

SHREE GANESHAYA NAMAH

AMENDMENTS

FOR NOV 2015 EXAM

ADVANCED AUDITING

AND

PROFESSIONAL ETHICS

C.A. FINAL

CA SURENDRA AGRAWAL

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About the Author

CA Surendra Agrawal is a member of ICAI, New Delhi & Law Graduate from Dr. B.R. Ambedkar University, Agra by profession. He is the lecturer for Advance Auditing & Professional Ethics For CA Final & Tax & other Matters to number of well reputed companies. He has a vast Teaching & Industry experience more than 4 years. He has addressed various career counseling & academic programs .**Well famous among students for SA's.**

Having gained the vast experience and conveying his valuable thoughts in various areas particularly on Auditing and Ethical Standards for Chartered Accountants it is very important that he has penned down all these in a comprehensive book "Advanced Auditing and Professional Ethics".

"JUST DON'T CRAM

LEARN IT "

Best of Luck

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Audit Report

Meaning	♦ The Report in which auditor expresses his opinion on the financial statements is known as Audit report. ♦ As per SA 700, Audit report shall be in writing (Hard Copy Format using Electronic Medium).
Types of Audit	Audit reports can be classified as Unmodified or Modified reports. <u>Unmodified report</u> The auditor shall express an unmodified opinion when the auditor concludes that the F.S. are prepared, in all material respects, in accordance with the applicable FRF. <u>Modified Reports</u> The Report in which Auditor modifies the audit report is known as Modified reports. The auditor shall modify the opinion in the auditor's report when: (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. <u>Qualified opinion</u> The auditor shall express a qualified opinion when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. <u>Adverse opinion</u> The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. <u>Disclaimer of Opinion</u> The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
Note: More details of Audit Reports are covered in in SA 700, 705 and 706.	
Elements of Audit reports	
Title (Independent Auditor's report)	Audit Report should have a title clearly stating that it is a report of an independent auditor.
Addressee (To the Shareholders of the Company)	Audit Report is normally addressed to those for whom AR is prepared, i.e. shareholders or TCWG.

Introductory Para	◆ Identify the entity whose FS have been audited. ◆ State that Financial Statements have been audited. ◆ Identify title of each statement that comprises Financial Statements. ◆ Refer to summary of significant accounting policies & other explanatory information. ◆ Specify date of period covered by each Financial Statement.
Management Responsibility	◆ Describe responsibility of Mgt & others responsible for preparation of FS in the manner in which responsibility is for the described in Terms of Engagement. ◆ The description shall include an explanation that management is statements. responsible for the preparation of FS. in accordance with Heading: applicable FRF. ◆ Responsibility includes the design, implementation and appropriate maintenance of internal control relevant to the preparation term) Res- of financial statements that are free from material misstatement, whether due to fraud or error. ◆ Where FS are prepared in accordance with a fair presentation framework, the explanation of mgt responsibility for FS in the auditor's report shall refer to "the preparation and fair presentation of these FS" or "the preparation of FS that give a true and fair view," as appropriate in the circumstances.
Auditor Responsibility	Auditor's It shall state the following: (a) Auditor's responsibility to express an opinion on FS. Para based on audit evidence. (b) Audit was conducted in accordance with SAs, issued by "Auditor's ICAI. (c) Requirement of SAs w.r.t. Compliance with ethical requirements. ◆ Planning & performing audit to obtain reasonable assurance whether FS are free of material misstatements. Responsibility Para Must also describe an audit by stating the following: (a) Audit Involves performing procedures to obtain audit evidence. (b) Selection of procedures depends upon auditor's judgment. (c) Audit Includes evaluation of: ◆ Appropriateness of accounting policies used; ◆ Reasonableness of mngt's accounting estimates; and ◆ Overall presentation of F.S. (d) Auditor believing that audit evidence is sufficient & appropriate to provide basis for auditor's opinion.
Auditor's Opinion	Auditor's Unmodified opinion expressed as: (a) In case of Fair presentation framework: Heading: ◆ FS present fairly in all material respects in accordance {Applicable FRF}. OR ◆ FS give a true & fair view of in accordance with {Applicable FRF}. (b) In case of Compliance Framework: ◆ FS are prepared in all material respects in accordance with [applicable FRF].
Other Reporting	◆ If audit report contains a separate section on other reporting responsibilities, then introductory para, mgt responsi-bility para and auditor's responsibility para to be under Sub-heading "Report on the FS".

