

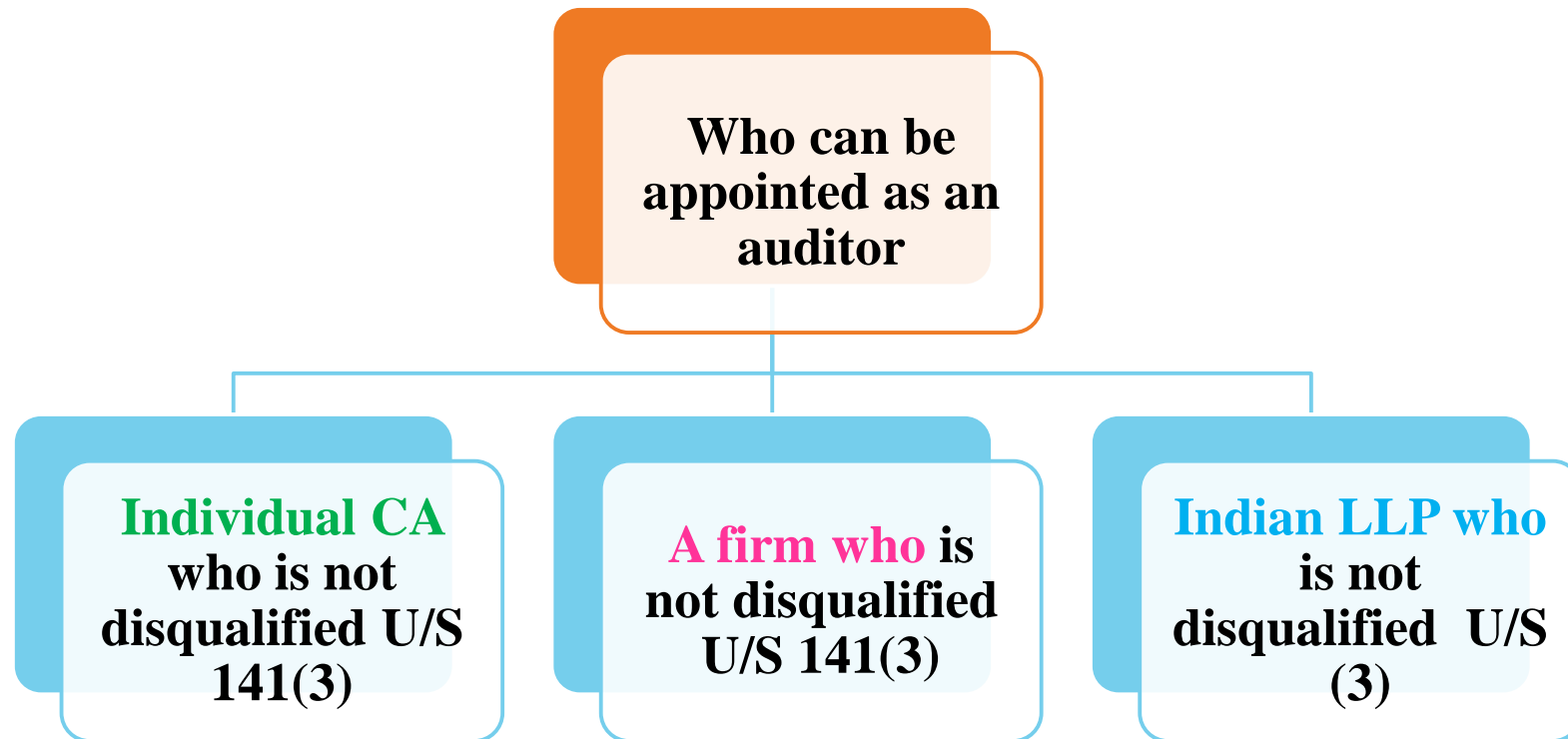
# AUDITORS, DISQUALIFICATION SEC 141,144

# *Eligibility, qualification & disqualification of auditor*

## **SEC 141(1) QUALIFICATION OF AUDITOR**

*(1) A person shall be eligible for **appointment** as an auditor of a company **only if he is a chartered accountant:**  
Provided that a **firm** **whereof** **majority of partners** **practising in India** are **qualified** for appointment as aforesaid may be appointed by its firm name to be auditor of a company.*

# *Appointment of auditor*

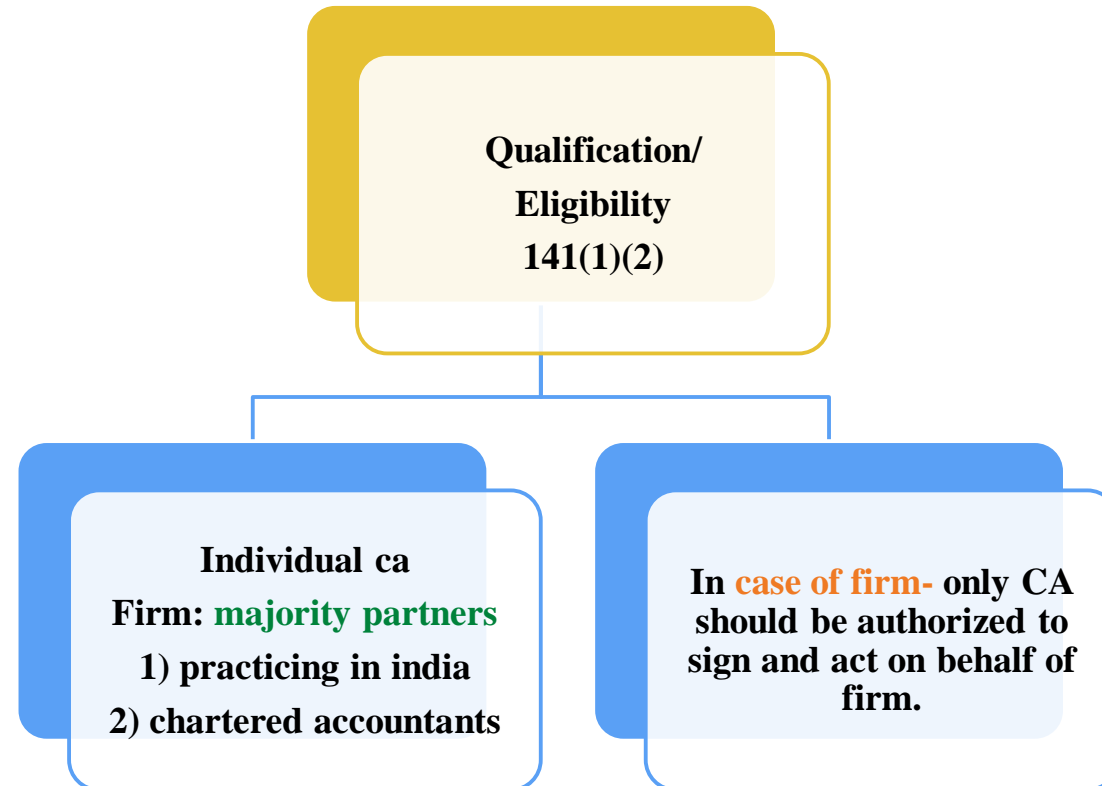


# *Eligibility, qualification & disqualification of auditor*

## ***SEC 141(2) QUALIFICATION OF AUDITOR***

*(2) Where a firm including a **limited liability partnership is appointed** as an auditor of a company, **only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.***

# Qualification/ eligibility



# *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(a) a body **corporate** other than **a limited liability partnership** registered under the Limited Liability Partnership Act, 2008;*

# Question

*A, a chartered accountant has been appointed as **auditor** of Laxman Ltd. in the Annual General Meeting of the company held in September, 2015, which assignment he accepted. Subsequently in January, 2016 he joined B, another chartered accountant, who is the **Manager Finance** of Laxman Ltd., as partner.*

# Answer

*Disqualifications of an Auditor: Section 141(3)(c) of the Companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company. Sub-section (4) of Section 141 provides that an auditor who incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor.*

*In the present case, A, an auditor of Laxman Ltd., joined as partner with B, who is Manager Finance of Laxman Limited, has attracted sub-section (3)(c) of Section 141 and, therefore, he shall be deemed to have vacated office of the auditor of Laxman Limited.*



## *Eligibility, qualification & disqualification of auditor Sec 141(3)(b)*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(b) an officer or employee of the  
company;*

## *Eligibility, qualification & disqualification of auditor Sec 141(3)(c)*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;*

# *Eligibility, qualification & disqualification of auditor Sec 141(d)*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(d) a person who, or his relative or partner—*

*(1) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company:*

*Provided that the relative may hold security or interest in the company of face value not exceeding one lakh rupees;*

*If the relative is holding securities more than 1 lakh rupees he has to dispose off within 60 days of acquisition*

# *Eligibility, qualification & disqualification of auditor*

## ***Example A***

*Mr. X is a CA holding eq. share in the company for Rs. 95000, can he become the auditor?*

## ***Example B***

*Relative of X is holding debenture in the Company for Rs. 115000? Can X become the auditor of the Company?*

## ***Example C***

*Mr. Y, a CA did not hold preference share in the Co. After becoming the auditor he held the share of Rs. 85000. Is it ok?*

## ***Example D***

*Mr. Y, a CA become the auditor. After Y become the auditor, Relative held debentures of Rs. 115000? What will be the consequences*

# *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(d) a person who, or his relative or partner—*

*(2) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of five lakh rupees; or*

# *Eligibility, qualification & disqualification of auditor*

*Mr. X a CA wants to become the auditor of Z Ltd. Mr. X purchased the goods on credit from Z Ltd of Rs. 6 Lakh but the credit period is not over and his payment is not overdue. Can Mr. X become the auditor of Z Ltd.?*

*Mr. P, a CA wants to become the auditor of H Ltd. Mr. P purchased goods of X Ltd using his credit card amounting to 6Lakh can he become the auditor of H Ltd?*

*A Chartered Accountant Mr. Rahul is indebted to the company for Rs. 2Lac, his partner for Rs. 3Lac not towards the company but towards the holding company and relative of Rahul is indebted to the associate company for Rs. 1Lac. Is Rahul disqualified?*

# *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(d) a person who, or his relative or partner—*

*(3) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of one lakh rupees;*

# Eligibility, qualification & disqualification of auditor

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

(e) **a person or a firm** who, whether **directly or indirectly**, has **“business relationship”** with the company, or its **subsidiary**, or its **holding** or **associate company** or **subsidiary** of such holding company or associate company of such nature as may be prescribed;

**The term “business relationship” means any commercial transaction but excludes as follows:**

- (1) commercial transactions which are in the nature of **professional services** permitted to be rendered by an auditor or audit firm under the Act **and the Chartered Accountants Act, 1949** and the rules or the regulations made under those Acts;
- (2) commercial transactions which are **in the ordinary course of business** of the company **at arms length price** - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.



# *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an **auditor** of a company, namely:—*

*(f) **a person whose relative** is a director or is in the **employment** of the company as a **director or key managerial personnel;***

***$R_d$  OR  $R_{kmp}$  of the Company***

# *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;*

*one person companies, dormant companies, small companies and pvt company with less than ` 100/- Crore, are not to be counted in the maximum limit of audit which I Private Companies having paid up share capital of s twenty for Auditors*

## *Technique- DOPS*

## *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(h) **a person** who has been **convicted by a court of an offence involving fraud** and a period of **ten years has not elapsed** from the date of such conviction;*

## *Eligibility, qualification & disqualification of auditor*

*The following persons shall not be eligible for appointment as an auditor of a company, namely:—*

*(i) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.*

# *Whether Following are Excluded in Counting 20 Co. Audit*

<b>TAX AUDIT</b>	NO
<b>GOVERNMENT COMPANY</b>	YES
<b>PROPRIETY AUDIT</b>	NO
<b>FOREIGN COMPANY</b>	CONTROVERSY
<b>JOINT AUDIT</b>	YES(1)
<b>COMPANY AUDIT + BRANCH</b>	YES(1)
<b>ONLY BRANCH</b>	NO
<b>PARTNERSHIP AUDIT</b>	NO
<b>SEC 8 COMPANY</b>	YES

# *Substantial interest*

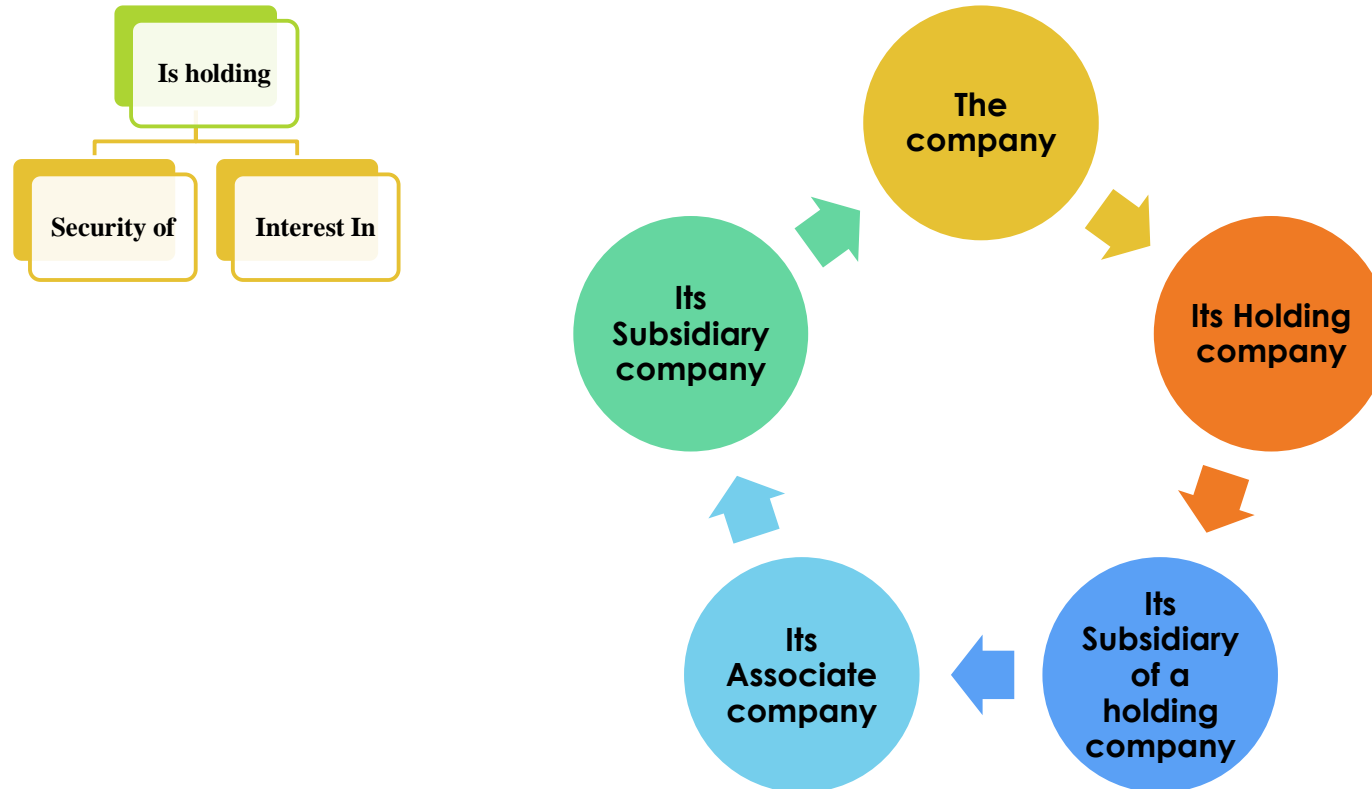
*ACA shall be guilty of professional misconduct if he expresses opinion on financial statements of an enterprise if his relative holds substantial interest ( $\geq 20\%$  voting sh/profit)*

*Q) An auditor recovers fees on progressive basis 7 lacs. Is he disqualified*

*Ans: No*

# Disqualification

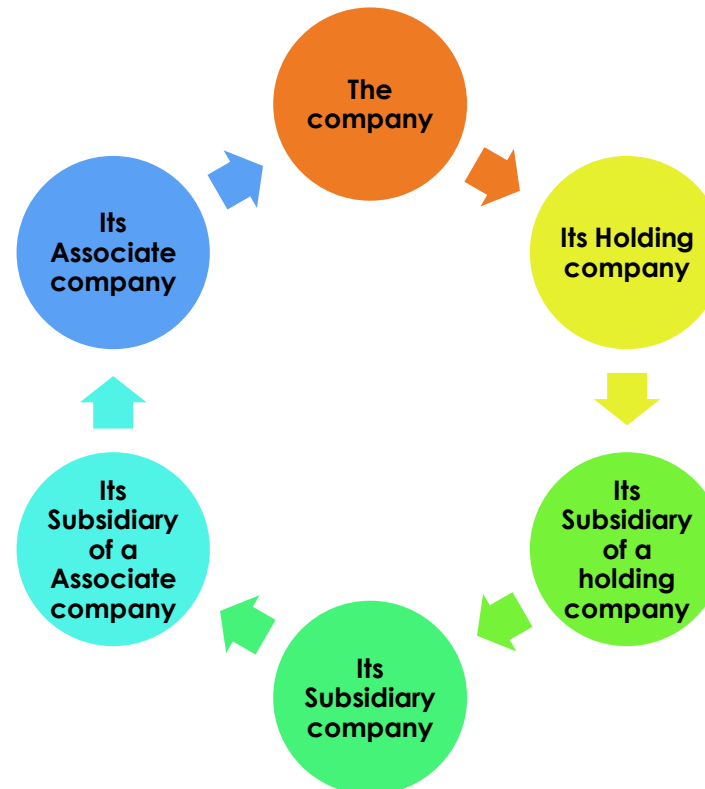
**A PERSON, WHO IS HIS RELATIVE OR A PARTNER**



5 KA CHAKRAVYUH SPECIAL CASE

# Disqualification

***A PERSON, OR A FIRM WHO DIRECTLY OR INDIRECTLY HAS A BUSINESS RELATIONSHIP***



6 KA CHAKRAVYUH SPECIAL CASE



# Sec 141(3) disqualification summary - 11 points

141(3) disqualification	141(3) disqualification
<p>(A) body corporate, other than LLP</p> <p>(B) <b>officer / employee</b> of the co.</p> <p>(C) partner/ec of (b)</p> <p>(D) i) holds "security" of OSHA (group co.)</p> <p>(D) ii) <b>indebted to osha</b> for &gt;500000</p> <p>(D) iii) <b>given guarantee</b> to OSHA &gt;100000</p>	<p>(E) has business relation with OSHA.</p> <p>(F) relative is director or kmp in the Co</p> <p>(G) ceiling limit - 20co. <b>Each partner</b></p> <p>(H) Convicted fraud &amp; 10 yrs not elapsed</p> <p>(i) prohibited services u/s 144</p>

# Relatives

*“relative”, with reference to any person, means any one who is related to another, if—*

- (i) they are members of a Hindu Undivided Family;*
- (ii) they are husband and wife; or*
- (iii) one person is related to the other in such manner as may be prescribed;*

*The Rules prescribed as under:*

*A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-*

- (1) Father: Provided that the term “Father” includes step-father.*
- (2) Mother: Provided that the term “Mother” includes the step-mother.*
- (3) Son: Provided that the term “Son” includes the step-son.*
- (4) Son’s wife.*
- (5) Daughter.*
- (6) Daughter’s husband.*
- (7) Brother: Provided that the term “Brother” includes the step-brother;*
- (8) Sister: Provided that the term “Sister” includes the step-sister.*

# AUDITORS

# SEC 144

## *Services to be approved*

*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,*

# *Prohibited services*

*An auditor 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; (ipo)*
- (g) rendering of outsourced financial services; (Treasury Management)*
- (h) management services; and*
- (i) any other kind of services as may be prescribed:*

## *Example of permitted professional services:-*

- *Tax Audit*
- *Tax Advisory*
- *Limited Review*
- *Assurance Service*
- *Agreed upon procedure*

# AUDITORS

## SEC 142

# Meaning of directly and indirectly

## Sec 144

*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.*



# Remuneration

The **remuneration of the auditor** of a company shall be **fixed in its general meeting** or in such manner as may be determined therein:

**Provided that the Board may fix remuneration of the first auditor appointed by it.**

**Remuneration = Audit Fees + GST + Out of Pocket Expenses**

# *Meaning of Remuneration*

*The remuneration under sub-section (1) shall, in addition to the fee payable to an auditor, **include the expenses, if any, incurred by the auditor in connection with the audit** of the company and any facility extended to him but **DOES NOT INCLUDE** any remuneration paid **to him for any other service rendered** by him at the request of the company*

# *Remuneration of Audit of Govt Co.*

*In case of a Govt Company, auditor is appointed by C & AG but remuneration is fixed by shareholders*

# AUDITORS

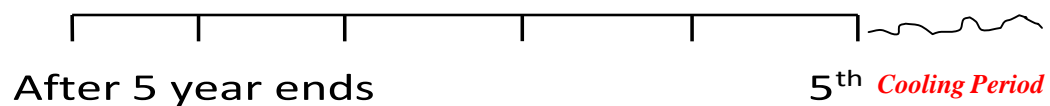
## SEC 139

## *Tenure of auditor of non- government company*

*At the first Annual general meeting ,a non govt Co appoint its auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting and the manner and procedure of selection of auditors by the members of the company at such meeting shall be such as may be prescribed. (Page 8 of the book)*

# Tenure of auditor of non-government company

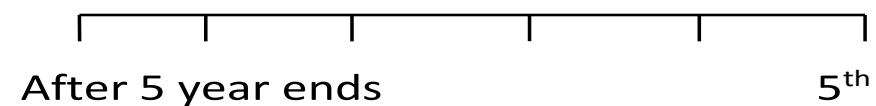
Individual CA can be appointed for 1 term of 5 years as a statutory auditor in the company.



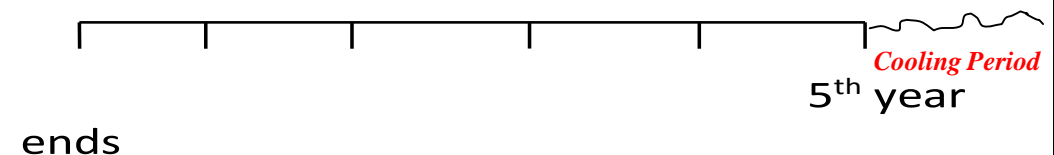
Such Individual **cannot** be appointed in the **same** company for 5 year as SA  
 After the above 5 years get over (cooling period ) he may be reappointed  
 Rotation of Auditors to ensure independence  
 Company → Auditor about appointment  
 Company → ROC within 15 days of AGM where auditor is appointed  
 FORM ADT—1 → ROC

*(Page 8 of the book)*

A firm can be appointed for 1 term of 5 years as a statutory auditor in the company



Firm **can be reappointed** for 2<sup>nd</sup> term of 5 years in the same company as SA



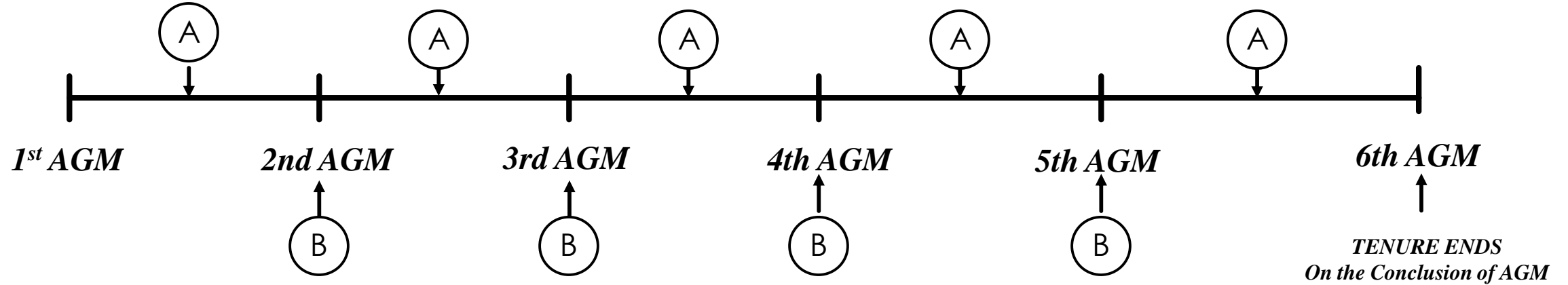
**After 2<sup>nd</sup>** consecutive term then he cannot be appointed as SA for next 5 years in the same company

After the above 5 years get over (cooling period ) he may be reappointed in the same company

# *Recommendation of Audit Committee*

- *Take into Consideration Q/Experience/Misconduct*
- *If AC recommends---- and Board agrees with it----- Recommendation to members at AGM*
- *If Board doesn't agree then two cases:*
- *Case-1- Audit Committee will reconsider and will recommend other individual or firm name*
- *Case-2- Audit Committee will not reconsider the original recommendation then again two case*
  - ❑ *Case-1- Board will place its own recommendation to members in AGM*
  - ❑ *Case-2- Board will place original recommendation by Audit Committee to members in AGM*

# *Term of 5 Consecutive years*





*Audit committee/board of directors  
recommendation the name of the proposed auditor*

*After considering the following parameters, **Audit Committee/ BOD shall recommend** the name of the proposed Auditor before the shareholders for appointment in AGM by passing Ordinary Resolution*

*(1) Qualification*

*(2) Experience*

*(3) Disciplinary Proceedings, if any, Pending against the auditor*

*(Page 8 of the book)*

# Appointment of a Statutory Auditor

15 DAYS

BOD/AC will propose the name of prospective auditor after considering :-

**Q :-Qualification.**

**E:- Experience.**

**D:-Disciplinary proceedings**

BOD will obtain **declaration from proposed auditor :-**

- a)Not disqualified.
- b)Appointment as per Act
- c)Within the ceiling limit of 20
- d)List of disciplinary proceedings pending

Appointment at AGM Shareholders will pass

**Ordinary Resolution.**

**Tenure :- Conclusion of this AGM to Conclusion of 6<sup>th</sup> AGM**

**COMPANY SHALL FILE FORM ADT-1 With ROC Within 15 days**

# Rotation of auditors

No listed company or **other** lass of co.(Refer next slide) shall appoint

**An individual** as auditor for more than one term of five consecutive years;

An audit firm as auditor for more than two terms of five consecutive years:

Deloitte.



