

Topic – 1

CARO, 2015

COMPANIES AUDITOR REPORT ORDER, 2015

**Application
of CARO,
2015**

CARO 2015 is applicable to all types of companies including a foreign company as defined u/s 2(42) of the Companies Act, 2013, but shall not apply to:

- (i) a banking company;
- (ii) an insurance company;
- (iii) a company licensed to operate under section 8 of the Companies Act, 2013;
- (iv) One Person Company as defined u/s 2(62) and a Small Company as defined u/s 2(85) of Companies Act 2013; and
- (v) 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 Lacs from any bank or financial institution; &
 - does not have a turnover exceeding Rs. 5 Crore at any point of time during the financial year”.

The order would be applicable for unlimited companies irrespective of the size of their paid up capital and reserves, turnover or borrowings.

Points to remember

- (a) All the eligibility conditions of private limited company needs to be checked at any point of FY.
- (b) Provisions of CARO are equally applicable in case of branches also, because under sec, 143(8), a branch auditor has same duties as of company auditor.
- (c) Paid up capital includes equity as well as preference.
- (d) Amount originally paid up on forfeited shares should be added to the figure of paid up capital. Share Application money should not be considered s part of paid up capital.
- (e) Reserves includes Capital reserves, revenue reserves as well as Revaluation Reserves.
- (f) Credit Balance of Profit and Loss Account will form part of reserve. Debit balance will be deducted only if revenue reserve exists.
- (g) Miscellaneous expenditure is not allowed to be deducted
- (h) Loans from banks and financial institutions are to be considered in aggregate.
- (i) Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/discounted.
- (j) Loans from NBFC should not be considered.
- (k) Non fund based credit facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.
- (l) Long term loans as well as short term loans, secured as well as unsecured will be considered.
- (m) Outstanding dues in respect of credit cards will also be considered.
- (n) Interest accrued as well as due does form part of outstanding loan, whereas interest accrued but not due is not considered as loan.
- (o) Turnover means sales effected during the year including the value of service rendered.
- (p) In an agency relationship, turnover is the amount of commission earned by the agent and not the aggregate amount for which sales are effected or services rendered.
- (q) Trade Discount should be deducted from turnover.

- (r) Sales Tax/Excise Duty charged separately in invoice does not form part of turnover. Sales returns (even belong to prior years) should be deducted.
- (s) Commission to third parties will not be deducted.
- (t) Income received by way of rent or dividend/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.

Important Questions

Q. No. 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 Companies Auditors Report Order, 2015 (CARO) be applicable to A Pvt. Ltd.?

HINT: CARO is applicable as outstanding loan amount in aggregate exceeds Rs. 25 Lacs.

Q. No. 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 thereof to the extent of 50%. The company holds that it being a private limited company, the Companies Auditors Report Order (CARO) is not applicable.

HINT: CARO is applicable as outstanding loan from financial institution exceeds Rs. 25 Lacs.

Q. No. 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) is not applicable. Discuss.

HINT: Contention of the company that CARO is not applicable is not correct, as turnover of the company including value of service rendered after deducting trade discount and sales returns amounts to Rs. 5.05 crores (i.e. 6 - 0.10 - 0.95 + 0.10 crore).

Q. No. 4: A Private limited company reports the following position as on 31st March 2015:

Paid up capital	30 Lacs
Revaluation reserves	10 Lacs
Capital reserves	11 Lacs
P & L A/c (Dr. Balance)	2 Lacs.

The management of the company contends that CARO 2015 is not applicable to it.

[May 10 (5 Marks)]

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

Q. No. 5: Under CARO 2015, 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.

[Nov. 12 (4 Marks)]

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

Q. No. 6: H Private Ltd had taken overdrafts from two banks with a limit of Rs. 10 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of Rs. 9 lacs. The said loans were outstanding as at 31st March 2015. The paid up capital and reserves of the company as at that date was Rs. 40 lacs and its turnover during the financial year ended on 31st March 2015 was Rs. 3 crores. The management of the company is of the opinion that CARO 15 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.