	♦ "Report on Other Legal & Regulatory Requirements" para follows "Report on the FS" para.
Signature of the auditor	♦ Audit report to be signed in auditor's personal name. ♦ Where firm appointed as auditor, report signed in personal name & in name of audit firm. ♦ Also mention membership number of ICAI. ♦ Include, wherever applicable, the registration number of the firm, allotted by ICAI.
Date of the Auditor's Report	Not earlier than date on which auditor has obtained Sufficient Appropriate Audit Evidence on which to base auditor's opinion.
Place of Signature	Ordinarily the city where audit report is signed.
Emphasis of Matter para	Meaning Para included in Audit report that refers to a matter appropriately presented/disclosed in Financial Statement that, in the auditor's judgment is of such importance that, it is fundamental to users' understanding of FS. Requirements 1. Auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the FS. 2. EOM paragraph shall refer only to information presented or disclosed in the FS. 3. Widespread use of EOM paragraph diminishes the effectiveness of the auditor's communication of such matters, by implying that matter has not been appropriately presented or disclosed in FS. 4. EOM paragraph is not a substitute for ♦ need for expression of qualified opinion, adverse opinion or Disclaimer of opinion. ♦ disclosures to be made by mgt in FS as required by applicable FRF. 5. Placement: immediately after Opinion para. 6. Use heading "Emphasis of Matter" or other appropriate heading. 7. Emphasis of Matter paragraph must include a clear reference to: ♦ Matter being emphasised. ♦ Where relevant, disclosure that fully describe the matter can be found in FS. ♦ Indicate that audit opinion is not modified in respect of matter emphasised. Circumstances when EOM can be included ♦ An uncertainty relating to the future outcome of an exceptional litigation or regulatory action. ♦ Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date. ♦ A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
Other matter Para	Meaning Para included in audit reports that refers to matter other than those presented/disclosed in Financial Statements that in auditor's judgment, is relevant to users' understanding of audit, auditor's responsibilities or auditor's report. Requirement ♦ If auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the F.S. that in the auditor's

	judgment is relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall do so in a paragraph in the auditor's report with the heading "Other Matter", or other appropriate heading provided not prohibited by Law and Regulation ♦ Placement: immediately after Opinion paragraph & any Emphasis of Matter Paragraph; or elsewhere if content of other matter paragraph is relevant to Other Reporting Responsibilities section.
Draft of Unmodified Audit Report	Given Below
Other Drafts of Audit Reports	Refer SA 700, 705 and SA 706 in Module I
Other Reporting requirements	Reporting u/s 143(1) Reporting u/s 143 (2) Refer Chapter "Company Auditor" Reporting u/s 143 (3) Reporting u/s 143 (11) Refer Chapter "CARO 2015"
<u>AUDIT CERTIFICATES AND AUDIT REPORT</u>	1. A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. 2. The auditors certificate represents that he has verified certain figures and is satisfied about their accuracy. 3. However, a report, is a formal statement made after an enquiry or examination of the specified .matters under the report and the auditors opinion thereon. 4. Thus the opinion may differ from one auditor to another as it involves personal judgment.

Criminal liability for misstatements in prospectus [Section 34]Company Act 2013)

1. In the following cases, every person who authorises the issue of prospectus shall be liable under section 447 i.e. *Punishment for fraud*:

- a. Where a prospectus is issued, circulated or distributed under this Chapter and it includes any statement which is untrue or misleading in form or context in which it is included; or
- b. Where any inclusion or omission of any matter is likely to mislead any person.

2. A person shall not be liable if:

- a. he proves that such statement or omission was immaterial or
- b. he had reasonable grounds to believe that the statement was true or the inclusion or omission was necessary, and till the time of issue of the prospectus, continued to believe that the statement was true or the inclusion or omission was necessary.

In the new law of 2013 Act, penalties are made much rigid than that of old law. Here the person who authorizes the issue of such prospectus shall be punishable for fraud under section 447. Also, class action suits may be taken against the guilty person as per section 37 of the 2013 Act.