ERNST & YOUNG



pwc

KPMG



# Compulsory Rotation

Listed company

All unlisted public companies having paid up share capital of rupees ten crore or more;

All private limited companies having paid up share capital of rupees fifty crore or more; (earlier it was 20 crores)

All companies having paid up share capital of below threshold limit mentioned in (a) and (b) above,  
But having public borrowings from financial institutions, banks or public deposits of rupees fifty Crores or more

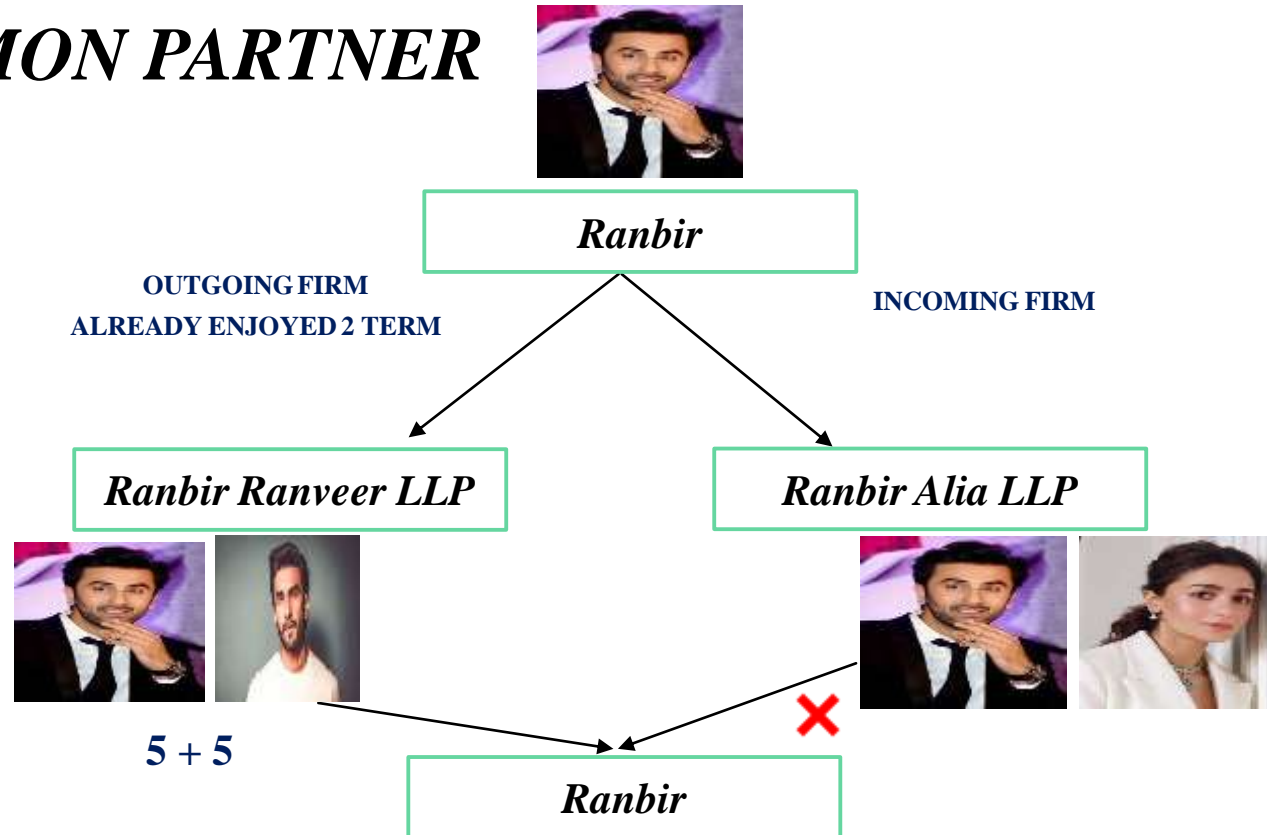
*Rotation concept do not apply  
to auditors of*

**ONE  
PERSON  
COMPANY**

**SMALL  
COMPANIES**

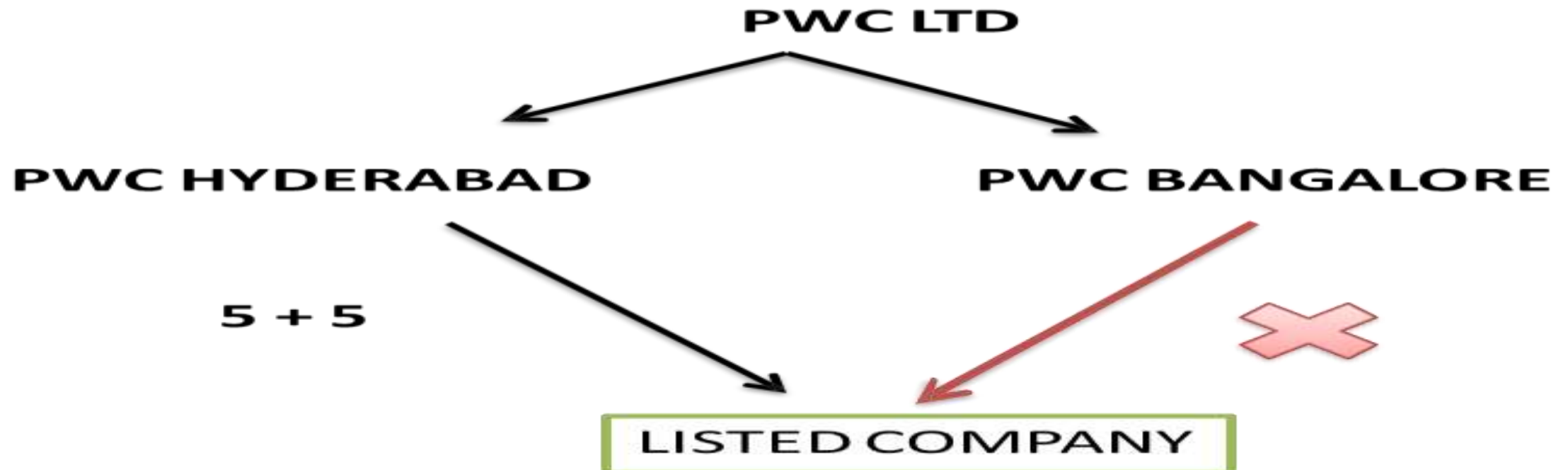
# Rotation and cooling period

## CASE 1:- COMMON PARTNER

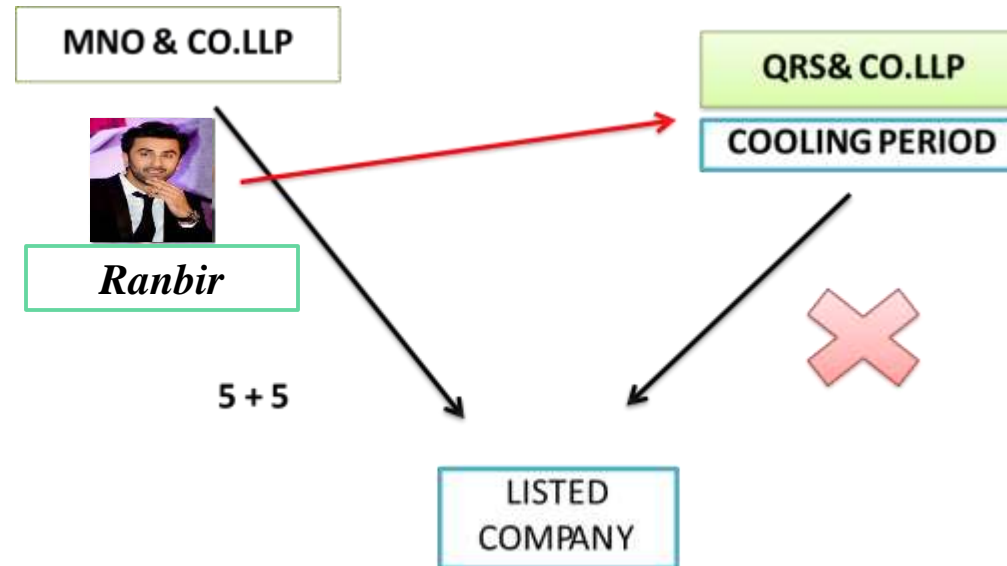


# *Rotation and cooling period*

## ***CASE 1:- SAME NETWORK AND BRAND***



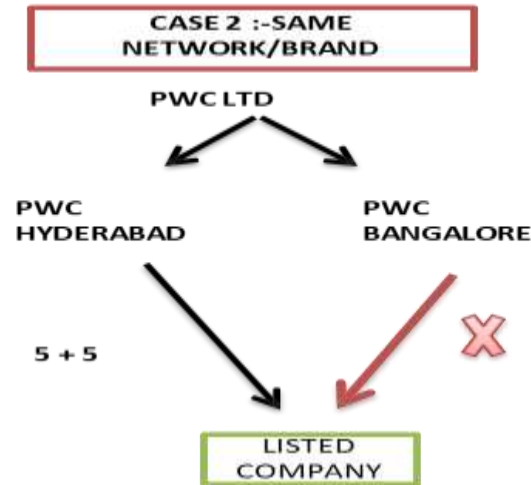
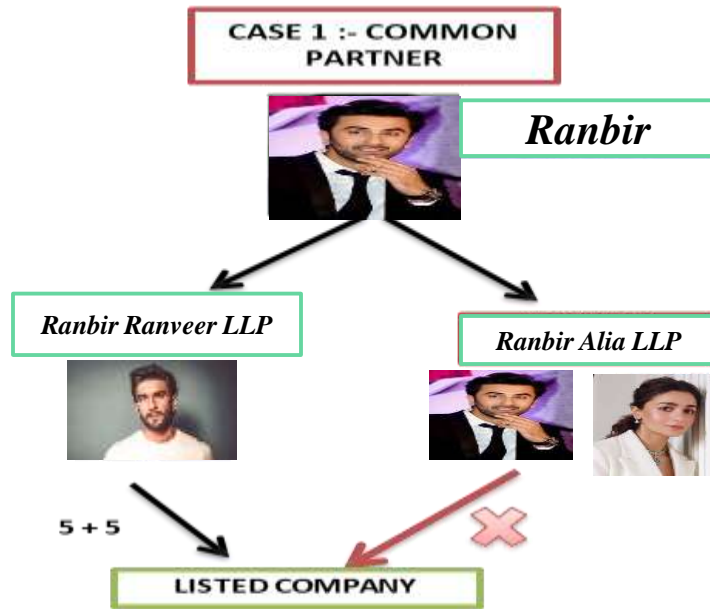
# Resign and join



*New firm formed by partner who was in-charge of the firm and used to sign financial statement wont be eligible for next 5 years*



# Cooling Period Rules



# *Cooling period Rules*

The incoming auditor or audit firm shall **not** be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the **same network of audit firms.**

For the purposes of these rules the term “**same network**” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

## EXAMPLE

1. COMMON

PWC LLP BANGALORE

LOVELOCK&LEWES

2. COMMON CONTROL

DELOITTE

S.B. BILLIMORIA

# Explanation

a) As on the date of appointment **no audit firm** having a common partner or partners to the other **firm**, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as a auditor of the same company for a period of 5 years

b) The **incoming auditor** or audit firm shall not be eligible if such auditor or audit firm **is associated with the outgoing auditor** or audit firm under the same network of audit firms

For the purposes of these rules the term **“same network”** includes **the firms** operating or functioning, hitherto, under the **same brand name**, trade mark, or common control

a) If a partner, who is in charge of an audit firm and **also certifies the financial statements** of the company, retires from the said firm and joins another firm of chartered accountants, such other **firms shall also** be ineligible to be appointed for a period of 5 years

b) A **break in the term for a continuous period of five years** shall be considered as fulfilling the requirements for **rotations**

# *Cooling period*

*During Cooling period, the auditor  
Cannot be associated with the  
Company **in any capacity** and **cannot**  
render any other type of service.*

## *Rotation of audit partner, Audit team, and joint audit*

*Subject to the provisions of this Act, members of a company may resolve to provide that—*

- a. in the audit firm appointed by it, the **auditing partner and his team** shall be rotated **at such intervals** as may be resolved by members; or*
- b. the audit shall be conducted by more than one auditor.*

Two optional steps

*Super Rotation*

**AUDITOR- KPMG (5+5=10)**

- For First 2 yrs = CA P & team*
- For First 3 yrs = CA Q & team*
- For First 2 yrs = CA R & team*
- For First 3 yrs = CA S & team*
- For First 2 yrs = CA T & team*

*Joint Audit (SA 299)*

**RELIANCE**



# First auditor

First Auditor of Government Company



By C & AG Within 60 Days from the Date of Incorporation



Else BOD within next 30 days.



ELSE BOD WILL INFORM MEMBERS & THEN MEMBERS SHALL APPOINT WITHIN NEXT 60 DAYS AT EGM.

TIME PERIOD OF FIRST



TIME PERIOD UPTO THE CONCLUSION OF FIRST AGM

AUDITOR

*(Page 13 of the book)*

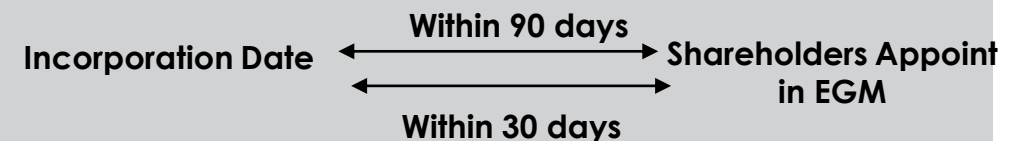
First auditor of Non Govt. Company



Within 30 days from the date of registration  
By BOD at Board Meeting



Else bod will inform members & members. Shall within 90 days at EGM



# Subsequent auditor

## Subsequent Auditor

Subsequent auditor-1 year

**Government company**

Within 180days from the beginning of **every Financial Year**

Based on under 139 (8) Point No: 8 :Casual Vacancy

filled by C& AG within 30 of Vacancy

Else bod within next 30 days.

Subsequent auditor of non govt. Company

1. Term of 5 years.

Casual vacancy

Death

Appointed By BOD within 30 Days from vacancy

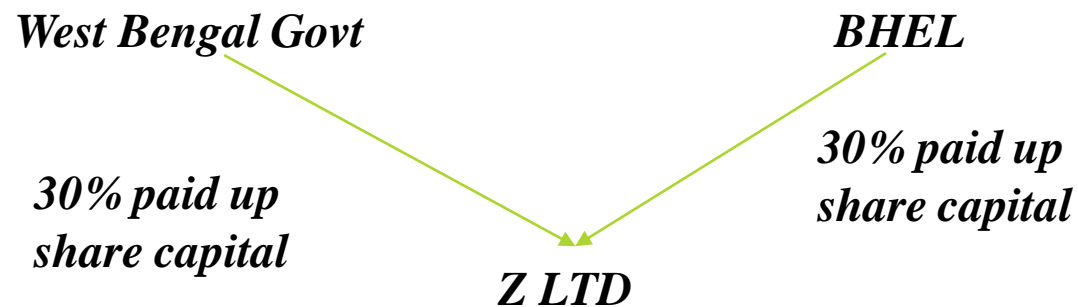
Resignation

approved also by shareholders at GM within 3 month of boards recommendation

*(Page 13 of the book)*

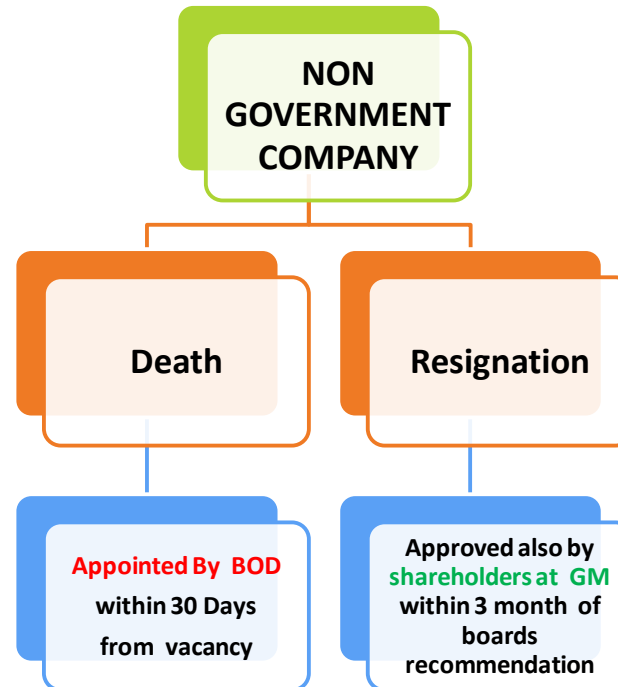


# *Subsequent auditor*



*As per Law, Z Ltd is Not a Govt Co. u/s 2(45). However MCA has clarified that- ‘ Any Co. which is directly or indirectly owned or controlled by CS/SG. Shall be covered u/s 139(5). The auditor of such Co. shall be appointed by C &AG.*

# Filling of casual vacancy in a Non-Govt Company



*The person appointed here will hold till the **Conclusion of next agm.***



*Few days*



*ORIGINAL AGM*

*ADJOURNED AGM/  
CONCLUSION*

*CONTINUE TEMPORARILY*

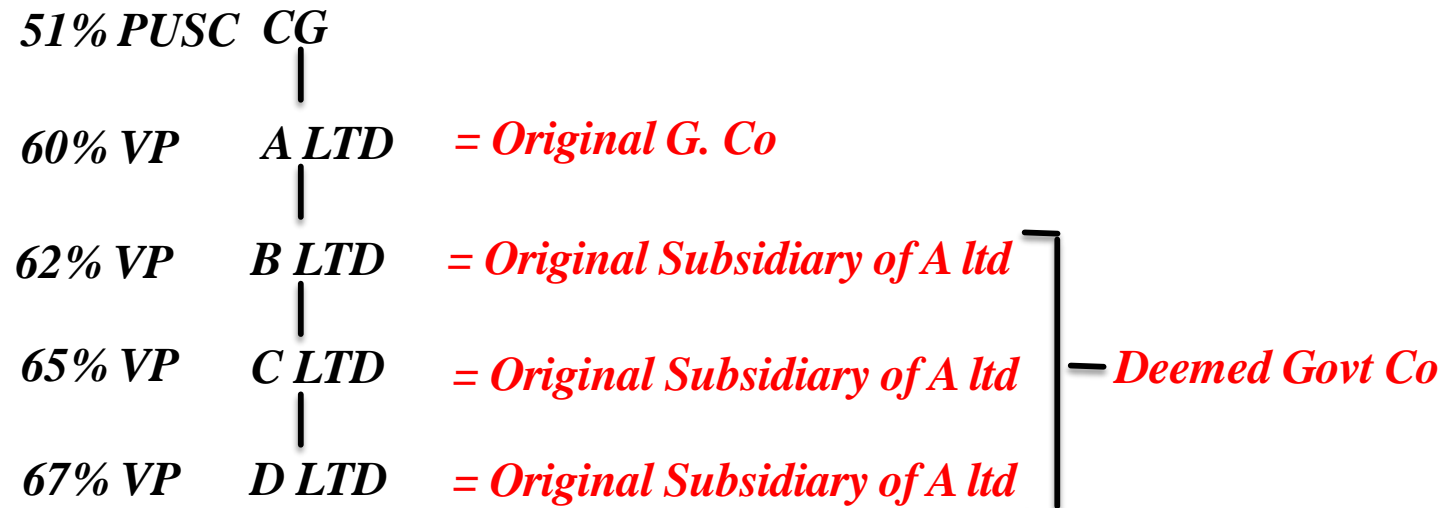
*X*

*EXISTING AUDITOR  
WHOSE TENURE ENDS*

*Y*

*PROPOSED NEW AUDITOR*

**GOVT CO**



- Those in no 2 layers Restriction on Govt Co
- C & AG shall appoint Auditor of all 4 companies

# *Retiring auditor may be reappointed at agm if:-*

***He is not disqualified for re-appointment***

***He has not given the company a notice in writing of his unwillingness to be re-appointed;***

***A special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.***

# *Question*

*ABC Firm 1 term Over 2 year Gap  
2<sup>nd</sup> Term over- Can the firm be  
Appointed for 3<sup>rd</sup> Term*

*Answer*

*NO*

# *Applicability of audit committee*

*The Board of directors of **every listed companies** and the following classes of companies, as prescribed under Rule 6 of Companies (Meetings of Board and its powers) Rules, 2014 shall constitute an Audit Committee. (Committee of Directors)*

- (i) all public companies with a **paid up capital of Rs.10 Crores or more;***
- (ii) all public companies having **turnover of Rs.100 Crores or more;***
- (iii) all public companies, having in aggregate, **outstanding loans or borrowings or debentures or deposits exceeding Rs.50 Crores or more.***



# FUNCTIONS OF AUDIT COMMITTEE

*Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—*

- (i) **the recommendation** for appointment, remuneration and terms of appointment of auditors of the company;*
- (ii) **review and monitor** the auditor's independence and performance, and effectiveness of audit process;*
- (iii) **examination** of the financial statement and the auditors' report thereon;*
- (iv) **approval** or any subsequent modification of transactions of the company with related parties;*
- (v) **scrutiny** of inter-corporate loans and investments;*
- (vi) **valuation** of undertakings or assets of the company, wherever it is necessary;*
- (vii) **evaluation** of **internal Financial Control** and risk management systems;*
- (viii) **monitoring** the end use of funds raised through public offers and related matters.*

# COMPARATIVE

Question	Usual Co.	Govt Co.
Who Appoints Auditor?	Shareholders at AGM	C & AG
Time Period for Appointment?	AGM	180 days of commencement of Financial year
Tenure	Till Conclusion of 6 <sup>th</sup> AGM	Till Conclusion of Next AGM
Is ADT-1 Filled	YES	YES
Rotation & Cooling Period	Listed-10-50-50 Crores	-

# QUESTION 1

*Examine the validity of the following appointments with reference to the provisions of the Companies Act, 2013 :*

*X Limited appointed CA Rahul as statutory auditor of the company at the AGM held on 30th September, 2014. The next AGM was held on 30th Sept, 2019 but it was adjourned to 30th Nov, 2019 for Consideration of the accounts for the year ended 31st March, 2019. CA Naresh continued to function as statutory auditor of the company even though a new auditor was appointed in his place at the AGM held on 30th September, 2019.*

## **ANSWER:-**

*He will continue to hold office till the conclusion of the adjourned meeting held on 30th November, 2019. Also, the new auditor can function as a statutory auditor only from the conclusion of the adjourned meeting held on 30th November, 2019.*

# QUESTION 2

*C.A. Ravi was appointed as auditor of Bristol Lit. for the year 2018-19. Since he declined to accept the appointment, the Board of Directors appointed C.A. Manish as the Auditor in Place of C.A. Ravi and the appointment was accepted by C.A. Manish, Discuss. (4 Marks) (May 2015)*

## **ANSWER:-**

*Accepting Appointment Without First Ascertaining Compliance of Relevant Sections of the Companies Act As per section 139(8)(i) and Section 139(6) of the Companies Act, 2013, board can appoint the auditor in the case of casual vacancy.*

*Also it seems that Board may have appointed CA Ravi without first obtaining for him the 4-point declaration as mentioned in Section 139, else why would he not accept the engagement after providing such a declaration.*

*In view of the provision given in Section 139, non-acceptance of appointment by C.A. Ravi does not constitute a casual vacancy. Therefore, it should not be filled by the Board. Thus, the appointment of the auditor by the Board is defective in law.*

# CONTINUATION....

*Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 139 and 140 read with Section 141 of the Companies Act, 2013, in respect of such appointment have been duly complied with, Conclusion in the instant case -*

*(i) CA Ravi was appointed as an auditor of Bristol Ltd., however he declined to accept the appointment Resulting to such decline, the board appointed CA. John as an auditor and such appointment was accepted by him. Accordingly, C.A. Manish is guilty of professional misconduct as per Clause (9) of Part I of the First Schedule, as he accepted the appointed without verification of statutory requirements.*

*(ii) Also Board is liable for penal action U/S 147 for violating Section 139.*

# QUESTION 3

*M/S ABC & Co. is an audit firm having partners Mr. A, Mr. B and Mr. C, whose tenure as statutory auditor in R Ltd. A listed entity has expired as per the Companies Act, 2013. M/S. XY is another audit firm which appointed as the statutory auditor of R Ltd. for the subsequent year. Mr. A joins M/S XY as partner, 3 months after it was appointed the statutory auditor of R Ltd. Comment.*

## **ANSWER:-**

*First state Sec 139(2). As on the date of appointment no common partner. So Mr. XY can continue as auditor of R Ltd.*

*An Alternative view is possible as 'Auditor Rotation' provisions are intended to maintain the auditor's independence. Though as per the Companies Act, 2013, there should not be common partner in the firms on the date of appointment but to maintain the integrity and independence it is important to apply this auditor rotation rule for whole term. Therefore, if there are common partners in previous firm and newly appointed audit firm the purpose of law for the auditor's rotation will be defeated. In view of above provisions, if, after the date appointment of new firm(M/S. XY), old partner Mr. A(of M/S. ABC & Co.-old audit firm) joins the new audit firm, it would defeat the objective and intention of lawmakers. Thus M/S. XY should vacate the office as an auditor.*

# AUDITORS

## SEC 140

# REMOVAL BEFORE EXPIRY OF THE TERM 140(1)

## Process

- BR is required
- Application to CG in ADT 2 within 30 days of BR
- Pass SR at GM which is to be held within 60 days of CG approval
- Opportunity of being heard should be given





# RESIGNATION 140(2) & (3)

## Process

- Resigning auditor should file a statement **in 30 days (ADT 3)** with Company and ROC.
- State reasons** and other facts in the statement
- In case of Gov Co – Statement to **CAG also** along with Co and ROC

Penalty if auditor fails to do so :  
Penalty – 50,000 or remuneration  
Whichever is lower

*Maximum penalty 5 Lacs. After Amendments it is 2 Lacs*

## *SPECIAL NOTICE FOR NOT REAPPOINTING THE RETIRING AUDITOR 140(4)*

*When retiring auditor has **not completed** 5/10  
CONSECUTIVE years and you want to :*

- a. Appoint a person other than retiring as an auditor*
  - b. And provide expressly that the retiring shall not be appointed*
- Then **Ordinary Resolution** is required at AGM*
  - Before 14 days of AGM Certain Members will give **special notice** to Company*
  - Company to retiring auditor – Special notice*
  - Retiring Auditor will give **written representation** and **request to circulate** it to the member*

### Eligibility of member

Members who hold  
1% of total voting  
power  
OR  
Paid up share  
capital of 5 Lacs  
Whichever is lower

