

# **CA - IPCC**

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## **AUDITING & ASSURANCE AMENDMENTS**

## **MATERIAL FOR MAY 2016 IPCC EXAMS**

DEAR STUDENTS,

90% OF THE CONTENT GIVEN IN THIS MATERIAL IS ALREADY TAUGHT TO THE STUDENTS OF 34TH SESSION IN THE CLASSROOM ITSELF. SINCE THE RECENT AMENDMENTS ARE ALWAYS IMPORTANT FROM EXAMINATION POINT OF VIEW WE THOUGHT THAT IT WILL BE CONVENIENT FOR THE STUDENTS TO REVISE IF WE PROVIDE ALL SUCH LATEST AMENDMENTS AT ONE PLACE. AMENDMENTS THAT ARE NOT TAUGHT IN THE CLASSROOM I.E. AMENDMENTS OF VERY RECENT NATURE ARE HIGHLIGHTED WITH GREY BACKGROUND.

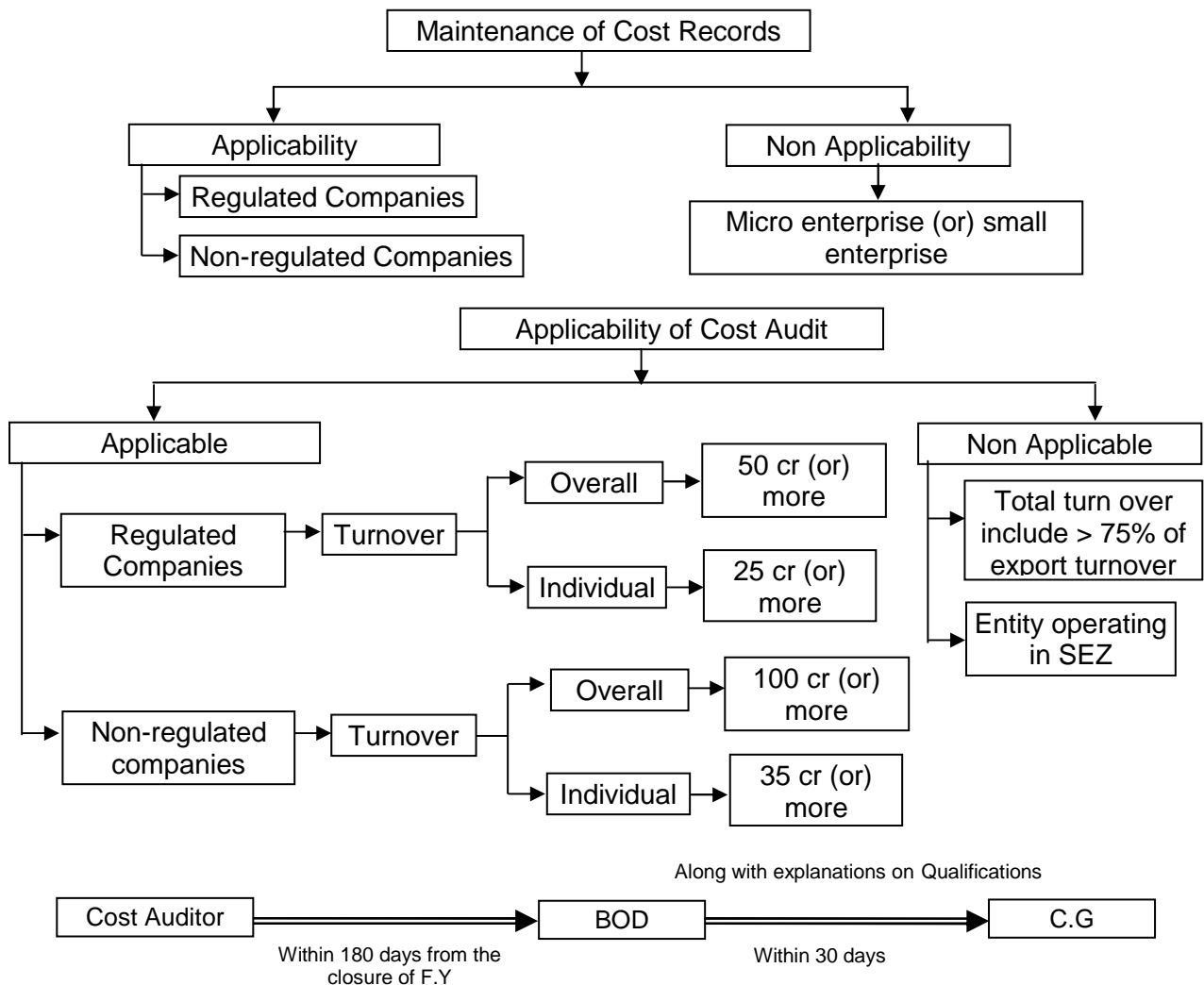
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## AMENDMENTS AT A GLANCE

### COST AUDIT



## 1. COMPANY AUDITOR

### Q.No.1. What are the Qualifications of a company auditor?

#### Qualifications:

As per **Sec 141(1)** following persons are qualified to act as an auditor of a company...

- a) An **Individual** who is a Chartered Accountant with Certificate of Practice as per the Indian Chartered Accountants act 1949.
- b) A **Partnership Firm** having majority of the partners as Chartered Accounts practicing in India.
- c) A **Limited Liability Partnership Firm** constituted under Limited Liability Partnership Act, 2008 having majority of partners as Chartered Accounts Practicing in India.

**Sec 141(2):** If firm of auditors i.e. Partnership Firm or LLP is appointed as an auditor of a company, the appointment should be in the name of the firm and the report shall be signed by only those partners who are **Chartered Accountants** and entitled to sign the report.

### Q.No.2.What are the Disqualifications of a Company's Auditor?

As per Sec 141 (3), the following persons shall not be eligible for appointment as an auditor of a company, namely...

1. A **Body Corporate** other than a LLP incorporated as per Limited Liability Partnership Act, 2008;
2. An **Officer or Employee** of the company;
3. A person who is a **Partner** or an **Employee** of an officer or employee of the company;
4. A person who, or his relative or partner
  - a) Is holding **any security or interest** in the company  
**Exception:** the relatives may hold security or interest in the company of **face value not exceeding Rs. 1 Lakh.**
  - b) Is **indebted** to the company in excess of such amount as may be prescribed (**5 Lakh**); (or)
  - c) Has given a **guarantee or provided any security** in connection with the indebtedness of any third person to the company for such amount as may be prescribed (**1 Lakh**);
5. A person or a firm (including LLP) having **Business Relationship** (whether directly or indirectly) with the company of such nature as may be prescribed;
6. A person whose **relative** is a director or is in the employment of the company as a director or key managerial personnel;
7. A person who is in **full time employment** elsewhere or a person or a firm holding appointment as an auditor of **more than twenty companies** at the time of appointment or reappointment in the company;
8. A person who has been **convicted** (imprisoned) by a court of an **offence involving fraud** and a period of **ten years** has not elapsed from the date of such verdict;
9. Any person whose subsidiary or associate company or any other form of entity, is engaged in services as provided in **section 144**.

As per Sec 141(4) where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he **shall vacate** his office and such vacation shall be deemed to be a **casual vacancy** in the office of the auditor.

**Note 1:** It is to be noted that the Company includes its subsidiary, or it's holding or associate company or subsidiary of such holding company for the purpose of disqualifications contained in (d) above and in case of (e) above subsidiary of such associate company will also include.

**Note 2:** Following transactions are to be excluded within the meaning of 'Business Relationship' contained in (e) above...

- a) 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;
- b) Commercial transactions which are **in the ordinary course of business** of the company at **arm's 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.

**Note 3:** Relative:

[The term "relative", as defined under the Companies Act, 2013, means anyone who is related to another as members of a Hindu Undivided Family; husband and wife; Father (including step- father), Mother (including step-mother), Son (including step- son), Son's wife, Daughter, Daughter's husband, Brother (including step- brother), Sister (including step- sister).]