Civil liability for misstatements in prospectus [Section 35]

1. Where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who—

- (a) is a director of the company at the time of the issue of the prospectus;
- (b) has authorised himself to be named and is named in the prospectus as a director of the company, or has agreed to become such director, either immediately or after an interval of time;
- (c) is a promoter of the company; and
- (d) has authorised the issue of the prospectus.

shall, without prejudice to any punishment to which any person may be liable under section 36, be *liable to pay compensation to every person* who has sustained such loss or damage.

2. No person shall be liable, if he proves—

- (a) that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or
- (b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

3. Notwithstanding anything contained in this section, where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities of a company or any other person or for any fraudulent purpose, every person referred in point 1 above shall be personally responsible, *without any limitation of liability*, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

4. As per section 2(69), "promoter" means a person—

- (a) who has been named as such in a prospectus or is identified by the company in the annual return; or
- (b) who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
- (c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act. It does not apply to a person who is acting merely in a professional capacity.

The definition of promoter has been specifically defined in the 2013 Act. This exhaustive definition is providing that who shall be considered as promoter and omits the persons from being called as promoters where he merely acts in professional capacity.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements

We have audited the accompanying 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.

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting 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 there under.

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

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due

By CA. Surendra Agrawal, M.Com, LLB, ACA

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.

Report on Other Legal and Regulatory Requirements

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:

i. 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]

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

iii. 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 Company10}.

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)
Signature (Xxxxx X. Xxxx)
(Designation11)
(Membership No. XXXXX)

Place of Signature:

Date

COST AUDIT

COMPANIES (COST RECORDS AND AUDIT) RULES, 2014 - AS AMENDED

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. Specified Class of Companies <u>Regulated Sectors</u> Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar <u>Non-Regulated Sectors</u> Turbo jets, Arms and ammunitions, Steel, Rubber and Allied products, Coffee, tea, Cement etc.
Applicability for Cost Audit - Rule 4	
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. 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

	(it) which is operating from a special economic zone
Maintenance of Records - Rule 5	
(1) 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. (2) 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. (3) 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.

Companies (Auditor's Report) Order-2015

Applicability of the CARO - 2015

Every report made by the auditor under section 143 of the 2013 Act for financial year commencing on or after 1 April 2014 should include CARO - 2015.

Companies covered under the CARO - 2015	Applies to every company (except companies that are excluded, see below), including a foreign company as defined under section 2(42) of the 2013 Act i.e. any company or body corporate incorporated outside India which: ☐ has a place of business in India whether by itself or through an agent, physically or through an electronic mode, and ☐ Conducts any business activity in India in any other manner.
Class of companies which are excluded from CARO-2015 application	☐ Banking company as defined under section 5(c) of the Banking Regulation Act, 1949 ☐ Insurance company as defined under the Insurance Act, 1938. ☐ Companies incorporated with charitable objects, etc. i.e. companies licensed to operate <u>under section 8 of 2013 Act</u> ☐ Private company: ✗ -with a <u>paid-up capital and reserves</u> not more than Rs.50 lakhs ✗ -does not have <u>outstanding loan</u> exceeding Rs.25 lakhs 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 ☐ One person company as defined under section 2(62) of the 2013 Act i.e. a company which has only one person as a member and ☐ Small company as defined under section 2(85) of the 2013 Act i.e. a company other than a public company: ✗ -paid-up share capital of which does not exceed Rs.50 lakhs or such higher amount as may be prescribed which shall not be more than Rs.5 crore, and ✗ -turnover of which as per its last statement of profit and loss does not exceed Rs.2 crore or such higher amount as may be prescribed which shall not be more than Rs.20 crore. Following companies will not qualify as a small company: ✓ -a holding or a subsidiary company, ✓ -a company registered under section 8 of 2013 Act, or ✓ -a company or body corporate governed by any special Act.
Matters to be reported in the CARO -2015	☐ As compared to the CARO -2003, the reporting requirements under the CARO -2015 have been reduced considerably (i.e. from 21 clauses to 12 clauses).