[May 13 (4 Marks)]

Answer: Applicability of CARO 2015:

- The Companies (Auditor's Report) Order (CARO), 2015, exempts private limited companies from its application which fulfils all the following conditions:
 - (i) Paid-up capital and reserves does not exceed Rs. 50 Lacs;
 - (ii) Outstanding loan from any bank or financial institution does not exceed Rs. 25 Lacs; and
 - (iii) Turnover does not exceed Rs. 5 Cr.
- In the case of H Pvt. Ltd., its paid-up capital is less than Rs. 50 lakhs, turnover is less than Rs. 5 crores but its outstanding loan from banks and financial institution is Rs. 29 Lakhs.
- Loans against Fixed deposits are to be taken into consideration to compute the outstanding loan from any bank or financial institution. For the limit of Rs. 25 Lakhs as loans from banks and financial institutions, all loans from banks and financial institutions are to be taken cumulatively.

Conclusion: The contention of the company is not correct as it does not satisfy all conditions, hence reporting under CARO, 2015 will be required.

Q. No. 7: A Private Limited Company reports the following position as on 31st March, 2015:

Paid up Capital	Rs. 35 Lacs
Revaluation Reserve	Rs. 12 Lacs
Capital Reserve	Rs. 10 Lacs
Profit & Loss (Dr.) Balance	Rs. 12 Lacs

The Management of the Company contends that CARO, 2015 is not applicable to it. Comment.

[Nov. 14 (4 Marks)]

Answer: Applicability of CARO:

- For determining the applicability of the CARO, 2015 to a private limited company, both capital as well as the revenue reserves shall be taken into consideration while computing the limit of rupees fifty lakhs prescribed for paid up capital and reserves.
- Revaluation reserve, if any, should also be taken into consideration while determining the figure of reserves for the limited purpose of determining the applicability of the Order.
- The credit balance in the profit and loss account should also be considered as a part of reserve since the balance in the profit and loss account is available for general purposes like declaration of dividend.
- The debit balance in the profit and loss account, if any, should be reduced from the figure of revenue reserves only. If the company does not have revenue reserves, debit balance of profit and loss account cannot be reduced from the figures of paid up capital, capital reserve and revaluation reserve.
- Accordingly aggregate of paid up capital and reserves is Rs. 57 Lacs. The profit and loss account (Dr. balance) of Rs. 12 lakhs cannot be deducted.

Conclusion: CARO, 2015 is applicable to the Company.

Matters To Be Included In Auditor's Report

Fixed Assets [Para 3(i)]	Adequacy of Records	→ Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
	Physical verification	→ 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;

Important Questions

Q. No. 8: X Ltd. closed its manufacturing operations and sold all its manufacturing fixed assets during the financial year ended 31st March, 2015. 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, 2015 and found a material discrepancy to the tune of Rs. 1 lac, which was written off and is disclosed separately in the profit and loss account. Kindly incorporate the above in your audit report.

[Nov. 13 (4 Marks)]**HINT: 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 the same have been properly dealt with in the books of account;”

Inventories [Para 3(ii)]	(a) whether physical verification of inventory has been conducted at reasonable intervals by the management; (b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported; and (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.
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Q. No. 9: What are the reporting requirements for closing stock in the CARO 2015.**Answer:** Refer Para 3(ii) of CARO 2015.

Q. No. 10: As the statutory auditor of B Ltd. to whom CARO, 2015 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.

[May 05 (4 Marks)]

Answer: 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.

Loans And Advances [Para 3(iii)]	Whether the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Act. If so, (a) whether receipt of the principal amount and interest are also regular; (b) if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
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Important Questions

Q. No. 11: H Ltd. granted unsecured loan of Rs. 1 crore @ 15% p.a. to two of its subsidiaries during the Financial Year 2014-15. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as on 31st March 2015, these loans are not required to be reported in CARO 2015. Comment and draft a suitable report.