**Q.No.3. State the services which an auditor of a company is prohibited to render to the client being audited as per Sec 144 of the Companies Act 2013?**

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

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

**Q.No.4. What is the procedure for appointment of the first auditor of a company?**

**Appointment of First Auditors in the case of a company, other than a Government Company:**

1. As per Section 139(6), the first auditor of a company, other than a Government company, shall be appointed **by the Board of Directors within 30 days** from the date of registration of the company.
2. In the case of failure of the Board to appoint the auditor, it shall inform the members of the company.
3. The members of the company shall **within 90 days** at an extraordinary general meeting appoint the auditor. Appointed auditor shall hold office till the conclusion of the first annual general meeting

**Appointment of First Auditors in the case of Government Company:**

1. As per Section 139 (7) provides that in the case of a Government company, the first auditor shall be appointed by the **Comptroller and Auditor-General of India within 60 days** from the date of registration of the company.
2. In case the Comptroller and Auditor-General of India do not appoint such auditor within the above said period
3. The **Board of Directors** of the company shall appoint such auditor within the **next 30 days**.

4. Further, in the case of failure of the Board to appoint such auditor within next 30 days,
5. It shall inform the members of the company who shall appoint such auditor within 60 days at an extraordinary general meeting. Auditors shall hold office till the conclusion of the first annual general meeting.

**Note: Government Company[Sec.2(45)]:** The company(in which not less than 51% held) owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary company of such a Government company.

**Q.No.5. What is the procedure for appointment of the Subsequent Auditor of a company?**

**APPOINTMENT OF SUBSEQUENT AUDITORS IN CASE OF NON-GOVERNMENT COMPANIES:**

Section139(1) provides that every company shall, at the first annual general meeting appoint an individual or a firm as an 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.

The following points need to be noted in this regard-

1. The company shall place the matter relating to such appointment of ratification by member at every Annual General Meeting. A retiring auditor may be re-appointed at an annual general meeting, if-
  - a) He is not disqualified for re-appointment;
  - b) He has not given the company a notice in writing of his unwillingness to be reappointed; and
  - c) A special resolution has not been passed at that meeting appointing some other Auditor or providing expressly that he shall not be re-appointed.
2. Before such appointment is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor.
3. The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141.
4. The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.
5. It is hereby clarified that, if the appointment is not ratified by the members of the company, the Board of Directors shall appoint another individual or firm as its auditor or auditors.

**Note:** An Engagement Letter may need to be entered into for each year of the period covered by the Eligibility Letter issued by the auditor under section 139 of the Companies Act, 2013 and the Appointment Letter received from the Company, to supplement / update for any subsequent changes. This may be required because the appointment would need to be ratified at each AGM under section 139 of the said Act.

**Appointment of subsequent auditors in case of Government Companies:** As per Section 139(5), in the case of a Government company

The Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office **till the conclusion of the annual general meeting**.

**Q.No.6. What is the procedure for filling of a casual vacancy?**

- a) As per section139 (8): In the case of a company other than a Government company, Casual vacancy is filled by the Board of Directors within 30 days.

- b) If such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.
- c) In the case of a Government company casual vacancy in Auditor's Office is filled by the Comptroller and Auditor-General of India within thirty days. In case C&AG fail to do so the Board of Directors shall fill the vacancy within next 30 days.
- d) As per section 140 (2) the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed form with the company and the Registrar, and
- e) In case of Government companies the auditor shall also file such statement with the Comptroller and Auditor General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In case of failure the auditor shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees as per section 140 (3).

**Q.No.7. Explain the provisions relating to Rotation of Auditor?**

**Applicability:**

As per rules prescribed in Companies (Audit and Auditors) Rules, 2014, Rotation of Auditor is applicable for the following companies except one person companies and small companies:-

- a) All listed companies
- b) All unlisted public companies having paid up share capital of rupees **10 crore or more**; (or) having borrowings from financial institutions, banks or public deposits of rupees **50 crores or more**.
- c) All private limited companies having paid up share capital of rupees 20 crore or more; (or) having borrowings from financial institutions, banks or public deposits of rupees **50 crores or more**.

**Period and Term of Auditor's Office:**

1. As per Section 139(2) the companies as mentioned above, shall not appoint or re-appoint
  - a) an individual as auditor for more than one term of five consecutive years; and
  - b) an audit firm as auditor for more than two terms of five consecutive years.
2. An individual auditor (or) firm who (or) which has completed term as above shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term.

**Additional Conditions:**

1. As on the date of appointment, no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years:
2. Every company, existing on or before the commencement of this Act which is required to comply with provisions of this sub-section, shall comply with the requirements of this sub-section within three years from the date of commencement of this Act:
3. It has also been provided that right of the company to remove an auditor or the right of the auditor to resign from such office of the company shall not be prejudiced.
4. 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.
5. 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.*

6. A break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation.
7. 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 firm shall also be ineligible to be appointed for a period of five years.
8. Where a company has appointed two or more individuals or firms or a combination thereof as joint auditors, the company may follow the rotation of auditors in such a manner that both or all of the joint auditors, as the case may be, do not complete their term in the same year.

**Q.No.8. Under what circumstances the retiring Auditor cannot be reappointed?**

**IN THE FOLLOWING CIRCUMSTANCES, THE RETIRING AUDITOR CANNOT BE REAPPOINTED:**

- a) A specific resolution has not been passed to reappoint the retiring auditor
- b) The auditor proposed to be reappointed does not possess the qualification prescribed under section 141 of the Companies Act, 2013.
- c) The proposed auditor suffers from the disqualifications under section 141(3), 141(4) and 144 of the Companies Act, 2013.
- d) He has given to the company notice in writing of his unwillingness to be reappointed.
- e) A resolution has been passed in AGM appointing somebody else or providing expressly that the retiring auditor shall not be reappointed.
- f) A written certificate has not been obtained from the proposed auditor to the effect that the appointment or reappointment, if made, will be in accordance within the limits specified under section 141(3)(g) of the Companies Act, 2013.

**Q.No.9. Explain the applicability of Constitution of Audit Committee?**

1. The Board of Directors of following companies shall constitute an Audit Committee. ....
  - a) All **Listed** companies (and)
  - b) All unlisted **public** companies which satisfies any one of the following 3 conditions
    - i) Having **paid-up** capital of 10 crore rupees or more (or)
    - ii) Having **turnover** of 100 crore rupees or more (or)
    - iii) Having outstanding **loans or borrowings** or **debentures or deposits** in aggregate of 50 crore rupees or more.

(Note: for the purpose of above, date of last audited financial statements shall be consideration)
2. The Audit Committee shall consist of a minimum of **three directors** with independent directors forming a majority Provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statements (literate persons only).
3. Every Audit Committee of a company existing before the commencement of this Act shall, **within one year**, be reconstituted in accordance with sub-section (2) above.

**Q.No.10. Explain the manner and procedure of selection and appointment of Auditors?**

- a) In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

- b) The Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.
- c) The Audit Committee or the Board, as the case may be, may call for such other information from the proposed auditor as it may deem fit.
- d) The Audit committee shall recommend the name of an individual or a firm as auditor to the Board for consideration and in other cases; the Board shall consider and recommend an individual or a firm as auditor to the members in the annual general meeting for appointment.
- e) If the Board agrees with the recommendation of the Audit Committee, it shall further recommend the appointment of an individual or a firm as auditor to the members in the annual general meeting.
- f) If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.
- g) If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit Committee, it shall place the matter for consideration by members in the annual general meeting.

**Q.No.11. Briefly explain the provisions relating to Audit Remuneration**

- a) As per section 142 of the act the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
- b) However, board may fix remuneration of the first auditor appointed by it.
- c) The remuneration, 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. Therefore, it has been clarified that the remuneration to Auditor shall also include any facility provided to him.

**Q.No.12. Briefly explain the concept of Removal of Auditor before Expiry of Term.**

According to Section 140 (1) the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014:

- a) The application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- b) The application shall be made to the Central Government within thirty days of the resolution passed by the Board.
- c) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution. It is important to note that before taking any action for removal before expiry of terms, the auditor concerned shall be given a reasonable opportunity of being heard.

**Q.No.13. Explain the process of Appointment of Auditor other than retiring Auditor (or) Explain the procedure to remove the auditor after expiry of his term.**

**SECTION 140 LAYS DOWN PROCEDURE TO APPOINT AN AUDITOR OTHER THAN RETIRING AUDITOR WHO WAS REMOVED:**

1. 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 subsection (2) of section 139.



2. On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor.
3. Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company (not exceeding a reasonable length) and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so,-
  - a) In any notice of the resolution given to members of the company, state the fact of the representation having been made; and
  - b) Send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company. and if a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may (without prejudice to his right to be heard orally) require that the representation shall be read out at the meeting.
  - c) If a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar.

