A COMPLETE GUIDE FOR

ADVANCED AUDITING

(CA FINAL)

Applicable for CA Final Nov., 2015 Exams onwards

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7D	COMPANIES (AUDITOR'S REPORT) ORDER, 2015

Para 1. Applicability: It shall apply to every company including a foreign company as defined u/s 2 (42) of the Companies Act, 2O13 except:

- a banking company as defined in clause (c) of section 5 of the Banking Regulation Ac, 1949;
- an insurance company as defined under the Insurance Act,1938;
- a company licensed to operate u/s 8 of the Companies Act, 2013;
- a One Person Company as defined u/s 2 (62) of the Companies Act and a small company as defined u/s 2 (85) of the Companies Act; and
- a private limited company with a paid up capital and reserves not more than Rs. 50 Lakh and which does not have loan outstanding exceeding Rs. 25 lakh from any bank or financial institution and does not have a turnover exceeding Rs. 5 crore **at any point of time** during the financial year.

Notes:

- All the eligibility conditions of private limited company need to be checked at any point of FY.
- Paid up capital includes equity as well as preference.
- Amount originally paid up on forfeited shares should be added to the figure of paid up capital.
- Share Application money should not be considered as part of paid up capital.
- Reserves include Capital reserves, revenue reserves as well as Revaluation Reserves.
- Credit Balance of P&L A/c will form part of reserve. Debit balance will be deducted only if revenue reserve exists.
- Miscellaneous expenditure is not allowed to be deducted.
- Loans from banks and financial institutions are to be considered in aggregate.
- Long term loans as well as short term loans, secured as well as unsecured will be considered.
- Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/ discounted.
- Non fund based credit facilities to the extent such facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.
- Outstanding dues in respect of credit cards will also be considered.
- Interest accrued as well as due does form part of outstanding loan whereas interest accrued but not due is not considered as a loan.
- Turnover means sales effected during the year including the value of service rendered.
- In an agency relationship, turnover is the amount of commission earned by the agent and not the aggregate amount for which sales are affected or services rendered.
- Income received by way of rent or dividend or interest would not form part of turnover. However if principal business of the company is letting out of property or it is an investment company, the rent or dividend/interest would constitute turnover.
- Sales Tax/Excise Duty charged separately in invoice does not form part of turnover.
- Sales returns (even belong to prior years) should be deducted.
- Trade Discount should be deducted from the figure of turnover.
- Commission to third parties will not be deducted.

Para 2. Auditor's report to contain matters specified in paragraphs 3 and 4: Every report made by the auditor u/s 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 in paragraphs 3 and 4.

Para 3	Particular
Clause (I)	**Fixed Assets**
(a)	**Adequacy of Records:** Whether the company is maintaining proper records showing ***full particulars, including quantitative details and situation*** *of* fixed assets.
	Records should also contain particulars in respect of those items of FA that have been fully depreciated or amortised or have been retired from active use and held for disposal. Records should also contain necessary particular in respect of item of FA that have been fully impaired

	during the period covered by the AR.
(b)	**Physical Verifications:** Whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account.
	• Physical verification by Management and not by the auditor. ***• Verification can also be made by outside agencies engaged by the management.*** ***• Auditor should obtain MRL confirming that FAs are physically verified by the company as per policy of the company. MRL should also include the details of the material discrepancies noticed during the physical verification of the fixed assets. If no discrepancies were noticed, then this fact should also be mentioned clearly.***
Clause (II)	**Inventory**
(a)	Whether physical verification of inventory has been conducted at ***reasonable intervals*** by the management.
	Physical verification of inventory is the responsibility of the management. Periodicity of the physical verification depends upon the nature of inventories and their location.
(b)	Are the procedures of physical verification of inventory followed by the management ***reasonable and adequate*** in relation to the size of the company and the nature of its business? If not, the inadequacies in such procedures should be reported.
	• If not reasonable and adequate, the auditor has to report the same. ***• Physical verification of inventories is primariliy the duty of the management, the auditor is expected to examine the methods and procedures of such verification.*** ***• SA 501 "Audit Evidence - Additional Consideration for specific items": to be applied for physical verification of inventory.***
(c)	Whether the company is maintaining ***proper records*** of inventory and whether any ***material discrepancies*** were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account.
	• "Proper Records" has not been defined. ***• Records should contain the particulars in respect of all items of inventories.*** ***• The auditor should satisfy himself that the stock registers are updated as and when the transactions occur.***
Clause (III)	**Loan covered u/s 189**
	Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained u/s 189 of the Companies Act. If so,
(a)	Whether receipt of the principal amount and interest are also regular; and
	• The auditor should obtain a list of companies, firms or other parties covered in the register maintained u/s 189 of the Act from the management. ***• The auditor has to examine whether the receipt of principal and interest is regular. "Regular" means the principal and interest should normally be received whenever they fall due respectively.***
(b)	If overdue amount is more than Rs. 1 lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
	• A loan is considered to be overdue when the payment has not been made or received on the due date as per the lending arrangements. ***• In such cases, the auditor has to examine the steps, if any, taken for recovery of this amount.*** ***• It is not necessary that steps to be taken must necessarily be legal steps.*** ***• Depending upon the circumstances, issue of reminders or the sending of an advocate's or solicitor's notice, may amount to "reasonable steps" even though no legal action is taken.***
Clause (IV)	**Internal Control System**
	• Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the

