the relevant time.

vi. According to the information and explanations given to us, the Company has not accepted any deposit from the public during the year.

In respect of unclaimed deposits, the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956.

vii. According to the information and explanations given to us the Company does not have internal audit system.

viii. The Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 for trading activities. Accordingly, this para is not applicable to the Company.

ix. According to the information and explanations given to us in respect of statutory dues:

a) The Company has not deposited undisputed statutory dues, including Provident Fund, Investor Education & Protection Fund, and Employees' State Insurance, Income-tax, Sales-tax, Wealth-tax, Custom Duty, Excise Duty, Cess and other material statutory dues applicable to it with appropriate authorities.

Important Illustrations of Audit Report (Contd.)

b) There are undisputed amounts payable in respect of certain statutory dues for a period of more than six months from the date they became payable as given below:

Name of the statutory dues	For the financial Year	Amount (Rs.)
Profession tax	2012-13	43,200
Employees contribution to ESIC	Earlier years*	31,779
Employers contribution to ESIC	Earlier years*	58,825
Income tax	2010-11	39,596,893
Wealth tax	2010-11	14,000
Property Tax	2011-12	132,270
Employees contribution to MLWF	2011-12	14,191
Value Added Tax	2012-13	309,693
Value Added Tax - Surat	2011-12	117,107
Value Added Tax - Maharashtra	2005-06	59,377,769
Value Added Tax - Maharashtra	2008-09	12,466,008
Value Added Tax - Maharashtra	2013-14	82,193
Value Added Tax - Maharashtra	2012-13	93,572
Value Added Tax - Maharashtra	Earlier years*	216,806
Investor Education Protection Fund	Earlier years*	10,385

Important Illustrations of Audit Report (Contd.)

c) Details of dues of Income-tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess which have not been deposited as on 31March 2014 on account of disputes are given below:

Name of statute	Nature of dues	Forum where dispute is	Period to which the amount relates pending
Income tax act, 1961	Disallowances of expenses	CIT(A)	F.Y. 2007-08
Income tax act, 1961	Disallowances of deductions	CIT(A)	F.Y. 2008-09
Income tax act, 1961	Disallowances of deductions	ITAT	F.Y. 2009-10

Name of Statute	Amount involved (Rs.)
Income tax act, 1961	53,75,640
Income tax act, 1961	24,72,17,205
Income tax act, 1961	2,05,61,740

xi. Accumulated losses of the Company at the end of the financial year are more than hundred percent of its net worth. The Company has incurred cash losses during the current financial year and in the immediately preceding financial year.

xii. In our opinion and according to the information and explanations given to us, the company has defaulted in repayment of dues to banks amounting to Rs.300.64 crores in respect of loans repayable on demand. Also, the Company has failed to repay the overdraft balance in Current Accounts with the banks amounting to Rs.13.83 crores. The Company has not defaulted in repayment of dues to financial institution. The Company has not issued any debentures and hence, clause

(xi) so far as it related to debenture holders does not apply in the case of the Company.

Important Illustrations of Audit Report (Contd.)

- xiii. In our opinion and according to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiv. In our opinion, and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi / mutual benefit fund / societies. Accordingly, clause 4.
- xv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures or other investments. Accordingly, the provisions of paragraph 4
- xvi. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given corporate guarantees to banks or financial institutions on behalf of associated concerns are prejudicial to the interests of the Company.
- xvii. In our opinion and according to the information and explanations given to us, the Company has not raised any term loan during the current period consequently the para of the order is not applicable.
- xviii. In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet, we are unable report on utilisation of short term fund for long term purpose as referred in basis of disclaimer of opinion since we do not have appropriate audit evidence for classification and recoverability of certain amounts.
- xix. The Company has not made any preferential allotment of shares to parties or companies covered in the Register maintained under Section 301 of the Companies Act, 1956, during the year.
- xx. The Company has not issued any debentures.
- xxi. The Company has not raised any money by public issue during the year.
- xxii. To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud on the Company has been noticed or reported during the year.