**Q.No.14. Write about ceiling on Number of Audits.**

- a) As per section 141(3)(g): A chartered accountant in practice cannot hold appointments as auditor for more than 20 companies at any time.
- b) In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm who is not in full time employment elsewhere.
- c) Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.
- d) For the purpose of computation of ceiling limits following companies are excluded- one person companies, dormant companies, small companies, and private limited companies having a paid capital less than Rs.100 crores.

ICAI notification: As per ICAI notification, a CA in practice will be guilty of professional misconduct, if he holds at any time, the appointment of more than 30 audit assignments, including audit of private companies.

**Q.No.15. Write about Powers / Rights of an Auditor.**

Following are the rights of the companies' auditor...

**1. Right of Access to Books, Documents, Vouchers etc.:**

- a) Every auditor of a company shall have a right of access to the books of account and vouchers of the company **at all times** (Which implies during Working Days and working Hours)
- b) This right can be exercised even without any prior notice to the company.
- c) This right can be exercised in respect of books, documents etc. whether kept at the registered office of the company or at any other place
- d) This right is also applicable in respect of the books and documents maintained at branch office (irrespective of branch audit).
- e) The auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.
- f) Books and documents includes any books and documents which the auditor may consider necessary for his purpose including statistical records, Inventory reports, minutes, day books etc. and need not always to be the financial books.

## 2. Right to Receive Information:

- a) Every auditor of a company shall be entitled to require from the **officers or employees** of the company **such information and explanation** as he may consider necessary for the performance of his duties.
- b) Without this, it is not possible for an auditor to get the information on which to base his opinion.
- c) If the auditor is unable to get the required information, then can mention the same in his report as an observation.

## 3. Right to Receive Notice of General Meetings: (Sec 146)

- a) All notices and other communications relating to any **general meeting** shall be forwarded to the auditor of the company.
- b) The auditor shall attend the GM either by himself or through his authorized representative, who shall also be qualified to be an auditor (unless otherwise exempted by the company).
- c) He shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.
- d) This right is not specific to the meetings in which audited statements are discussed and therefore the auditor shall be given the notice of GMs whether the financial statements are discussed or not in that GM.
- e) This is to be noted that this right is in respect of **General Meetings only** and not in respect of any Board meetings.

## 4. Right of Lien:

- a) Lien refers to **lawful possession** of some others property.
- b) Auditor can exercise lien right on the **client books & documents** subject to the following conditions...
  - i) Books & Documents should pertain to the client **who owes money** in respect of services rendered
  - ii) Books & Documents must not have been received through irregular or illegal means.
  - iii) Books & Documents must have come into auditors possession on the authority of the Client
  - iv) Books & Documents must pertain to the year in respect of which the fees are due

**Note:** However the above right can't be enforced by the auditor, since it leads to violation of **Sec 128** (i.e. as per sec 128 Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company)

In '**RD Saxena Vs Balram Prasad Sharma**' case, the Supreme Court had held that "no professional can be given the right to withhold the returnable records relating to the work done by him with his clients matter on the strength of any claim for unpaid remuneration"

## 5. Right of representation

- a) At the time of retirement, the retiring auditor has ...
  - i) a right of making representation (not exceeding reasonable length) and
  - ii) a right to ask the company to circulate the same to every member of the company along with special notice of the GMs (unless it is sent by him too late).
  - iii) If a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may require that the representation shall be read out at the meeting

**Q.No.16. What are the Duties of Companies auditor as per Sec 143(1) of the Companies Act 2013 (or) State the matters to be enquired by a company's auditor as per Sec 143(1) of the Companies Act 2013?**

As per Sec 143(1) of the Company's Act 2013, the company's auditor shall make **enquiries** on the following matters and required to report on those matters on which he is having **negative remarks**.

- a) Whether **loans and advances** made by the company on the **basis of security** have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- b) Whether transactions of the company which are represented **merely by book entries** are prejudicial to the interests of the company;
- c) Whether any assets of the company consisting of **shares, debentures and other securities** have been sold at a price less than its purchase price by the company.

**Note:** this provision is not applicable in respect of Banking and Investment Companies

- d) Whether **loans and advances** made by the company have been **shown as deposits**;
- e) Whether **personal expenses** have been charged to revenue account;
- f) Where it is stated that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

**Q.No.17. What are the Duties of Companies Auditor as per Sec 143(2) of the Companies Act 2013?**

The auditor should make a report to the company on the accounts examined by him and in respect of the financial statement that are required to be laid before the company in general meeting. The report shall be given after taking into consideration the provisions of this act, accounting standards, auditing standards etc.

**Q.No.18. What are the Duties of Companies Auditor as per Sec 143(3) of the Companies Act 2013 (or) what are the matters to be stated or reported in the Company's auditors report as per Sec 143(3) of the Companies Act 2013?**

As per sec 143(3), the company's auditors report shall include a statement on the following matters...

- a) Whether he has obtained all the **information and explanations** which to the best of his knowledge and belief were necessary for the purpose of his audit and **if not**, the details thereof and the effect of such information on the financial statements;
- b) Whether, in his opinion, **proper books of account** as required by law have been kept by the company and **proper returns** adequate for the purposes of his audit have been received from branches not visited by him;
- c) Whether the **report** on the accounts of any branch office of the company audited by a person other than the company's auditor **has been sent to him** and **how he has dealt with** it in preparing his report;
- d) Whether the company's balance sheet and profit and loss account are in **agreement with the books** of account and returns;
- e) Whether, in his opinion, the financial statements comply with the **accounting standards**;
- f) The **observations or comments** of the auditors on financial transactions or matters which have any adverse effect on the **functioning** of the company;
- g) Whether any **director is disqualified** from being appointed as a director under section 164 (2);

- h) Any **qualification, reservation or adverse remark** relating to the maintenance of accounts and other matters connected therewith;
- i) Whether the company has **adequate internal financial controls system** in place and the operating effectiveness of such controls;
- j) Such **other matters** as may be prescribed.

**Q.No.19. What are the other Duties of Companies Auditor as per Sec 143 of the Companies Act 2013 ?**

**Duty to state the reason for qualification or negative report:** As per Section 143(4), where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons there for.

**Duty to comply with Auditing Standards:** As per Section 143(9), every auditor shall comply with the auditing standards. CG may prescribe the standards of auditing or any addendum thereto, as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

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

**Q.No.20. Write about the Duties of Companies Auditor to Report on Fraud as per Sec 143(12) of the Companies Act 2013?**

As per sub section 12 of section 143 of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter Central Government immediately but not later than **60** days of his knowledge and after following the procedure indicated herein below:

1. Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
2. On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
3. In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.
4. Further, the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an email in confirmation of the same. This report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number. The report shall be in the form of a statement as specified in Form ADT-4.
5. If any auditor does not comply with the provisions of sub-section (12) of section 143, he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees)

**Q.No.21. Write about duty of the Auditor to sign Audit Reports. [sec.145]**

**Signing and certification:**

- a) The auditor's report shall be signed only by the person appointed as an auditor of the company.
- b) Any other document of the company required to be signed or certified by the auditor, shall be signed or certified only by the person appointed as an auditor of the company

**Qualifications to be read in GM and inspection thereof**

- a) The qualifications observations or comments on financial transaction or matters.
- b) Which have any adverse effect on the functioning of the company
- c) Mentioned in the auditor's report shall be-
  - i) Read before the company in general meeting and
  - ii) Open to inspection by any member of the company.

**PRACTICAL QUESTIONS**

**Q.No.1.** "Mr. V", a practicing chartered accountant, is holding securities of "XYZ Ltd." Having face value of Rs.900/-. Whether Mr. V is qualified for appointment as an auditor of "XYZ Ltd."?

**Facts of the case:** Mr. V", a practicing chartered accountant, is holding securities of "XYZ Ltd." Having face value of Rs.900/-.

**Provisions of Law:** As per section 141 (3)(d) (i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner 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.

**Analysis:** As per the above provision in the present case, Mr. V. is holding security of Rs. 900 in the XYZ Ltd, therefore he is not eligible for appointment as an Auditor of "XYZ Ltd".

**Conclusion:** Mr. V. is Disqualified to appoint as an Auditor of "XYZ Ltd".

**Q.No.2.** "Mr. S" is a practicing chartered accountant and "Mrs. S", is holding securities of "ABC Ltd." Having face value of Rs.90,000/-. Whether "Mr. S" is qualified from being appointed as an auditor of "ABC Ltd."?