[May 14 (4 Marks)]

Answer: Reporting requirement under CARO, 2015:

- As per Para 3(iii) the auditor has to report whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Act. If the company has done so, then, the clause requires that the auditor's report should disclose:
 - (a) whether receipt of the principal amount and interest are also regular;
 - (b) if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
- The clause covers not only the loan granted during the year but covers all loans including opening balances. Further, there is no stipulation regarding the loan being given in cash or in kind. It may so happen that a party listed in the register maintained under section 189 of the Act might take a loan from the company and repays it to the company during the financial year concerned. Therefore, while examining the loans, the auditor should also take into consideration the loan transactions that have been squared-up during the year and report such transactions under the clause.
- In the given case, H Ltd. has granted unsecured loan of Rs. 1 crore @15% p.a. to two of its subsidiaries during the Financial Year 2014-15. During the year, both the companies have repaid its loan. Therefore, the auditor need to consider the transaction and report the details regarding such loan given to its subsidiaries and the amount involved.

Draft Report

“The Company has granted loan of Rs. 1 Crore @ 15% p.a. to 2 of its subsidiaries covered in the register maintained under Section 189 of the Companies Act, 2013 during the Financial Year 2014-15. The maximum amount involved during the year was Rs. 1.00 crore and the year-end balance of such loans was Nil”.

Internal Control [Para 3(iv)]	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.
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Public Deposits [Para 3(v)]	➤ In case the company has accepted deposits from the public, whether the directives issued by the RBI 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?
Cost Records [Para 3(vi)]	Where maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained.
Statutory Dues [Para 3(vii)]	(a) is the company regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Duties 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 financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor. (b) in case dues of Income tax/ Sales tax /Wealth tax/ Service tax/ Custom duty/ Excise duty/ Value Added Tax or cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the Department shall not constitute the dispute). (c) Whether the amount required to be transferred to Investor Education and Protection Fund in accordance with the relevant provisions of Companies Act 1956 and rules made there under has been transferred to such fund within time.

Important Questions

Q. No. 12: 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.

HINT: Non payment of provident fund of Rs. 10 Lacs needs to be disclosed by the auditor in his audit report as per requirement of Para 4(vii)(a) of CARO 2015.

Q. No. 13: 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.

HINT: Non payment of provident fund of Rs. 10 Lacs needs to be disclosed by the auditor in his audit report as per requirement of Para 4(ix)(a) of CARO 2015.

Q. No. 14: Comment on the following: Is the company regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs duty, Excise duty, Value added Tax, 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.

[Nov. 08 (4 marks)]

Answer: 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.

Q. No. 15: Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of Rs. 25 lakhs in December 2014. The company replied to the above notice in January 2015 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, 2015. As the auditor of the company, what is your role in this? **[May 11 (4 Marks)]**

Answer: Reporting in case of Statutory dues:

- As per Para 3(vii)(b) of CARO, 2015, “In case dues of Income Tax/ Sales Tax/ Service Tax/ Customs Duty/ Wealth Tax/ Excise Duty/Value Added Tax or 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.

Q. No. 16: XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-15 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 2010-11 Rs. 125 lacs – Appeal is pending before Hon'ble ITAT since 30-9-12.**
- **Customs duty Rs. 85 lakhs – Demand notice received on 15-9-14 but no action has been taken to pay or appeal.**

As an auditor, how would you bring this fact to the members?

[Nov. 11 (5 Marks)]

Answer: Reporting in case of Statutory dues:

- (a) **Matter related with Income Tax:** As per Para 3(vii) of CARO, 2003, “In case dues of Income Tax/ Sales Tax/ Service Tax/ Customs Duty/ Wealth Tax/ Excise Duty/Value Added Tax or 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 Dues	Amount (in Lacs)	Period to which amount relates	Forum where dispute is pending
1	Income Tax Act, 1961	Income Tax	125.00	AY 2010-11	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.

Accumulated Losses [Para 3(viii)]	Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
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Q. No. 17: As the statutory auditor of B Ltd. to whom CARO, 2015 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. [May 05 (4 Marks)]

Answer: As per Para 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, &
- 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.