	☐ -An auditor's response to any of the reporting matters is unfavourable/qualified, the auditor should state the reason for such response ☐ -an auditor is unable to express any opinion in response to a particular question, the audit report should indicate such fact together with the reasons why it was not possible to provide a response to such a question.
Clause of CARO, 2015	
1. Fixed assets	(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;
2. Inventories	(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;
3. Granting of loans to certain parties	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
4. 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.
5. Acceptance of 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?
6. <i>Maintenance of cost records</i>	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;
7. <i>Deposit of statutory dues</i>	(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. (a) 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 there under has been transferred to such fund within time.
8. <i>Accumulated losses and incurrence of cash losses</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;
9. <i>Default in repayment of dues</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 ;
10. <i>Guarantee for loans taken by others from banks or financial institutions</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 ;
11. <i>Application of term loans</i>	whether term loans were applied for the purpose for which the loans were obtained;
12. <i>Fraud reporting</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.

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 as part of paid up capital.
- (e) Reserves includes Capital reserves, revenue reserves as well as Revaluation Reserves.
- (f) Debit balance of Profit and Loss A/c 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.
- (b) (J) Loans from NBFC should not be considered.
- (c) (k) Non fund based credit facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.
- (d) (l) Long term loans as well as short term loans, secured as well as un- secured will be considered.
- (e) (m) Outstanding dues in respect of credit cards will also be considered
- (f) (n) Interest accrued as well as due does form part of outstanding loan whereas interest accrued but not due is not considered as loan.
- (g) (o) Turnover means sales effected during the year including the value at service rendered.
- (h) (p) In an agency relationship, turnover is the amount of commission earned by the agent and not the aggregate amount for which said are effected or services rendered.
- (i) (q) Trade Discount should be deducted from turnover.
- (j) (r) Sales Tax/Excise Duty charged separately in invoice does not form part of turnover. Sales returns (even belong to prior years) should he deducted.
- (k) (s) Commission to third parties will not be deducted.
- (l) (t) Income received by way of rent or dividend/interest would not fora part of turnover. However if principal business of the compa letting out of property or it is an investment company, the rem 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 pvt 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 ReserveRs. 12 Lacs

Capital ReserveRs. 10 Lacs

Profit & Loss (Dr.) BalanceRs. 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 profit and loss account (Dr. balance) of Rs. 12 lakhs cannot be deducted:-.
- Conclusion : CARO, 2015 is applicable to the Company.

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 **have been properly dealt with in the books of account;**"

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(n) 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.

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(m) 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 not 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".

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(vn)(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(vn) 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.

S.No	Name of Statute	Nature Of Dues	Amounts	Periods which amount Relates	Forum where dispute is pending
1.	Income tax act 1961	Income tax	125	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.

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(vw) of CARO, 2015 auditor is required to report in respect of a company in existence for last five years the following :

♦ 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 per cent 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 (it) 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

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(lt) 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.

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 ie. 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".

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.

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.

0- 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.

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 jewellery.

Q-As an auditor how would you deal with the followings-while conducting the audit of ABC LTD for the year ended on 31st march 2011,you find that the company has disposed of substantial part of fixed assets, but the management of the company represents to you that they will continue in business

Ans-As per CARO 2015 require the auditor to comment in case where a substantial part of FA has been disposed of during the year, and affected going concern status of the company.The audit procedure includes -

Discussion with the management and analysis as to the significance of the fixed assets to the company as a whole.

Scrutiny of the minutes of the meetings of the board of directors and important committees for understanding the entity's business plans for the future

Review of subsequent events after the balance sheet date for analyzing the effect of such disposal of substantial part of the fixed assets on the going concern.

Feasibility of the plans - the auditor should obtain sufficient appropriate audit evidence that the plans of the management are feasible, are likely to be implemented and that the outcome of these plans would improve the situation.

Seek written representation from the management

Q-Under CARO, 2015 how, as a statutory auditor would you comment on the following: Fixed assets comprising 1/3rd of the total assets have been disposed of during the year. [NOV. 05 (4 MARKS)]

Ans-Disposal of Fixed Assets:

As per Paragraph 4 (i) (c) of CARO, 2015 an auditor is required to consider the appropriateness of the going concern assumption if substantial part of fixed assets has been disposed during the year.