	◊ purchase of inventory and fixed assets and ◊ for the sale of goods and services. • Whether there is a continuing failure to correct major weaknesses in internal control system. ***• Reference may also be made to SA 315 and SA 330.*** ***• The auditor should review the reports of internal auditor.*** ***• In case there is a continuing failure on the part of the company to correct major weakness in the internal control system, the auditor should make a re-assessment of the control risk.***
Clause (V)	**Deposits**
	• in case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed there under, where applicable, have been complied with? If not, the nature of contraventions should be stated; • If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?
Clause (VI)	**Cost Records**
	Where maintenance of cost records has been specified by the Central Government u/s 148 (1) of the Companies Act, Whether such accounts and records have been made and maintained.
	• The auditor should obtain a written representation (WR) from the management. ***• The auditor should, conduct a general review of the cost records to ensure that records as prescribed are made and maintained.***
Clause (VII)	**Statutory Dues**
(a)	Undisputed Statutory dues: is the company regular in depositing undisputed statutory dues including provident fund, ESI, income-tax, sales-tax, wealth tax, service tax, duty of customs, duty of excise, value added tax cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the FY concerned for a period of more than 6 months from the date they became payable, shall be indicated by the auditor.
(b)	Disputed Statutory dues: in case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amount involved and the forum where dispute is pending shall be mentioned.
	A mere representation to the concerned Department shall not constitute a dispute.
(c)	Transferred to investor education and protection fund: 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 have been transferred to such fund within time.
Clause (VIII)	**Accumulated losses**
	• Whether in case of a company which has been registered for a period not less than 5 years, its accumulated losses at the end of FY are not less than 50 % of its net worth; and • Whether it has incurred cash losses in such FY and in the immediately preceding FY.
	• This clause is applicable to all the companies that are in existence for five years or more from the date of registration till the last day of the FY covered by the AR. This clause requires the auditor to report: ***◊ Whether the accumulated losses at the end of the FY are > 50% of its net worth; and*** ***◊ Whether the company has incurred cash losses during the period covered by the report and in the FY immediately proceeding the period covered by the AR.*** ***• The term "loss" should be constructed to mean the net profit/loss shown by the P&L A/c of the company as adjusted after taking into account qualifications in the AR.*** ***• "Net Worth" is "sum total of the paid-up capital and free reserves after deducting the provisions or expenses as may be prescribed".***

	• ***The figure of cash loss of the company for the FY covered by the AR and the immediately preceding FY should also be adjusted for the effect of qualifications in the respective AR.***
Clause (IX)	**Default of loan**
	• Whether the company has defaulted in repayment of dues (Principal + Interest) to a financial institution or bank or debenture holders? • If yes, the period and amount of default to be reported.
	• ***The auditor should obtain a schedule of repayments to banks, FI and debenture holders from the management.*** • ***The auditor should examine the agreement or other document containing terms and conditions of loan.***
Clause (X)	**Guarantee of loan**
	Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.
	• ***Guarantee given by a company is a contingent liability. In respect of contingent liabilities the auditor is normally concerned with seeking reasonable assurance that all contingent liabilities are identified and properly valued and disclosed as an off-balance sheet item.*** • ***The auditor should examine MOA of the company with a view to determine whether the company can give a guarantee.***
Clause (XI)	**Usage of loan**
	Whether term loans were applied for the purpose for which the loans were obtained.
	Term loans are generally provided by banks and FI for acquisition of capital assets, which often become the security for the loan.
Clause (XII)	**Fraud Reporting**
	• 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.
	• ***The auditor should examine the reports of the internal auditor with a view to ascertain whether any fraud has been reported or noticed by the management.*** • ***The auditor should also discuss the matter with other employees of the company and also examine the minute book of the board meeting of the company in this regard.***