# *SPECIAL NOTICE FOR NOT REAPPOINTING THE RETIRING AUDITOR 140(4)*

## **Written representation by Retiring Auditor**

**Right to make representation is abused by Retiring Auditor?**

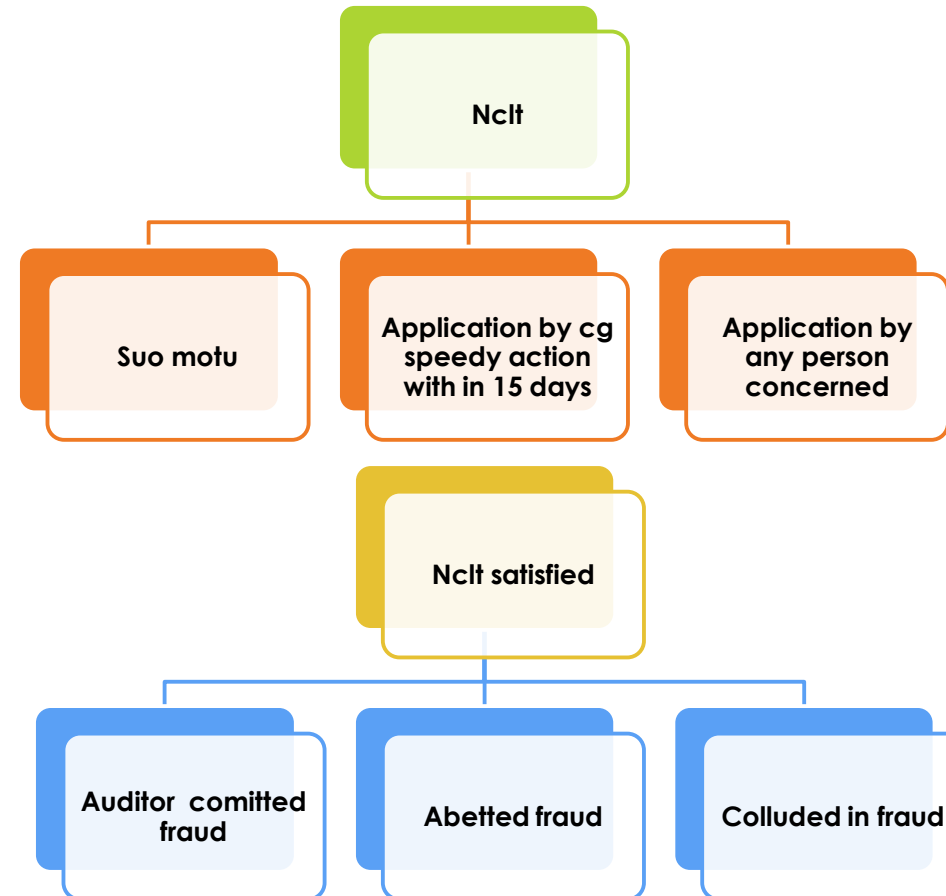
**YES, Then no need to circulate it to members and will not be read out at AGM**

**NO, Then circulate resolution notice to every member with the fact that written representation has been made and Copy of written representation**

*However if copy of written representation not sent because it was too late or company's default : Auditor may make oral representation*

REMOVAL	RESIGNATION	SPECIAL	POWER OF TRIBUNAL
1	2-3	4	5
BR	Voluntary	-	Application by CG to Tribunal
CG – ADT 2	ADT 3	Member to Company	CG then in 15 days order by Tribunal

# REMOVAL AND RESIGNATION OF AUDITOR



# QUESTION

*You, the Auditor of A Ltd., have been considered for ratification by the members in the 4th general meeting as the sole auditor, where you were one of the joint auditors for the immediately preceding three years and the said joint auditors are not re-appointed.*

# ANSWER

*When one of the joint auditors of the previous years is considered for ratification by the members as the sole auditor for the next year, **it is similar to non re-appointment of one of the retiring joint auditors.** As per sub-section 4 of section 140 of the Companies Act, 2013, **special notice shall be required for a resolution at an annual general meeting appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed,** except where the retiring auditor has completed a consecutive tenure of five years or, as the case may be, ten years, as provided under sub-section (2) of section 139 of the said Act.*

# CONTINUATION...

Accordingly, provisions of the Companies Act, 2013 to be complied with are as under-

- (i) Ascertain **that special notice u/s 140(4)** of the Companies Act, 2013 was received by the company from such number of members holding not less than one percent of total voting power or holding shares on which an aggregate sum of not less than five lakh rupees has been paid up on the date of the notice not earlier than 3 months but at least 14 days before the AGM date as per Section 115 of the Companies Act, 2013 read with the Companies (Management and Administration) Rules, 2014.
- (ii) Check whether the **said notice has been sent to all the members at least 7 days before the date of the AGM** as per Section 115 of the Companies Act, 2013 read with the Companies (Management and Administration) Rules, 2014.
- (iii) Verify the notice **contains an express intention of a member for proposing the resolution** for appointing a sole auditor in place of both the joint auditors who retire at the meeting but are eligible for re-appointment.
- (iv) The notice is also sent to the retiring auditor as per Section 140(4)(ii) of the Companies Act, 2013.
- (v) Verify whether any representation, received from the retiring auditor was sent to the members of the company to whom notice of the meeting was sent.
- (vi) **Verify from the minutes book whether the representation received** from the retiring joint auditor was considered at the AGM.



# AUDITORS

## SEC 147

## *SEC 147(1) PUNISHMENT TO COMPANY*

*If any of the provisions of Sec 139 to Sec 146 is contravened then the company shall be punishable with a fine which shall **not be less than Rs. 25,000 but which may extend to Rs. 5,00,000** as provided in section 147 of Companies Act, 2013. Every officer of the company who is in **default** shall be punishable with imprisonment for a term which may extend to 1 year or fine which shall not be less than Rs. 10,000 but which may extend to Rs. 1,00,000 or with both. **Imprisonment Removed after Amendment.***

## SEC 147(2) PUNISHMENT TO AUDITORS

*If the auditor contravenes any of the provisions of Sec 139 , 143 , 144 and 145 then he shall be punishable with a fine which shall not be less than Rs. 25000 but which may extend to Rs. 5,00,000. or Four times the remuneration of the auditor, whichever is less. However if the auditor has contravened such provisions willfully 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 Rs. 50000 but which may extend to Rs. 25,00,000 or Eight times the remuneration of the auditor, whichever is less.*

## *SEC 147(3) PUNISHMENT TO CONTRAVENTION*

*Where an auditor has been convicted under **sub-section (2)**, he shall be liable to--*

- (a) **refund the remuneration received by him to the company; and***
- (b) **pay for damages to the company, statutory bodies or authorities or to Members or Creditors of the Company for loss arising out of incorrect or misleading statements of particulars made in his audit report.***

## *SEC 147(3) PUNISHMENT TO CONTRAVENTION*

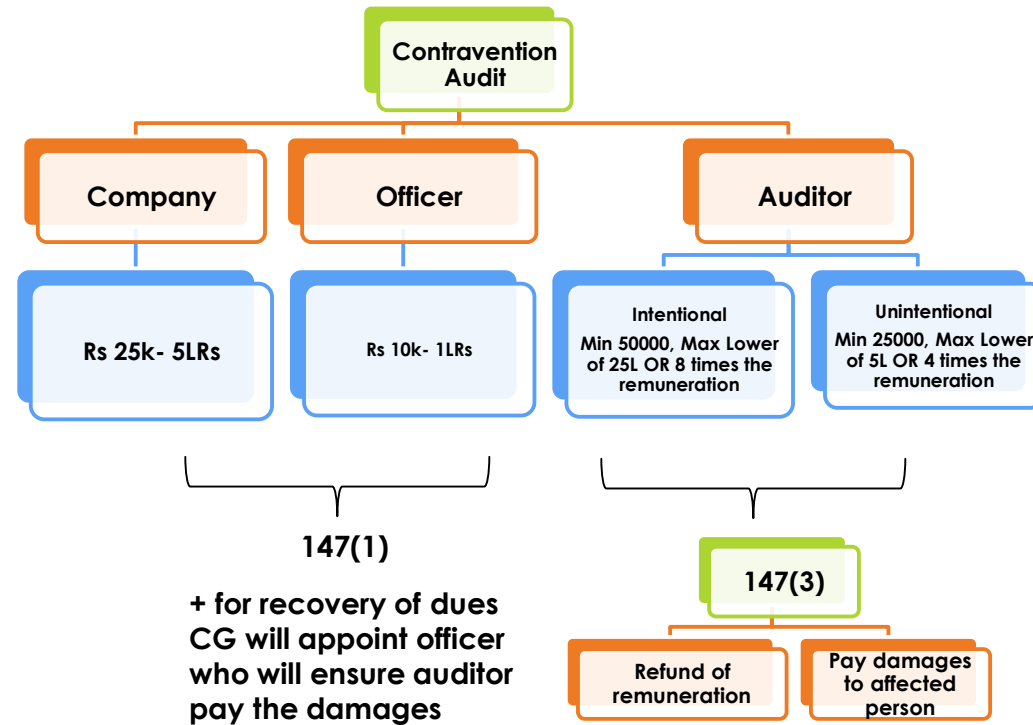
*The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of subsection (3) and such body, authority or officer shall after **payment of damages to such company or persons** file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.*

## SEC 147(5) PUNISHMENT TO CONTRAVENTION

*Where, 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**.*

*Provided that **in case** of criminal liability of an audit firm, in respect of liability other than **fine**, the **concerned partner** or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.*

# CONTRAVENTION AUDIT



*147(5) Civil liability of partners of the firm jointly and severally. But criminal liability only on the defaulting partner.*

# AUDITORS

## SEC 143



## *Sec 143(1) to make inquiries on Matters mentioned*

### *•Loans & Advances*

- As deposits?*
- Properly Secured?*
  - Terms?*
- Prejudicial to the interest of members?*

*Merely book entries made in the books of account are prejudicial?*

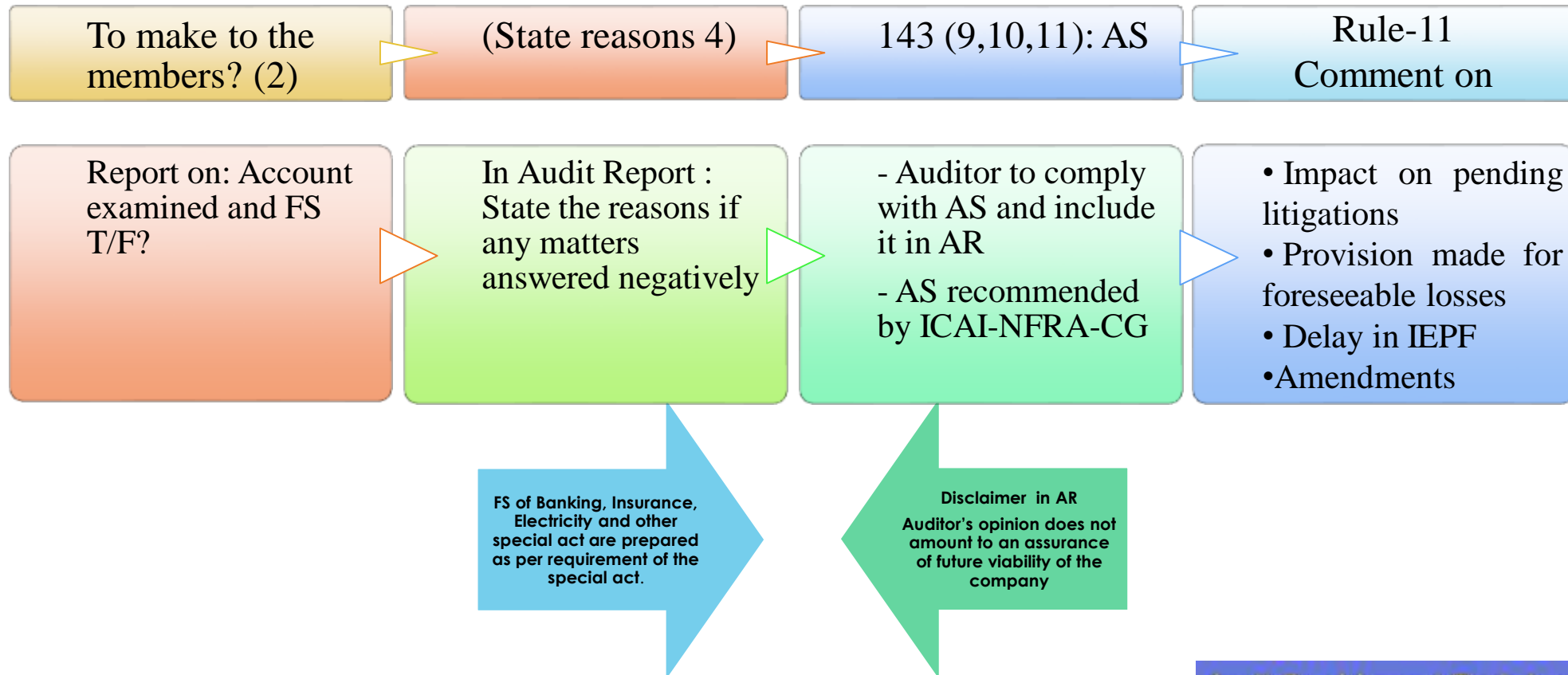
*Any shares allotted in cash?  
Cash received or not, if not then position shown in Books of Accounts proper?*

*Whether company has sold its investment at a price < at which they were purchased  
(Not investment Co/bank. Co)*

# *Audit report sec. 143(3)*

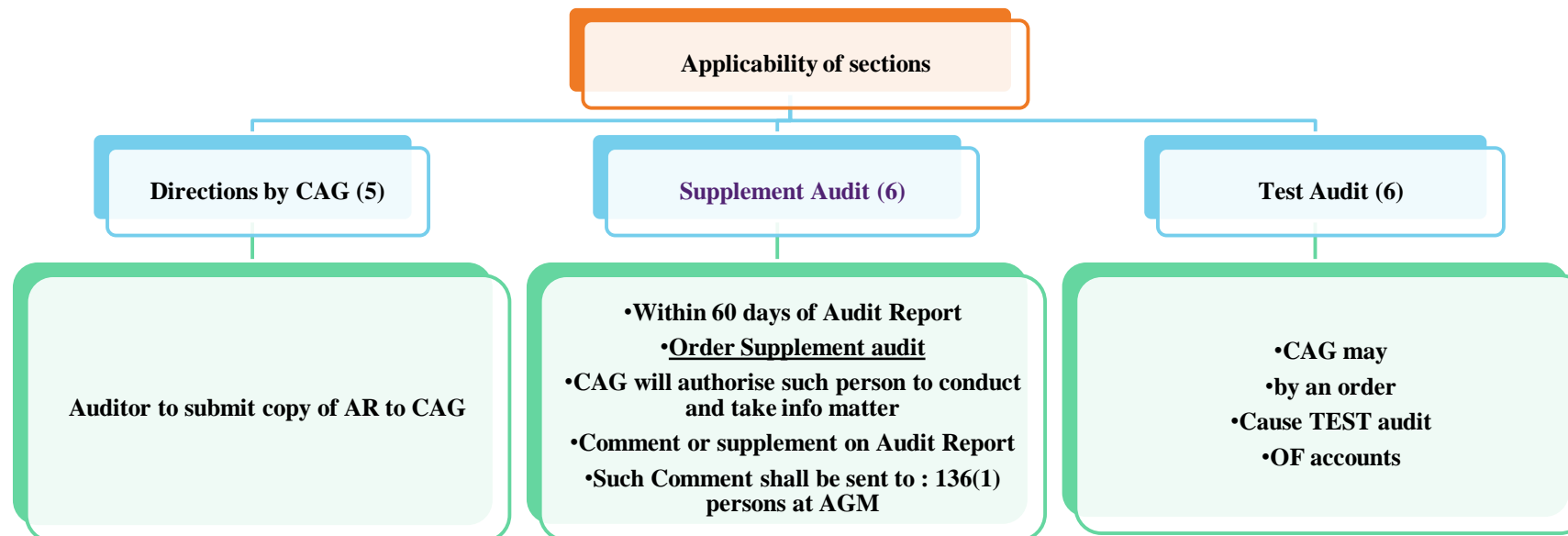
To report on <b>FACTS</b> basis	To report on <b>OPINION</b> basis
All info and explanation obtained?	Proper books of account maintained?
<b>FS</b> agree with Books of Account?	<b>FS</b> as per AS?
<b>Branch</b> Audit Report?	Observation and comment of auditor which have any adverse effect on company
Any director Disqualified u/s 164(2)?	Any <b>adverse remark</b> or qualification
Other matters prescribed	Adequate <b>IFC related to FS</b> and effective?

# Sec 143(3) Audit Report



# Applicability of sections

- *Government company*
- *Any other company – owned/controlled by CG/SG – directly/indirectly*



# Branch Audit

Who can be an Auditor? – Company's auditor **or any other such person** qualified in accordance with the laws of that country

Branch OUTSIDE India – Auditor can be such other person qualified in accordance with the laws of that country

Duties and Power of Branch Audit – Same as 143(1) to (4) Provision of Fraud shall also be applicable as per Sec 143(12)

**Report of Branch to be sent to Company Auditor.** Company Auditor may deal with the report in such manner as he considers necessary

# Sec 143(12)

**Who can report ? Auditor while performing his duties, has reasons to believe  
Fraud by whom ? – By its officers or employee**

• **Individual Amount of 1 crore or more**  
Rule 13 applies here – Sent Report to  
CG

**If amount less than 1 Crore**

Not required to report to CG but only  
Board/Audit Committee

(Rule 13) ; Report to the Board or AC  
within 2days for comments and reply  
**within 45 days**

Case A – HE gets reply then within  
15days forward it to CG(If Rule 13)

Case – B – No reply in 45days

Report to CG + (note containing  
report sent to AC/Board)

- Report to AC/Board
- Nature of fraud with description
- Approximate amount
- Parties involved

Company will disclose in  
its BR

- All the point and
- Remedial actions taken

# *Test audit by C & AG*

## ***SCOPE OF TEST AUDIT BY THE C & AG***

*In addition to the **supplementary audit of annual accounts** of a Government company or a deemed Government company, the Comptroller and Auditor General may **conduct test audits during the year**. This audit shall cover transactions entered into by the company with a view to examining their regularity, **propriety, probity, economy, efficiency and effectiveness** and report on cases of failure of compliance with laws, rules and regulations, waste, mismanagement, other irregularities and frauds and corruption. The scope of test audit may **extend to more than one financial year**.*

*The audit shall be conducted in accordance with the Regulations in the relevant chapters.*

# Remuneration

*The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed.*



## *Rule 11 of the companies (audit and auditors) rules, 2014, now reads as under:*

*(e)(i) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;*

## *Rule 11 of the Companies (Audit and Auditors) Rules, 2014, now reads as under:*

*(ii) Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and*

*Rule 11 of the Companies (Audit and Auditors) Rules, 2014, now reads as under:*

*(iii) Based on such audit procedures that the auditor has **considered reasonable** and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the **representations** under sub-clause (i) and (ii) contain **any material mis-statement**.*

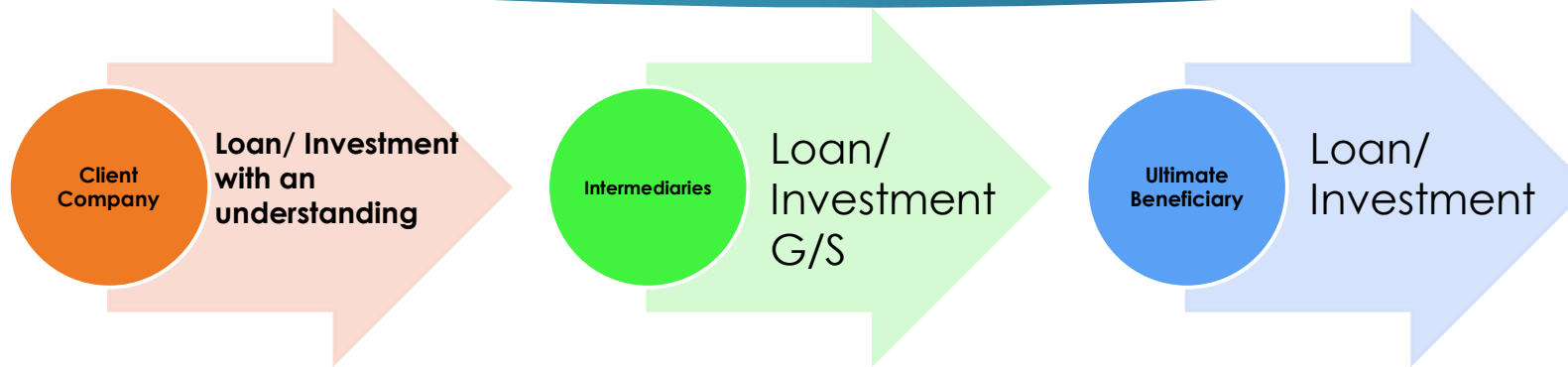
*Rule 11 of the Companies (Audit and Auditors) Rules, 2014, now reads as under:*

*(f) Whether the **dividend declared** or paid during the year by the company is in **compliance with section 123** of the Companies Act, 2013.*

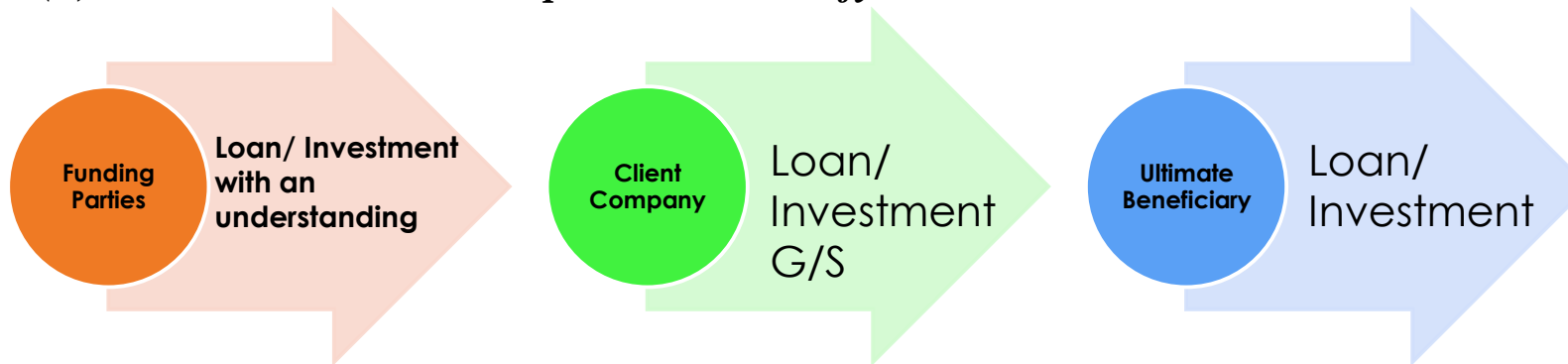
*Rule 11 of the Companies (Audit and Auditors) Rules, 2014, now reads as under:*

*(g) Whether the company has used such **accounting software** for maintaining its books of account which has a feature of **recording audit trail** (edit log) facility and the same has been operated **throughout the year for all transactions recorded in the software** and the audit trail feature has **not been tampered** with and the audit trail has been preserved by the company as per the statutory requirements for record retention.”*

# SEC 143(3)(e, i, j)



- (i) *Whether Mgt has given written representation*
- (ii) *Auditor also carries out procedure to verify the above*



# Question-1

*Mr. X, a Director of KP Private Ltd., is also a Director of another company viz., GP Private Ltd., which has not filed the financial statements and annual return for last three years 2013-14 to 2015-16. Mr. X is of the opinion that he is not disqualified u/s 164(2) of the Companies Act, 2013, and auditor should not mention disqualification remark in his audit report.*

## **ANSWER:**

*Disqualification of a Director Under Section 164(2) of the Companies Act, 2013: Section 143(3)(g) of the Companies Act, 2013 imposes a specific duty on the auditor to report whether any director is disqualified from being appointed as director under section 164(2) of the Companies Act, 2013. As per provisions of Section 164(2), if a director is already holding a directorship of a company which has not filed the financial statements or annual returns for any continuous period of three financial years shall not be eligible to be reappointed 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.*

*In this case, Mr X is a director of KP Private Ltd. as well as of GP Private Ltd., and, GP Private Ltd., has not filed the financial statements and annual return for last three years. Hence the provisions of section 164(2) are applicable to him and as such he is disqualified from directorship of both the companies. Therefore, the auditor shall report about the disqualification under section 143(3)(g) of the Companies Act, 2013.*

# Question-2

*Mr. Aditya, a practising chartered accountant is appointed as a “Tax Consultant” of ABC Ltd., in which his father Mr. Singhvi is the Managing Director.*

## **ANSWER:**

*Appointment of a Practising CA as ‘Tax Consultant’: A chartered accountant appointed as an auditor of a company, **should ensure the independence in respect of his appointment as an auditor, else it would amount to "misconduct" under the Chartered Accountants Act, 1949 read with Guidance Note on Independence of Auditors.***

*In this case, Mr. Aditya is a "Tax Consultant" and not a "Statutory Auditor" or "Tax Auditor" of ABC Ltd., hence he is not subject to the above requirements.*



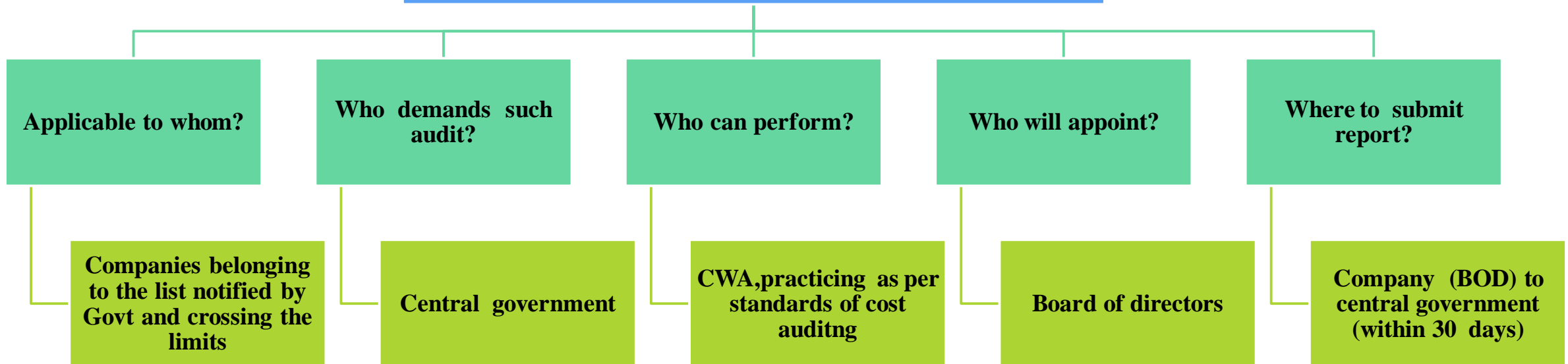
# SEC 148

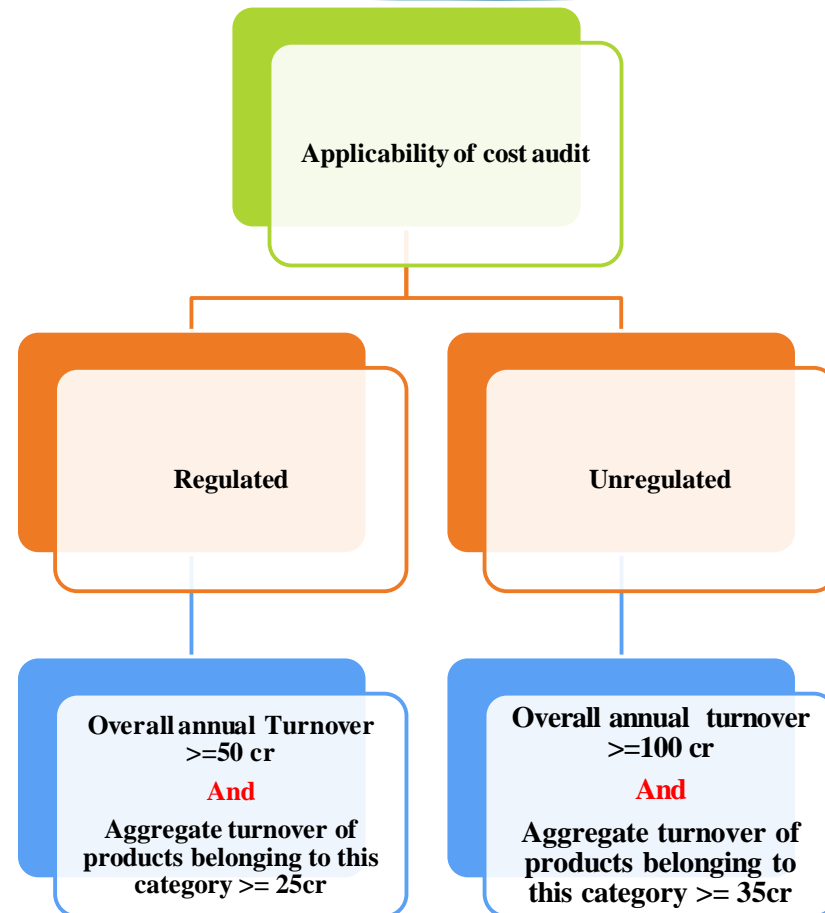
# *Maintenance of cost records*

*The **Cost records** shall be maintained in such manner so as to enable the company to exercise, as far as possible, **control over the various operations** and costs to achieve optimum economies in utilization of resources and these records shall also provide necessary data which is required to be furnished under these rules.*

# Cost Audit

Central government to specify audit of items of **cost in respect of certain companies**





## *Exemption from cost audit on additional ground*

*A company which is engaged in generation of electricity for Captive consumption through captive generating plant. Cost audit also exempted if revenue from exports in foreign exchange exceeds 75% of its total revenue or it is operating from a special economic zone.*

# *Various Forms*

## Cra-1:-

**Maintainence of cost records by every applicable companies including its branches**

## Cra-2 :-

**Intimation of appointment of cost auditor within 30 days of appointment or 180 days from the commencement of financial year- whichever is earlier.**

## Cra-3:-

**Format of cost audit report**

## Cra -4:-

**Co. Shall file copy of cost audit report with central government within 30 days with explanation on every reservation qualification by Company auditor.**

# *Removal of cost auditor*

Board resolution and after giving opportunity of being heard and recording the reason of removal in writing. Then intimate appointment of another cost auditor to cg in cra-2.