Q. No. 18: 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 fifty percent of its net worth and whether it has incurred cash losses in such financial year and in the immediately proceeding financial year. [Nov. 08 (4 Marks)]

Answer: Reporting under CARO w.r.t. Accumulated Losses:

- (1) This clause is applicable to all the companies which are in existence for more than five years.
- (2) 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.
- (3) 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 account qualifications in the audit report to the extent qualifications are quantified.
- (4) Net worth is defined as sum of total paid up capital and free reserves after deducting the provisions or expenses as may be prescribed.
- (5) 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.
- (6) The auditor has to indicate his opinion on the above and the effect of qualifications

Repayment of Dues [Para 3(ix)]	• 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;
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Important Questions

Q. No. 19: OK Ltd. has taken a term loan from a nationalized bank in 2010 for Rs. 200 lakhs repayable in five equal instalments of Rs. 40 lakhs from 31st March, 2011 onwards. It had repaid the loans due in 2011 & 2012, but defaulted in 2013, 2014 & 2015. As the auditor of OK Ltd. what is your responsibility assuming that company has sought reschedulement of loan? [May 11 (4 Marks)]

Answer: Reporting w.r.t. Repayment of dues:

- As per Para 3 (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 debentures 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.

Q. No. 20: R Ltd as at 31st March 2015 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th February 2015. However the defaulted amount was paid on 5th April 2015. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO 15. Comment and draft a suitable report.

[May 13 (4 Marks)]

Answer: Reporting of default in repayment of dues:

As per Para 3 (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 debentures holders and if yes the period and amount of default to be reported.

The auditor should report the period and amount of all defaults existing at the balance sheet date.

In this case R Ltd has defaulted in repayment of principal and interest falling due on 28-02-2015. As R Ltd defaulted in the repayment of principal and interest, so the auditor has to report in his audit report that the Company has defaulted in its repayment of principal and interest to the financial institution to the extent of defaulted amount. The period of default i.e 35 days has also to be stated as per this clause.

Draft Report

“The company has defaulted in repayment of principal and interest to the financial institution amounted to `....., that become due on 28th Feb, 2015. Also the period of default is 35 days”.

Guarantee for loans taken by others [Para 3(x)]	→ 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
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Important Questions

Q. No. 21: As the statutory auditor of B Ltd. to whom CARO, 2015 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. [May 05 (4 Marks)]

Answer: As per Para 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.

Application of term Loan [Para 3(xi)]	→ Whether term loans were applied → for the purpose for which the loans were obtained
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Important Questions

Q. No. 22: Under CARO, 2003 how, 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.
[Nov. 05, Nov. 12 (4 Marks)]

HINT: As per requirement of paragraph 4 (xvi) of CARO 2004, 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.

Q. No. 23: 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.

[May 08 (4 Marks)]

HINT: 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 4 (xvi) of CARO 2004.

Fraud [Para 3(xii)]	→ 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
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Important Questions

Q. No. 24: As a statutory auditor, how would you report on the following under CARO: ABC Pvt. Ltd. is an manufacturer of jewellery. A senior employee of the Company informed you that the Company does not properly disclose the purity of gold used on the jewellery.

Answer: If purity of gold is not properly disclosed, it amounts to defrauding the customers. However, the auditor is concerned with those fraudulent acts that cause a material misstatement in financial statements. So long as books of account are concerned, it does not affect the financial statements hence, it has no implication for the auditor except for the valuation of inventory. But this aspect is not required to be reported under CARO, 2015.

Thus, from the view point of reporting on frauds under CARO, 2015, there is no implication for misstatement in the financial statements. Hence, no reporting is necessary for improper disclosure of purity of gold on the jewelry.

Reasons to be stated for Unfavourable or Qualified remarks (Para 4)

- For every unfavourable or qualified remarks, auditor is required to state the reasons.
- If auditor is not able to state the reasons, Audit Report shall indicate the fact together with the reason, why it is not possible for him to give an answer to such question.

Relevant Extract of CARO, 2015 (Matters to be included in Auditor's Report - Para 3)

(i)	(a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; (b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;
(ii)	(a) whether physical verification of inventory has been conducted at reasonable intervals by the management; (b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported; (c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;
(iii)	Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act. If so, (a) whether receipt of the principal amount and interest are also regular; and (b) if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;
(iv)	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.
(v)	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?
(vi)	where maintenance of cost records has been specified by the Central Government under sub-section (I) of section 148 of the Companies Act, whether such accounts and records have been made and maintained;
(vii)	(a) is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, 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 financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor. (b) 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) 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.