**Provisions of Law:** As per section 141 (3)(d)(i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner 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. Further as per proviso to this Section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs.1,00,000.

**Conclusion:** In the present case, Mrs S. (relative of Mr. S, an auditor), is having securities of Rs.90,000 face Value in the ABC Pvt. Ltd., which is as per requirement of proviso to section 141 (3)(d)(i), Therefore, Mr. S will not be disqualified to be appointed as an auditor of ABC Ltd.

**Q.No.3.** "BC & CO." Is an audit firm having partners "Mr. B" and "Mr. C", and "Mr. A" the relative of "Mr. C", is holding securities of "MWF Ltd." Having face value of Rs.1,01,000/-. Whether "BC & CO." Is qualified from being appointed as an auditor of "MWF Ltd."?

**Provisions of Law:** As per section 141 (3)(d) (i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner 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: Further as per proviso to this Section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs.1,00,000.

**Conclusion:** In the instant case BC & Co, will be disqualified for appointment as an auditor of MWF Ltd as the relative of Mr. C i.e. partner of BC & Co., is holding the securities in MWF Ltd which is exceeding the limit mentioned in proviso to section 141(3)(d)(i)

**Q.No.4.** An auditor purchased goods worth Rs. 501,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers.

**Purchase of goods on credit by the auditor:** Section 141(3)(d)(ii) of the Companies Act, 2013 specifies that a person shall be disqualified to act as an auditor if he is indebted to the company for an amount exceeding five lakh rupees.

Where an auditor purchases goods or services from a company audited by him on credit, he is definitely indebted to the company and if the amount outstanding exceeds rupees five lakh, he is disqualified for appointment as an auditor of the company.

It will not make any difference if the company allows him the same period of credit as it allows to other customers on the normal terms and conditions of the business. The auditor cannot argue that he is enjoying only the normal credit period allowed to other customers. In fact, in such a case he has become indebted to the company and consequently he has deemed to have vacated his office.

**Q.No.5.** Sony, a member of the ICAI, does not hold a certificate of practice. Is her appointment as an auditor valid?

A person shall be qualified for appointment as an auditor of a company, only if one is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949. Under the Chartered Accountants Act, 1949, only a Chartered Accountant holding the certificate of practice can engage in public practice. Sony does not hold a certificate of practice and hence cannot be appointed as an auditor of a company.

**Q.No.6.** 'B' owes Rs.5,01,000 to 'C' Ltd., of which he is an auditor. Is his appointment valid? Will it make any difference, if the advance is taken for meeting-out travelling expenses?

As per Section 141(3)(d)(ii) of the Companies Act, 2013, a person who, or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company, or a subsidiary of its holding company, for an amount exceeding Rs.500000/- then he is not qualified for appointment as an auditor of a company. Accordingly, B's appointment is not valid and he is disqualified as the amount of debt exceeds Rs.500000. Even if the advance was taken for meeting out travelling expenses particularly before commencement of audit work, his appointment is not valid because in such a case also the auditor shall be indebted to the company. The auditor is entitled to recover fees on a progressive basis only.

**Q.No.7.** Can a director of the company be appointed as an auditor?

There is no express prohibition that a director cannot be appointed as an auditor. But the below given two provisions of the companies Act prohibits a director to be appointed as an auditor:

- a) Sec.141 enumerates that an officer of the company cannot be appointed as an auditor.
- b) Sec.2 (59) of companies Act, which defines the officer to include the director.

**Q.No.8.** Can a P' firm be appointed as an auditor, if one of the partners happens to be a relative of the directors of the co. Will your answer differ if the partner is the employee of the director?

- a) Cannot be appointed.
- b) Cannot be appointed.

**Q.NO.9.** B is appointed as an auditor of PQR Ltd., at a total remuneration of Rs.10,00,000, classified as under: (i) for unit X of the company Rs.6,00,000; (ii) for unit y of the company Rs.2,00,000 and (iii) for head office Rs. 2,00,000. As per terms of appointment, B can collect his fees on progressive basis, on completion of audits of unit X and /or Y. B completed the audit of unit Y and recovered Rs.6,00,000 on account of the audit fees though the entire audit is not completed. Explain whether B is indebted to the company for an amount exceeding Rs. 5,00,000 and therefore disqualified. (or) will an auditor who received the audit fees from the co. On progressive basis, is called indebted.

Auditor cannot be said to be indebted to the Company at any stage if he recovers his fees on a progressive basis. As and when a part of the work is done, he can recover his fees in accordance with the terms of his engagement with the client, without waiting for the completion of the whole job. Hence, B is not indebted to the Company and is qualified to act as its Statutory Audit

**Q.No.10.** Managing director of PQR Ltd. Himself wants to appoint Shri Ganpati, a practicing chartered accountant, as first auditor of the company. Comment on the proposed action of the managing director.

**Provisions and Explanation:** Section 139(6) of the Companies Act, 2013 (the Act) lays down that “the first auditor or auditors of a company shall be appointed by the Board of directors within 30 days from the date of registration of the company”. In the instant case, the appointment of Shri Ganpati, a practicing Chartered Accountant as first auditors by the Managing Director of PQR Ltd by himself is in violation of Section 139(6) of the Companies Act, 2013, which authorizes the Board of Directors to appoint the first auditor of the company.

**Conclusion:** In view of the above, the Managing Director of PQR Ltd should be advised not to appoint the first auditor of the company.

**Q.No.11.** The first auditor of M/s healthy wealthy Ltd., A government company, was appointed by the board of directors.

**Provisions and Explanation:** Section 139(6) of the Companies Act, 2013 (the Act) lays down that “the first auditor or auditors of a company shall be appointed by the Board of directors within 30 days from the date of registration of the company”. Thus, the first auditor of a company can be appointed by the Board of Directors within 30 days from the date of registration of the company. However, in the case of a Government Company, the appointment of first auditor is governed by the provisions of Section 139(7) of the Companies Act, 2013. Hence in the case of M/s Healthy Wealthy Ltd., being a government company, the first auditors shall be appointed by the Comptroller and Auditor General of India.

**Conclusion:** Thus, the appointment of first auditors made by the Board of Directors of M/s Healthy Wealthy Ltd is null and void.

**Q.No.12.** Nickson Ltd. Is a subsidiary of Ajanta Ltd., whose 20% shares have been held by central government, 25% by Uttar Pradesh government and 10% by Madhya Pradesh government. Nickson Ltd. appointed Mr. P as statutory auditor for the year.

According to Section 139 (7) of the Companies Act, 2013, a Government company is defined “as any company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined”. The auditors of a government company shall be appointed or reappointed by the Comptroller and Auditor General of India. In the given case Ajanta Ltd is a government company as its 20% shares have been held by Central Govt, 25% by U.P. State Government and 10% by M.P. State Govt. Total 55% shares have been held by Central and State governments. Therefore, it is a Government company.

Nickson Ltd. is a subsidiary company of Ajanta Ltd. Hence Nickson Ltd. covers in the definition of a government company. Hence the Auditor of Nicksons Ltd. can be appointed only by C & AG.

Therefore, appointment of 'P' is invalid and 'P' should not give acceptance to the Directors of Nicksons Ltd.

**Q.No.13.** No annual general meeting (AGM) was held for the year ended 31st march, 2014, in XYZ Ltd., Ninu is the auditor for the previous 3 years, whether she is continuing to hold office for current year or not.

Section 139(1) of the Companies Act, 2013 provides that every company shall, at the first annual general meeting appoint an individual or a firm as an 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. But in this regard it is to be noted that the company shall place the matter relating to such appointment of ratification by member at every Annual General Meeting.

In case the annual general meeting is not held within the period prescribed, the auditor will continue in office till the annual general meeting is actually held and concluded. Therefore, Ninu shall continue to hold office till the conclusion of the annual general meeting.

**Q.No.14.** 'At the AGM of ICI Ltd., Mr. X was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to give up practice and join industry. State, how the new auditor will be appointed by ICI Ltd and the conditions to be complied for.

**Appointment of New Auditor in case of Resignation:** Section 139(8) of the Companies Act, 2013 deal with provisions relating to appointment of auditor caused due to casual vacancy. A casual vacancy normally arises when an auditor ceases to act as such after he has been validly appointed, e.g., death, disqualification, resignation, etc. In the instance case, Mr. X has been validly appointed and thereafter he had resigned.