Para 4. Reasons to be stated for unfavorable or qualified answers:-

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

No.	Question Bank	Exam	Marks	Refer Point/ Ans.
1	A Pvt. Ltd. is incorporated on 1st July, 2014. During the year ended 31st March, 2015, it had issued shares (fully paid up) of Rs. 40 lakhs, had borrowed Rs. 15 lakhs each from 2 financial institutions and its turnover (Net of excise Rs. 50 lakhs which is credited to a separate account) is Rs.475 lakhs. Will CARO 2015 be applicable to A Pvt. Ltd.? (Modified)	M05	4	Para 1 (Applicability of CARO) - Ans -1

2	As an auditor, how would you deal with the following: L Private Ltd., which has outstanding loan of Rs. 50 lakhs from Financial Institution defaulted in repayment there of to the extent of 50 %.The company holds that it being a private limited company, the Companies Auditors Report Order (CARO) 2015 is not applicable. (Modified)	M07	5	Para 1 (Applicability of CARO) - Ans -2
3	T Pvt. Ltd/s paid up Capital & Reserves are less than Rs. 50 lakhs and it has no outstanding loan exceeding Rs. 25 lakhs from any bank or financial institution. Its sales are Rs. 6 crores before deducting Trade discount Rs. 10 lakhs and Sales returns Rs. 95 Lakhs. The services rendered by the company amounted to Rs. 10 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) 2015 is not applicable. Discuss. (Modified)	N07	4	Para 1 (Applicability of CARO) - Ans-3
4	A Private limited company reports the following position as on 31st March, 2010: • Paid up capital 30 Lakhs • Revaluation reserves 10 Lakhs • Capital reserves 11 Lakhs • P & L A/c (Dr. Balance) 2 Lakhs. The management of the company contends that CARO is not applicable to it. (Modified)	M10 N14	5, 4	Para 1 (Applicability of CARO) - Ans-4
5	Under CARO, how as a statutory auditor would you comment on the following: X Pvt. Ltd. is a subsidiary of a listed entity incorporated outside India. The management of the company believes that since X Pvt. Ltd. is a private company and satisfies all conditions under CARO 2015, reporting under CARO is not applicable. (Modified)	N12	4	Para 1 (Applicability of CARO) - Ans-5
6	H Private Ltd. had taken overdrafts from two banks with a limit of Rs. 10 lakhs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of Rs. 9 lakhs. The said loans were outstanding as at 31 st March 2013. The paid up capital and reserves of the company as at that date was Rs. 40 lakhs and its turnover during the financial year ended on 31st March 2013 was Rs. 3 crores. The management of the company is of the opinion that CARO is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment. (Modified)	M13	4	Para 1 (Applicability of CARO) - Ans-6
7	X Ltd. closed its manufacturing operations and sold all its manufacturing fixed assets during the financial year ended 31st March, 2013. However it intends continue its operations as a trading company. In respect of other fixed assets, the company carried out a physical verification as at the end of 31st March, 2013 and found a material discrepancy to the tune of Rs. 1 lakh, which was written off and is disclosed separately in the P&L A/c . Kindly incorporate the above in your audit report.	N13 PM	4	Para 3(i) - Ans-7
8	As the statutory auditor of B Ltd. to whom CARO, is applicable, how would you report in the following situations: Physical verification of only 50 % (in value) of items of inventory has been conducted by the company. The balance 50 % will be conducted in next year due to lack of time and resources. (Modified)	M05	4	Para 3(ii) - Ans-8