**Casual vacancy**:-to be filled by Board within prescribed time limit from the date of vacancy.

**Fraud reporting to be done by cost auditor.**

The cost statements, including other statements to be annexed to the cost audit report, shall be approved by bod before they are signed on behalf of bod by any of the director authorised by bod for submission to the cost audit report.

## *Exemption from cost audit on additional ground*

*The cost auditor shall forward his report to the bod of the company within a **period of 180 days from the closure of the financial** year to which the report relates and the **BOD** shall consider and examine such report particularly any reservation or qualification contained therein.*



# *Remuneration*

*The Remuneration recommended by Audit Committee shall be considered by the BOD and ratified subsequently by shareholders*

*In Cos where A.C. is not there the remuneration fixed by BOD will be ratified subsequently by the shareholders*

# *Disqualification Liabilities*

*All disqualification applicable to  
statutory auditor also applicable to  
Cost auditor liabilities of Cost  
Auditor similar to Sec 147*

# AUDIT BASIC CONCEPTS

# Definition of audit by icai

Audit is “systematic”, “Independent” examination refer sec 141,139,144, guidance note

of financial Records (Example : Journal, Ledger) etc.

Of statutory records (Ex- Minute Books, Various Statutory Registers) , of Assets and Liabilities

Whether or Not Profit Oriented

With the objective of expressing opinion (Reasonable Assurance 70% - 90% very high level of assurance) Assurance cannot be absolute due to inherent limitations of audit

Whether Financial Statement Shows True and Fair View

# *Meaning of true and fair view*

*The Expression “ True and Fair view appears in Companies Act 2013 in:- But not defined in Companies Act*

*Sec 129: Financial Statement Should provide True and Fair View*

*Sec 134: Board of Directors are responsible for T & F views of FS*

*Sec 143: Auditor should express opinion whether FS gives T & F view*

*Note: Auditor is Like a watch dog but not a bloodhound*

# *Meaning of true and fair view*

## ***COMPLIANCE WITH***

*AS (Ind AS)*

*No understatement/  
overstatement of assets/  
liabilities /income/exp.*

*Schedule iii*

*Proper Disclosure*

*No unrecorded  
liabilities, Assets,  
Expenses, Income*

# *Audit Is Systematic Because of Steps in auditing*

1. *Knowledge of Business of Industry to which the clients belong*

*KOBO of the client*

*Study/ evaluate the internal control company and accounting system*

*Between 1 & 2 auditor carries out walk through test.- Examination in depth of few transaction from beginning to the end.*

*Risk Assessment of the Procedures*

2. *Auditor carries out procedures to obtain sufficient appropriate audit evidence. He records evidences obtained in his working papers. He also takes help of others while conducting Audit. Eg: if a debtor's balance is to be checked than only internal records cannot be relied. Auditors also ask for external Confirmation*

3. *Audit Report is prepared- Sec 143(3) + Annexures (CARO +IFC-FR)*

# Reasonable Assurance

Amit Bachhawat

*High level of assurance but not absolute assurance*

*To obtain reasonable assurance auditor needs to :*

*Obtain,  
SAAE to  
reduce audit  
risk to an*

*Exercise professional judgment*

*Maintain professional skepticism*

*Acceptable  
Low level*

*Identify & assess  
Romm*

*Whether due to  
fraud or error*

*Whether MM exist  
or not*

*Obtain SAAE*

*ROOM is Risk of Material Misstatement  
SAAE is Sufficient appropriate audit Evidence  
MM is Material Misstatement  
AE is Audit Evidence*

*Form an opinion  
on FS*

*Based on  
conclusion drawn  
from AE*





# Inherent Limitation of Audit

*Inherent limitations of audit- Pressure to submit Audited financial statement on a timely basis affects the efficiency of the audit.*

*The nature of financial reporting  
Ex- involvement of accounting estimate.  
Lot of complex transactions ex: in construction industry*

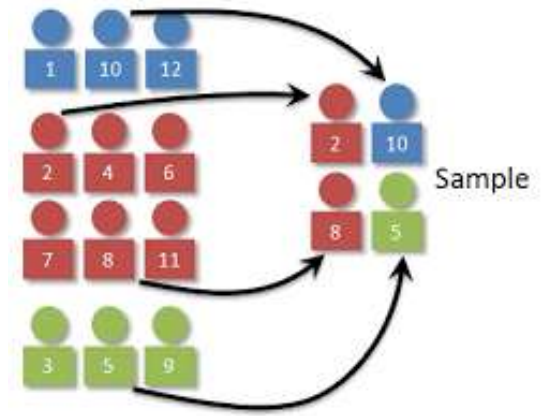
*Audit related  
Ex- fraudulent evidence*

*Fraud by **senior management***

*Audit evidence is **persuasive** and not conclusive*

*Test nature of Audit  
Auditing is based **on sampling.***

*Time Constraint Ex:- Listed Co must submit audited financial statement with stock exchange within 60days from of 1 year*



- Other Points:**
- Risk related to related party Transactions
  - **Incomplete Information** by the management

# *How is audit evidence obtained through further audit procedure*

*Audit evidence is obtained through performance of*

## *A. Substantive Procedures*

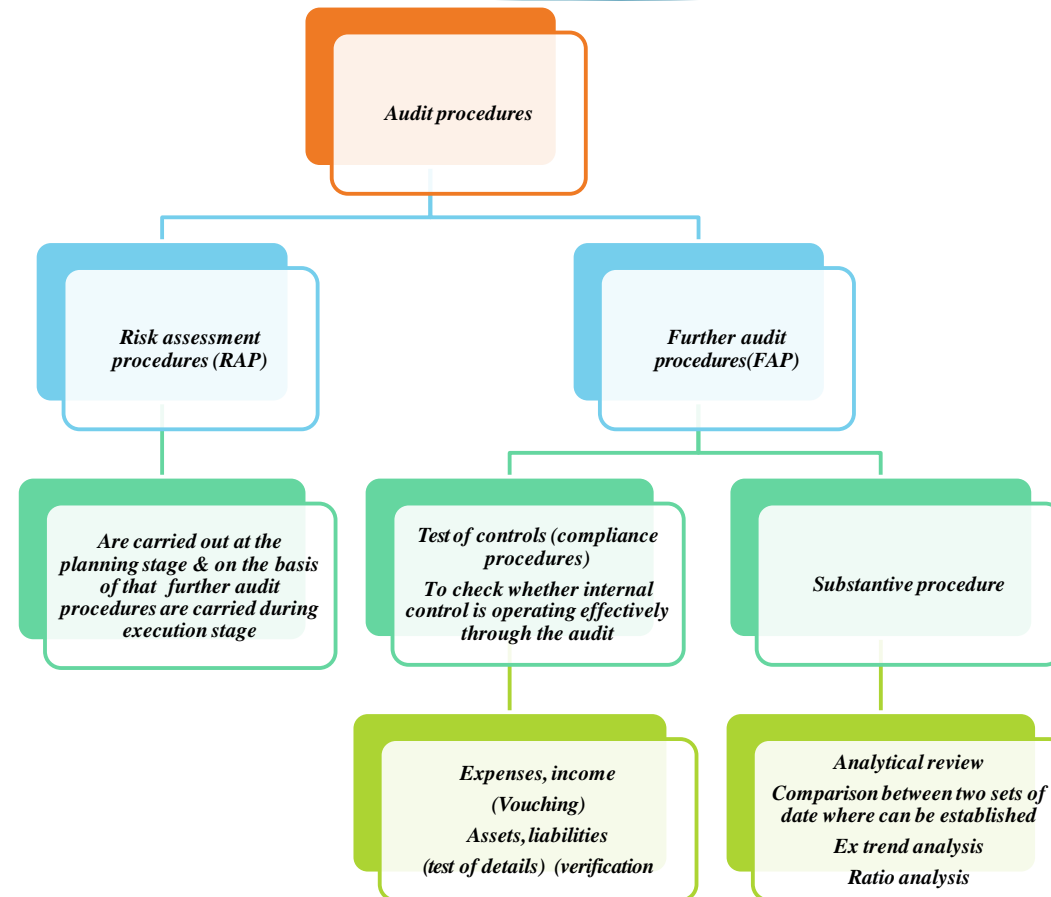
- 1. **Vouching** – Checks details of transactions. It is related to Expenses and Income.*
- 2. **Verification** – Related to assets and Liabilities*
- 3. **Analytical review** – Analysis of significant ratios, trends, investigation of fluctuations.*

## *B. Compliance Procedures (Test of Controls)*

*It checks whether internal control is **operating effectively or not.***

# *Scope of Statutory Audit in Determined by Companies Act & ICAI*

# Audit Procedure



# Independence

(i) Define – It implies that the judgment of a **person is not subordinate** to the wishes or direction of another person or own interest

(ii) In substance → It is condition of **mind & personal character** → And should not be confused with the superficial & visible standard of independence → Which are sometimes imposed by law

(iii) Independence reflected under :

- (1) Co Act – 2013- Some specific provisions, Sec 141, 144, 136
- (2) SA-220- Independence of engagement team, firm & network firm.  
SA-260- Auditor Gives declaration of independence to YCWG
- (3) CA-Act- 1949 – Person having substantial interest – not to accept audit.
- (4) Guidance Note on Independence of auditor by ICAI

# Independence

*Mr X, a CA wants to be appointed as an auditor, His sister in law is a director.*

*(i) Sister in Law in not covered in the definition of Relatives u/s 2(72).*

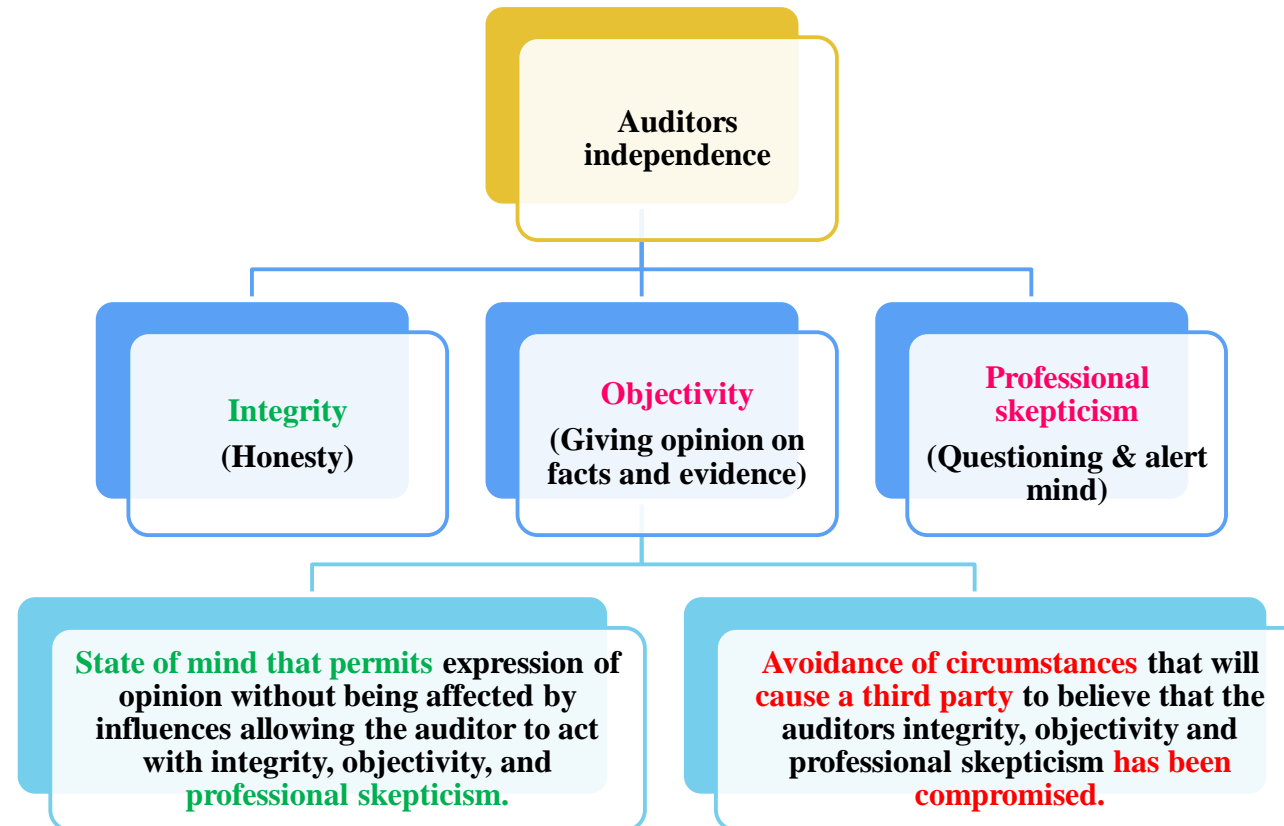
*(ii) Hence, CA is not disqualified from accepting audit of concerned enterprise.*

*(iii) However as per Guidance Note on Independence of Auditor independence is of mind as well as Appearance.*

*(iv) Independence in appearance- CA should avoid circumstances*

*(v) Conclusion- CA is advised to refrain from accepting such audit.*

# Auditor's Independence



# *What do you mean by internal control?*

*Internal control refers to plans, policies and procedures, framed by management to achieve its objectives and prevent fraud and error. Internal control is **designed, implemented & maintained by management** and **evaluated by auditor**. Internal control is **found in each and every functional area**. (Example – in purchase, sales, finance etc.) Many **corporate scandals** have taken place due to weakness in design or operation of internal control system.*



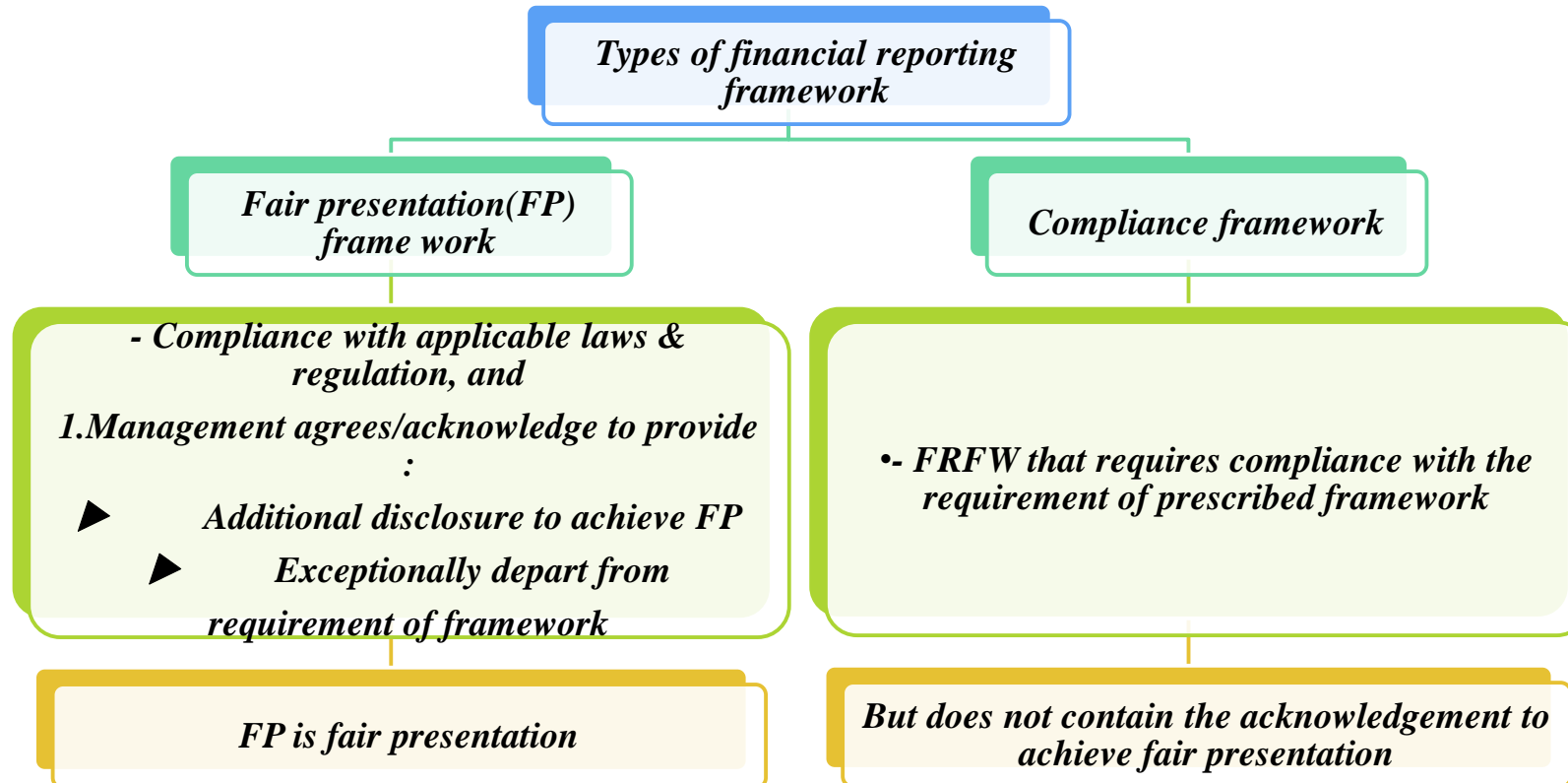
# *Internal control as per SA 315*

*The process designed, implemented and maintained by those charged with governance, management and other personnel to **provide reasonable assurance about** the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. **Refer the Flow charts from the book.***

# *Framework - means*

- *Format of BS, PL, CFS, Statement of change in equity*
- *Content*
- *Disclosures and*
- *Accounting policies*

# Types of financial reporting framework



# *Meaning of Materiality*

*Materiality is a relative term.*

*Example – For a big organization misstatement of certain figure may not be material. On the other side for small organizations, those misstatements can be material. Materiality is any information which influence decision of investors of financial statements.*

## *Materiality is the context of an audit*

Although financial reporting frameworks may discuss materiality in different terms, they generally explain that :

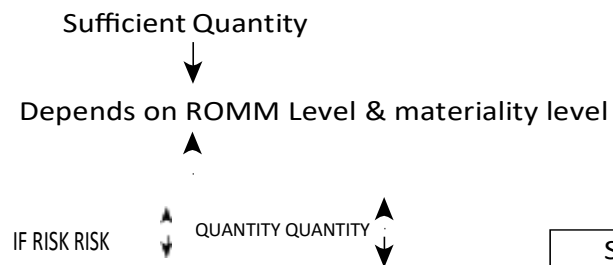
- a. Misstatements, including omissions, are considered to be material **if they, individually** or **in the aggregate**, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

# Methods of Obtaining Evidence

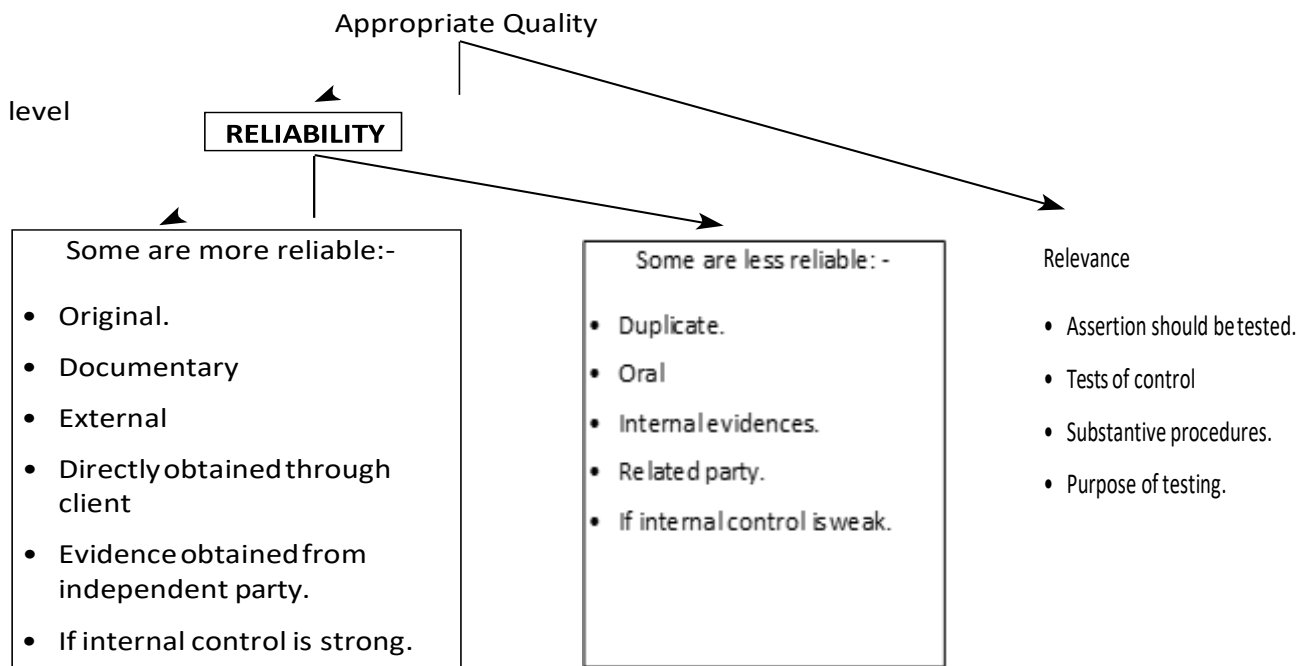
<i>Sl. No.</i>	<i>Procedures</i>	<i>Type of Evidence</i>	<i>Few Examples</i>
<i>I</i>	<i>Inquiry</i>	<i>Oral/Documentary</i>	<i>Management, Employee, Director etc.</i>
<i>II</i>	<i>Inspection</i>	<i>Documentary/Visual</i>	<i>Inspection of Documents &amp; Assets</i>
<i>III</i>	<i>Observation</i>	<i>Visual</i>	<i>Observe Internal Controls. Observe stock count</i>
<i>IV</i>	<i>Confirmation</i>	<i>Documentary</i>	<i>Debtors, Creditors, Bank etc</i>
<i>V</i>	<i>Re-Calculation</i>	<i>Arithmetical Evidence</i>	<i>Depreciation, Interest etc.</i>
<i>VI</i>	<i>Re-Performance</i>	<i>Visual</i>	<i>Sample Test Internal Controls Sample Test Stock Count</i>
<i>VII</i>	<i>Analytical Procedures</i>	<i>Arithmetical Evidence</i>	<i>Ratio Analysis, Graphical Analysis</i>

# Sufficient appropriate audit evidence

- Auditor should obtain sufficient appropriate audit evidence.