(viii)	<i>whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year;</i>
(ix)	<i>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</i>
(x)	<i>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;</i>
(xi)	<i>whether term loans were applied for the purpose for which the loans were obtained;</i>
(xii)	<i>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.</i>

Compiled by: CA. Pankaj Garg

Topic – 2

COMPANIES (COST RECORDS AND AUDIT) RULES, 2014

Application of Cost records – Rule 3	- For the purposes of Section 148(1) of the Companies Act, 2013, the specified class of companies, including foreign companies, engaged in the production of the goods or providing services, having an overall turnover from all its products and services of Rs. 35 Cr. or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account. - A company which is classified as a micro enterprise or a small enterprise under the Micro, Small and Medium Enterprises Development Act, 2006 are exempted from compliance of these provisions.						
	<table border="1"> <thead> <tr> <th colspan="2" data-bbox="323 539 523 577">Specified Class of Companies</th></tr> </thead> <tbody> <tr> <td data-bbox="323 577 523 674">Regulated Sectors</td><td data-bbox="531 577 1476 674">Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar</td></tr> <tr> <td data-bbox="323 674 523 808">Non-Regulated Sectors</td><td data-bbox="531 674 1476 808">Turbo jets, Arms and ammunitions, Steel, Rubber and Allied products, Coffee, tea, Cement etc.</td></tr> </tbody> </table>	Specified Class of Companies		Regulated Sectors	Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar	Non-Regulated Sectors	Turbo jets, Arms and ammunitions, Steel, Rubber and Allied products, Coffee, tea, Cement etc.
Specified Class of Companies							
Regulated Sectors	Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar						
Non-Regulated Sectors	Turbo jets, Arms and ammunitions, Steel, Rubber and Allied products, Coffee, tea, Cement etc.						
Applicability for Cost Audit – Rule 4	<table border="1"> <tbody> <tr> <td data-bbox="323 815 523 1084">Regulated Sector Industries</td><td data-bbox="531 815 1476 1084"> → Cost records are required to be audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs. 50 Cr. crore or more and → the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is Rs. 25 Cr. or more. </td></tr> <tr> <td data-bbox="323 1084 523 1352">Non-Regulated Sectors</td><td data-bbox="531 1084 1476 1352"> → Cost records are required to be audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs. 100 Cr. or more and → the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is Rs. 35 Cr. or more. </td></tr> <tr> <td data-bbox="323 1352 523 1585">Exemption</td><td data-bbox="531 1352 1476 1585"> The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or (ii) which is operating from a special economic zone.” </td></tr> </tbody> </table>	Regulated Sector Industries	→ Cost records are required to be audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs. 50 Cr. crore or more and → the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is Rs. 25 Cr. or more.	Non-Regulated Sectors	→ Cost records are required to be audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs. 100 Cr. or more and → the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is Rs. 35 Cr. or more.	Exemption	The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or (ii) which is operating from a special economic zone.”
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Exemption	The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or (ii) which is operating from a special economic zone.”						
Maintenance of Records – Rule 5	- Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in form CRA-1. - The cost records referred to in sub-rule (1) 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. - The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.						

Cost Audit – Rule 6	Appointment of Cost Auditor	Companies required to get the cost records audited, shall within 180 Days of the commencement of every financial year, appoint a cost auditor.
	Intimation to Cost auditor and Central Govt.	→ Company shall inform the cost auditor of his or its appointment as such and → file a notice of such appointment 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 specified fee.
	Tenure of Cost Auditor	→ Every 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.
	Filling of Casual Vacancy	→ Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the BOD within 30 days of occurrence of such vacancy and → the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.
	Submission of Cost Audit report	→ Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 . → Every cost auditor 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 examine such report particularly any reservation or qualification contained therein. → Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, 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 specified fees.
Form CRA-1	The Form CRA-1 prescribes the form in which cost records shall be maintained. The form categorises the requirement of maintaining proper details as per 30 headings. The headings are as follows: (1) Material Cost, (2) Employee Cost, (3) Utilities, (4) Direct Expenses, (5) Repair and Maintenance, (6) Fixed Assets and Depreciation, (7) Overheads, (8) Administrative Overheads, (9) Transportation Cost, (10) Royalty and Technical Know-how, (11) Research and Development expenses, (12) Quality Control Expenses, (13) Pollution Control Expenses, (14) Service Department Expenses, (15) Packing Expenses, (16) Interest and Financing Charges, (17) Any other item of Cost, (18) Capacity Determination, (19) Work-in-progress and finished stock, (20) Captive Consumption, (21) By-Products and Joint Products, (22) Adjustment of Cost Variances, (23) Reconciliation of Cost and Financial Accounts, (24) Related Party Transactions, (25) Expenses or Incentives on Exports, (26) Production records, (27) Sales records, (28) Cost Statements, (29) Statistical Records, (30) Records of Physical Verification. For detailed contents of Form CRA-1, visit http://www.mca.gov.in/Ministry/pdf/Amendment_Rules_01012014.pdf	