Common Mistakes in Audit Report

Common Mistakes in Audit Report

Auditor's Comment	Requirements
<p>Auditor has signed the Auditor's report prior to the date when the financial statements were signed and authenticated by the director of the company.</p>	<p>SA – 700 (Para – 26) Since the Auditor's responsibility is to report on the Financial Statements as prepared and presented by the management, the auditor should not date the report earlier than that the date on which the Financial Statements are signed or approved by management.</p>
<p>Auditor has mentioned his membership number "F" is prefixed to Auditor's Report.</p>	<p>SA – 700 (Para – 28) Neither Institute allots Membership Number to its members with any prefix like "F" or "A" nor SA 700 permits to use of such prefixes with the membership number in the Auditors Report.</p>
<p>Opening paragraphs of the Auditors Report states to have "examined the attached Balance Sheet..."</p>	<p>Term 'examined' signifies wider function than the actual responsibility of the auditor. Auditor should have used the word 'audited' rather than using the word 'examined' to reflect his correct responsibility.</p>
<p>In the Auditor's Reports no reference was made to the Cash Flow Statement in opening paragraph and opinion paragraph.</p>	<p>SA 700 – (Para – 9) The auditor's report should identify the cash flow statement as a part of financial statements and further, also express an opinion on the cash flow statement audited.</p>
<p>Noted that, although the auditors have qualified their report with regard to noncompliance of certain accounting standards;</p>	<p>With regards to SA 700, it is viewed that while expressing opinions other than unqualified, the auditor should report the reasons for such opinion and should also report the</p>

Common Mistakes in Audit Report (Contd.)

Auditor's Comment	Requirements
they have omitted to report the quantification of the possible effect either individually or in aggregate.	quantitative impact of such on the financial statements of each, individually as well as their aggregate. Where it is not practicable to quantify the same, the auditor must quantify the same based on estimates provided by the management.
In the opinion para, it was mentioned that "In the case of the Profit and Loss Account, of the loss for the year ended on that date".	However there was profit in the current year, reference to loss is incorrect.
"We have audited the attached balance sheet of X Ltd. as at 31st March, XXXX and profit & Loss Account for the year ended on that date annexed thereto. The financial statements are the responsibility of the company's management."	Paragraph 10 of SA 700 requires the auditor to state the responsibility of management towards the financial statement along with their own responsibility to express an opinion on the financial statements based on audit. The latter has been omitted here.
The auditor had expressed opinion on the Balance Sheet, the Profit and Loss Account as well as on the accounts of the company 'subject to a note' stating change in an accounting policy of depreciation method.	<ul style="list-style-type: none"> • "Subject to" is improper although the company had made sufficient disclosure of change in accounting policy. It was felt that perhaps auditors were not in agreement with the management for change in depreciation method. In that case, 'subject matter of qualification' is ambiguous.
Auditor often omit to state whether the statements prepared are in conformity with the	SA 700 – (Para – 20) The opinion paragraph of the auditor's report should clearly indicate the financial reporting

Common Mistakes in Audit Report (Contd.)

Auditor's Comment	Requirements
financial reporting framework and statutory requirements relevant to the company.	framework used to prepare the FS and state the auditor's opinion as to whether the FS give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the FS comply with the statutory requirements.
Report was not addressed to anyone.	SA – 700 (Para – 8) The auditor's report should be appropriately addressed as required by the circumstances of engagement and applicable laws and regulations. Ordinarily the auditor's report is addressed to the authority appointing the auditor [Under CA 2013, audit report on CFS will be addressed to Members, earlier it was addressed to Board of Directors]
	SA- 700 (Para – 28) The partner/proprietor signing the audit report should also mention the membership number assigned by the ICAI. Also required on BS and P&L.
Membership no. of auditor was not mentioned in Audit Report, CARO, Balance Sheet, Statement of Profit and Loss.	Firm Registration No. is also required to be given as per ICAI



