

Audit Report

Definition of Audit Report

Ans: While conducting every audit auditor has to go through three phases

- a) Preliminary work for audit.
- b) Conduct of actual audit, and
- c) Conclusion of audit, which means submission of Audit Report.

Therefore, Audit Report is called as the ultimate and final product of every audit.

- “A Report is a statement of collected & considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of the subject matter of the report.”

Importance of Audit Report

Ans:

1. An Audit report is the end product of the auditing and is very important & concluding part of the audit process.
2. Audit report gives the auditor's opinion on the accounts & record of the company, as examined by him.
3. Audit Report reflects the work done by the auditor.
4. Audit report is the instrument which, measures the auditors responsibility in regard to the true & fairness of the financial statement of the company.
5. Audit Report indicates the real position of the financial status of the company & which is used by different people as a reliable document.

The Basic Elements of Auditor's Report

Ans:

1. **Title:** The Auditor's Report should have an appropriate title i.e. “Auditor's Report”. It should be distinguished from other Reports, e.g. reports of officers of the entity, Board of Directors.
 2. **Addressee:** The Auditor's Report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations. Ordinarily, the Auditor's Report is addressed to the authority appointing the Auditor.
 3. **Opening or Introductory Paragraph:**
 - a) The Auditor's Report should identify the Financial Statements of the entity that have been audited, including the date of and period covered by the Financial Statements.
 - b) The Report should include a Statement that the Financial Statements are the responsibility of the entity's management and a Statement that the responsibility of the Auditor is to express an opinion on the Financial Statements based on the audit.
 4. **Scope Paragraph:**
 - a) The Auditor's Report should describe the scope of the audit by stating that the audit was conducted in accordance with auditing Standards generally accepted in India.
 - b) The Report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the Financial Statements are free of material misstatement.
 - c) The Auditor's Report should describe the Audit as including examining, on a test basis, evidence to support the amounts and disclosures in Financial Statements, assessing the accounting principles used in the preparation of the Financial Statements, assessing significant estimates made by management, in the preparation of Financial Statements, & evaluating the overall position of Financial Statements.
 - d) The Report should include a statement by the Auditor that the audit provides a reasonable basis for his opinion.
 5. **Opinion Paragraph:** The Opinion paragraph of the Report should indicate the Financial Reporting framework used to prepare the Financial Statements. It should state the Auditor's opinion as to whether the Financial Statements give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the Financial Statements comply with the statutory requirements.
 6. **Date of the Report:** The date of an Auditor's Report is the date on which the Auditor signs the Report expressing an opinion on the Financial Statements. The Auditor should not date the Report earlier than the date on which the Financial Statements are signed or approved by Management.
 7. **Place of Signature:** The Report should name the specific location, which is ordinarily the city where the Audit Report is signed.
 8. **Auditor's Signature:** The Report should be signed by the Auditor in his personal name. Where a Firm is appointed as the Auditor, the Report should be signed in the personal name of the Auditor and in the name of the Audit Firm. The Partner / Proprietor signing the Report should mention his ICAI Membership Number.
- **Note:** Where the governing statute requires the Auditor to include certain matters in his Report or prescribe the form in which the Auditor should issue his Report, such additional matters should be included in addition to the requirements of SA 700.

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A) Significance of Opening Paragraph:

- i. The Opening or Introductory Paragraph identifies the Financial Statements of the entity that have been audited, including the date of and period covered by the Financial Statements.
- ii. The 'Opening Paragraph' seeks to bring to the notice of the Users of Financial Statements, that preparation of the accounts is the responsibility of the Management of the enterprise, whereas the responsibility of the Auditor is to express an opinion on the said accounts based on the audit carried out by him.
- iii. Through the Opening Paragraph, the Auditor communicates the basic message that the preparation of Financial Statements requires Management to make significant accounting estimates and judgements, as well as to determine the appropriate accounting principles and methods used in preparation of the said Financial Statements.