Example of an Audit Engagement Letter

To,

The Board of Directors of (name of the Entity)

(Address)

Dear Sirs,

I / We refer to the letter dated _____ informing me / us about my / our appointment/ratification as the auditors of the Company. You have requested that I / we audit the financial statements of the Company as defined in Section 2(40) of the Companies Act, 2013, for the financial year(s) beginning April 1, 20XX and ending March 31, 20YY2. The financial statements of the Company include, where applicable, consolidated financial statements of the Company and of all its subsidiaries, associate companies and joint ventures. I am / We are pleased to confirm my / our acceptance and my / our understanding of this audit engagement by means of this letter.

My / Our audit will be conducted with the objective of me / our expressing an opinion if the aforesaid financial statements give the information required by the 2013 Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20YY, and its profit/loss and its cash flows for the year ended on that date. *(In forming my / our opinion on the financial statements, I / we will rely on the work of branch auditors appointed by the Company and my / our report would expressly state the fact of such reliance).*

I / We will conduct my / our audit in accordance with the Standards on Auditing (SAs), issued by the ICAI and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the Act. Those Standards require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with the SAs.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

My / Our audit will be conducted on the basis that the Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have the responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Standards and other generally accepted accounting principles in India. This includes:
- Compliance with the applicable provisions of the Companies Act, 2013;
 - Proper maintenance of accounts and other matters connected therewith;

- The responsibility for the preparation of the financial statements on a going concern basis;
 - The preparation of the annual accounts in accordance with, the applicable accounting standards and providing proper explanation relating to any material departures from those accounting standards;
 - Selection of accounting policies and applying them consistently and making 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;
 - Taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
 - Laying down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.
- (b) Identifying and informing me / us of financial transactions or matters that may have any adverse effect on the functioning of the Company.
- (c) Identifying and informing me / us of :
- All the pending litigations and confirming that the impact of the pending litigations on the Company's financial position has been disclosed in its financial statements;
 - All material foreseeable losses, if any, on long term contracts including derivative contracts and the accrual for such losses as required under any law or accounting standards; and
 - Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
- (d) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (e) Identifying and informing me / us as to whether any director is disqualified as on March 31, 20YY from being appointed as a director in terms of Section 164 (2) of the Companies Act 2013. This should be supported by written representations received from the directors as on March 31, 20YY and taken on record by the Board of Directors.
- (f) To provide me / us, inter alia, with:
- (i) Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation of the Company, whether kept at the Head Office or elsewhere, of which the Management is aware that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
 - (ii) Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures) of the Company in so far as it relates to the consolidation of its financial statements;
 - (iii) Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.), including those submitted by cost accountant or company secretary in practice to the extent it relates to their reporting on frauds in accordance with the requirements of Section 143(12);
 - (iv) Additional information that I / we may request from the Management for the purposes of my / our audit;
 - (v) Unrestricted access to persons within the Company from whom I / we deem it necessary to obtain audit evidence. This includes my / our entitlement to require from the officers of the Company such information and explanations as I / we may think necessary for the performance of my / our duties as the auditors of the Company; and

(vi) All the required support to discharge my / our duties as the statutory auditors as stipulated under the Companies Act, 2013/ ICAI standards on auditing and applicable guidance.

As part of my / our audit process, I / we will request from the Management written confirmation concerning representations made to me / us in connection with my / our audit.

My / Our report prepared in accordance with relevant provisions of the Companies Act 2013 would be addressed to the shareholders of the Company for adoption of the accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings.