Relevant Sections under Companies Act, 2013

Relevant Sections under Companies Act

Section 143(1) – Auditors' right to access books of accounts

This section provides that the auditor of the company shall have the **right to have access at all the times** to the books of accounts and vouchers of the company, whether kept at the registered place or at any other place and **shall be entitled** to require from the officers of the company such information and explanation as he may consider necessary **for the performance of his duties** as auditor and amongst other matters. The auditor should also enquire about the following things:

- a. Whether **loan and advances made** by the company **on the basis of security are properly secured** and the terms and conditions on which it is made are prejudicial to the interest 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:

Provided that the auditor of a company which is a holding company shall also have the right to access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.

Relevant Sections under Companies Act (Contd.)

Section 143(2) – Report to the members of the company

The auditor shall make a report to the members of the company on the accounts examined by him and on **every financial statements (FS) 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.

Relevant Sections under Companies Act (Contd.)

Section 143(3) – 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;
- (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**

Relevant Sections under Companies Act (Contd.)

Section 143(3)(f) - Observations or comments of the auditors on financial transactions or matters having adverse effect on the functioning of the company

Following are illustrations which may not be reportable u/s. 143(3)(f)

- Provision for gratuity without obtaining actuarial valuation
- Cash flow statement not prepared
- Valuation method used not as prescribed in standard
- Non-provision of obsolete stock
- Non – disclosure or overpayment of managerial remuneration
- Sec 186 matters on loans and investment by company
- Non-recovery of foreign receivables within stipulated time
- Delays in remittance of statutory dues
- Accumulated losses/negative net worth but unconditional support from holding company
- Fraud impact adjusted in FS but unlikely to have continuing effect

Relevant Sections under Companies Act (Contd.)

Following are illustrations which may be reportable u/s. 143(3)(f)

- Revocation of all licenses to operate
- Going concern assumption appropriate but material uncertainties about company`s ability to continue as going concern exist
- Material uncertainty regarding outcome of litigation that could result in significant outgo of resources or that could prevent company from doing business
- Material weakness in interim financial controls remains unresolved

Sec 143(3)(h) - any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith

- Emphasis of matter (EOM) matters to be excluded from reporting u/s 143(3)(h).
- All matters of modification are reportable u/s/ 143(3)(h).
- Additionally, if there is any observation u/s/143(3)(b), then that would also be reportable u/s/ 143(3)(h).

Sec 143(3)(i) - Whether the company has adequate IFC system in place and the operating effectiveness of such controls

Detailed discussion on IFC would be carried out in further part of presentation.

Relevant Sections under Companies Act (Contd.)

Sec 143(3)(j) - Refers to Rule 11 of Companies (Audit and Auditors) Rules 2014 that lists 3 additional requirements

- Whether company has disclosed **impact**, if any of **pending litigations** on its financial position in its **Financial Statement (FS)**;
- 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; and
- Whether there has been **any delay in transferring** amounts, required to be transferred, to the **Investor Education and Protection Fund** by the company.

Relevant Sections under Companies Act (Contd.)

Other important sections

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.

143(9) - Every auditor **shall comply with the auditing standards.**

143(10) - 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.**

Relevant Sections under Companies Act (Contd.)

Other important sections

143(11) - 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.**

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.

143(13) - No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) **if it is done in good faith.**

143(14) - The provisions of this section shall mutatis mutandis apply to— (a) the cost accountant in practice conducting cost audit under section 148; or (b) the company secretary in practice conducting secretarial audit under section 204.

143(15) - If any auditor, cost accountant or company secretary in practice **do not comply** with the provisions of sub-section (12), he **shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.**

Relevant Sections under Companies Act (Contd.)