- Also depends on the size and characteristics of population less evidence will be required in case of smaller more homogeneous population

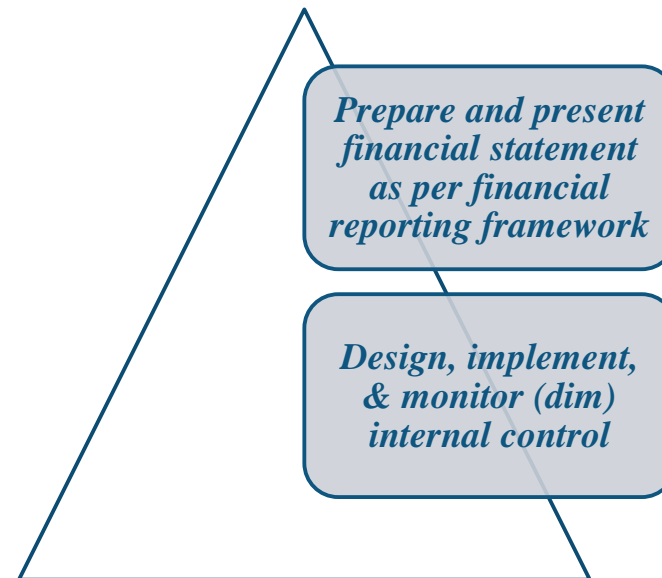


# Audit Premises

## Audit premises (assumptions)

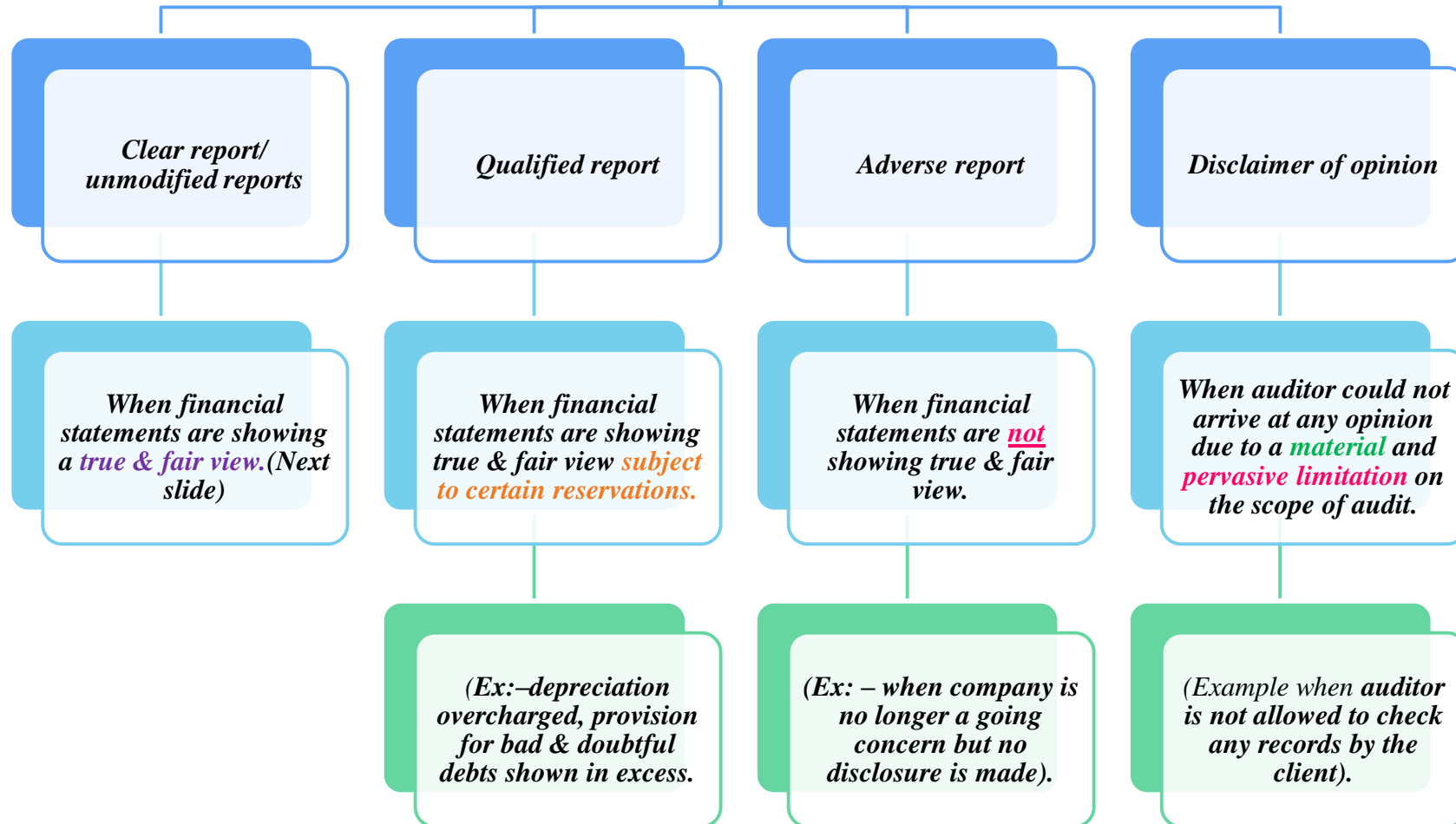
*Preconditions for accepting the audit work*

*Management is responsible to*





*Types of reports*



# *Management is responsible to*

*Provide all  
necessary  
information*

*Explanations  
necessary for audit*

*Unrestricted access  
within the entity*



*An auditor of the company understand the following*

*Book keeping, financial reporting system of the company*

*Knowledge of the business of the clients of the industry.*

*Laws applicable to the company.*

# *TCWG, Management*

*1. Those charged with Governance TCWG responsible for Strategic direction & not involved in Day to day management*

*Example: Audit Committee, Independent Directors*

*2. Management- The person with executive responsibility for the conduct of the entity's operations*

# Assertions in Financial statement

## *Assertions are representation made by Management in financial statements*

*(I) Assertions used by the auditor using Substantive Procedure to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms:*

- a. *Assertions about classes of transactions and events for the period under audit :*
  - i. *Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.*
  - ii. *Completeness—all transactions and events that should have been recorded.*
  - iii. *Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.*
  - iv. *Cut-off—transactions and events have been recorded in the correct accounting period.*
  - v. *Classification—transactions and events have been recorded in the proper accounts.*

# Assertions about balances

(II) *Assertions about account balances at the period end:*

- i. *Existence*—assets, liabilities, and equity interests *exist*.
- ii. *Rights and obligations*—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
- iii. *Completeness*—all assets, liabilities and equity interests that should have been recorded.
- iv. *Valuation and allocation*—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any *resulting valuation* or allocation adjustments are *appropriately recorded*.

# Assertions in Disclosures

## *c. Assertions about presentation and disclosure :*

- i. Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.*
- ii. Completeness—all disclosures that should have been included in the financial statements have been included.*
- iii. Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.*
- iv. Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.*

# Professional skepticism- Meaning & Use

Attitudes that includes a **questioning** mind being alert to conditions which ,may indicate possible misstatement due to fraud or error and a **critical assessment** of audit evidence

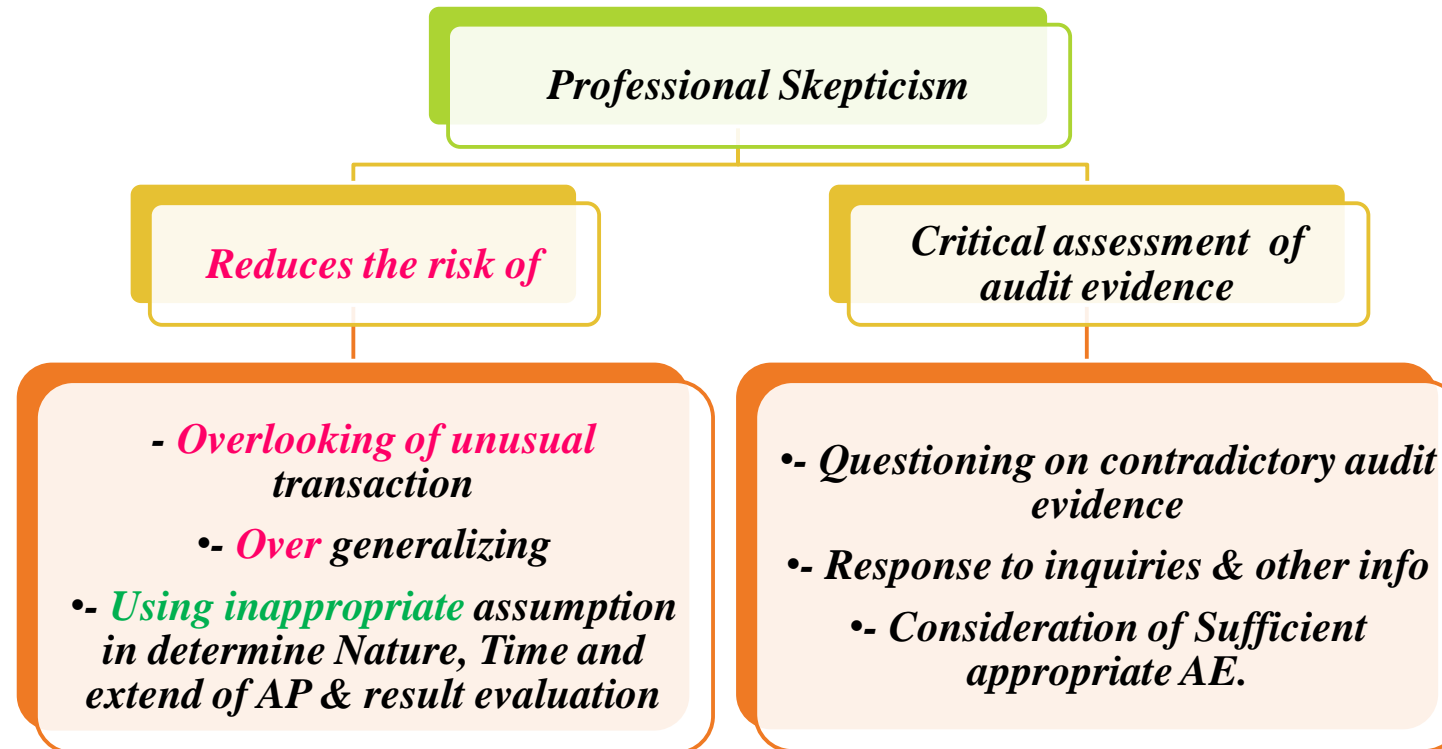
- 1. Professional skepticism includes being alert to, for example
  - a.A) Contradictory audit evidence
  - b.B) Reliability of documents
  - c.C) Condition indicating possible frauds
  - d.D) Circumstance requiring audit procedures in attentions to those required by SA's

## 2. Maintaining Professional Skepticism throughout the audit in necessary

If there is overwriting on vouchers, signatures of authorized officer not matching some bills in the bill book are missing then auditor must be alert and cross examine



# Use of Professional Skepticism



# *Professional judgement- Meaning and areas where it is used*

- \* *The **application of** relevant*
  - Training*
  - Knowledge*
  - &
  - *Experience*

- Within the context provided by*
- *Auditing*
  - Accounting &*
  - Ethical Standard*

- That are **appropriate in the circumstances** of audit engagement*

- In making **informed decisions** about the cause of action.*

# *Few areas requiring professional judgement*

- 1. Materiality & audit risk*
- 2. Nature, Timing and Extent of Audit procedure*
- 3. Evaluating sufficiency & appropriateness of AP*
- 4. Evaluating management judgment in applying applicable Financial reporting framework*
- 5. Drawing conclusions based on audit evidence*
- 6. Sampling*

# Audit risk

The Risk that the auditor **expresses an Inappropriate audit opinion** when the financial statements are materially misstated.  
Audit risk is a function of the Risks of material misstatement and detection risk.

Ex:-He gives a clear audit report when financial statement is materially misstated

Audit Risk **does not** include the Risk of giving modified report Instead of Unmodified Report.



# Types of audit risk

## INHERENT RISK

*Are chances that certain classes of transactions/balances/disclosures will be materially misstated In spite of internal controls due to nature of business/item.*

*Ex: In some items like food grains, Inherent risk is high, nature of management, Types of Industry Also determine the Level of Inherent Risk*

## CONTROL RISK

*is the risk that material misstatement Cannot be **prevented/detected/corrected** on a timely basis by Client's internal control system*

## DETECTION RISK

*is the risk that material misstatement Cannot be **detected by auditors substantive procedures.***

# *Risk Assessment Procedure*

***RAP:- Are Carried at the planning stage by the auditor***

*to assess the risk of Material Misstatement due to fraud/errors at Overall financial statement level/in individual items*

*Ex:- Related Part Transaction, Book Entries, Year end transactions increases the chances of risk of material misstatement at individual financial statement level*

*Reasons for material misstatement at overall financial statement.. Nature of Business, Nature of management*

***3 steps RAP***

***I- inquiry employer, management TCWG.***

***A-analytical (compare)***

***I-inspect***

***Note: RAP Does not provide any evidence RAP Gives areas of Risk of Material Misstatement.***

***While carrying out RAP an auditor studies***

- 1) Nature of Industry***
- 2) Type of activities***
- 3) Location of Activities***
- 4) Walk through of Internal Control***

# *Relationship Between extent of Audit Procedure and ROMM*

*Extent of SAP*  $\propto$  *ROMM*

*Internal Control*

*IC is strong then ROMM is low*

*ROMM*  $\propto$  *1/strength of IC*

*ROMM*  $\propto$  *SAP*  $\propto$  *1/strength of IC*

*(Extent of AP)*

*Extent of AP*  $\propto$  *1/strength of IC*

	<b><i>STATUTORY AUDIT</i></b>	<b><i>VOLUNTARY AUDIT</i></b>
<b><i>MEANING</i></b>	<i>Audit under a statute</i>	<i>Audit as per client's wishes.</i>
<b><i>NATURE OF AUDIT</i></b>	<i>Compulsory</i>	<i>Voluntary</i>
<b><i>ENTITIES</i></b>	<ol style="list-style-type: none"> <li>1) <i>Company</i></li> <li>2) <i>Co-operative society</i></li> <li>3) <i>LLP in some Cases</i></li> </ol>	<ol style="list-style-type: none"> <li>1) <i>Proprietorship</i></li> <li>2) <i>Partnership</i></li> <li>3) <i>HUF</i></li> </ol>
<b><i>SCOPE OF AUDIT IS LAID DOWN BY</i></b>	<i>Statute</i>	<i>Client</i>

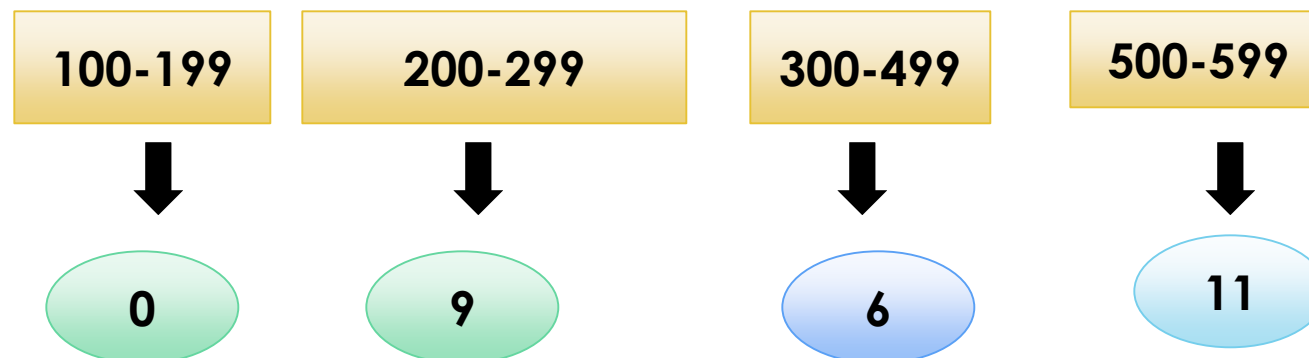


# *Standards on Auditing is Mandatory*

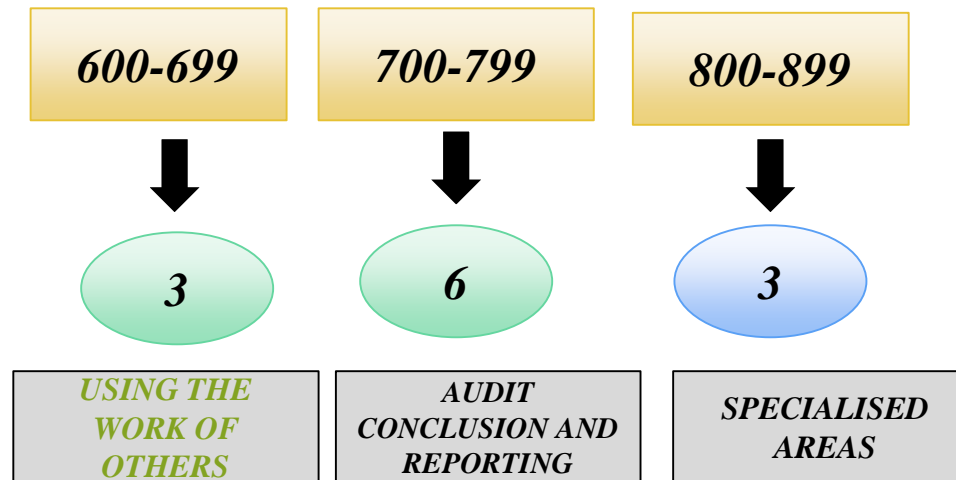
## INTRODUCTION

**46** STANDARDS BY **AASB** (AUDIT AND ASSURANCE STANDARD BOARD) OF ICAI

38 out of 46 are SA ,STANDARD ON AUDITING



# Standards on Auditing



# *Principles of professional ethics*

*The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles;*

- a. Integrity;*
- b. Objectivity;*
- c. Professional competence and due care;*
- d. Confidentiality; and*
- e. Professional behaviour.*



**CARO-2020**

**1. Short title, application and commencement. –**

- (1) This Order may be called the Companies (Auditor's Report) Order, 2020.
  - (2) It shall apply to every company **including a foreign company as** defined in clause (42) of section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except—
    - i. a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
    - ii. an **insurance company** as defined under the Insurance Act, 1938 (4 of 1938);
    - iii. a company licensed to operate under **section 8** of the Companies Act;
    - iv. a **One Person Company** as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
    - v. **a private limited company, not being a subsidiary or holding company of a public company,** having a paid up capital and reserves and surplus **not more than one crore rupees** as on the balance sheet date and which does not have **total borrowings exceeding one crore rupees from any bank or** financial institution at any point of time during the financial year and which does not have a **total revenue** as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) **exceeding ten crore rupees during** the financial year as per the financial statements.
  - (3) It shall come into force on the date of its publication in the Official Gazette.
- 2. Auditor's report to contain matters specified in paragraphs 3 and 4. -** Every report made by the auditor under section 143 of the Companies Act on the accounts of every company audited by him, to which this Order applies, **for the financial years commencing on or after the 1st April, 2021, shall** in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable: Provided this Order **shall not apply to** the auditor's report on **consolidated financial statements except clause (xxi) of paragraph 3.**

Amit Bachhawat

## ***Companies(Auditors Report) Order 2020 By virtue of Sec 143(II)***

***This order is issued by CG in consultation with NFRA on the auditors of the Co. which they have to follow while doing their audit and preparing auditor report.***

Amit Bachhawat Training Forum 

## COMPANIES NOT COVERED UNDER CARO

The Order provides that it shall not apply to:

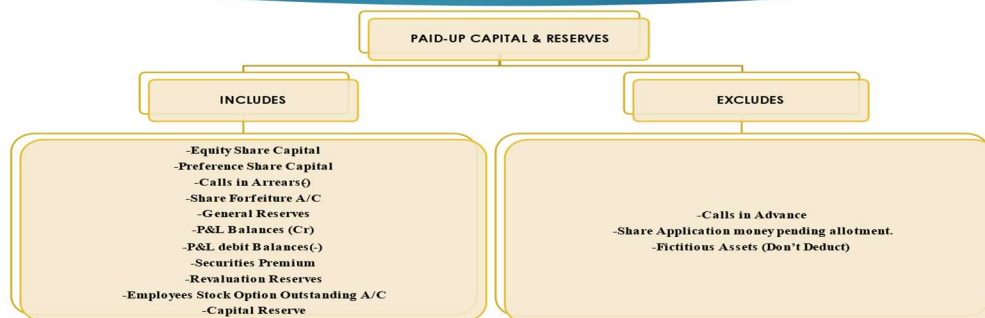
- (i) a **banking company** as defined in clause (c) of section 5 of the Banking Regulation Act, 1949; **(NBFC Not Exempted)**
- (ii) an **insurance company** as defined under the Insurance Act, 1938;
- (iii) a company licensed to operate under section 8 of the Act;
- (iv) a **one person company** as defined under clause (62) of section 2 of the Act **and a small company** as defined under clause (85) of section 2 of the Act; and
- (v) a **private limited company**, not being a subsidiary or holding company of a public company, having a **paid-up capital and reserves and surplus** not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Schedule III to the Act, (including revenue from discontinuing operations) exceeding ten crores rupees during the financial year as per the financial statements.

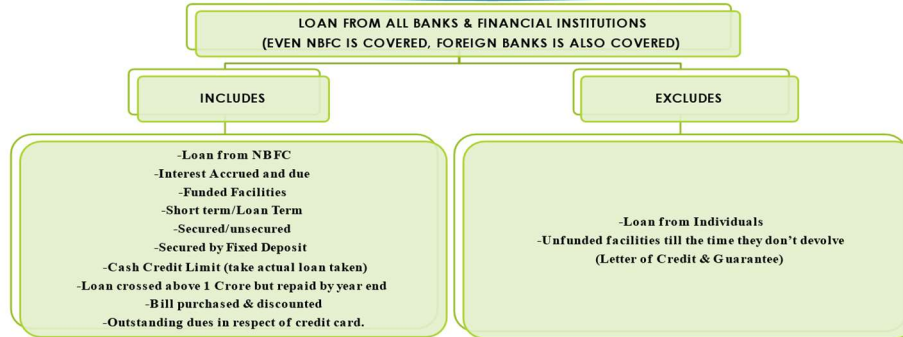
- Pvt Co should **not be** a S/H of a Public Co.
- PUSC + R&S Max 1Cr.
- Total Borrowing from all Banks & FIS Max 1Cr.
- Total Revenue Max 10 Cr.

**The applicability of the Order would be based on the status of the company as at the balance sheet date. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.**

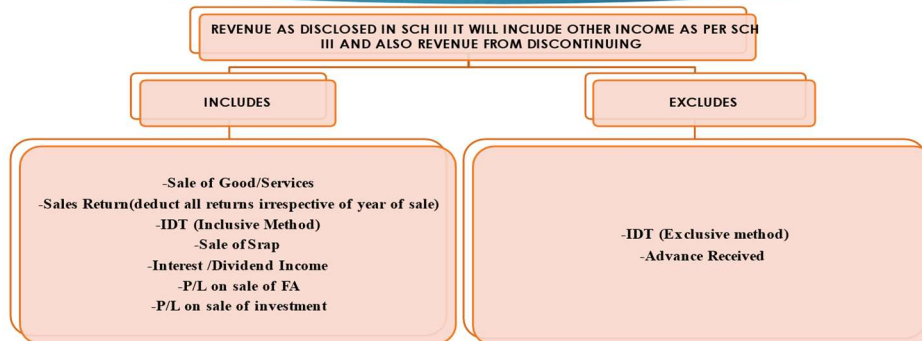
**Branch Audit Report are Not exempted from CARO.**

**But Audit Report of Consolidated financial statement are exempted from CARO**





*Note : Convertible investments should be considered in paid up share capital only once the actual share are issued by the Co.*



*Note : It may be noted that while reporting on matters Specified in the Order, the auditor should consider materiality.*

**QUESTION**

*Private Limited company has Sale of petrol Rs. 4 Crore, Sale of services Rs. 2 Crore, Sales return Rs. 1.5 Crores (Including 0.5 Crore from previous year) Excise Duty included in sale of petrol Rs. 75 Lakhs, interest on Investment 20 Lakhs, Profit on sale on Investment 30 Lakhs, Scrap Sales Rs. 40 Lakhs, GST on sales included above 20 lakhs, is CARO applicable?*

**ANSWER**

*Computation of turnover sale (Petrol) 4 crore + Sale (Service) 2 Crore – Sales Return(1.5 Crore) – Excise Duty 75 Lakhs – GST on Sales 20 Lakhs + Interest on Investments 0.2 + Profit on sale of Investment 0.3 + Scrap sales 0.4 = 4.45 Crores.*

- If excise and GST are accounted separately then will not be included. We have assumed that accounting will be on separate basis and hence they are excluded.*
- In problem, it is said that excise and gst amount are included in given sales they doesn't comment on method of accounting, so we have to take popular assumption and solve the case.*

*As turnover is below 5 Crores CARO not applicable.*

**QUESTION**

*A Pvt is small company but it does not fulfill all exemption conditions of private company?*



**ANSWER**

*Yes, such company will get exemption. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it doesn't fulfil conditions of exemption for private company.*

**QUESTION**

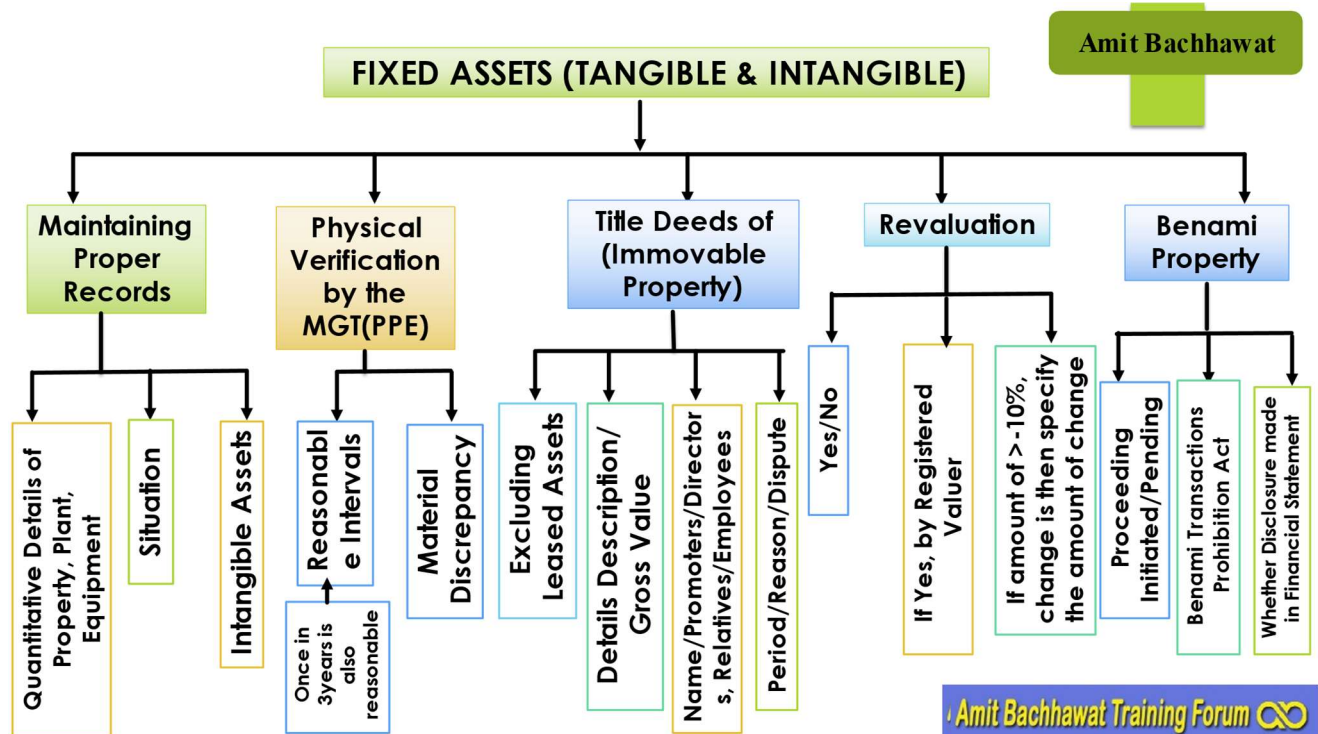
*What is difference between exemption of private company and exemption of small company?*

**ANSWER**

*In small company, there should not be holding or subsidiary but in private company holding or subsidiary should not be public company. In small company, we see only paid up capital but in private company we see both paid up capital and reserves. In small company, we see TRUNOVER of last year, in private company we see Total Revenue during the year*

**3. Matters to be included in auditor's report.** - The auditor's report on the accounts of a company to which this Order applies shall include a statement on the following matters, namely:-

(i) (a) (A) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of **Property, Plant and Equipment**;



The records should contain the abovementioned particulars in respect of all items of PPE, self-financed or right to use assets (under Ind AS 116) acquired through finance lease.