In accordance with the provisions of Section 143(12) and 143(13) of the Companies Act, 2013 if in the course of performance of my / our duties as auditor, I / we have reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, I / we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, inter alia, requires me / us to forward my / our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable me / us to forward the same to the Central Government. Such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of client confidentiality requirements or be subject to any suit, prosecution or other legal proceeding since it is done in pursuance of the Companies Act 2013 or of any rules or orders made thereunder.

I / We also wish to invite your attention to the fact that my / our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949. The reviewer(s) may inspect, examine or take abstract of my / our working papers during the course of the peer review/quality review.

I / We may involve specialists and staff from my / our affiliated network firms to perform certain specific audit procedures during the course of my / our audit.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI and deemed to be prescribed by the Central Government in accordance with Section 143(10). I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements.

{Other relevant information}

{Insert Other information, such as fee arrangements, billings and other specific terms, as appropriate.}

I / We look forward to full cooperation from your staff during my / our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for my / our audit of the financial statements including our respective responsibilities.

Yours faithfully,

(signature)

(Name of the Member)

(Designation)

(Name of the Firm)

Date:

Place:

Copy to: Chairman, Audit Committee

Acknowledged on behalf of <<Name of the entity>>

Name and Designation: _____

Date: _____

TOPIC – 4

REVISED FORMAT OF AUDIT REPORTS

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR'S REPORT ON THE STANDALONE FINANCIAL STATEMENTS OF A COMPANY UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

Circumstances include the following:

- Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.
- The terms of audit engagement reflect description of management's responsibility for the financial statements in SA 210, Agreeing the Terms of Audit Engagement.
- The independent auditor:
 - Has given an Unmodified Opinion in respect of true and fair view of the financial statements; and
 - Has given Emphasis of Matter paragraphs in respect of:
 - (i) A lawsuit against the Company, the result of which is uncertain.
 - (ii) A “material uncertainty” relating to going concern which has been adequately disclosed in the notes to the financial statements.
- In addition to expressing opinion on the true and fair view of the financial statements, the auditor has other reporting responsibilities required under the Companies Act 2013 and/or other regulatory requirements, including the responsibility to report on internal financial controls pursuant to section 143(3)(i) of the Companies Act 2013.

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF ABC COMPANY LIMITED****Report on the Financial Statements**

We have audited the accompanying standalone financial statements of ABC COMPANY LIMITED (“the Company”), which comprise the Balance Sheet as at 31st March, 20XX, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information, [*in which are incorporated the Returns for the year ended on that date audited by the branch auditors of the Company's branches at (location of the branches)*].

Management's Responsibility for the Standalone Financial Statements

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

Auditor's Responsibility

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

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to the following matters in the Notes to the financial statements:

- (a) Note X to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company.
- (b) Note Y in the financial statements which indicates that the Company has accumulated losses and its net worth has been fully / substantially eroded, the Company has incurred a net loss/net cash loss during the current and previous year(s) and, the Company's current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in Note Y, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However, the financial statements of the Company have been prepared on a going concern basis for the reasons stated in the said Note.

Our opinion is not modified in respect of these matters.

Other Matter

We did not audit the financial statements/information of ____ (number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. ____ as at 31st March, 20XX and total revenues of Rs. ____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

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

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.*]
- (c) [*The reports on the accounts of the branch offices of the Company audited under Section 143 (8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.*]
- (d) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from the branches not visited by us.*].
- (e) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) The going concern matter described in sub-paragraph (b) under the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (g) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.
- (h) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.
- (i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; [*or the Company does not have any pending litigations which would impact its financial position*]
 - The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; [*or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.*]
 - There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {*or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.*}

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)
Signature
(Designation)
(Membership No. XXXXX)

Place of Signature:

Date:

Illustrative Format of an Auditor's Report with Qualified Opinion on basis of Misstatement “Inventories are misstated. The Misstatement is deemed to be material but not pervasive”

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

(Refer SA 700)

Management's Responsibility for the Financial Statements

(Refer SA 700)

Auditor's Responsibility

Our responsibility _____

(Refer SA 700)