B) Significance of Scope Paragraph:

- i. The 'Scope Paragraph' seeks to inform the Users about the practices and procedures followed in the conduct of audit by the Auditor.
- ii. In the Scope Paragraph, the Auditor states that the audit was planned and performed in accordance with Auditing Standards generally accepted in India, and also that the audit provides a reasonable basis for his opinion.
- iii. The significance of the Scope Paragraph lies in the fact that the Auditor intends to convey to the readers of his report, about the scope of audit by highlighting the nature and progress of audit. The test check approach of audit adopted by the Auditor in performing his audit work as also the significant aspect of evaluation of accounting principles and accounting estimates is also clarified.
- iv. The basic objective of auditing that the Auditor provides only "reasonable assurance" is emphasized in the Scope Paragraph. Thus, this paragraph signifies the inherent limitations of audit.

Unqualified opinion

Ans: An opinion is said to be unqualified, when the Auditor concludes that the Financial Statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the Financial Statements. **OR** The Auditor gives a Clean or Unqualified Report, when he does not have any significant reservation in respect of matters contained in the Financial Statements.

- An Unqualified Opinion indicates the following -
 - a) The Financial Statements have been prepared using the Generally Accepted Accounting Principles, which have been consistently applied,
 - b) The Financial Statements comply with relevant statutory requirements and regulations, and
 - c) There is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.
 - d) Any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the Financial Statements.
- For issuing an Unqualified Audit Report, the Auditor has to satisfy himself that -
 1. **Evidence:** Reasonable evidence is obtained in support of transactions recorded in the books of account.
 2. **Standards:** Accounting entries passed in the books of account are in conformity with the generally applicable accounting principles and Accounting Standards followed consistently.
 3. **True and Fair:** The Financial Statements prepared represent a true and fair summary of the transactions that took place during the year.
 4. **Classification:** The process of classification and aggregation followed in the preparation of the Financial Statements is fair and it does not hide a material fact nor does it highlight something, which may distort the real state of affairs.
 5. **Format:** The form of Financial Statements is in accordance with the form prescribed by law, if any.
 6. **Free of Misstatements:** There are no material misstatements in the Financial Statements. No material transaction recorded in the books of account is illegal or beyond the legal competence of the Company.
 7. **Disclosure:** All the disclosures statutorily required or otherwise relevant have been made appropriately.
- **Modified Audit Report**

When the Auditor issues any Report other than unqualified, his Report is said to be modified. As per SA 750, an Auditor's Report is considered to be modified when it includes -

 - i. Matters That Do Not Affect the Auditor's Opinion - with Emphasis of Matter Paragraph.
 - ii. Matters That Do Affect the Auditor's Opinion viz:

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- a) Qualified Opinion,
- b) Disclaimer of Opinion, and,
- c) Adverse Opinion.

• Emphasises Matters that do not affect the Auditor's Unqualified Opinion.

Ans:

1. **Going Concern Not Resolved:** The Auditor should modify the Auditor's Report by adding a paragraph to highlight a material matter regarding a going concern problem where the going concern question is not resolved and adequate disclosures have been made in the Financial Statements.
2. **Significant Uncertainty:** The Auditor should consider modifying his Report by adding a paragraph if there is a significant uncertainty (other than going concern problem), the resolution of which is dependent upon future events and which may affect the Financial Statements.
3. **Multiple Uncertainties:** In extreme cases, e.g. multiple uncertainties that are significant to the Financial Statements, the Auditor may consider it appropriate to express a Disclaimer of Opinion instead of adding an emphasis of matter paragraph.
4. **Impact of Paragraph:** The addition of an emphasis of matter paragraph does not affect the Auditor's opinion. The paragraph would preferably be included preceding the Opinion Paragraph and would ordinarily refer to the fact that the Auditor's opinion is not qualified in this respect.

• Circumstances that may Result in other than an Unqualified Opinion?