9	As a statutory auditor, how would you deal with the following case: During the course of audit of ABC Ltd. it is noticed that out of Rs. 12 Lacs of provident fund contribution accounted in the books, only Rs. 2 Lacs has been remitted to the authorities during the year. On enquiry the Chief Accountant informed that due to financial problems they have not remitted but will remit the same as and when the position improves. (Modified)	M04 PM	4	Para 3(VII) - Ans-10
10	As a Statutory Auditor, how would you deal with the following: PQR Ltd. has not deposited Provident Fund contribution of Rs. 10 Lakhs with the authorities till the year-end. (Modified)	M08 PM	4	Para 3(VII) - Ans-10
11	Comment on the following: Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs duty, Excise duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable shall be indicated by the auditor. (Modified)	N08	4	Para 3(VII) - Ans-11
12	Big and Small Ltd. received a show-cause notice from central excise department intending to levy a demand of Rs. 25 lakhs in December 2010. The company replied to the above notice in January 2011, contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for the year ended on 31st March, 2011. As the auditor of the company, what is your role in this? (Modified)	M11 N14	5	Para 3(VII) - Ans-12
13	XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-2011 for audit. The audit assistant observes and brings to your notice that the company's records show following dues: • Income-tax relating to Assessment Year 2007-08 Rs. 125 lacs - Appeal is pending before Hon'ble ITAT since 30-9-09. • Customs duty Rs. 85 Lakhs -Demand notice received on 15-9-10 but no action has been taken to pay or appeal. AS an auditor, how would you bring this fact to the members? (Modified)	N11 PM	5	Para 3(VII) - Ans-13
14	As the statutory auditor of B Ltd. to whom CARO, is applicable, how would you report in the following situations? Accumulated losses of the company are 50.9 % of its net worth and it is incurring continuous cash losses since last 2 years. (Modified)	M05	4	Para 3(VIII) - Ans-14
15	Comment on the following: Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than 50 % of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year. (Modified)	N08	4	Para 3(VIII) - Ans-15
16	OK Ltd. has taken a term loan from a nationalized bank in 2006 for Rs. 200 lakhs repayable in five equal instalments of Rs. 40 lakhs from 31st March, 2007 onwards. It had repaid the loans due in 2007 & 2008, but defaulted in 2009, 2010 & 2011. Asthe auditor of OK Ltd. what is your responsibility assuming that company has sought reschedulement of loan? (Modified)	M11 PM	4	Para 3(IX) - Ans-16

17	C Ltd has defaulted in the repayment of dues to a financial institution during the financial year 2013-14 and the same remained outstanding as at March 31st, 2014. However, the company settled the total outstanding dues including interest in April 2014 subsequent to the year end and before the completion of the audit. Discuss how would you deal this matter and draft a suitable Auditor's Report. (Modified)	M13 N14	4	Para 3(IX) - Ans-17
18	As the statutory auditor of B Ltd. to whom CARO, is applicable, how would you report in the following situations: The company has stood guarantee to its sister concern, whose financial condition was not healthy for a sum of Rs. 20 lakhs borrowed from a bank. (Modified)	M05	4	Para 3(IX) - Ans-18
19	Under CARO, as a statutory auditor how would you comment on the following: A Term Loan was obtained from a bank for Rs. 75 Lakhs for acquiring R&D equipment, out of which Rs.12 Lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities.	N05 N12	4	Para 3(XI) - Ans-19
20	As a Statutory Auditor, how would you deal with the following: LM Ltd. had obtained a Term Loan of Rs. 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. (Modified)	M08 PM	4	Para 3(XI) - Ans-20
21	Explain the propriety elements in the CARO 2015. (Modified)	N06 N09 N11	8, 4	Ans-21

Answer

Ans - 1:

CARO 2015 is applicable as outstanding loan amount in aggregate exceeds Rs. 25 lacs.

Ans -2:

CARO 2015 is applicable over the L Private Limited as outstanding loan from financial institution exceeds Rs. 25 Lakhs.

Ans -3:

Turnover of the company including value of service rendered after deducting Sales returns & trade discount amounts to Rs. 5.05 crores (i.e. 6 - 0.10 - 0.95 + 0.10 crore). Hence the contention of the company that CARO is not applicable is not correct.

Ans -4:

CARO is applicable as paid up capital and reserves exceeds Rs. 50 Lakhs (30 Lakhs + 10 Lakhs + 11 Lakhs). Debit balance of P & L A/c has not been deducted as there are no revenue reserves.

Ans - 5:

If conditions for non applicability of CARO are satisfied, then CARO is not applicable.

Ans - 6:

CARO is applicable as loans taken against fixed deposits are also to be considered for determining the applicability of CARO. Further loans from banks and financial institutions are considered in aggregate not individually.

Ans - 7:

Reporting required w.r.t. Fixed Assets: "The fixed assets have been physically verified by the management at reasonable intervals; material discrepancies were noticed on such verification and the same have been properly dealt with in the books of account."

Ans - 8:

Para 3(ii) of CARO, 2015 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management and the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. In the given case, procedure of physical verification followed by management is not reasonable and hence the auditor should point out the inadequacies in physical verification procedures.

Ans - 10:

As per SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statement", it is the responsibility of management with the oversight of TCWG, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's FS.