The law provides that in case a casual vacancy has been created by the resignation of the auditor (as in this case), the Board cannot fill in that vacancy itself, such appointment shall also be approved by the company at general meeting convened within three months of the recommendation of the board and then he shall hold office till the conclusion of the next annual general meeting.

In this case the casual vacancy has been created on account of resignation. Therefore, Board of Directors will have to fill the vacancy within thirty days and such appointment shall be approved by the company at the general meeting within three months of the recommendations of the board. . The new auditor so appointed shall hold office only till the conclusion of the next annual general meeting.

**Q.No.15.** No resolution was passed by a company for remuneration of the retiring auditor at the time of his re-appointment.

If no resolution is passed for remuneration of the retiring auditor at the time of his re - appointment, the existing remuneration will continue.

**Q.No.16.** PBS & associates, a firm of chartered accountants, has three partners P, B and S. The firm is already having audit of 45 companies. The firm is offered 20 company audits. Decide and advise whether PBS & associates will exceed the ceiling prescribed under section 141(3)(g) of the companies act, 2013 by accepting the above audit assignments?

Before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141(3)(g) of the Act which prescribes that 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 person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies.



In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm who is not in full time employment elsewhere. If Mr. P, B and S do not hold any audits in their personal capacity or as partners of other firms, the total number of company audits that can be accepted by M/s PBS & Associates is 60. But, the firm is already having audit of 45 companies. So the firm can accept the audit of 15 companies only, which is well within the limit, specified by Section 141(3)(g) of the Companies Act, 2013.

**Q.No.17.** KBC & CO. A firm of chartered accountants has three partners, K, B & C; K is also in whole time employment elsewhere. The firm is offered the audit of ABC Ltd. and is already holding audit of 40 companies.

**Ceiling on Number of Company Audits:** As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. In the firm of KBC & Co., K is in whole-time employment elsewhere, therefore, he will be excluded in determining the number of company audits that the firm can hold. If B and C do not hold any audits in their personal capacity or as partners of other firms, the total number of company audits that can be accepted by KBC & Co., is forty, and in the given case company is already holding forty audits, therefore, KBC & Co. can't accept the offer for audit of ABC Ltd.

**Q.No.18.** While conducting the audit of a limited company for the year ended 31st march, 2014, the auditor wanted to refer to the minute books. The board of directors refused to show the minute books to the auditor.

**Provisions and Explanation:** Section 143 of the Companies Act, 2013 grants powers to the auditor that every auditor has a right of access, at all times, to the books and account including all statutory records such as minute books, fixed assets register, etc. of the company for conducting the audit. In order to verify actions of the company and to vouch and verify some of the transactions of the company, it is necessary for the auditor to refer to the decisions of the shareholders and/or the directors of the company.

It is, therefore, essential for the auditor to refer to the Minute Books. In the absence of the Minute Books, the auditor may not be able to vouch/verify certain transactions of the company.

**Conclusion:** In case the directors have refused to produce the Minute Books, the auditor may consider extending the audit procedure as also consider qualifying his report in any appropriate manner.

**Q.No.19.** Mr. B, statutory auditors of secret ltd. was not permitted by the board of directors to attend general meeting of the company on the ground that his right to attend general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed.

According to Section 146 of the Companies Act, 2013 the auditors of a company are under an **obligation to attend any general meeting** of the company and not only those meetings at which the accounts audited by them are to be presented and discussed.

In the instant case, the board of directors of Secret Ltd., have no right to restrict Mr. B from attending the general meeting and Mr. B has every right to attend such meeting as conferred by Section 146. Thus, the action of the board of directors is contrary to the provisions of law and curtails the right of the auditor.

**Q.No.20.** You have not been paid the fees for audit of a company. You are asked by the managing director of the company to send him the papers relating to the tax computations of his own proprietorship business, the taxation work of which is looked after by you. The auditor wants to exercise his lien.

**Facts of the case:** The auditor of a company exercised lien on papers of the taxation work done by him to the Managing Director for the non – receipt of fees for audit of the company.

**Provisions of law & Analysis:** The auditor can exercise lien on books and documents placed at his possession by the client for non payment of fees, for work done on the books and documents.

The guidelines to be followed while exercising this right are:

- a) Documents retained must belong to the client who owes the money.
- b) Documents must have come into possession of the auditor on the authority of the client.
- c) The auditor can retain the documents only if he has done work on the documents assigned to him.
- d) Such of the documents can be retained which are connected with the work on which fees have not been paid.

In the given case, the auditor of a company exercised lien on paper relating to tax computations of Managing Director's own proprietorship business for the non receipt of fees for audit of the company. The fees for which lien is exercised is in respect of some unrelated work.

**Conclusion:** The lien exercised by the auditor is not valid.

**Q.No.21.** The company had also appointed a cost auditor and therefore, the management had requested you not to review the cost records. Comment.

As per Sec.128 of the companies Act the term books of accounts included the cost records and the auditor has the duty to state in the audit report u/s 143 whether proper books of accounts as required by law have been kept by the company.

Accordingly, the auditors cannot be requested not to review the cost records as a cost auditor has been appointed by the company. The statutory auditor's duties cannot be limited in any way either by the Articles or by the Directors or members. This is confirmed by the judgement given in Newton vs. Birmingham small arms co. case

**Q.No.22.** At the annual general meeting of the company, a resolution was passed by the entire body of shareholders restricting some of the powers of the statutory auditors. Whether powers of the statutory auditors can be restricted?

Restrictions on Powers of Statutory Auditors: Section 143 of the Companies Act, 2013 provides that an auditor of a company shall have right of access at all times to the books and accounts and vouchers of the company whether kept at the Head Office or other places and shall be entitled to require from the offices of the company such information and explanations as the auditor may think necessary for the purpose of his audit. These specific rights have been conferred by the statute on the auditor to enable him to carry out his duties and responsibilities prescribed under the Act, which cannot be restricted or abridged in any manner.

Hence, any such resolution even if passed by entire body of shareholders is ultra vires and therefore void.

**Q.No.23.** One of the directors of Hitech Ltd. is attracted by the disqualification 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 directors under section 164(2) of the Companies Act, 2013. The auditor has to ensure that written representation have been obtained by the Board from each director that one is not hit by Section 164(2).

Since in this case, one of the director is attracted by disqualification under section 164(2) of the Act, the auditor shall state in his report as per section 143 about the disqualification of the particular director.

**Q.No.24.** The members of C. Ltd. Preferred a complaint against the auditor stating that he has failed to send the auditors report to them.

**Dispatch of Auditor's Report to Shareholders:** Section 143 of the Companies Act, 2013 lays down the powers and duties of auditor. As per provisions of the law, it is no part of the auditor's duty to send a copy of his report to members of the company. The auditor's duty concludes once he forwards his report to the company. It is the responsibility of company to send the report to every member of the company. In *Re Allen Graig and Company (London) Ltd., 1934* it was held that duty of the auditor after having signed the report to be annexed to a balance sheet is confirmed only to forwarding his report to the secretary of the company. It will be for the secretary or the director to convene a general meeting and send the balance sheet and report to the members (or other person) entitled to receive it. Hence in the given case, the auditor cannot be held liable for the failure to send the report to the shareholders.

## 2. MISCELLANEOUS MATTERS IN COMPANY AUDIT

**Q.No.1. Write about Audit of Branch Office Accounts.**

Where a company has a branch office, the accounts of that office shall be audited either by

1. The auditor appointed for the company or
2. By any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or
3. Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.

As per **the Companies (Audit and Auditors) Rules, 2014**, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

**Q.No.2. Write about Cost Audit.**

As per the section 148 the Central Government may by order specify audit of items of cost in respect of certain companies.