Ans: An Auditor may not be able to express an Unqualified Opinion when any of the following circumstances exist and in the Auditor's judgement, the effect of the matter is or may be material to the Financial Statements. [SA 700]

1. **Limitation on Scope:** Limitation on scope of Auditor's work may be imposed by the clients or imposed by circumstances. It may lead to situations where the Auditor may have to issue a Qualified Opinion or a Disclaimer of Opinion.
2. **Disagreement with management:** The Auditor may disagree with the Management as to -
 - (a) The acceptability of the accounting policies selected, or the method of their application,
 - (b) The adequacy of disclosure in the Financial Statements, or
 - (c) The compliance of the Financial Statements with relevant regulations and statutory requirements.In such cases, he may have to give an Adverse Opinion or a Qualified Opinion.
3. **Significant Uncertainty:** If there is a significant uncertainty affecting the Financial Statements (other than Going Concern problem), for example, litigation involving legal claims, etc. the result of which is dependent upon the resolution of the future events, the Auditor may have to qualify his opinion or disclaim an opinion. However, where such significant uncertainty is not material, the Auditor may issue an Unqualified Opinion, by adding an "Emphasis of Matter" paragraph, without qualifying his opinion.

• Manner of Qualification / Disclaimer:

Ans:

- a) Whenever the Auditor expresses an opinion other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the Financial Statements should be mentioned in the Auditor's Report.
- b) Where it is not practicable to quantify the effect of modifications made in the Audit Report accurately, the Auditor may do so on the basis of estimates made by the Management, after carrying out possible audit tests. He should clearly indicate the fact that the figures are based on Management estimates.
- c) This information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion and may include a reference to a more extensive discussion, if any, in a note to the Financial Statements.

• Qualified Opinion/Report:

Ans:

- i. A Qualified Audit Report is one where an Auditor gives an opinion on the truth and fairness of Financial Statements, subject to certain reservations.
- ii. The Auditor's Reservation is generally stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."
- iii. The overall impact of all reservations or qualification taken together is not material enough to vitiate the overall true and fair view of Financial Statements, but it is important that such a matter(s) should be brought to the attention of the shareholders.
- iv. The Report should also give detailed reasons along with quantitative impact on the qualifications on Financial Statements.

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- v. A Qualified Opinion should be expressed when the Auditor concludes that -
 - a) An Unqualified Opinion cannot be expressed, or
 - b) The effect of any disagreement with Management is not so material and pervasive as to require an Adverse Opinion, or
 - c) The Limitation on scope is not so material and pervasive as to require a Disclaimer of Opinion.

- **Features of a Qualified Report**

The features of a Qualified Report are -

1. **Clarity:** The Auditor must express the nature of qualification, in a clear and unambiguous manner.
2. **Explanation:** Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer.
3. **Placement:** All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditors' Report. However a reference to the Notes to Accounts in the Auditors' Report does not automatically become a qualification.
4. **Subject to:** The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.
5. **Nature of Qualification:** Vague statements, the effect of which on accounts cannot be ascertained, like, Rs. The debtors balances are subject to confirmation', Rs. No provision for taxation has been made in view of the loss during the year', etc. should be avoided.
6. **Violation of Law:** Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.
7. **Quantification:** The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.
8. **Notes-Report Relationship:** Where notes of a qualificatory nature appear in the accounts, the Auditors should state all qualifications independently in their report so that the user can assess the significance of these qualifications.
9. **Draft Report:** The Auditor may discuss matters of qualification with the Management of the Company to acquire their views. It is not necessary that the Auditor should accept the Management's view and modify his opinion. But it would enable the Auditor to accurately draft the qualifications in his Final Report.

- **Aspects to be Considered in Qualifying a Report**

1. Examine whether the Auditors are in active disagreement with something which has been done by the Company, or they are merely unable to form an opinion, say, for lack of adequate information about an item.
2. Establish whether the matters in question are so material as to affect the presentation of a true and fair view of the whole of the affairs of the Company, or they are of such a nature as to affect on particular item disclosed in the accounts.
3. See whether the matters constituting the qualification involve a material contravention of any requirements of the Companies Act, which have a bearing on the accounts.

- **Disclaimer of opinion:**

- Ans: A Disclaimer of Opinion Report is given when the Auditor is unable to form an overall opinion about the matters contained in the Financial Statements.
- A Disclaimer of Opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the Auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the Financial Statements.
 - It may happen in situations such as -
 - (a) when books of account of the Company seized by Income-Tax Authorities,
 - (b) when it is not possible for the Auditor to obtain certain information or
 - (c) when scope of audit work is restricted.
 - The Auditor will state in his Report that he is unable to term an opinion on the Financial Statements. Such Report is called as "Disclaimer of Opinion Report".