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of FS, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the FS may not be detected, even though the audit is properly planned and performed in accordance with SAs.

If the auditor concludes that the non-compliance has a material effect on the FS, and has not been adequately reflected in the FS, the auditor shall express a qualified or adverse opinion on the FS.

As per Section 128 of the Co. Act, 2013, a company has to maintain proper books of account on accrual basis and according to the double entry system of accounting.

Further Clause VII of CARO 2015 is also required disclosure of undisputed statutory dues.

Additionally, as per Section 43B of the I. Tax Act, 1961, there are certain expenses, which includes any sum payable by the assessee as an employer by way of contribution to any provident fund, which are allowed only on its actual payment.

In the instant case, even though accrual principals have been followed, disclosure of non-payment is necessary. The auditor should disclose the fact of non-payment of Rs. 10 lakhs in his report.

Ans - 11:

Reporting for non-payment of Statutory Dues:

(1) The auditor has to report upon regularity of the company in depositing undisputed statutory dues.

(2) If the company is not regular in depositing the undisputed statutory dues the auditor has to state the extent of arrears of statutory dues which have remained outstanding as at the last day of the financial year.

(3) The payment includes all other statutory dues payable by the company.

(4) The amount payable will include the interest/penalty payable under the respective laws.

(5) The auditor has to get a written representation from the management indicating the details of disputed claims, undisputed but have remained outstanding for more than six months and a statement as to the completeness of the information provided by the management.

Ans - 12:

Reporting in case of Statutory dues:

• As per Para 3 (VII) of CARO, 2015, in case dues of Income Tax/Sales Tax/ - Service Tax/Customs Duty/Wealth Tax/Excise Duty/Cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

• A mere representation to the Department shall not constitute the dispute.

• In the present case issuance of show-cause notice by Excise Department does not tantamount to demand payable by the Company. In as much as the Company has replied to the notice and no further correspondence was received from the Department, it has to be construed that there is no demand.

Conclusion: The auditor needs not to report on this.

Ans - 13:

Reporting in case of Statutory dues:

(a) Matter related with Income Tax: As per Para 4 (ix) of CARO, 2003, in case dues of Income Tax/Sales Tax/Service Tax/Customs Duty/Wealth Tax/Excise Duty / Cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

In the present case an appeal relating to income-tax is pending with the ITAT, which need to be reported as under:

S. No.	Name of the Statute	Nature of Due	Amount (in Lacs)	Period to which amount relates	Forum where disputes is pending
1.	Income Tax	Income Tax Act, 1961	125	A.Y. 2007-08	ITAT

(b) Matter related with Custom Duty: Demand Notice has been received for Rs. 85 lacs but the company has not taken any action yet. Auditor may state the fact accordingly.

Ans - 14:

As per paragraph 3(VIII) of CARO, 2015 auditor is required to report in respect of a company in existence for last five years the followings:

• Whether accumulated losses at the end of the financial year are more than 50% of its net worth, and

• Whether it has incurred cash losses in such financial year and in the immediately preceding financial year.

In the present case, as both situations exists, hence the auditor is required to report the same in his report.

Ans - 15:

Reporting under CARO w.r.t. Accumulated Losses:
- This clause is applicable to all the companies which are in existence for more than five years.
- The auditor has to report (i) whether the accumulated losses at the end of the financial year are more than 50% of its net worth and (ii) whether the company has incurred cash losses during the period covered by the report and in the immediate previous year.
- The term loss should be construed to mean the net profit/loss shown by the P&L A/c of the company as adjusted after taking into accoSunt qualifications in the audit report to the extent qualifications are quantified.
- Net worth is defined as sum of total paid up capital and free reserves after deducting the provisions or expenses as may be prescribed.
- Free reserve means all reserves created out of profits and share premium but does not include reserves created out of revaluation of assets, write back of depreciation provisions and amalgamation.
- The auditor has to indicate his opinion on the above and the effect of qualifications.

Ans - 16:

Reporting w.r.t. Repayment of dues:
- As per Para 4(IX) of CARO, 2015 the auditors of a company has to state in his report that whether the Company has defaulted in repayment of its dues to financial institutions or bank or debenture holders and if yes the period and amount of default to be reported.
- In this case OK Ltd. has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position.

Conclusion: The auditor has to report in his audit report that the Company has defaulted in its repayment of dues to the bank to the extent of Rs. 120 Lakhs.