Sec 144 – Auditor not to render certain services

An auditor appointed under this Act **shall provide to the company only such other services as are approved by the Board of Directors or the audit committee**, as the case may be, but which **shall not include any of the following services** (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:

- a. Accounting and book keeping services
- b. Internal audit
- c. Design and implementation of any financial information system
- d. Actuarial services
- e. Investment advisory services
- f. Investment banking services
- g. Rendering of outsourced financial services
- h. Management services
- i. Any other kind of services as may be prescribed

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation—For the purposes of this sub-section, the **term “directly or indirectly” shall include rendering of services** by the auditor,

- i. in case of auditor **being an individual**, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual **has significant influence or control**, or whose name or trade mark or brand is used by such individual;
- ii. in case of **auditor being a firm**, either itself or through **any of its partners or through its parent, subsidiary or associate entity or through any other entity**, whatsoever, 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 the firm or any of its partners.

Importance of an Auditors' Report

Objectives of an auditor:

- **Form an opinion** on financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained including evidence obtained about comparative financial statements or comparative financial information; and
- **Express clearly that opinion** through a written report that **also describes the basis** for opinion.

Implications on auditors' professional liability on the basis of content in report:

- **Sec 147:** for contravention of Sec 143, 144 or 145 by the auditor; and
- **Sec 245:** in case of class action suit against auditor by members/deposit holders.

Relevant Sections under Companies Act (Contd.)

Sec 145 – Auditor to sign audit report

The person appointed as an auditor of the company **shall sign the auditor's report or sign or certify** any other document of the company in accordance with the provisions of sub-section (2) of section 141, and **the qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning** of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

Section 133 r.w. Rule 7 of the Companies (Accounts) Rules,2014:Accounting Standards

Section 133 - The Central Government may prescribe the **standards of accounting 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.

Relevant Sections under Companies Act (Contd.)

Reference in report on other legal and regulatory requirements

A. Section 164(2):

No person who is or has been a director of a company which;

- a. has **not filed financial statements or annual returns** for any **continuous** period of **three financial years**; or
- b. has **failed to repay the deposits** accepted by it or **pay interest** thereon or to **redeem any debentures** on the **due date** or **pay interest** due thereon or **pay any dividend declared** and such **failure** to pay or redeem **continues for one year or more**,

shall be **eligible to be re-appointed as a director** of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.

B. Rule 11 of Companies (Audit and Auditor's) Rules, 2014:

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.

Relevant Sections under Companies Act (Contd.)

Sec 134(5) –Management’s Responsibility (Director Responsibility Statement)

The Directors’ Responsibility Statement referred to in clause (c) of sub-section (3) shall state that:

- a. in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b. the directors had selected such accounting policies and **applied them consistently and made judgments and estimates that are reasonable and prudent** so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- c. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- d. the directors had **prepared the annual accounts on a going concern basis**;
- e. the directors, in the **case of a listed company, had laid down internal financial controls (IFC)** to be followed by the company and that such internal financial controls are adequate and were operating effectively

Explanation**—For the purposes of this clause, the term “internal financial controls” means the **policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

- f. the directors had **devised proper systems to ensure compliance** with the provisions of all applicable laws and that such systems were adequate and operating

Nevertheless, **Rule 8(5)(viii) of Companies (Accounts) Rules 2014** requires directors of even private limited companies to provide details in respect of adequacy of IFCs with reference to FS in Director’s Report

Relevant Sections under Companies Act (Contd.)

Sec 147 - Punishment for contravention

1. Sections **139 to 146 (both inclusive) contravened** - company punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with **imprisonment for a term which may extend to one year** or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both;
2. If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees: Provided that if an auditor has **contravened such provisions knowingly or wilfully with the intention to deceive** the company or its shareholders or creditors or tax authorities, he shall be punishable with **imprisonment for a term which may extend to one year and with fine** which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees;
3. Where an **auditor has been convicted** under sub-section (2), he shall be liable to— (i) **refund the remuneration** received by him to the company; and (ii) **pay for damages** to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report;
4. The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification; and
5. In case of audit of a company being conducted by an audit firm, it is proved that the **partner or partners of the audit firm has or have acted in a fraudulent manner** or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, **the liability**, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act **shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.**





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Face the Future with Confidence