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

Basis for Qualified Opinion

The Company's inventories are carried in the Balance Sheet at Rs. XXX (As at 31st March 20YY: Rs. YYY). The Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard - 2 "Valuation of Inventories". The Company's records indicate that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (As at 31st March 20YY: Rs. YYY) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX (Previous year ended 31st March, 20YY: Rs. YYY), and income tax, profit for the year and shareholders' funds would have been reduced by Rs. X, Rs. XX and Rs. XXX, respectively (Previous year ended 31st March, 20YY: Rs. Y, Rs. YY and Rs. YYY, respectively). This matter was also qualified in our report/ the report of the predecessor auditors on the financial statements for the year ended 31st March 20YY.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements**(Refer SA)**

- (b) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us].
- (e) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.

For XYZ and Co.

Chartered Accountants

Firm's Registration Number

Signature

(Name of the Member Signing the Audit Report)

(Designation)

Membership Number

Place of Signature

Date

Illustrative Format of an Auditor's Report with Qualified Opinion (auditor unable to collect audit evidence) – “The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effect of the ability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the F.S.”

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

(Refer SA 700)

Management's Responsibility for the Financial Statements

(Refer SA 700)

Auditor's Responsibility

Our responsibility _____

(Refer SA 700)

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

Basis for Qualified Opinion

ABC Company Limited's investment in XYZ Company, a foreign associate whose net worth has been fully / substantially eroded, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31st March 20XX, and its profit/loss and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

(Refer SA)

- (a) We have sought and, except for the matters described in the Basis for Qualified Opinion paragraph, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from the branches not visited by us*].
- (e) Except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2013;
- (f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.

For XYZ and Co.

Chartered Accountants

Firm's Registration Number

Signature

(Name of the Member Signing the Audit Report)

(Designation)

Membership Number

Place of Signature

Date

Illustrative Format of Auditor's Report with ADVERSE Opinion on Financial statements

The F.S. are materially misstated on account of events that indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern which has not been disclosed in the financial statements (and notes thereto)."

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

(Refer SA 700)

Management's Responsibility for the Financial Statements

(Refer SA 700)

Auditor's Responsibility

Our responsibility _____

(Refer SA 700)

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

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on March 31, 20XX. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not give the information required by the Companies Act, 2013 in the manner so required and also do not give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

(Refer SA)

- (a) We have sought and, except for the matters described in the Basis for Adverse Opinion paragraph, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) Except for the effects of the matter described in the Basis for Adverse Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from the branches not visited by us*].
- (c) [*The reports on the accounts of the branch offices of the Company audited under section 143(8) of the Act by the branch auditors have been sent to us and, except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph above, have been properly dealt with by us in preparing this report.*]
- (e) Except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2013;
- (f) The matter described in the Basis for Adverse Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (h) The adverse remarks relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Adverse Opinion paragraph above.

For XYZ and Co.
Chartered Accountants
Firm's Registration Number

Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number

Place of Signature

Date

Illustrative Format of an Auditor's Report with Disclaimer of Opinion on the financial statements on account of the fact that the auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

(Refer SA 700)

Management's Responsibility for the Financial Statements

(Refer SA 700)

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with the Standards on Auditing under Section 143(10) of the Act.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

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

Basis for Disclaimer of Opinion

We were appointed as auditors of the Company after March 31, 20X1 and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at Rs. XXX and Rs. XXX, respectively.

In addition, the introduction of a new computerised accounts receivable system in September 20X0 resulted in numerous errors in accounts receivable. As of the date of our audit report, Management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs. XXX as at March 31, 20X1.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, we report that:

- (a) As described in the Basis for Disclaimer of Opinion paragraph, we sought but were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from branches not visited by us*];
- (c) [*The reports on the accounts of the branch offices of the Company audited under section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report*]

- (d) Due to the possible effects⁸ of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from branches not visited by us*];
- (e) Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the aforesaid financial statements comply with the Accounting Standards under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014;
- (f) The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- (h) The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion paragraph above.
- (i) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements;
 - Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements;
 - There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {*or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company*}.

For XYZ and Co.

Chartered Accountants

Firm's Registration Number

Signature

(Name of the Member Signing the Audit Report)

(Designation)

Membership Number

Place of Signature

Date