- These records should **also contain** particulars in respect of those items of PPE that **have been fully depreciated** or **have been retired** from active use and **held for disposal**. The records should also contain necessary particulars in respect of items of PPE that have been fully impaired during the period covered by the audit report.
- What constitutes proper records is a **matter of professional judgement made** by the auditor after considering the facts and circumstances of each case.

**Audit Procedures and Reporting**

The auditor **may accept** PPE **register in electronic** form **if** the following two conditions are satisfied:

- (i) The controls and security measures in the company are such that once finalised, the PPE register cannot be altered without proper authorisation and **audit trail**.
- (ii) The PPE register is in such a form that it can be retrieved in a **legible form**.

- In case the auditor decides to rely on electronically maintained PPE register, he should maintain **adequate documentation** evidencing the **evaluation of controls that seek** to ensure the completeness, accuracy and security of the PPE register.
- Where assets like furniture, etc. **are located in the residential premises** of members of the staff, the PPE register should indicate the **name & designation of the person** who has **custody** of the asset for the time being.
- While, generally, the quantity, value and situation have to be **recorded item-wise, assets of small individual value**, e.g., chairs, tables, etc. may be **conveniently grouped for purposes of entry in the PPE**

**register.** Similarly, for assets having same useful life, it may not be necessary to indicate the accumulated depreciation for each item; instead, depreciation for the group as a whole may be shown

- Plant and machinery may be sub-divided into immovable and movable.
- Vehicles can be identified by reference to the registration books.
- It may be useful if initial identification of assets is done by persons who are familiar with them, e.g., the maintenance staff. At the point of identification, **a code number may be affixed on the asset which would** give sufficient details for future identification.

**(a) (B) whether the company is maintaining proper records showing full particulars of intangible assets;**

#### Relevant Provisions

While reporting under this clause, the auditor should consider the principles, accounting aspects and disclosure requirements of **intangible** assets as laid down in AS 26 and Ind AS 38.

The order **does not define as to what constitutes 'proper records.**

#### Special Considerations

(e) The auditor may have to consider the applicable **documentation requirements of intangible assets** as laid down in, *inter alia*, **Copyright Act, 1957, Patents Act, 1970**, Trade Marks Act, 1999, Designs Act, 2000, Information Technology Act, 2000 and so on.

Illustrative list of information, documents/records showing particulars of intangible assets. Documents, registers, records may be in the form of hard copies / printed materials or available in digital medium. The same may be in the form of:

- Narratives;
- Standard Operating Procedure (SOP) – e.g., with respect to capitalisation process of research and development expenses in specific industries such as pharmaceuticals, automobiles, information technology, etc.;
- Specific transaction reports or ledgers in enterprise resource planning platforms;
- Any other structured form of management information system.

#### Approach for Reporting under this Clause

(i) Reasonable and sufficient description of the asset to facilitate identification should be available for inspection. For example, patents, trademarks and designs **may be identifiable by purchase agreements / letters granting patent and by registration references.**

Similarly, computer software, which is considered as intangible asset may be identified by its title version and **serial number**, e.g., 'Microsoft Office 2010' and licence number.

**(b) Physical Verification: whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;**

#### Relevant Provisions

The auditor may prefer to observe the verification, particularly when verification of all assets can be made by the management on a single day or within a relatively short period of time. If, however, verification is a continuous process or if the auditor is not present when verification is

made, then **he should examine the instructions issued to the** staff (which should, therefore, be in writing) **by the** management and should examine **the working papers of the staff to substantiate the fact that verification** was done and to determine the name and competence of the person who did the verification.

#### Audit Procedures and Reporting

The auditor should examine whether **the method** of verification **was reasonable** in the circumstances relating to each asset.

It may not be necessary to verify assets like building by measurement except where there is evidence of

alteration/ demolition. At the same time, in view of the possibility of encroachment, adverse possession, etc., it may be necessary that a survey is made periodically of open land.

It is advisable that the assets are marked with **“distinctive numbers”** especially **where assets are movable** in nature and where verification of all assets is not being conducted **at the same time**.

This clause requires the auditor to report whether the management has verified the property, plant and equipment at reasonable intervals. What constitutes “reasonable intervals” depends upon the circumstances of each case. The factors to be taken into consideration in this regard include the number of assets, **the nature of assets, the relative value of assets, difficulty in verification, situation and** geographical spread of the location of the assets, etc. The management may decide about the periodicity of physical verification of property, plant and equipment considering the above factors. While an annual verification may be reasonable, it may be impracticable to carry out the same in some cases. Even in such cases, the verification programme should be such that all assets are verified at least once in every three years.

- Where verification of all **assets is not** made during the year, it will be necessary for the auditor to report that fact, but if **he is satisfied regarding the frequency of verification he should also make a suitable** comment to that effect.
- The auditor has, therefore, to use his **professional judgement** to determine whether a discrepancy is material or not. In making this judgement, the auditor should consider not only the cost of the asset and its relationship to the total cost of all assets but also the nature of the asset, its situation and other relevant factors.

(c) **Title Deed: whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-**

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held – indicate or range, where appropriate	Reason for not being held in name of company*
-	--	-	-	-	*also indicate if in Dispute

#### Relevant Provisions

The auditor **need not** report in respect of other immovable properties **not classified as property, plant** and equipment, as they **are outside the scope covered under this clause**.

#### Audit Procedures and Reporting

The management is responsible for legal determination of the validity of title deeds. The auditor may refer SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” to the extent considered relevant and obtain sufficient and appropriate audit evidence. Further any discrepancy, **including any pending/disputed court cases** relating to **ownership**, needs detailed discussion with the management and should be properly documented. In this

context, the auditor may also consider **communicating with the legal counsel**, whether in-house or external, in accordance with the principles enunciated in SA 501, “Audit Evidence – Specific Considerations for Selected Items”. The auditor may also consider disclosing the dispute while reporting under this clause.

The auditor to **state the reason for the** immovable property **not being held in the name of the company** (for example, the registration process of transfer of name may be continuing as on the date of the audit report).

The auditor may obtain the support **of any legal expert in case there** is any dispute or litigation as to the title of the immovable property or where the auditor seeks clarity in matters related to this clause.

**(d) Revaluation +/- 10%- whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;**

Revaluation of assets is the process by which the carrying value of such assets is **adjusted upwards** or **downwards** in response to major changes in its fair market value. The process of revaluation may be carried out at sufficient regularity such that the carrying amount does **not differ materially from the fair value**. Hence, revaluation **need not be** performed **every year** or in every reporting period.

**(e) Benami Transaction: whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;**

The duty of the auditor under this clause is to report:

- (i) Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Prohibition of Benami Property Transactions Act, 1988 and rules made thereunder;
- (ii) If so, whether the company has **appropriately** disclosed the details in its financial statements.

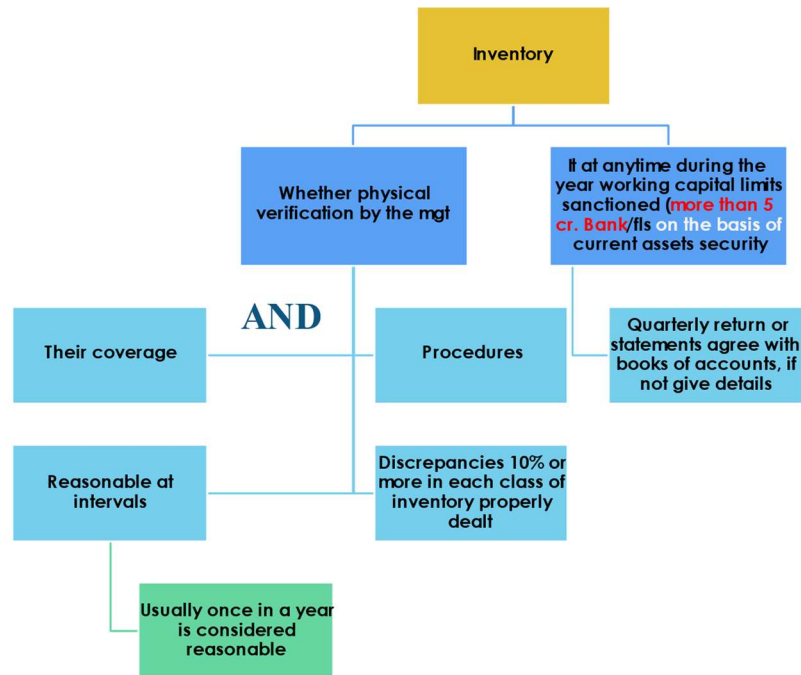
In case any proceedings are initiated or pending, the auditor is required to **examine whether appropriate disclosures are made in the financial statements**. Appropriate disclosures shall include **nature of property, carrying value** of the property in the **books of account, status** of proceedings before the relevant authority, consequential impact on the financial statements and/ or the liability that may arise in case the proceedings are decided against the company.

- Depending on the merits of the case, the auditor is also required to evaluate whether the liability is required to be **disclosed as “contingent liabilities”** or whether provisions are required to be made.
- Where the proceedings are initiated post balance sheet date but before the signing of the auditor’s report, the auditor should consider the requirements of **SA 560, “Subsequent Events” for the purpose of reporting under this clause**.
- The auditor should make necessary **inquiries from the management** including obtaining a management representation letter. The auditor may also review **the legal expenses account to ascertain** whether any expenses have been incurred by the company in respect of a proceeding under the aforesaid Act. The auditor should also review **the minutes of meetings of the Board** of Directors, Audit Committee, Risk Management Committee and other secretarial records to verify whether any reference to proceedings against the company under the aforesaid Act has been made.
- The auditor shall ensure compliance with the requirements of SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” and the requirements relating to litigation and claims given in SA 501, “Audit Evidence- Specific Considerations for Selected Items”.

It may be noted that reporting under this clause is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated **with the company being treated as a benamidar**.

- The reporting **is not applicable** where the notice is received by the company as a beneficial owner.

(ii) (a) Inventory +/-: whether **physical verification** of inventory has been conducted at reasonable intervals by the **management** and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; **whether any discrepancies of 10% or more in the aggregate** for each class of inventory were noticed and if so, whether they have been **properly dealt with in the books of account**;



AS 2, “Valuation of Inventories” and Ind AS 2, “Inventories” define “Inventories” as follows:

“Inventories are assets:

- (i) held for sale in the ordinary course of business;
- (ii) in the **process of** production for such sale; or
- (iii) in the **form of materials** or supplies to be consumed in the production process or in the rendering of services.”

(c) Inventories encompass goods purchased and held for resale, for example, merchandise purchased by a retailer and held for resale, computer software held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the enterprise and include materials, **maintenance supplies, consumables and loose tools awaiting use in the production** process. Inventories do not

include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10(Revised) or Ind AS 16. Such items are accounted for in accordance with AS 10(Revised) or Ind AS 16.

#### **Audit Procedures and Reporting**

The auditor may examine **the documents relating to physical verification** conducted by the management during the year and also at the end of the financial year covered by the auditor’s report.

There are two principal methods of physical verification of inventories: periodic and continuous.

the verification programme is normally so designed that each material item is physically verified at least once in a year and more often in appropriate cases.

- The continuous physical verification method is effective when a perpetual inventory system of record-keeping is also in existence. Some entities use continuous physical verification methods for certain stocks and carry out a full count of other stocks at a selected date.
- **What constitutes “reasonable intervals” depends on circumstances of each case.** The periodicity of the physical verification of inventories depends **upon the nature of inventories, their location** and the **feasibility of conducting a physical verification.**
- It may be useful for the company to determine **the frequency of verification by ‘A-BC’ classification of inventories,** ‘A’ category items being verified more frequently than ‘B’ category and the ‘B’ category items being verified more frequently than ‘C’ category items.  
The auditor may compare the final inventories with stock records and other corroborative evidence, e.g., inventory statements submitted to banks, etc., for verification purposes.
- The auditor should ascertain whether the management has instituted adequate **cut-off procedures.**
- The auditor should also pay attention to ascertain whether the management has established **adequate procedures for physical verification** of inventories, so that in the normal circumstances, the programme of physical verification will cover all material items of inventory at least once during the year. The auditor should also determine whether the procedures for identifying damaged and obsolete items of inventory are well designed and operate properly. **For items of stock which are held by third parties,** the auditor should obtain **confirmations** for stock held by them. In case, in the opinion of the auditor, the **procedures** and coverage of **physical verification** of inventories is not appropriate, the auditor has to **report the same.**
- **Only in cases where discrepancy of 10% or more arises in value, for any class of inventory,** the auditor has to report the fact and also report whether they have been properly dealt with in the books of account.

The calculation of the discrepancy **should be made at the time when physical verification of inventory was made.** Where such reconciliation is not possible, the auditor would be unable to determine the discrepancies. In such cases where the discrepancy cannot be determined, the auditor will have to report that he is unable to determine the discrepancy, if any, on physical verification for the item or class of items.

**(b) Working capital > 5 Crores: whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;**

This clause does not require reporting where such limits are unsecured or sanctioned on the basis of assets **other than current assets.**

The “Glossary of Terms used in Financial Statements” issued by the Research Committee of ICAI defines “working capital” to mean the **funds available for conducting day-today operations** of an enterprise, also represented by the excess of current assets over current liabilities including short-term loans.

Working capital limits could be in the form **of credit facilities which are fund based,** wherein immediate flow of funds is available to the borrowers, which includes cash credit, bank **overdraft, trade credit, working capital loans,** purchase/discount of bills, factoring, etc. **Working capital** limits could **also be non-fund based where there is no immediate** outflow of funds from the lender which includes **letter of credit, bank guarantees,** etc.

### **Audit Procedures and Reporting**

It may be noted that for the purpose of reporting under this clause, the auditor is **required to check the working capital sanctioned limit and not its utilisation.**

The term "sanction" here should include fresh sanction during the year as well as limits renewed or due for renewal during the year.

The limit would cover the working capital limits **from all the banks and financial institutions in aggregate.**

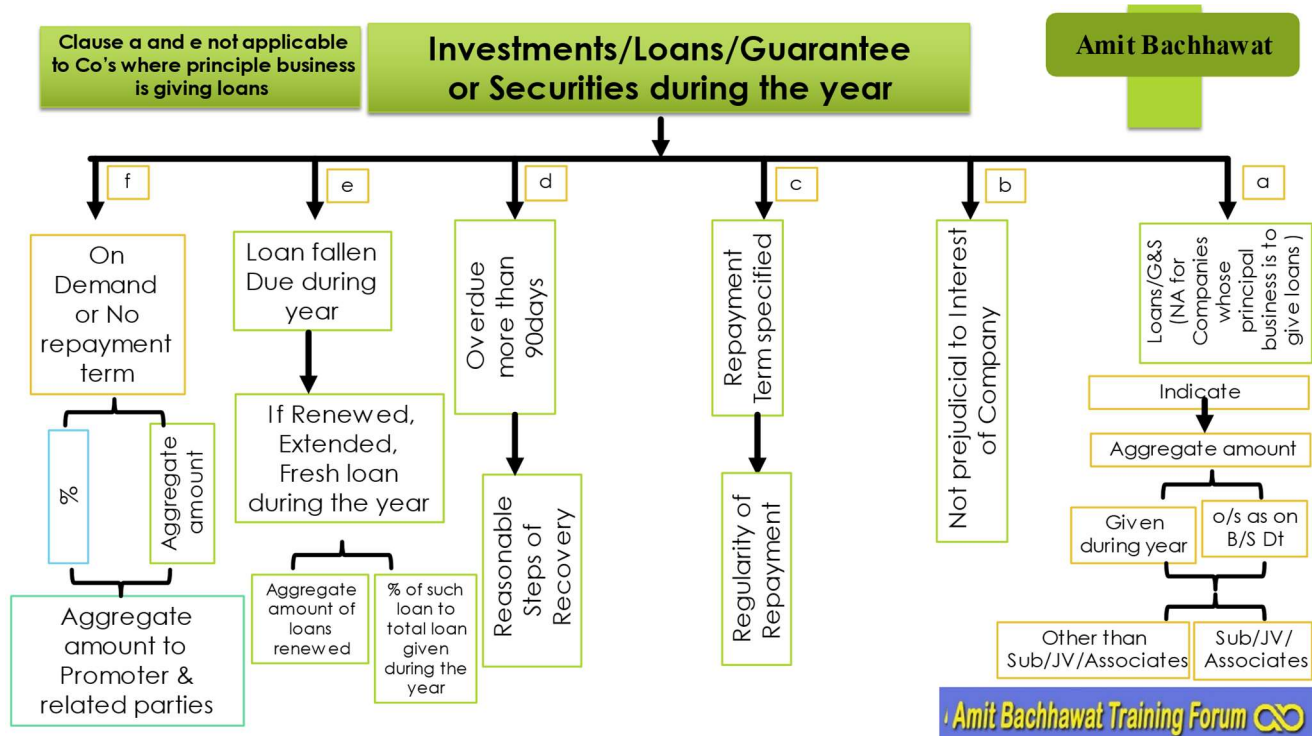
The auditor should examine the important terms **in the sanction letters** and other correspondence with the lender and the documents, **if any, evidencing charge** in respect of such facilities availed and the register of charges.

The auditor should obtain **a list of the statements or returns which are submitted to the banks/ financial institutions** and compare the same with the books of account as to its accuracy or otherwise.

The auditor **is not required to audit such quarterly returns/ statements**, but only required to compare the same with the books of account and report disagreement, if any.

Such returns/statements would **include stock statements**, book **debt statements, credit monitoring arrangement** reports, statements **on ageing analysis of the debtors**/other receivables, and other financial information to be submitted in stipulated format **on a quarterly basis to lenders.**





(iii) Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so, a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate –

(A) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;

(B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;

b) whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;

c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];

f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;

There are six clauses under paragraph 3(iii) of the Order. It is clarified that the auditor's comments on all the six clauses are to be made with reference to all the loans/advances in nature of loans granted, guarantee or security provided to companies, firms, limited liability partnerships or any other parties. Clause **(iii)(a) and (iii)(e) are not applicable to companies whose principal business is to give loans (for example financial institutions, NBFCs etc.)**

**if an advance** is given for an amount which is **far in excess of the value of an order** or for a period which is far in excess of the period for which such advances are usually extended as per the normal trade practice, **then such an advance** may be **in nature of a loan to the extent of such excess**. When a trade practice does not exist, a useful guide would be to consider the period of time required by the supplier for the execution of the order, that is, the time between the purchase of the raw material and the delivery of the finished

product. An advance which exceeds this period would normally be an advance in nature of loan unless there is evidence to the contrary.

- The auditor is required to disclose the requisite information as specified in clauses 3(iii)(a) to 3(iii)(f), in his report in respect of **all kind of loans whether long term or short term, whether given in cash or in kind to any party(s)**.
- Important consideration while **evaluating the controls around loans and investments could be** purpose for which loans were given, permissibility as per the applicable law, terms for which loans were made, person authorized etc.
- In relation to this clause it is suggested that the auditor should **ensure compliance with all the** requirements of sections 179, 180, 185, 186, 187 of the Act and rules thereunder.
- The auditor would be required to consider **the sectoral** laws for instance guidelines prescribed by **Reserve Bank of India** in respect of NBFCs.
- Consequently, the auditor's response in this clause would be **limited to financial guarantees only**.
- The auditor should obtain a **written representation from the management that:**
  - (i) there are no guarantees issued up to the year-end which are yet to be recorded; and (ii) all obligations in respect of guarantees have been duly recorded in the register of guarantees and disclosed.

\* **The auditor should also examine the register of guarantees**, if any, maintained by the company. The auditor should also obtain a list of the guarantees issued by the company during the year from the management of the company which should be checked **with the register of guarantees**. The auditor should perform appropriate procedures and examine records **like the minutes book of the board meetings, and general meetings** to determine that **all the guarantees** given by the company have been included in the list. The auditor should also ascertain whether the guarantees have been **issued by or under sanction of the competent authority**.

while examining the loans, the auditor should also take into consideration the loans/advances in nature of loan transactions that have been squared-up during the year and report such transactions under this clause. **For example, the company** has, during the financial year, granted a loan of Rs. 1,00,000/- to a firm **and the firm repays the loan during** the financial year concerned. **The auditor is also required to consider such transactions while reporting under this clause.**

Name of the parties	Aggregate amount of overdues of existing loans renewed or extended or settled by fresh loans	Percentage* of the aggregate to the total loans or advances in the nature of loans granted during the year

Example – Company A has an opening loan of Rs. 100 and granted 3 more loans of Rs. 200, 300 and 400 during the year. Company extended tenure in respect of two loans (Rs. 100 and Rs. 200) when fell due for payment. Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year in the instant case would be 33%.

	All Parties	Promoters	Related Parties
Aggregate amount of loans/ advances in nature of loans			
- Repayable on demand (A)	1000	250	80
- Agreement does not specify any terms or period of repayment (B)	2000	150	120
Total (A+B)	3000	400	200
Percentage of loans/advances in nature of loans to the total loans		$400/3000 \times 100 = 13.331\%$	$200/3000 \times 100 = 6.67\%$

**(iv) In respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;**

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(i) Obtain from the management the details of the directors or any person in whom any of the director of the company is interested. The auditor may also check the details of the persons covered under this clause from the Form **MBP-1** and from the register maintained under section 189 of the Act.

(ii) Obtain and check the details of the transactions carried out with such persons, including of any guarantee given and security provided.

(iii) Further examine the details to find out whether any of the **transaction is attracting** the provisions of section 185 of the Act.

(iv) In case of transactions that are covered **under the exceptions as provided under section 185 of the Act**,

the auditor should obtain the necessary evidence in support of such exception.

The auditor should report the **nature of non-compliance**, the **maximum amount outstanding** during the year and the amount **outstanding as at the balance sheet** date in respect of:

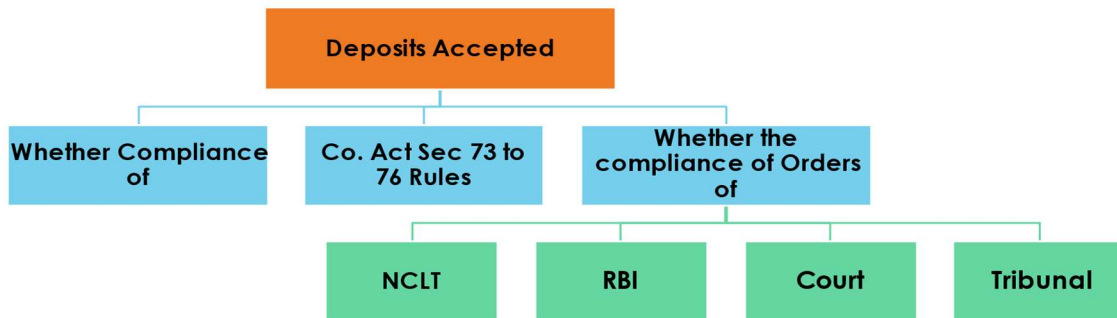
- (i) the directors; and
- (ii) any person in whom any of the director of the company is interested (specify the relationship with the director concerned).

Non-compliance may be reported incorporating the following details:

S. No.	Non-compliance of Section 186			Remarks, if any
	Name of Company/Party	Amount Involved	Balance as at balance sheet Date	
1.	Investment through more than two layers of investment companies			
2.	Loan given or guarantee given or security provided or acquisition of securities exceeding the limits without prior approval by means of a special resolution			
3.	Loan given at rate of interest lower than prescribed			
4.	Any other default			

(v) Deposits: in **respect of deposits** accepted by the company or amounts which are deemed to be deposits, whether the directives issued **by the Reserve Bank of India** and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, **if not, the nature of such contraventions be stated**; if an order has been passed by **Company Law Board** or National Company Law Tribunal or **Reserve Bank of India** or any court or any other tribunal, whether the same has been complied with or not;

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# DEPOSITS

Sec 73 : Deposits from Members	Sec 76 : Deposits from Public
Every <b>Company Members</b> <sup>Before Accepting Deposits</sup>	<b>Eligible Company Public</b> <sup>Before Accepting Deposits</sup>
	<b>Public Company having –</b> 1. Net worth $\geq$ 100 Crores 2. Turnover $\geq$ 500 Crores
i) Pass Ordinary resolution ii) Comply with Rules	i) Pass Special Resolution ii) Comply with Rules

This clause includes reporting on ‘**amounts which are deemed to be deposits**’ in addition to deposits accepted by the company. Rule 2(1)(c) of the Companies (Acceptance of Deposits) Rules, 2014 defines deposit to include any receipt of money by way of deposit or loan or in any other form, by a company, **but does not include the amounts specified therein**. Explanation to sub-clause (xii) of aforesaid Rule 2(1)(c) explains that the amount shall be deemed to be deposits on the expiry of fifteen days from the date they become due for refund.