**Who can be cost auditor:** The audit shall be conducted by a Cost Accountant in Practice.

Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:

**Appointment of Cost Auditor:** As per rule 14 of the Companies (Audit and Auditors) Rules, 2014

- a) In the case of companies which are required to constitute an audit committee the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor.
- b) The remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;
- c) In the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

- d)** Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 requires the companies prescribed under the said rules to appoint an Auditor within 180 days of the commencement of every financial year. Every referred company shall inform the cost auditor concerned of his or its appointment as such and File a notice of such with the central Government within a period of 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year. Whichever is earlier, through electronic mode, in Form CRA-2 along with the fee as specified in companies (Registration offices and Fees) Rules, 2014.
- e)** The cost auditor appointed as such shall continue in such capacity till the expiry of 180 days from the closure of the financial year, or till he submits the cost audit report, for the financial year for which he has been appointed.
- f)** Casual Vacancy in the office of a cost Auditor: Any casual vacancy in the office of a cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within 30 days of occurrence of such vacancy and the company shall inform the central government in Form CRA-2 within 30 days of such appointment of cost auditor.

**Qualification, disqualification, rights, duties and obligations of Cost Auditor:** Similar to the company auditor.

**Q.No.3. Write about maintain of cost records by certain class of companies.**

**Companies (cost records and Audit) Rules 2014:** The Central Government has notified the Companies (Cost Records and Audit) Rules, 2014 (amended dated 31<sup>st</sup> December, 2014) which prescribes the classes of companies required to include cost records in their books of account, applicability of cost audit, maintenance of records etc.

**Maintenance of Cost Records:** Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 provides services, required to include cost records in their books of account. These companies include Foreign Companies defined in sub – section (42) of section 2 of the Act, but exclude a company classified as a Micro enterprise or a small including as per the turnover criteria provided under Micro, Small and Medium Enterprises Development Act, 2006.

The said rule has divided the list of companies into regulated sectors and non-regulated sectors. Some of the companies/ industry/ sector/ product/ service prescribed under the said rule are given below:

- a) Regulated Sectors –**
- i)** Telecommunication services made available to users by means of any transmission or reception of signs, signals, images etc. (other than broadcasting service) and regulated by the telecom Regulatory Authority of India.
  - ii)** Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003, other than for captive generation.
  - iii)** Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board.
  - iv)** Drugs and Pharmaceutical.
  - v)** Sugar and industrial alcohol.
- b) Non-Regulated Sectors-**
- i)** Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items.
  - ii)** Turbo jets and turbo propellers.
  - iii)** Tyres and Tubes.
  - iv)** Steel; Cement.
  - v)** Production, import and supply or trading of following medical devices, such as heart valves; orthopedic implants; pacemaker (temporary and permanent), etc. The rule excludes the foreign companies having only liaison offices.

As per Rule 5 of the companies (Cost Records and Audit) Rules, 2014, every company under these rules including all units and branches thereof, shall, in respect of each of its financial year, is required to maintain cost records in Form CRA – 1. The cost records shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis.

Additionally, as per clause (vi) to Paragraph of the CARO, 2015, where maintenance of cost records has been specified by the Government under section 148(1) of the Companies Act, 2013, the auditor has to report whether such accounts and records have been made and maintained.

**Q.No.4. Write about applicability of Cost Audit.**

Applicability of Cost Audit: Rule 4 of the companies (Cost Records and Audit) Rules, 2014 states the provisions related to the applicability of the cost audit depending on the turnover of the company as follows –

- i) Classes of companies specified under item (A) “Regulated Sectors” are required to get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs.50 crore or more and the aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is Rs.25 crore or more.
- ii) Classes of companies specified under item (B) “Non-Regulated Sectors” are required to get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs.100 crore or more and the aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is Rs.35 crore or more.

Cost Audit Rules Not to Apply in Certain Cases: sub-rule(3) of rule 4 provides that the requirement for cost audit under these rules shall not be applicable to a company which is covered under Rule 3, and,

- i) Whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or
- ii) Which is operating from a special economic zone.

**Q.No.5. Write about submission of cost Audit Report.**

**SUBMISSION OF COST AUDIT REPORT:**

- i) To the Board of Directors of the Company The cost auditor shall submit the cost audit report along with his his reservations or qualifications or qualification or observations or suggestions, if any, in Form CRA-3. He shall forward his report to the Board of Directors of the Company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examines such report particularly any reservation or qualification contained therein.
- ii) To the Central government. The company shall within 30 days from the dated of receipt of a copy of the cost audit report prepared (in pursuance of a direction issued by Central Government) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein in Form CRA-4 along with fees specified in the companies (Registration offices and Fees) Rules. 2014. If after considering the cost audit report and the information and explanation furnished by the company as above, the central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government

Duty to Report on fraud: The provisions of section 143(12) of the Companies Act, 2013 and the relevant rules on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.

**Q.No.6. Write about Books of Accounts as per Company Act 2013.**

**Maintenance of books of accounts [Section 128(1)]:** Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which gives a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any.

1. The company shall be in a position to explain the transactions effected both at the registered office and its branches.
2. Such books of Accounts shall be kept on accrual basis and according to the double entry system of accounting.

**Place of maintenance of books of accounts [Section 128(1)]:**

1. The books of account and other relevant papers are required to be kept at the registered office of the company.
2. The company may also keep all or any of the books of accounts at any other place in India as the Board of directors may decide. In such a case, the company should file with the Registrar of Companies, a notice in writing giving the full address of that place within 7 days of the Boards' decision.

**Electronic form of Books of accounts:** The Companies (Accounts) Rules, 2014 provides that the company may keep its books of account or other relevant papers in electronic mode.

**Proper Books of Account in relation to a Branch of the Company:**

1. Proper books of account relating to the transactions effected at the branch office in India or outside India shall be kept at that branch office.
2. Proper summarised returns periodically must be sent by the branch office to the company at its registered office or the other place as decided by the Board of directors.

**Persons who can inspect [Section 128(3) and (4)]:** The books of account and other books and papers maintained by the company within India shall be open for inspection at the registered office of the company or at such other place in India by any director during business hours.

**Period of Maintenance [Section 128(5)]:** The books of account of every company together with the vouchers relevant to any entry in such books of accounts shall be kept in order by the company for a minimum period of 8 financial years immediately preceding a financial year.

**Q.No.7. Write short notes on Directors Responsibility Statement (DRS)?**

**Sec 134 (5):** The Directors' Responsibility Statement shall state that—

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

**Q.No.8.National Financial Reporting Authority: Constitution and Functions Sec 132**

**Establishment:** As per Sec 132(1) The Central Government may by way of notification constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act.

**Functions:**

The National Financial Reporting Authority shall—

- a) Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
- b) Monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;
- c) Oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed; and
- d) Perform such other functions relating to clauses (a), (b) and (c) as may be prescribed.

**Members:** The National Financial Reporting Authority shall consist of a chairperson, who shall be a person of eminence and having expertise in accountancy, auditing, finance or law to be appointed by the Central Government and such other members not exceeding fifteen consisting of part-time and full-time members as may be prescribed.

**Q.No.9. What are the payments controlled by the companies Act 2013?**

**Payments controlled by the Companies Act, 2013:**

Under section 180, the Board of Directors of a company with the consent of the company by a special resolution exercises the following powers.

1. To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings.
2. To invest otherwise in trust securities the amount of compensation received by it as a result of any merger or amalgamation;
3. To borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business:

Provided that the acceptance by a banking company, in the ordinary course of its business, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise, shall not be deemed to be a borrowing of monies by the banking company within the meaning of this clause.

4. To remit, or give time for the repayment of, any debt due from a director.

**Q.No.10. Write about Restrictions on Charitable Contribution by Board of Directors?**

Under section 181, the Board of Directors of a company can contribute to the bonafide charitable and other funds any amount in any financial year. Prior permission of the company in general meeting is required in case if the aggregate of such contribution exceeds 5% of its average net profits for the three immediately preceding financial years.

**Q.No.11.What is the prohibition and restriction regarding political contributions.**

Section 182 deals with prohibition and restriction regarding political contributions.

According to this section, a government company or any other company which has been in existence for less than three financial years cannot contribute any amount directly or indirectly to any political party. In other cases, contribution in any financial year should not exceed 7½ % of average net profits during the three immediately preceding financial years.

**Q.No.12. Write about contributions to the National Defense Fund**

Section 183 permits the Board and other person to make contributions to the National Defense Fund or any other Fund approved by the Central Government for the purpose of National Defense to any extent as it thinks fit.

**PRACTICAL QUESTIONS**

**Q.No.1.** During the year 2013-14, it was decided for the first time that the accounts of the branch office of AAS company limited be audited by qualified chartered accountants other than the company auditor. Accordingly, the board had appointed branch auditors for the ensuing year. One of the shareholders complained to the central government that the appointments was not valid as the board of directors do not have power to appoint auditors, be they company auditor or branch auditors?