Ans - 17:
- **Reporting requirement as per Schedule III to the Companies Act, 2013:** As per the general instructions for preparation of Balance Sheet, provided under Schedule III to the Companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts. It also requires specifying

the period and amount of continuing default as on the balance sheet date in repayment of loans and interest, separately in each case.

- As per Para 4(IX) of CARO, 2015 the auditors of a company has to state in his report that whether the Company has defaulted in repayment of its dues to financial institutions or bank or debenture holders and if yes the period and amount of default to be reported.
- In the given case, C Ltd. has defaulted in repayments of dues to a financial institution during the financial year 2013-14 which remain outstanding as at March 31, 2014. However, the company has settled the total outstanding dues including interest in April, 2014 but, the dues were outstanding as at March 31, 2014. Therefore, it needs to be reported in the notes to accounts.
- The draft report for above matter is as under:

"The company has taken a loan during the year, from a financial institution amounting to ` XXXX @ X% p.a. which is repayable by monthly installment of ` XXXX for XX months.

The company has defaulted in repayment of dues including interest to a financial institution during the financial year 2013-14 amounting to ` XXXX which remained outstanding as at March 31, 2014. However, the outstanding sum was settled by the company in April, 2014."

Ans - 18:

As per paragraph 3(X) of CARO 2015, Auditor is required to report whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

In the present case, since financial condition of the company on behalf of whom guarantee is given is not healthy, the auditor may consider expressing an opinion that the terms and conditions on which the company has given guarantees for loans taken by the sister concern is prejudicial to the interests of the company.

Ans - 19:

As per requirement of paragraph 3(xi) of CARO 2015 auditor is required to report the fact that out of the term loan obtained for R &D equipment, Rs. 12 Lacs was not utilized for the purpose of acquiring the R & D equipment.

Ans - 20:

Auditor is required to report the fact that the pending utilisation of term loan, the funds are temporarily invested in short term deposits, in his audit report as per requirement of paragraph 3(xi) of CARO 2015.

Ans - 21:

Propriety audit stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. The following are the propriety elements of CARO, 2015:

- Whether the company has **granted** any loans, secured or unsecured to companies, firms or other parties covered in the register maintained u/s 189 of the Companies Act. If so, Whether receipt of the principal amount and interest are also regular; and
- If overdue amount is more than Rs. 1 lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
- Is the company regular in depositing undisputed statutory dues like Provident !und, Employee State Insurance, Income Tax, Sales Tax, Service Tax etc with the appropriate authorities.

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- Inclusion of flowcharts on various topics, including Standards on Auditing.
- Presentation of maximum topics in point-wise manner.
- Upto date Amendments Including CARO 2015 & Format of New Audit Report Under Companies Act, 2013.
- Illustration of all "Audit Report" as per SA 700, SA 705 & SA 706 at one place (See Chapter 24) for quick understanding of "Audit Report" in different situations with minimum time frame & fast understandability.
- All Example of Engagement Letter as per SA 210, SA 2400, SRE 2410, SRS 4400, SRS 4410 at one place (See Chapter - 24) for quick understanding of Engagement Letter in different situations with minimum time frame & fast understandability.
- All Illustration of Audit Report, Review Report & Certificate as per SA 800, SA 805, SRE 810, SRE 2400, SRE 2410, SAE 3400, SRS 4400, SRS 4410 at one place (See: Chapter - 24) for quick understanding of Audit Report, Review Report in different situations & their comparison with minimum time frame & fast understandability.
- Full coverage of Questions appeared in past 35 exams & Practice Manual has been arranged in following manners:
  - « Chapter wise/topic wise
  - « Standard of Auditing wise
  - « Accounting Standard wise
  - « Clause wise & Schedule wise (Chapter – Professional Ethics)
  - « Clause wise (Chapter – Audit under Fiscal Law (Form 3CD)
- Graphs at the beginning of every chapter, showing marks allotment in last twenty examinations.
- List of questions including case study's appeared in past 34 examinations given at the end of each chapter. Suggested answer given after Questions, so that student could first try to recall the Law/points/SA/Section/Act related to that case study and try to solved out the case study before seeing the suggested answer. It will enhance their irretrievability power. It will also help students to have an idea of paper style.
- Short Notes of all Chapters given at the end of the book (See Chapter – 26) for Quick revision.
- Table Showing Importance of Chapter on the Basis of Marks Allotment in Past Examinations.
- 100 + practical Question on New Companies Act, 2013 & CARO 2015.

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ISBN 819305800-3
9 788193 058008