What constitutes substantial part of fixed assets is a subject of professional judgment and depends upon the facts and circumstances of each case.

Accordingly, in the instant case, the auditor should satisfy himself as to whether disposal of 1/3rd of fixed assets during the year had any effect on the going concern assumption on account of such sale of fixed assets.

The Auditor is required to exercise his professional judgment to determine whether 1/3rd of total assets constitutes substantial part or not. Based upon the judgment arrived, auditor shall report whether substantial part of fixed assets have been disposed of or not during the year and whether it has affected the assumption of going concern or not.

Q-As an auditor how would you deal with the following: - While conducting the audit of ABC Ltd. for the year ended on 31st March, 2011, you find that the company has disposed of substantial part of the fixed assets, but the management of the company represents to you that they will continue in business.[JUNE 09 - OLD (4 MARKS)]

Ans- Disposal of Fixed Assets:

The auditor should use his professional judgment to determine whether an asset or group of assets sold by the company is a substantial part of fixed assets.

The audit procedure includes -

Discussion with the management and analysis as to the significance of the fixed assets to the company as a whole.

Scrutiny of the minutes of the meetings of the board of directors and important committees for understanding the entity's business plans for the future.

Review of subsequent events after the balance sheet date for analyzing the effect of such disposal of substantial part of the fixed assets on the going concern.

Feasibility of the plans - the auditor should obtain sufficient appropriate audit evidence that the plans of the management are feasible, are likely to be implemented and that the outcome of these plans would improve the situation.

Seek written representation from the management in this regard

Quick Revision of CARO

Not applicable to:- (i) Banking Company. (ii) Insurance Company (iii) Company U/s 8(iv) Private Limited

Company (at all the times during year) whose-

- ❖ Paid up Capital + Reserves < 50 lakh and
- ❖ Loan o/s < 25 lakh and
- ❖ Turnover < 5 crore Rs.

Turnover(sale of goods & services both)

- (i) Trade discount deducted
- (ii) Sales Tax / Excise duty deducted if credited separately to A/c
- (iii) Commission to IIIrd parties not deducted from turnover
- (iv) Sales returns deducted (even if it is from of prior years).

Reserve

{(Capital Reserves + Revenue Reserves + Revaluation Reserves) - (Debit Balance of P/L Account + Misc.Expenses not w/o)}

Loan o/s

In aggregate from Banks or F.I.(financial institutions) is to be taken.

Matters to be Considered

1. Fixed Assets

- ❖ Proper records(situation wise and quantity wise)
- ❖ Physical verification & discrepancies
- ❖ If disposed off whether affecting going concern

2. Inventories

- ❖ Physical verification
- ❖ Procedure reasonable (inadequacy to be pointed out)
- ❖ Proper records & discrepancy.

3. Loan to parties covered under register U/s 189

- ← **Principal amount and interest** are also regular; and
- ← **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

4. Internal Control

- ☐ **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

5. **Companies accepting public deposit**

- ❖ RBI/Companies Act/ any other act complied.
- ❖ Order by CLB/RBI/Court/NCLT complied.

6. **Cost record** – Whether maintained if prescribed.

7. **Statutory Dues**

- ❖ Regular in depositing undisputed statutory dues if not extent of arrears as at balance date exceeding 6 months to be reported.
- ❖ If dispute amount and forum.

8. **Company registered > 5 years**

- ❖ Accumulated losses at end > 50% of net worth and
- ❖ Cash loss in this / immediately preceding F.Y.

9. **Defaulted** – Payment of dues to Financial Institutions or Debenture holders – Yes paid and amount.

10. **Loan/Advance (secured)** – Proper records/Documents (deficiency)

11. **Term loans** – Applied for purpose for which obtained.

12. **Fraud** on / by company reported if yes – nature and amount

Professional Ethics

Clause 11 - A CA in practice shall be deemed to be guilty of professional misconduct, if he

Engages in any **business or occupation** other than the profession of CA

Exception:

i) Unless permitted by the Council so to engage:

ii) director of a company (not being a MD or a WTD) unless he or any of his partners is interested in such company as an **auditor**.

Regulation 190A - General permission

xv. Agricultural/ allied activities carried on with help of hired labor.