- **Piecemeal opinion:**

- Ans:
1. The Auditor, may in some cases, find that the Financial Statements he has examined present only a partial true and fair view. In such cases, he may report that he is unable to express an opinion, limited to certain items in the statement, with which he is satisfied. Such a situation would warrant a Piecemeal Opinion.
 2. As the name suggests, the Auditor gives a divided opinion on matters with which he is satisfied and with which he is not. The Auditor should state the reasons for having given a Piecemeal Opinion.

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Adverse or Negative Report:

1. An Adverse or Negative Report is given when the Auditor concludes that based on his examination, he does not agree with the affirmations made in the Financial Statements / Financial Report.
2. The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and the working results of the organisation.
3. The Auditor should state the reasons for issuing such a report.
4. An Adverse Opinion should be expressed when the effect of a disagreement is so material and pervasive to the Financial Statements, that the Auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the Financial Statements.

Some Remarks which are not Qualifications.

1. **Meaning:** Statements or Observations which are not qualificatory in nature, may exist in the Auditor's Report. Some requirements under CARO or inquiry U/S 143 are of this non-qualificatory character.
2. **Conditions** under which "Remarks" can be inserted are -
 - a) The matter is of such importance in relation to the Balance Sheet as a whole that it should be brought to the notice of the members, and
 - b) The point is not clearly brought out on the face of the accounts, as they stand by the note or otherwise, and
 - c) The point does not affect the true and fair character of the accounts.
3. **Manner of Reporting:** Where it is necessary, either statutorily or otherwise, to include a "remark" in an Audit Report which is not a qualification, the remark should be inserted as a single sentence prior to the Auditor's Opinion which should not include any reference to the remark. This remark can be put in the body of the Auditor's Report only when the Notes on Accounts do not include this information.

Distinguish Between Explanatory Notes and Qualificatory Notes:

Ans:

<u>Explanatory Notes</u>	<u>Qualificatory Notes</u>
An Explanatory Note is meant to explain or supplement a matter contained in or related to Financial Statements.	A Qualificatory Note is intended to communicate the Auditor's reservation on the accounts.
The matter on which an Explanatory Note is given is one on which the Auditor has not taken an adverse view.	Qualificatory Notes are notes on which the Auditor has taken an adverse view e.g. tax provision not made in the accounts.
Explanatory Notes are given by the Directors of the Company.	Qualifications are made by the Auditor in his Report to the Company's shareholders.
These are usually shown under "Notes to Accounts". All Notes, wherever shown, including those required by the Schedule III constitute an integral part of the accounting statement.	These notes are included in the Auditors' Report before the Opinion Paragraph. The reader's attention is drawn to the Qualification paragraph by use of the word "Subject to".
There is no specific reporting requirement for Notes for the Directors	Section 129 requires the Directors to furnish full remark information on contained in every the qualification or adverse Auditors' Report.

Distinguish Between Qualified Report and Adverse Report:

Ans:

<u>Qualified Report</u>	<u>Adverse Report</u>
Qualified Audit Report is one an Auditor gives an opinion subject to certain reservations.	An Adverse Report is given when the concludes that based on his examination, he does not agree with the affirmations made in the Financial Statements / Financial Report.
The Auditor's reservation is generally Stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."	The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and working results of the organisation.

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The accounts present a true and fair view subject to certain reservations.	The accounts do not present a true and fair view on the whole.
A Qualification is made in the Audit Report when the Auditor has reservation on specific item(s) of material nature.	An Adverse Report is given when the Auditor has his reservations on the true and fair view presented by the Financial Statements.

Distinguish between Clean Audit Report and Qualified Audit Report.