## Audit Procedures and Reporting

- The auditor should also obtain an understanding of the **requirements of sections 73 to 76** of the Act and the aforesaid rules.
- The auditor should examine **compliance by the company with regard to all the matters** specified in the aforesaid sections and the aforesaid rules and not merely to the limits of the deposits.
- He should, therefore, **examine the system by which deposits are accepted and records** are maintained and make a reasonable test check to ensure the correctness of the system.
- The auditor should also **enquire from the management about** the possible instances of non-compliance with sections 73 to 76 or any other relevant provisions of the Act and the relevant rules.
- Register of deposits can be examined by the auditor.

(vi) Cost records: **whether maintenance of cost records** has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;

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## *Cost Records Applicable Sec 148*

# *Whether Maintained if applicable to the co*

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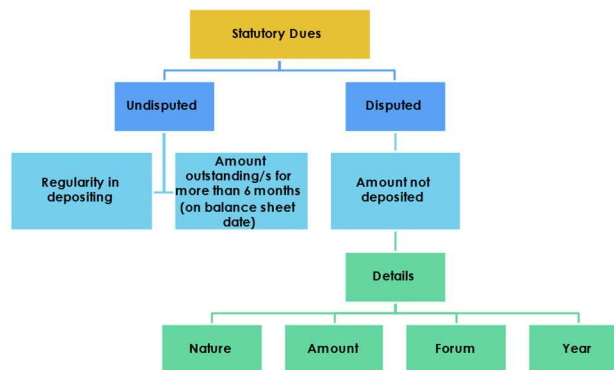
### **Audit Procedures and Reporting**

The word “made” applies in respect of cost accounts (or cost statements) and the word “maintained” applies in respect of cost records relating to materials, labour, overheads, etc.

The auditor has to report under this clause **irrespective of whether a cost audit has been ordered by** the central government. The auditor should **obtain a written representation from the management**.

Where cost audit is applicable to the company, the auditor **may obtain copy of cost audit report of** immediately preceding year and **note any qualifications** or comments in the cost audit report. In case, there are any such observations, the auditor should enquire from the management, whether such observations have been properly addressed in the current year. The auditor should include this in the management representation letter

(vii) (a) **Statutory dues: whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;**



*Note : Show cause note by the I.T. Dept is Not Statutory Dues. Demand Notice by the I.T. Dept is Statutory Dues*

Any sum, which is to be regularly paid **to an appropriate authority under a statute** (whether Central, State or Local or Foreign) applicable to the company, should be considered as a “statutory due” for the purpose of this clause.

Thus, examples of **“statutory dues” would** include municipal taxes, taxes deducted at source, fees payable to the licensing authority in respect of business being carried on under license granted by an authority, say a cinema hall.

Any sum payable to an **electricity** company as electricity bill **would not constitute** a statutory due despite the fact that such electricity company has been established under a statute. This is so because the due has arisen on account of contract of supply of goods or services between the parties. Similarly, where any sum is **payable to public sector undertakings**, namely, State PSUs or Central PSUs, as the case may be, the same **shall not be considered** as ‘statutory due’ despite the fact that such undertakings are incorporated, owned and operated by the State/Central Government.

The similar view is possible **for payment of bonus to an employee though the same** is under Payment of Bonus Act, 1965 it **will not be considered** as a statutory due.

This is because the due has arisen on account of contract existing between employer and employee. However, care should be taken for unclaimed bonus which the company has not paid for more than a particular number of years and due has arisen to be transferred to a specified fund account as prescribed. **Even dividend payment** to shareholders under the Companies Act 2013 will **not be considered as statutory** due as the same is on account of contractual obligation with the shareholders. However, dividend declared and not paid to the shareholders within specified time limit and which is **required to be transferred to specified fund will be considered** as a statutory due.

However, the auditor would be required to comment upon the **regularity of the company in depositing the installments, if any, granted by** an authority in respect of a demand against the company.

However, it may be noted that the **interest and rent** that are required to be incurred under section 61 of the Customs Act, 1962 would come under category of other statutory dues and the auditor would have to examine and comment upon the regularity of the company in depositing such interest and rent.

**Non-payment of advance income tax would constitute default in payment** of statutory dues. It may, however, happen that the company might not have any taxable income on the due dates on which advance tax is required to be paid. If such company has an income after the last date on which the advance tax was required to be paid and consequently the company incurs interest under the relevant provisions of the Income Tax Act, 1961, **it should not be construed** that the company is not regular in depositing advance tax.

While the auditor has to report upon the regularity of the deposit, he is not required to specify in detail each instance where there has been a delay or the extent of the delay. It should be sufficient if he indicates whether generally the deposits have been regular or otherwise. **The following are examples of the wordings, which may be used in relevant situations:**

*Statement of Arrears of Statutory Dues Outstanding for More than Six Months*

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Due Date	Date of Payment	Remarks, if any

**(vii) (b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);**

**Audit Procedures and Reporting**

Normally, issuance **of a show cause notice by the concerned** department **should not be construed to be** a demand payable by the company.

Further, in case where the amount under the dispute is **pending for an appeal to be** filed and the time limit for filing the appeal has **lapsed, the disputed amount** would become a statutory due and the reporting responsibilities of the auditor as are applicable to any other undisputed statutory due under clause 3(vii)(a) of the Order would become applicable. Further, in case where the amount under dispute has not been paid before filing the appeal and no appeal is filed within the time allowed and the time limit for filing the appeal has expired, the disputed amount would become a statutory due. There may also be a situation where the company would have opted for certain tax settlement schemes offered under a Statute, namely, **Direct Tax 'Vivad se Vishwas, Act 2020'** or **'Sabka Vishwas – (Legacy Dispute Resolution) Scheme, 2019'** etc. **Those dues once declared** under the scheme by the company and approved by the appropriate authorities **shall be considered.**

The information required by this clause may be reported in the following format:

*Statement of Disputed Dues*

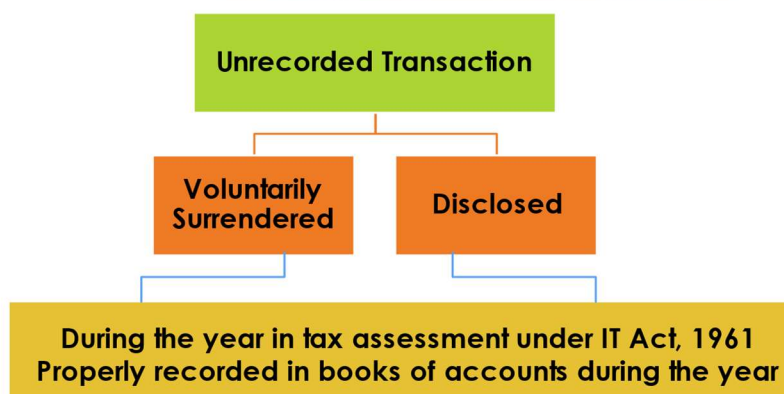
Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending	Remarks, if any



Whether a disputed amount should be provided for in the accounts or not will need to be judged in the context of AS 4, “Contingencies and Events Occurring After the Balance Sheet Date/Ind AS 10,

(viii) **Previously unrecorded income: whether any transactions not recorded in the books of account have been **surrendered** or disclosed as income during the year **in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously **unrecorded income has been properly recorded in the books of account during the year;******

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The emphasis is on the words surrendered or disclosed which implies that the company must have voluntarily admitted to the addition of such income, which can be demonstrated **on the basis of the** returns filed by the company.

The auditor should also **obtain a copy of the statements made in the course of search and survey to verify** the nature of income so surrendered or disclosed. Where, however, such statement has been retracted on the ground that such disclosure was obtained under force, coercion, etc. the income cannot be treated as surrendered or disclosed by the company.

Accordingly, **where the addition is made by the income tax** authorities and the company has disputed such additions, reporting under **this clause is not applicable**. Even where the company **chooses not to file an appeal**, it cannot be presumed that the company has surrendered or disclosed the income. The auditor needs to review the submissions and the statements filed by the assessee in the course of assessments to ascertain whether such additions were as a consequence of admissions made by the company that there are certain transactions not recorded in the books of account and such transactions have resulted in income which are being surrendered or disclosed.

For the purpose of examination, the auditor is required to **review all the tax assessments completed during the year under audit**. The auditor is also required to review the tax assessments completed subsequent to the balance sheet date but prior to signing of the auditor’s report if the surrendered or disclosed income relates to the year under audit or prior years.

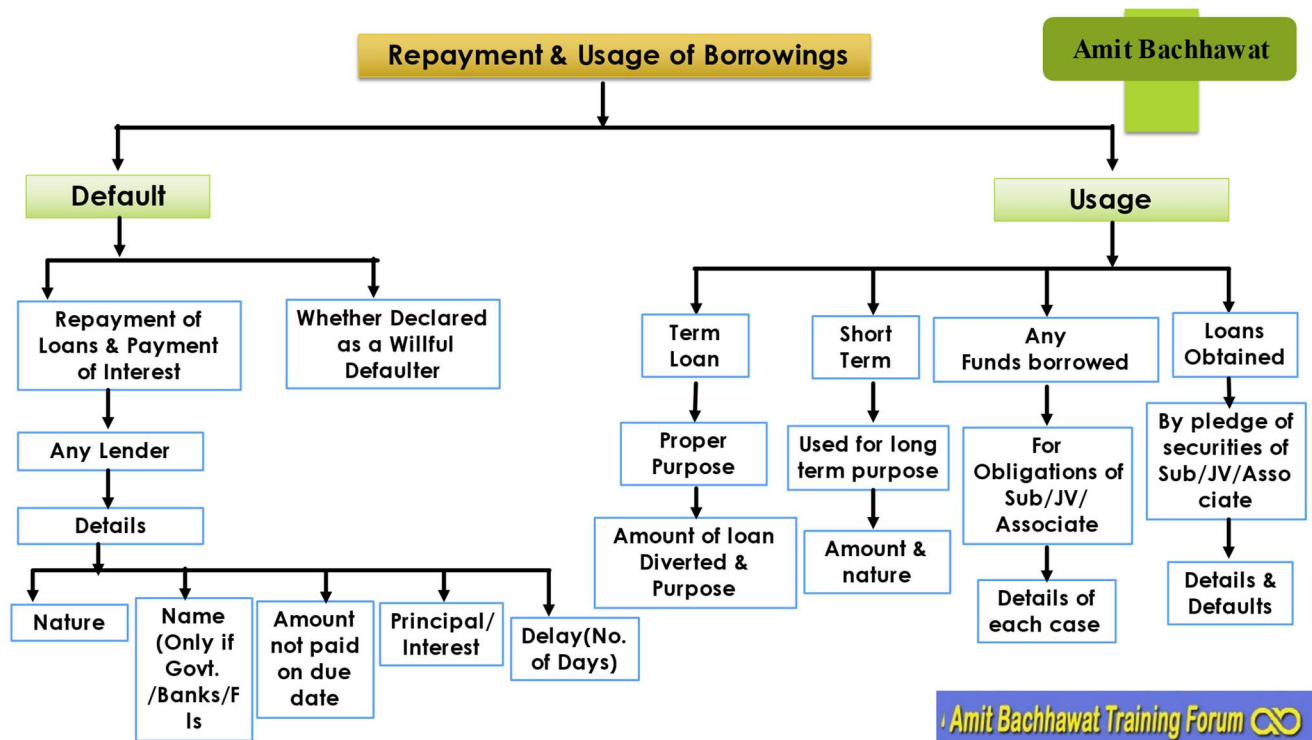
The surrender or disclosure of unrecorded income might relate to any assessment year under the Income Tax

Act, 1961.

Under the Accounting Standards, the auditor needs to evaluate whether the surrendered or disclosed income is required to be classified as **extraordinary items keeping in view the requirements of AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"**

(ix) (a) Whether the company has defaulted in **repayment of loans** or other borrowings or in the payment of **interest** thereon to any lender, if yes, the period and the **amount of default** to be reported as per the format below:

Nature of borrowing including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	* lender wise details to be provided in case of defaults to banks, financial institutions and Government.				



It is clarified that the borrowings do **not include public** deposits as the reporting on public deposits is covered by clause 3(v) of the Order. It is clarified that for the purpose of reporting under this clause, preference share capital should not be considered as borrowings.

Further, since the auditor is also required to report amounts **remaining unpaid**, it is clarified that the auditor should also report the period and amount of all defaults existing at the balance sheet date irrespective of when those defaults have occurred.

financial institution **includes all banks, public financial institutions, as well as non-banking institutions and** also includes non-banking financial companies.

The term **“Government” means the departments** of the Central Government, a State Government and its departments and a Union Territory and its departments, but shall not include any entity, whether created by a statute or otherwise, the accounts of which are not required to be kept in accordance with article 150 of the constitution or the rules made thereunder.

### **Audit Procedures and Reporting**

However, if the **application for reschedulement of loan has been** approved by the concerned bank or financial institution during the year covered by the auditor’s report, the auditor should state in his audit report the fact of reschedulement of loan. It is clarified, that where reschedulement of loan has been approved subsequent **to the balance sheet date**, the auditor **should report the defaults during the year**. However, he may mention this fact in the remarks column.

There may be a situation, where loans/borrowings and/ or interest are repayable on demand and no repayment terms have been specified in the agreement. In such situations, the auditor should obtain a management representation letter confirming that such loans/ borrowings and/ or interest have not been demanded for repayment.

Under this clause, the auditor is **required to give lender wise details in case of banks, financial institutions and Government only** and not in respect of other lenders. In respect of other lenders, the auditor should report under this clause in the format prescribed

**(ix) (b) Whether the company is a declared wilful defaulter by any bank or financial institution or other lender;**

It is clarified that such declaration should be restricted to the relevant financial year under audit till the date of audit report.

The term ‘lender’ appearing in the RBI Circular covers all banks/financial institutions to which any amount is due, provided it is arising on account of any banking transaction, including off balance sheet transactions such as derivatives, guarantee and letter of credit.

It is, therefore, clarified that the auditor should restrict the reporting under this clause to declaration of wilful **defaulter** by banks, financial institutions, and in **respect of other lenders should** restrict the reporting to declaration of **wilful defaulter by government/ government authorities**.

The auditor may also **verify the database of Central Repository of Information on Large Credits (CRILC)**, set up by RBI to collect, store, and disseminate credit data to lenders.

It is therefore, clarified that the auditor should also consider whether the company has been declared as wilful defaulter **as on the date of the audit report**.

If the company has not been declared a wilful defaulter but **has received a show-cause** notice in accordance with the RBI Circular, the auditor **may consider disclosing this fact in his report under this** clause.

**(ix) (c) Utilization of term loan: whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;**

Term loans normally have a fixed or pre-determined repayment schedule. In the common parlance of the expression, loans with repayment period beyond 36 months are usually known as term loans. **Cash credit,**

overdraft and **call money** accounts/deposits are therefore **not covered** by the expression “Term Loans”.

**Audit Procedures and Reporting**

- A strict interpretation of this clause would mean that the term loan obtained from entities/persons other than banks/financial institutions would also have to be examined by the auditor for the purpose of reporting under this clause.
- The auditor should **also compare the purpose** for which term loans were sanctioned with the actual utilisation of the loans. The auditor should obtain sufficient appropriate audit evidence regarding the utilization of the amounts raised.
- It is **not necessary to establish a one-to-one** relationship with the amount of term loan and its utilisation. It is quite often found that the amount of term loan obtained is deposited in the common account of the company from which subsequently the utilisation is made. In such cases, it should not be construed that the amount has not been utilised for the purpose for which it was obtained.
- It may happen that **the company might have acquired improved version/model of assets as against** the assets for which the loan had been sanctioned.  
In such cases, it should not be construed that the loan has not been applied for the purpose for which it was obtained.
- Normally, the term lenders **directly make the payment to the vendor/suppliers**. In such cases, it becomes easier for the auditor to comment on the application of term loans.
- It may so happen that the **term loans taken during the year might not have been applied for the stated** purpose during the year, for example, the loan was disbursed at the fag-end of the year. In such a case, the auditor should mention in his audit report that the term loan obtained during the year has not been utilized because **moneys were raised** at the fagend of the year. This also implies that the auditor, while

**making inquiry in respect** of this clause, should also consider the term loans which although were taken in the previous accounting period but **have been actually utilized during the current accounting period**.

A suggested reporting format under this clause is as follows:

In our opinion and according to the information and explanations given to us, the company has utilized the money obtained by way of term loans during the year for the purposes for which they were obtained, except for following cases:

Nature of the fund raised	Name of the lender	Amount diverted (Rs.)	Purpose for which amount was sanctioned	Purpose for which amount was utilised	Remarks

**(ix) (d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;**

Examples of use of funds raised on short term basis and used for long-term purposes would include investing money from overdraft facilities in long-term investments in shares of subsidiaries/associates/joint ventures or investing money raised from public deposits due for repayment in three years in a project whose pay-back period is ten years.

Shortterm sources of funds include temporary credit facilities like cash credits, overdraft. Long-term sources of funds would include share capital, reserves and surplus, long-term debt securities and long-term loans.

Reporting under this clause will be required **for all funds taken during** the year even **if these have been repaid before the year end**. Further, reporting will be required where funds **were taken in earlier years** and were **repaid during the year or are outstanding as at the year end**.

An example of reporting under this clause is as follows:

According to the information and explanations given to us and on an overall examination of the financial statements of the company, we report that the company has taken funds from following entities and persons on account of or to meet the obligations of its subsidiaries, associates or joint ventures as per details below:

May mention Whether Bank/ NBFC/ Corporate, etc.

\* Specify whether fund taken on account of or to meet obligation of subsidiary, joint venture, associate.

(ix) (e) whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;

(ix) (f) whether the company has raised loans during the year **on the pledge of securities held in its subsidiaries, joint ventures or associate companies**, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;

- If yes, give details of such loans; and
- Report if the company has defaulted in repayment of such loans raised.

According to the information and explanations given to us and procedures performed by us, we report that the company has raised loans during the year on **the pledge of securities held in its subsidiaries**, joint ventures or associate companies as per details below. Further, the company has not defaulted in repayment of such loans raised.

Nature of loan taken	Name of lender #	Amount of loan	Name of the subsidiary, joint venture, associate	Relation	Details of security pledged	Remarks

(x) (a) whether moneys raised by way of **initial public offer** or **further public offer** (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or **default and subsequent rectification**, if any, as may be applicable, be reported;

**Audit Procedures and Reporting**

- An examination of the offer document would provide the auditor an understanding of the proposed endues of money raised from public.
- The auditor should obtain a **representation from the management** as to the completeness of the disclosure with regard to the endues of money raised as well as actual end utilization of money raised by initial public offer or further public offer (including debt instruments).
- It may also be noted that **according to the SEBI LODR Regulations**, the issuer company is required to make arrangements for the use of **proceeds** of the issue to be monitored by financial institutions. The **monitoring agency** so appointed is required **to submit its report to the SEBI**, on a half-yearly basis, **till the completion of the project**. In case, the company has appointed a monitoring agency for the purpose of the issue, reports of such monitoring agency would also be helpful to the auditor while reporting under this clause.
- It seems that strictly in terms of the definitions of public offer, initial public offer and further public offer cited above, moneys raised from **foreign** capital markets in any form and by way of issuance of Global Depository **Receipts and American Depository Receipts may not fall within the scope of reporting under this clause**.
- **It is not necessary to establish a one-to-one relationship** with the amount of moneys raised by way of initial public offer or further public offer (including debt instruments) and its utilization.
- It may happen that the company might have acquired **improved version/model of assets as against the** assets for which the moneys were raised. **For example**, if moneys raised for purchase of machinery to be used for manufacture of shoe upper is instead used to purchase a machine, which apart from manufacturing shoe uppers has certain additional manufacturing facilities, in such cases, it should not be construed that the moneys raised.
- Companies **may temporarily invest the surplus funds to reduce the cost of capital or for other business reasons**.

A suggested reporting format under this clause is as follows:

In our opinion and according to the information and explanations given to us, the company has utilised the money raised by way of initial public offer/ further public offer (including debt instruments) for the purposes for which they were raised, except for the following cases:

Nature of the fund raised	Purpose for which funds were raised	Total Amount Raised /opening unutilized balance	Amount utilized for the other purpose	Unutilized balance as at balance sheet date	Details of default (Reason/ Delay)	Subsequently rectified (Yes/No) and details

(x) (b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of **section 42 and section 62** of the Companies Act, 2013 have been complied with and the funds raised have been used for **the purposes for which the funds** were raised, if not, provide details in respect of **amount involved and nature of non-compliance**;

The examination of auditor may cover following aspects:

(i) Paragraph 2(i) of the Form PAS-4, Private **Placement** Offer cum application Letter<sup>4</sup>, requires the company to provide particulars in respect of the purposes and objects of the offer. Accordingly, the auditor should compare such information provided by the company in **Form PAS-4 with the actual utilization** of the monies as per the books of account of the company.

Sub-clause (i) of clause (d) of sub-rule 2 of Rule 13 of the Companies (Share Capital and Debentures) Rules, 2014, requires the company to **disclose the objects of the issue in the explanatory statement to be annexed** to the notice of the general meeting pursuant to section 102 of the Act. Accordingly, the auditor should **compare the objects of the issue noted in the explanatory statement annexed to the notice of the general meeting with the actual** utilization of the monies as per the books of account of the company.

The auditor is also required to **report the details of any subsequent rectifications made by the company.**

A suggested reporting format under this clause is as follows:

In our opinion and according to the information and explanations given to us, the company has utilized funds raised by way of preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) for the purposes for which they were raised, except for the following:

Nature of Securities viz. Equity shares/ Preference shares/ Convertible debentures	Purpose for which funds were raised	Total Amount Raised/ opening un-utilized balance	Amount utilized for the other purpose	Un-utilized balance as at balance sheet date	Remark, if any

(xi) (a) whether any **fraud** by the company or any fraud on the company has been noticed or reported during the year, if yes, the **nature and the amount** involved is to be indicated;



The auditor is required to report separately on the nature and amount involved for (i) fraud on the company (ii) fraud by the company. Further, the auditor should consider the frauds noticed or reported while performing audit.

### Audit Procedures and Reporting

- While planning the audit, the auditor should **discuss with other members** of the audit team, the susceptibility of the **company to material** misstatements in the financial statements resulting from fraud.
- While planning the audit, the auditor should also **make inquiries of management** to determine whether management is aware of any known fraud or suspected fraud that the company is investigating.
- The auditor should **examine the reports of the internal auditor with a view** to ascertain whether any fraud has been reported or noticed by the internal auditor. The auditor should examine **the minutes of the audit** committee, if available, to ascertain whether any instance of fraud pertaining to the company has been reported and actions taken thereon. The auditor should enquire from the **management about** any frauds on the company that it has noticed or that have been reported to it. The auditor should also **discuss the matter with other employees including** officers of the company. The auditor should also examine the minutes book of the board meeting of the company in this regard.
- The auditor should **obtain written representations** from management that:  
the auditor is required to report whether he has considered whistle-blower complaints, if any, received during the year by the company.
- The auditor should also consider if there **are any adverse findings noticed by him while reporting** under clause 3(ii)(b) which requires the auditor to provide details if **the quarterly returns or statements** filed by the company with banks or financial institutions for sanctioned working capital limits are not in agreement with the books of account of the company.



For reporting under this clause, the auditor may consider the following:

(i) This clause requires that **all frauds noticed or reported during the year shall be** reported indicating the nature and amount involved.

**(xi) (b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;**

The auditor reporting under this clause, should consider whether cost auditor or secretarial auditor has filed any report under section 143(12) of the Act in Form ADT-4 and accordingly the fact shall be reported. The auditor should obtain written representations from management in this regard.

The establishment of **whistle blower mechanism is not mandatory for all companies and therefore the** auditor should consider the requirements prescribed in the Act and in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) in this regard.

Section 177(9) of the Act requires the following class of companies to establish a vigil mechanism for their directors and employees to report **their genuine** concerns or grievances:

- ☐ Every **listed** company.
- ☐ Companies which accept deposits **from the public**.
- ☐ Companies which have **borrowed money from banks** and public financial institutions in **excess of fifty crore rupees**.

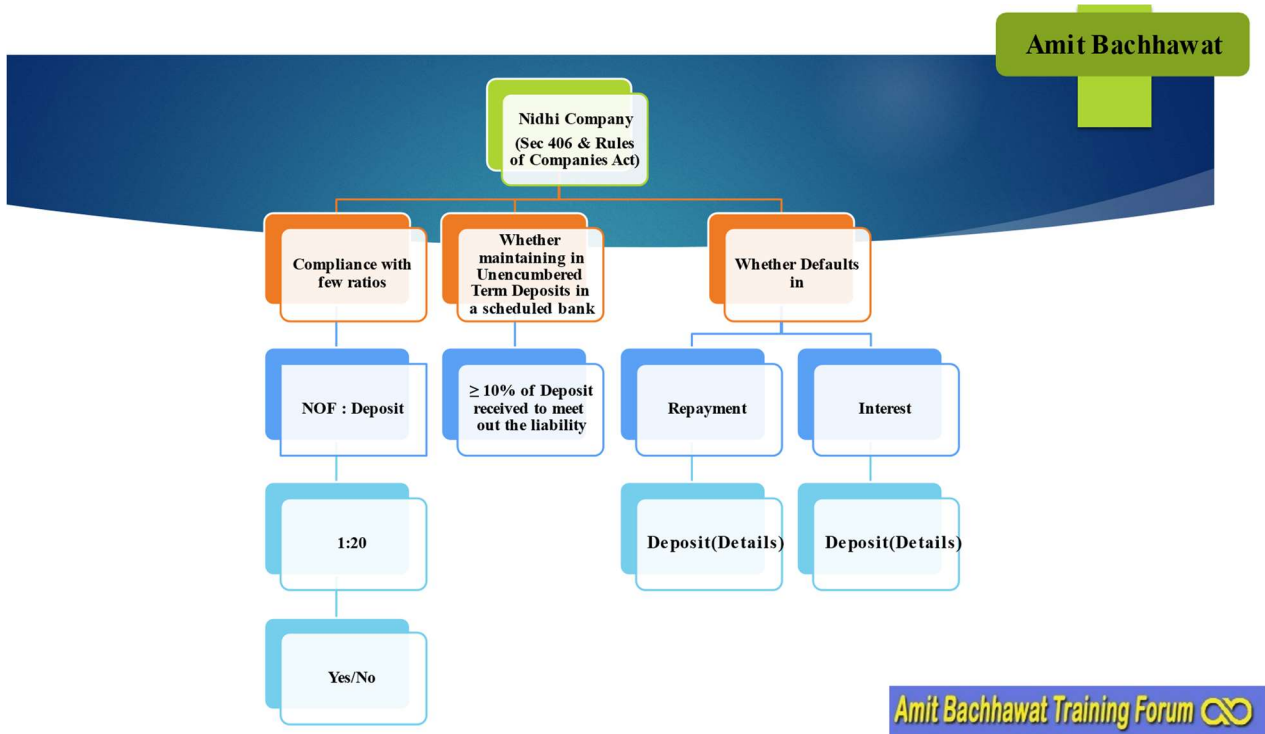
The vigil mechanism under section 177(9) of the Act shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provisions for direct access to the Chairperson of the Audit Committee in appropriate or exceptional cases.