1. Appointment of Branch Auditor: The Companies Act, 2013 leaves it to the company to designate or not to designate any establishment of the company as 'branch office'. Under the Companies Act, 2013, only establishment "described as such by the company" shall be treated as a 'branch office'. Further, as per Section 143(8) of the Companies Act, 2013, where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed: Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
2. Section 139(1) of the Companies Act, 2013 provides that every company shall, at the first annual general meeting, appoint an individual or a firm as an 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.
3. The shareholders in general meeting, instead of appointing branch auditor, may authorize the board of directors to appoint branch auditors.
4. In the present case, the board has appointed branch auditors without obtaining authorization from the shareholders in general meeting. The board had appointed the auditor where it did not have authority to do so. As such, the appointment is invalid. The shareholder's complaint is right.
5. The branch auditor should ascertain before accepting the audit whether his appointment is valid.



### 3. AUDIT OF SHARE CAPITAL

#### Q.No.1. Verification of issue of bonus shares.

- a) It is authorized by its articles;
- b) It has, on the recommendation of the Board, been authorized in the general meeting of the company;
- c) It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- d) It has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- e) The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
- f) It complies with such conditions as may be prescribed like the company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.
- g) The bonus shares shall not be issued in lieu of dividend.

### PRACTICAL QUESTIONS

#### Q.No.1. Briefly discuss the provisions of the companies act, 2013 with regard to issue of shares at a discount.

Issue of Shares at a Discount: According to Section 53 of the Companies Act, 2013 except sweat equity issued as mentioned in section 54, any share issued by a company at a discounted price shall be void.

Where a company contravenes the provisions of this section the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

### 4. CONCEPTS OF AUDITING

#### Q.No.1. Write about the concept of True and Fair?

The importance of the concept of true and fair view can also be understood and appreciated from the fact that sections 128, 129 and 143 of the Companies Act, 2013 also discuss this concept in relation to account books, financial statements and reporting on financial statements respectively.

Section 128(1) of the Companies Act, 2013 provides that every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any. The company shall be in a position to explain the transactions effected both at the registered office and its branches. Such books of Accounts shall be kept on accrual basis and according to the double entry system of accounting.

Section 129(1) of the Companies Act, 2013 provides that the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 of the Companies Act, 2013 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III to the said Act.

The term “financial statement” shall include any notes annexed to or forming part of such financial statement, giving information required to be given and allowed to be given in the form of such notes under the said Act.

It may be noted that nothing contained in sub-section (1) of section 129 shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company.

However, the financial statements shall not be treated as not disclosing a true and fair view of the state of affairs of the company, merely by reason of the fact that they do not disclose-

- a) In the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938, or the Insurance Regulatory and Development Authority Act, 1999;
- b) In the case of a banking company, any matters which are not required to be disclosed by the Banking Regulation Act, 1949;
- c) in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 2003;
- d) In the case of a company governed by any other law for the time being in force, any matters which are not required to be disclosed by that law.

It may be noted that where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

Further, according to section 143(2) of the said Act, the auditor is required to make a report to the members of the company indicating that, to the best of his information and knowledge, the financial statements give a true and fair view of the state of the company’s affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.

## **5. INTERNAL CONTROL**

### **Q.No.1. Write about internal audit?**

#### **Definition:**

- a) "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process."
- b) "Internal Audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s risk management and internal control system."

#### **The objects of internal audit can be stated as follows:**

- a) To verify the accuracy and authenticity of the financial accounting and statistical records presented to the management.
- b) To ascertain that the standard accounting practices, as have been decided to be followed by the organisation, are being adhered to.
- c) To establish that there is a proper authority for every acquisition, retirement and disposal of assets.
- d) To confirm that liabilities have been incurred only for the legitimate activities of the organisation.
- e) To analyse and improve the system of internal check; in particular to see (i) that it is working; (ii) that it is sound; and (iii) that it is economical.

- f) To facilitate the prevention and detection of frauds.
- g) To examine the protection afforded to assets and the uses to which they are put.
- h) To make special investigations for management.
- i) To provide a channel whereby new ideas can be brought to the attention of management.
- j) To review the operation of the overall internal control system and to bring material

Departures and non-compliances to the notice of the appropriate level of management; the review also generally aims at locating unnecessary and weak controls for making the entire control system effective and economical.

As per SA-610, "Using the Work of an Internal Auditor", the objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.

**The activities of the internal audit function may include one or more of the following:**

1. **Monitoring of internal control:** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
2. **Examination of financial and operating information:** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
3. **Review of operating activities:** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
4. **Review of compliance with laws and regulations:** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
5. **Risk management:** The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
6. **Governance:** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

**Applicability of Provisions of Internal Audit:** As per section 138 of the Companies Act, 2013 the following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014). Shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

1. **Every listed company:**
2. **Every unlisted public company having-**
  - a) Paid up share capital of 50 crore rupees or more during the preceding financial year; or
  - b) Turnover of 200 crore rupees or more during the preceding financial year; or
  - c) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crores rupees or more at any point of time during the Preceding financial year; or outstanding deposits of 25 crores rupees or more at any point of time during the preceding financial year; and
3. **Every private company having-**
  - a) Turnover of 200 crores rupees or more during the preceding financial year; or
  - b) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crores rupees or more at any point of time during the preceding financial year: Provided that an existing company covered under any of the above criteria shall comply with the requirements within six months of commencement of such section.

## Q.No.2. who can be appointed as Internal Auditor?

### 1. Qualifications of Internal Auditor:

As per section 138 the internal auditor, who shall either be

- a) A chartered accountant whether engaged in practice or not, or
  - b) A cost accountant, or
  - c) Such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company's auditor may or may not be an employee of the company.
2. To be effective, the internal auditor must be regarded as part of the management and not merely as an assistant thereto.
  3. He must have authority to investigate from the financial angles, every phase of the organizational activity under any circumstances.
  4. It may be further pointed out that internal auditors who are qualified accountants, because of their training and experience, can be of great assistance to the management even in fields other than accounting.
  5. They can observe facts and situations and bring them to notice of authorities who would otherwise never know them; also, they critically appraise various policies of the management and draw its attention to any deficiencies, wherever these require to be corrected.
  6. In order that an internal auditor may be able to play such a role in the field of management, he must be closely associated with it and his knowledge must be kept up to date by his being kept informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies. Also, he must enjoy an independent status.
  7. In addition, the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
  8. It may also be noted that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

## Q.No.3. What is the purpose of Internal Control

Purpose of Internal Control: Internal control is designed, implemented and maintained to address identified business risks that threaten the achievement of any of the entity's objectives that concern-

- 1) The reliability of the entity's financial reporting;
- 2) The effectiveness and efficiency of its operations;
- 3) Its compliance with applicable laws and regulations; and
- 4) Safeguarding of assets.

The way in which internal control is designed, implemented and maintained varies with an entity's size and complexity.

## Q.No.4. What are the Limitations of Internal Control system?

Limitations of Internal Control: Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by inherent limitations of internal control. These include-

- a) **Role of Human Judgement:** The realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.

For example, there may be an error in the design of, or in the change to, a control.

b) **Ineffective Operation of Control:** Equally, the operation of a control may not be effective, such as where information produced for the purposes of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.

c) **Collusion among Employees:** Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control.

For example, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in a software program that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.

d) **Judgement by Management:** Further, in designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

e) **Considerations specific to Smaller Entities:** Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable.

However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

## 6. AUDIT OF CASH TRANSACTIONS

**Q.No.1.What are the transactions which requires prior approval of the company by way of special resolution to be entered with related parties?**

1) For the following Contract or Arrangements Criteria as mentioned below-

a) sale, purchase or supply of any goods or materials directly or through appointment of agents exceeding 10% of the turnover of the company or Rs.100 crore, whichever is lower;

b) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agents, exceeding 10% of net worth of the company or Rs.100 crore, whichever is lower;

c) leasing of property of any kind exceeding 10% of the net worth of the company or 10% of turnover of the company or Rs.100 crore, whichever is lower;

d) availing or rendering of any services directly or through appointment of agents exceeding 10% of the turnover of the company or Rs.50 crore, whichever is lower;

It may be noted that the limits specified above shall apply for transaction(s) to be entered into either individually or taken together with the previous transactions during a financial year.

2) Is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding Rs.2.5 lakh;

3) Is for remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding 1% of the net worth.