Ans:

<u>Clean Report</u>	<u>Qualified Report</u>
The Auditor issues a Clean Report (also called as unconditional opinion) when he does not have any reservation with regard to the matters contained in the Financial Statements.	A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.
In a Clean Report, the Auditor states that the Financial Statements give a true and fair view of the state of affairs and results for the period.	The Auditor's reservation is generally stated as - "Subject to the above, we report that the Balance Sheet shows a true and fair view.
The Auditor is justified in issuing a clean report if - 1. The accounts are prepared using generally accepted accounting principles. 2. The Auditor has examined sufficient reliable evidence in respect of transactions recorded in the books. 3. The transactions recorded represent a true recording of the events. 4. The transactions are within the legal competence of the entity. 5. There are no material misstatements in the Financial Statements. 6. The Financial Statements comply with the format and disclosure requirements as per the Statute.	A Qualified Opinion should be expressed when the Auditor concludes that - 1. An Unqualified Opinion cannot be expressed, 2. The effect of any disagreement with Management is not so material and pervasive as to require an Adverse Opinion, or 3. The Limitation on scope is not so material and pervasive as to require a Disclaimer of Opinion.
There is no specific duty of Management for Clean Reports.	Management is bound to give explanation & full details in respect of each qualification in the Auditors Report. [Section 134]

• **Date of the Audit Report.**

1. Since significant events may take place from the date of Financial Statements, date of completing audit field work and date of Audit Report, the date of the Audit Report should be the actual date of completion of audit.
2. Any event coming to be known after the date of the Audit Report is not the responsibility of the Auditor even though it may have a highly significant effect on the Financial Statements reported upon.
3. Even though the Audit Report may be actually prepared at a date later than the date of actual completion of the audit work, it is desirable that it should be made as on the former date to limit the Auditors' responsibility.
4. In relation to reporting on Company Accounts, it is possible for the Auditor to report on the same day on which the Financial Statements are approved by the Board of Directors.

Audit Report under the Companies Act, 2013

Ans: The matters to be included in the Report of the Company Auditor u/s 143 are -

• **Powers and Duties of Auditors and Auditing Standards [Section 143]**

1. Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor and amongst other matters inquire into the following matters, namely:—

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- a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- d) whether loans and advances made by the company have been shown as deposits;
- e) whether personal expenses have been charged to revenue account;
- f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Provided that the auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.

2. The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11) and to the best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.
3. The auditor's report shall also state:--
 - a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
 - b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
 - c) whether the report on the accounts of any branch office of the company audited under sub-section by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
 - d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
 - e) whether, in his opinion, the financial statements comply with the accounting standards;
 - f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
 - g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;
4. Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.
5. In the case of a Government company, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.
6. The Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report under sub-section (5) have a right to,—
 - a) Conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and
 - b) Comment upon or supplement such audit report.

Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub section (1) of section 136 and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

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7. Without prejudice to the provisions of this Chapter, the Comptroller and Auditor- General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.
8. Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

9. Every auditor shall comply with the auditing standards.
10. The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

11. The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.
12. In section 143 of the principal Act, for sub-section (12), the following sub-section shall be substituted, namely:

Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees. the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed:

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed:

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

13. No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.
14. The provisions of this section shall mutatis mutandis apply to—
 - a) the cost accountant in practice conducting cost audit under section 148; or
 - b) the company secretary in practice conducting secretarial audit under section 204.
15. If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

• **Significance of the Phrase "True and Fair" in the Auditor's Report under the Companies Act, 2013.**

1. **Reporting Requirement:** The Statutory Auditor of a Company has to express an opinion in his report on the true and fair view shown by the Balance Sheet and the P&L Account and Cash Flow for the year. The term "true and fair" is not defined in any legislation.
2. **Legal Requirement as to true and fair:** Section 129 of the Companies Act provides that the accounts of a Company, shall be deemed as not disclosing a true and fair view, if they do not disclose any matters which are required to be disclosed -
 - a) By virtue of provisions of Schedule III to the Act, or
 - b) By virtue of a notification or an order of the Central Government modifying the disclosure requirements.