Other companies i.e., companies not covered in the thresholds specified in paragraphs (b) and (c) above may voluntarily establish vigil/whistle blower mechanism through which instances of whistle blower and frauds are reported.

Further, all **such cases should be considered** by the auditor in **accordance with the requirements of SA 240 and will also be required to be considered** as part of this clause.

**(xi) (c) Whistle-blower complaints: whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;**

- (xii) (a) whether the **Nidhi Company** has complied with the **Net Owned Funds to Deposits** in the ratio of 1: 20 to meet out the liability;
- (b) whether the Nidhi Company is maintaining **ten per cent. unencumbered term deposits** as specified in the Nidhi Rules, 2014 to meet out the liability;
- (c) whether there has been **any default in payment of interest on deposits or repayment thereof** for any period and if so, the details thereof;



The auditor should note that as such a Nidhi Company can accept deposits not exceeding twenty times of its net owned funds as per last audited balance sheet.

As per Rule 3(1)(d) of these rules, **“net owned funds”** are defined as the aggregate of paid up equity share capital and free reserves as reduced by accumulated losses and intangible assets appearing in the last audited balance sheet:

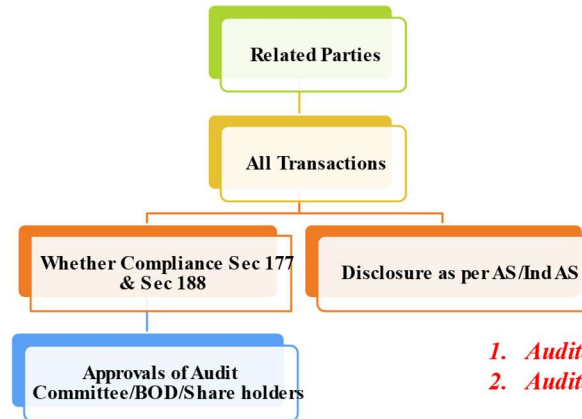
Provided that, the amount representing **the proceeds of issue** of preference shares, shall not be included for calculating net owned funds.

The auditor should **ask the management to provide the computation of the deposit liability and net owned funds on the basis of the requirements mentioned above**. This would enable the auditor to verify that the ratio of deposit liability to net owned funds is in accordance with the requirements prescribed in this regard.

The auditor shall also obtain and examine the details furnished in Form NDH-3 filed by the company.

(xiii) RTP Disclosure: whether all transactions with the related parties are in compliance with **sections 177 and 188** of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the **applicable accounting standards**;

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1. Auditor will inspect minute books
2. Auditor shall verify MBP-4.

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### Audit Procedures and Reporting

(g) The auditor should obtain written **representations** from management and, where appropriate, those charged with governance that:

- (i) They have disclosed to the auditor the **identity of the entity's** related parties and all the related party relationships and transactions of which they are aware; and
- (ii) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.

The auditor may also decide to **obtain written representations regarding** specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements.

In addition to management representation, the auditor may **review the minutes of audit committee** meetings as well as Board of Directors meetings.

The auditor should obtain a list of companies, firms or other parties, the particulars of which are required to be entered in the register maintained under section 189 of the Act. The auditor should verify the entries made in the register maintained under section 189 of the Act from the declarations made by the directors in Form **MBP-1** i.e., general notice received from a director under Rule 9(1) of the Companies (Meetings of Board and its Powers) Rules, 2014.

(xiv) (a) Internal audit system : whether the company has an **internal audit system** commensurate **with the size and nature of its business**;

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### Audit Procedures and Reporting

The size of the internal audit department: In considering the adequacy of internal audit system, it is necessary to consider the nature **of the business** of the company, the **number of operating locations**, the extent **to which internal controls** are decentralised, **the effectiveness of other forms of internal** control, etc.

Qualifications of the persons who undertake the internal audit work:

**Reporting responsibility** of the internal auditor: In general, the higher the level to which the internal auditor reports, the greater would be the independence of the internal auditor.

In case of listed companies, compliance of provisions of SEBI LODR Regulations with regard to review of internal audit function by audit committee and the presence of head of internal audit in the audit committee meeting shall also be verified.

The auditor should also cross check the entrusted function of audit committee with regard to appointment, removal and terms of remuneration of the chief internal auditor.

(xiv) (b) whether the reports of the **Internal Auditors for the period under** audit were considered by the **statutory auditor**;

### Relevant Provisions

The statutory auditor should also **assess the impact of the control deficiencies**, if any pointed by the internal auditors, while framing his report on the internal financial controls over financial reporting (IFCoFR) under clause (i) of subsection 3 of section 143 of the Companies Act, 2013.

(xv) whether the company has entered into any **non-cash transactions with directors** or persons connected with him and if so, whether the provisions of **section 192 of Companies Act** have been complied with;

Arrangements, as discussed herein above, can only be entered by the company on fulfillment of the conditions laid out in section 192 of the Act which are as under:

(i) The company should have obtained **prior approval for such** arrangement through a **resolution of the** company in general meeting.

(ii) In case the **concerned director** or the person connected therewith, is also a director of its holding company, a similar approval should have been obtained **by the holding company through a resolution** at its general meeting.

The reporting requirements under this clause are in two parts. The first part requires **the auditor to report** on whether **the company has** entered into any non-cash transactions with the directors or any persons connected with such director/s. The second part of this clause requires the auditor to **report whether** the provisions of section 192 of the **Act have been complied** with. Therefore, the second part of this clause becomes reportable only if the answer to the first part is in affirmative.

### Audit Procedures and Reporting

For reporting on the first part of this clause, the starting point of the auditor's procedures could be obtaining a **management representation** as to whether the company has undertaken any non-cash.

A scrutiny of the **following books of account**, records and documents could provide source of such audit evidence to the auditor as to the existence of such non-cash transactions as well as persons connected with the directors:

<b>Persons connected with Director</b>	<b>Acquisition by/ From Company</b>
Form No. MBP 1, <i>Notice of Interest by Director</i> , filed pursuant to the Companies (Meetings of Board and Its Powers) Rules, 2014 [Ref: Section 184(1) and Rule 9(1)]	Form No. MBP 2, <i>Register of Loans, Guarantee, Security and Acquisition Made by the company</i> , filed pursuant to the Companies (Meetings of Board and Its Powers) Rules, 2014 [Ref: Section 186(9) and Rule 12(1)]
	Form No. MBP 4, <i>Register of Contracts with Related Party and Contracts and Bodies etc in which Directors are Interested</i> , filed pursuant to the Companies (Meetings of

The minutes of the **meetings of the Board** of Directors and the **Audit Committee** may provide evidence of such intention.

Section 192(1) and (2) of the Act envisage the following compliances in respect of such transactions:

(i) The company should have **obtained a prior approval** for such arrangement by a resolution in the general meeting.

(ii) If the concerned Director or connected person is a director of **the company's** holding company, the latter

too should have obtained a similar prior approval for the arrangement by a resolution at its general meeting.  
(iii) Notice for approval of the resolution should contain details of the arrangement along with the value of assets involved duly calculated by a registered valuer, as per valuation rules specified under Companies (Registered Valuers and Valuation) Rules, 2017.

**(xvi) (a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;**

What does conducting financial activity as “principal business” mean? The definition of “principal business” provided by the RBI vide press release 1998-99/1269 dated April 8, 1999, which is further clarified in a response to an FAQ as given by Reserve Bank of India, is required to be considered while examining the requirement of registration: -

“Financial activity as principal **business** is when a company’s financial assets constitute more than 50 per cent of the total assets and income from financial **assets constitute more than 50 per cent of the gross income**. A company which fulfils both these criteria will be registered as NBFC by RBI.

The Reserve Bank has defined it so as to ensure that only companies predominantly engaged in financial activity get registered with it and are regulated and supervised by it.

The Reserve Bank of India defines “**net owned fund**” under section 45-IA of the Reserve Bank of India Act, 1934 as (a) the aggregate of the paid-up equity capital and free reserves as disclosed in the latest balance-sheet of the company after deducting there from (i) accumulated balance of loss; (ii) deferred revenue expenditure; and (iii) other intangible assets; and (b) further reduced by the amounts representing– (1) investments of such company in shares of– (i) its subsidiaries; (ii) companies in the same group; (iii) all other non-banking financial companies; and (2) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with,– (i) subsidiaries of such company; and (ii) companies in the same group, to the extent such amount exceeds ten per cent of (a) above.

The auditor should **report incorporating the following details: -**

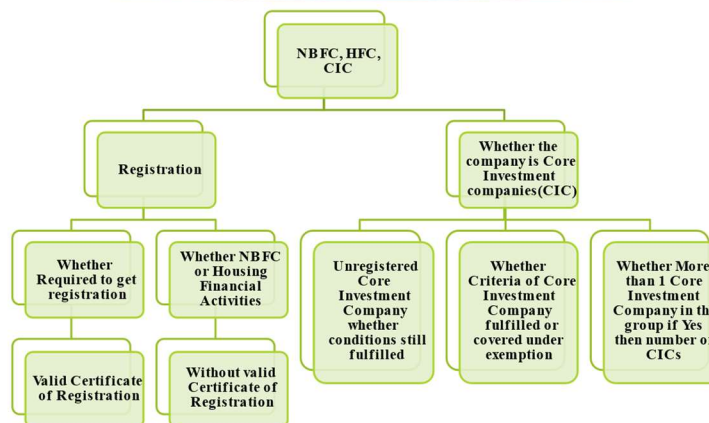
- (i) Whether the registration is required under section 45-IA of the RBI Act, 1934.
- (ii) If so, whether the company has obtained the registration.
- (iii) If the registration is not obtained, reasons there of.

A Co is considered as a Non Banking Financial Co. If it satisfies both the following Conditions:-

- 1) Loan and Investment  $\geq$  50% of its total assets
- 2) Income from such Financial assets  $\geq$  50% of its total income (Interest Income, Dividend Income etc).

(xvi) (b) NBFC/Housing Finance: whether the company has conducted any **Non-Banking Financial or Housing Finance activities** without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;

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(xvi) (C) Core Investment Company : whether the company is a **Core Investment Company (CIC)** as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, **whether it continues to fulfil such criteria;**

**Core Investment Companies** (Reserve Bank) Directions, 2016, (Reference may be made to aforesaid Master Direction), these directions shall apply to every Core Investment Company (CIC), that is to say, a non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet:-

- (i) it holds **not less than 90%** of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;
- (ii) its investments **in the equity shares** (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) **in group** companies and units of Infrastructure Investment Trust only as sponsor constitute not less than 60% of its net assets as mentioned in clause (i) above; Provided; that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time.
- (iii) **it does not trade in its investments in shares, bonds, debentures, debt or loans in group companies** except through block sale for the purpose of dilution or disinvestment;
- (iv) **it does not carry on any other financial** activity referred to in Section 45I(c) and 45I(f) of the Reserve Bank of India Act, 1934 except a. investment in
  - i) bank deposits,

- ii) money market instruments, including money market mutual funds and liquid mutual funds
  - iii) government securities, and
  - iv) bonds or debentures issued by group companies,
- b. granting of loans to group companies and
- c. **issuing guarantees on behalf of group companies.**

**Core Investment companies having total assets of not less than Rs.100 Crores either** individually or in aggregate along with other CICs in the Group and which raises or holds public funds are categorized as Systematically Important Core Investment Company (CIC-ND-SI)

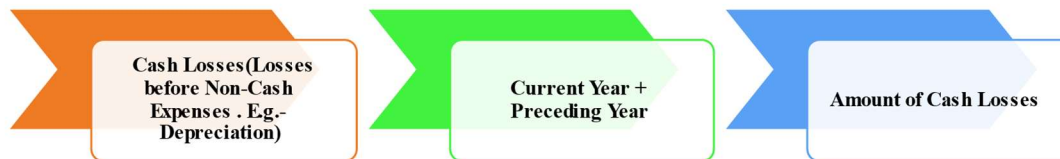
All CIC-ND-SI are required to apply to RBI for grant of certificate of registration. Every CIC shall apply to the RBI for grant of certificate of registration within a period of three months from the date of becoming a CIC-ND-SI. Companies which fall under the definition of Core Investment Company but do not have asset size of more than Rs.100 Crores and Core Investment Companies that do not have access to public funds are exempted from registration requirement with RBI. However, these CICs exempted from registration with the RBI shall pass a Board Resolution that it will not, in the future, access public funds.

(xvi) (d) whether the Group has more than one CIC as part of the Group, if yes, **indicate the number of CICs which are part of the Group;**



(xvii) whether the company has incurred **cash losses** in the financial year and in the **immediately preceding** financial year, if so, **state the amount of cash losses**;

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$$\text{Cash Loss} = \text{Net Loss} + \text{Depreciation}$$

### Audit Procedures and Reporting

The term '**cash losses**' needs to be distinguished from 'distributable surplus' and 'realised profits/losses'.

Given the objective of this clause, net profit/loss after tax would require adjustment for non-cash items such as deferred tax income/expense, foreign exchange gain/loss, fair value changes for determination of cash losses etc.

The figure of **cash losses** of the company for the financial year covered by the audit report and the immediately preceding financial year should also be **adjusted for the effect of qualifications** in the respective **audit reports** to the extent the qualifications are quantified.

The auditor while reporting on this clause should indicate that his opinion has been arrived at after considering the **effect** of the qualifications on the figure of cash losses.

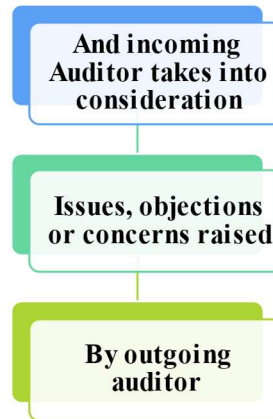
Where any of the qualifications in the audit report **is not capable of being quantified**, the auditor should state that the effect of such unquantified qualification(s) **has not been taken** into consideration for the purpose of making comments in respect of this clause.

Further, a situation may be there where the company has suffered cash losses in only one of the years referred to in this clause. In such a situation, the auditor is well advised to comment on the two years separately. Thus, for example, **it would be proper to report** that the company has incurred cash losses only during the immediately preceding financial year but has not incurred any cash losses during the current financial year.

(xviii) whether there has been any **resignation of the statutory** auditors during the year, if so, whether the auditor has taken into **consideration the issues**, objections or concerns raised by the **outgoing auditors**;

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## *Whether Resignation of statutory auditor during the Current Year*



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### **Audit Procedures and Reporting**

Incoming auditor should obtain a copy of letter of resignation stating the reasons as submitted to the management **and copy of Form ADT 3 as submitted to ROC.**

The incoming auditor should consider **the reasons** for resignation.

The incoming auditor **should obtain a management representation** letter on the matter that there are no concerns of outgoing auditor beyond those stated in no objection certificate and resignation letter received from the outgoing auditor.

### **Relevant Provisions**

The auditor needs to form his opinion on the basis of the financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans.

As per SA 570(Revised), Going Concern, the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

The auditor generally **tests the ageing** and **expected dates of realization of financial assets** and payment of financial liabilities in the normal course of audit of the financial statements, for example, **subsequent** status of **trade receivables** and payables, subsequent payment of statutory liabilities, etc.

### **Audit Procedures and Reporting**

The suggestive audit procedures under this clause are enumerated as under:

☐ The auditor should obtain the details of liabilities existing at the date of balance sheet along with their due dates of payment as per the relevant agreements/contracts to evaluate that the liabilities due within one year

from the balance sheet date shall be duly discharged as and when these fall due for payment.

☐ The auditor should perform audit procedures including going through the underlying documents and correspondence with the lenders to verify expected due dates of liabilities.

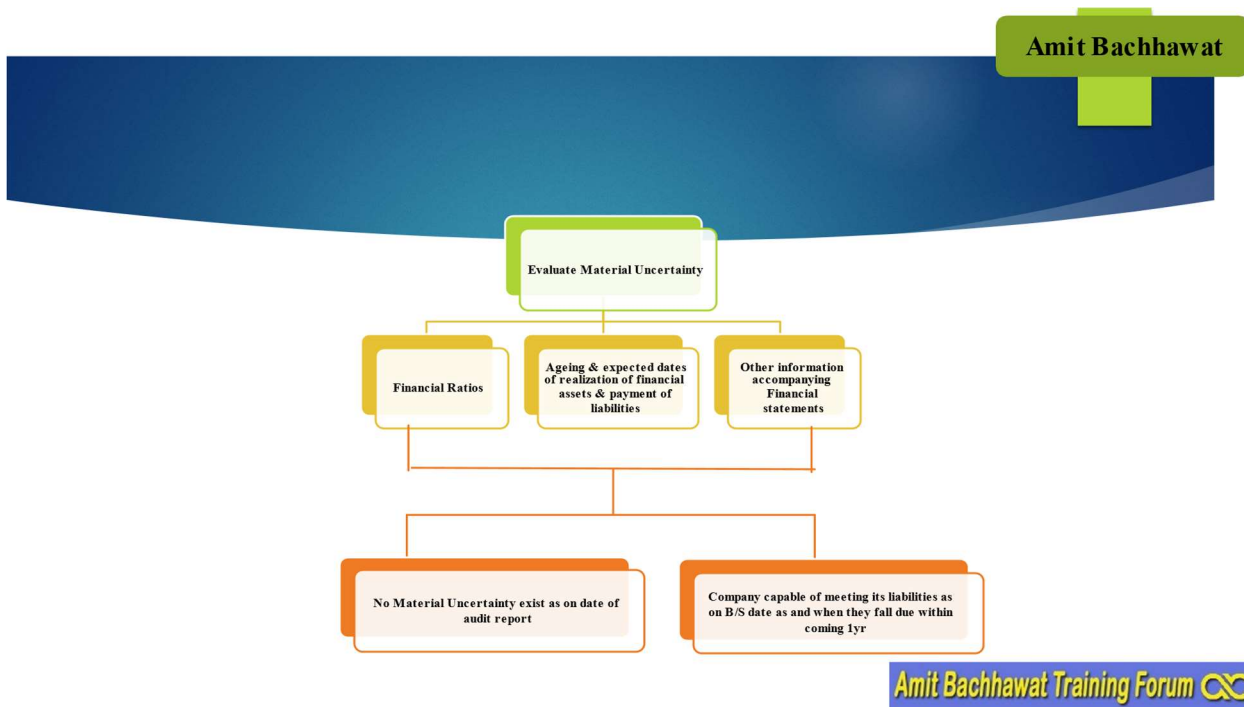
☐ The auditor should obtain the subsequent payment status as on the date of audit report or date nearer to audit report, of liabilities those existed at the date of balance sheet to capture any material deviation as on the date of audit report.

☐ For the liabilities, which remain unpaid as on the date of audit report or date nearer to audit report, the auditor should inquire with the management about their plan and capability to pay off the liabilities as and when they fall due for payment. This may be supported by position of realisable financial assets as on that day or management plans to garner financial resources, to meet the financial liabilities becoming due for payment within a period of one year from the balance sheet date.

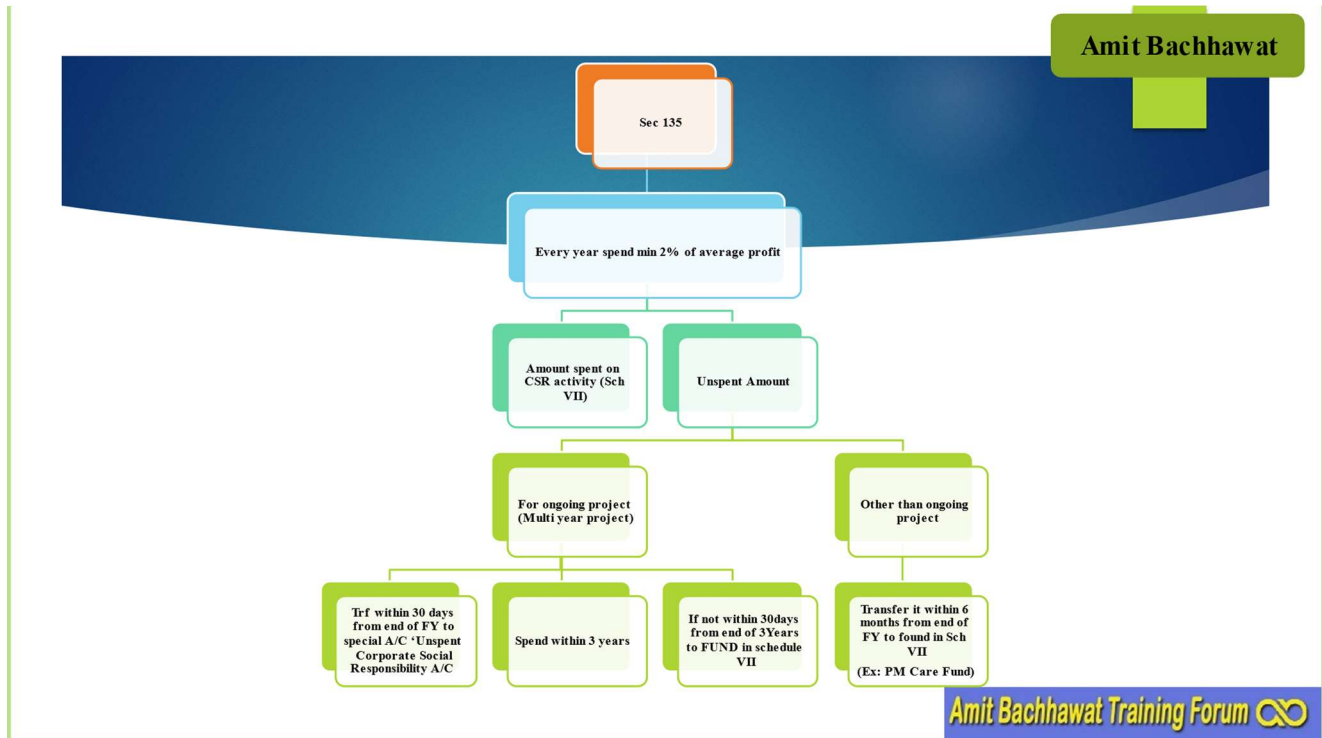
☐ The auditor should test the recoverability of financial assets based on the reements/contracts, historical trends and the correspondence with the debtors borrowers to assess whether those shall be sufficient to meet the liabilities as and when they fall due for payment. The plan submitted by the management should be supported with related documentary evidence.

The auditor should read the section of director’s report, management discussion and analysis forming part of the annual report of the company, which is required while reporting in accordance with SA 720(Revised), “The Auditor’s Responsibilities Relating to Other Information” in case those are made available to the auditor by the date of audit report.

**(xix) on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor’s knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;**



**(xx)** (a) whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;



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Sec 135(5)

**Unspent CSR amount does not relate to Ongoing Project**


A) Mention Reasons in board report and  
B) Transfer Unspent CSR amount within 6months of F.Y. end to

Schedule – VII Fund

- PM National Relief Fund
- PM Cares
- Other Fund

Sec 135(6)

**Relates to Ongoing Project (Multi-year CSR Project ≤ 3years)**

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**Audit Procedures and Reporting**

The auditor needs to evaluate the applicability of section 135 to the company.

The auditor needs to obtain:

- (i) **Board approval of Corporate Social Responsibility Policy** as recommended by Corporate Social

Responsibility Committee.

(ii) **Agenda and minutes of meetings of Corporate** Social Responsibility Committee.

(iii) The workings of the amount required **to be spent under section 135 of the Act detailing the calculations** of the average net profits as calculated in accordance with the provisions of section 198 of the Act and evaluate if the total amount required to be spent by the company has been appropriately determined at two percent of such average net profits.

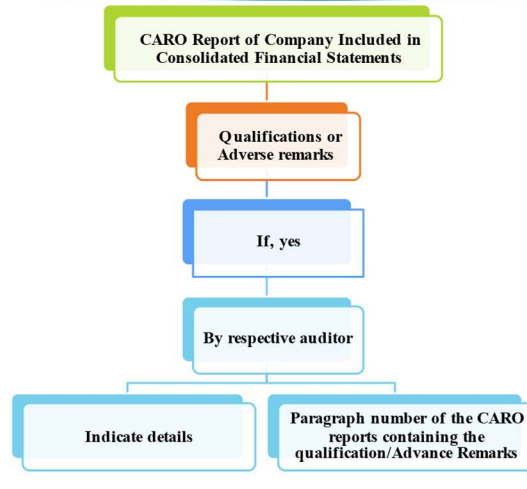
The auditor is required to **obtain confirmation from the management and review whether the Corporate Social** Responsibility activities undertaken by the company are in accordance with the Schedule VII to the Act.

The auditor should obtain from the management, details of the amount spent, in respect of projects other than ongoing projects. In respect of amounts spent on ongoing projects, the auditor should perform the procedures given in clause 3(xx)(b).

Rele- vant Finan- cial year*	Amount identified for spending on Corporate Social Respon- sibility activities “other than Ongoing Projects”	Un- spent amount of (b)	Amount Trans- ferred to Fund specified in Schedule VII to the Act	Due date of transfer to the specifi- ed fund	Actual date of transfer to the specifi- ed fund	Number of days of delay if any
(a)	(b)	(c)	(d)	(e)	(f)	(g)

(xx) (b) Unspent CSR Amount: whether **any amount remaining unspent** under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been **transferred to special account** in compliance with the provision of sub-section (6) of section 135 of the said Act;

(xxi) whether there have been any qualifications or adverse remarks **by the respective auditors** in the Companies (Auditor's Report) Order (CARO) reports of the companies included **in the consolidated financial** statements, if yes, indicate the **details of the companies** and the paragraph numbers of the CARO report containing the **qualifications or adverse remarks**.



Sr. No.	Name	CIN	Holding Company/subsidiary/ Associate/ Joint Venture	Clause number of the CARO report which is qualified or adverse

**4. Reasons to be stated for unfavourable or qualified answers.-** (1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also **state the basis for such unfavourable** or qualified answer, as the case may be.

(2) Where the auditor is unable to express any opinion on any specific matter, his report shall indicate such **fact together with the reasons as to why it is not possible for him to give the opinion** on the same.