It may be noted that the Turnover or Net Worth referred above shall be computed on the basis of the Audited Financial Statement of the preceding financial year. In case of wholly owned subsidiary, the special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.

## **7. COMPANIES (AUDITOR'S REPORT) ORDER, 2015**

### **HISTORICAL BACK GROUND**

S.O. 990(E) - In exercise of the powers conferred by **sub-section (11) of section 143** of the Companies Act, 2013 (18 of 2013 ) and in supersession of the Companies (Auditor's Report) Order, 2003, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 480 (E), dated the 12th June, 2003, except as respects things done or omitted to be done before such supersession, the Central Government, after consultation with the Institute of Chartered Accountants of India, constituted under the Chartered Accountants Act, 1949 (38 of 1949).

### **APPLICABILITY OF CARO, 2015**

It applies to every company including a foreign Company, except the following:

- a) **A Banking company;**
- b) **An Insurance Company;**
- c) A company licensed to operate under **section 8 of the Companies Act;**
- d) A **One Person Company** as defined under clause (62) of section 2 of the Companies Act and
- e) A **small company** as defined under clause (85) of section 2 of the Companies Act; and
- f) A **private limited company** which satisfies all the following 3 conditions:
  - i) Paid-up capital (\*) + reserves (revenue & capital) - **does not exceed Rs.50 Lakhs.**
  - ii) Company does not have loan (short term/long term) outstanding of **>Rs.25 lakhs from any bank/financial institution (total limit 25 lakhs).**
  - iii) Company's turnover **does not exceed Rs.5 crores** (after deducting sales returns irrespective of the year in which sales are made & to exclude excise duty and sales tax if they are credited separately). (Relevant date is - at any time during the financial year)

**Note:** Companies specified in a, b, c above are exempt irrespective of whether they are public companies or private companies.

\*Includes both equity and preference paid up capital or bonus shares. Excludes calls in arrears, share application money and not allotted.

This order is applicable to foreign companies and even the branches of Indian companies as well.

### **COMMENCEMENT**

Auditor's report to contain matters specified below. Every report made by the auditor under section 143 of the Companies Act, on the accounts of every company examined by him to which this Order applies for the financial year commencing on or after 1st April, 2014, shall contain the matters specified below.

### **MATTERS TO BE INCLUDED IN AUDITOR'S REPORT**

#### **1. Fixed Assets:**

- a) **Proper Records:** Whether or not the company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- b) **Physical verification:**
  - i) Whether these fixed assets have been physically verified by the management at reasonable intervals;
  - ii) Whether any material discrepancies have been observed on such verification and
  - iii) If so, whether the same have been properly dealt with in the books of accounts.

## 2. Inventories:

- a) **Physical Verification:** Whether physical verification of inventory has been conducted at reasonable intervals by the management.
- b) **Adequacy of physical verification procedures:** Whether the procedures for physical verification of inventory are adequate in relation to the size of the company and the nature of its business. If not, the inadequacies to be reported.
- c) **Adequate records:** Whether the company is maintaining proper records of inventory.
- d) **Rectification of material discrepancies:** Whether the material discrepancies, if any, noticed on physical verification have been properly dealt with.

## 3. Loans to Director & Interested Parties :

- a) **Regularity of receipt:** Whether the receipt of the principal amount and the interest are also regular.
- b) **Steps for recovery of overdues:** If overdue amount is > **Rs.1,00,000**; whether reasonable steps have been taken by the company for recovery of the principal & interest

## 4. Internal Control System:

- a) **Adequacy:** Is there an internal control procedure commensurate with the size of the company and the nature of business for the following transactions:
  - i) Purchase of inventory and fixed assets &
  - ii) Sale of goods.
- b) **Continuing failure:** Whether there is a continuing failure to correct major weaknesses in internal control.

## 5. Public Deposits:

- a) If the Company has accepted deposits from public, whether it has complied with the following:
  - i) Sections 73 to 76 of the Act;
  - ii) Directives issued by Reserve Bank of India;
  - iii) Rules framed under Section 73 to 76 of the Act.If not, nature of contravention to be stated.
- b) Has the National Company Law Tribunal (NCLT) passed any order in respect of public deposits in respect of the company? If so, whether the same has been complied with?

## 6. Maintenance Of Cost Records: Where maintenance of cost records has been prescribed by the Central Government under Sec.148 (1) of the Act, whether such accounts and records have been made and maintained.

## 7. Statutory Dues:

- a) **Undisputed statutory dues:**
  - i) Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employee's State insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise duty, cess and any other statutory dues with the appropriate authorities?
  - ii) If not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year, for a period of > 6 months from the date they became payable, shall be indicated by the auditor.
- b) **Disputed Statutory dues:** In case dues of sales tax etc. have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending need to be mentioned.

- c) Whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder has been transferred to such fund within time.

**8. Net Worth Erosion:**

- a) Whether in case of a company which has been registered for a period not less than five years,  
b) Its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and  
c) Whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year also.

**9. Default to Bank/Fi Dues:** Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported.

**10. Guarantee given:** Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions are prejudicial to the interest of the company.

**11. Application of term loans:** Whether term loans were applied for the purpose for which the loans were obtained.

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

**Reasons to be stated for unfavourable or qualified answers :-**

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

**PRACTICAL QUESTIONS**

**Q.No.1.** Comment. ABC Ltd. Has not deposited provident fund contributions of rs.20 lakhs to the authorities, but accounted in the books.

The auditor's report under CARO, 2015 has to specifically state whether the company is regular in depositing provident fund dues with the appropriate authority and, if not, the extent of arrears of provident fund shall be indicated by the auditor. The auditor may also ascertain the period since which dues have not been paid. In this case, the failure of ABC Ltd. to deposit provident fund of Rs.20 lakhs will be reported by the auditor in CARO, 2015 issued u/s 143(11) of the Companies Act, 2013. In indicating the arrears, the period to which the arrears relate should preferably be also given.

**Q.No.2.** CARO, 2015 Doesn't Apply To A Foreign Company.

CARO, 2015 applies to all companies including foreign companies except banking Companies, insurance Companies, Sec. 8 Companies, One person Companies, Small Company and Private Ltd. companies subject to certain conditions.

**Q.No.3.** CARO 2015 is also applicable to the audit of branch of a company, except where the company is exempt from the applicability of the order.

**True:** CARO 2015 is applicable to audit of branch (es) of the company under Sec 143(8) of companies Act, 2013. Clearly specifies that a branch auditor has the same duties in respect of audit as the company's auditor. It is, therefore, necessary that the report submitted by the branch auditor contains a statement on all the matters specified in the order, except where the company is exempt from the applicability of the order to enable the company's auditor to consider the same while complying with the provisions of the order.



## 8. MODIFIED SECTIONS

OLD SECTIONS UNDER COMPANIES ACT,1956	NEW SECTIONS UNDER COMPANIES ACT,2013	PROVISION
SEC.81	SEC.62	RIGHT SHARES
SEC.73	SEC.40	LISTING OF SHARES
SEC.78	SEC.52	SHARES AT PREMIUM
SEC.79	SEC.53	SHARES AT DISCOUNT
SEC.79A	SEC.54	SWEAT EQUITY SHARES
SEC.75	SEC.39	SHARES FOR CONSIDERATION OTHER THAN CASH
SEC.94	SEC.61	ALTERATION OF SHARE CAPITAL
SEC.73	SEC.40	LISTING OF DEBENTURES
SEC.79	SEC.53	DEBENTURES AT DISCOUNT
SEC.117B& 117C	SEC.71	DEBENTURE TRUSTEES AND DEBENTURE REDEMPTION RESERVE
SEC.198,309,349,350 & SCHEDULE XIII	SEC.197,198 & SCHEDULE V	REMUNERATION TO DIRECTORS
SEC.227(1A)	SEC.143(1)	DUTIES OF AUDITOR TO ENQUIRY
SEC.125	SEC.77	CREATION OF CHARGE
SCHEDULE XIV	SCHEDULE II	DEPRECIATION RATES
SCHEDULE VI	SCHEDULE III	DISCLOSURE REQUIREMENTS
SEC.293 & 372A	SEC.180 & 186	INTERCORPORATE INVESTMENTS
SEC.205,205A,205C,206,206A & 207	SEC.123,124,125,126 & 127	INTERIM DIVIDEND

**THE END**