As per Section 129, the Balance Sheet and P&L Account of a Company shall not be treated as not disclosing a True and Fair View of the state of affairs of the Company, merely by reason of the fact that they do not disclose -

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Nature of Company	Matters
Insurance Company.	Matters which are not required to be disclosed by the Insurance Act, 1938
Banking Company.	Matters which are not required to be disclosed by the Banking Companies Act, 1949.
Company generating / supplying Electricity.	Matters which are not required to be disclosed by the Indian Electricity Act, 1910 and Electricity (Supply) Act, 1948.
Company governed by a Special Act.	Matters which are not required to be disclosed by the Special Act.
Any Company.	Matters which are not required to be disclosed by Schedule III, or Notification or Order U/S 129.

Therefore, the Auditor should see whether the Financial Statements are drawn up in conformity with the provisions of Schedule III and that they contain all the matters required to be disclosed therein. Generally, it can be inferred that if the information required to be disclosed is properly and adequately disclosed in the manner so required, it can be considered as disclosing a "True and Fair" view.

- **General Requirements on true and fair:** To ensure a true and fair view, an Auditor has to see the following -
 - a) **Assets:**
 - i. The assets are neither undervalued nor overvalued, as per the applicable accounting principles,
 - ii. No material asset is omitted,
 - iii. Charge, if any, on assets is disclosed.
 - b) **Liabilities:**
 - i. Liabilities are not under or overvalued and the same are properly classified,
 - ii. Material liabilities should not be omitted.
 - c) **Accounting aspects:**
 - i. Appropriate accounting principles and acceptable accounting policies have been followed consistently, and
 - ii. All unusual, exceptional, non-recurring items as also material deviations have been disclosed separately.
- **Legal Requirements:** The P&L Account and the Balance Sheet discloses all the matters required to be disclosed by Schedule III of the Companies Act or any other applicable statute.

Thus, what constitutes Rs.true and fair' view is a matter of an Auditor's judgement in the particular circumstances of the case but within the requirements of Schedule III of the Companies Act, or of any other applicable Act.

Significance of the phase “**to the best of our Information and according to the explanations given to us**” which is generally found in the Auditors' Reports.

1. **Narrow Interpretation:**
 - a) The Statement "to the best of our information and according to the explanations given to us" is an expression of opinion by the Auditors.
 - b) Such opinion is a matter of professional judgement to be exercised by the Auditors under the given situations.
 - c) Auditors will not be held responsible if they acted on information and explanations, which they be 'eve to be bonafide, but which are as a matter of fact untrue or incorrect. They have to exercise reasonable care and skill in the evaluation of information made available to them.
 - d) As a narrow interpretation of the phrase, the Auditors may state that they have acted on the basis of explanations given to them. To that extent this phrase definitely restricts the scope of enquiry to be made by an Auditor.
2. **Broad Interpretation:**
 - a) The Auditors should apply professional judgement to obtain all that information and explanations, which are necessary for the performance of conducting the audit.
 - b) Under the CA Act, a CA is guilty of professional misconduct if he fails to obtain sufficient information which is necessary for the expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

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c) There may be situations where -

- (i) the Balance Sheet shows the correct position as per books but other information indicate that the books themselves were incorrect,
- (ii) the Financial Statements do not reflect proper position which could have been revealed had the Auditor obtained necessary information during the course of audit.

d) At a wider interpretation level, the Auditor should obtain all information and explanations, which he deems necessary, for the expression of an opinion. If he does not obtain all such information, he is entitled to issue a Disclaimer of Opinion Report.

3. **Conclusion:** Hence, the given phrase is a double-edged sword, which may be interpreted either to restrict the scope of enquiry or to stretch responsibilities beyond a limit.

- **Significance of Obtaining Information and Explanations from the Management.**

1. **Legal Recognition:** Legal recognition is given to the process of obtaining information as part of the whole auditing process. The provisions of the Companies Act in this regard are -

- a) Where any particulars or information is required to be given in the Balance Sheet or P&L Account of a Company or in any document required to be annexed or attached thereto, it shall be the duty of the concerned Officer of the Company to furnish without delay, to the Company, and also to the Company's Auditor, whenever he so requires, those particulars or that information in as full a manner as possible.
- b) The Company Auditor should state whether he has obtained all the information and explanations which to the best of his knowledge and belief, were necessary for the purpose of his audit. [Section 143]

2. **Management's Responsibility and Auditor's Limitations:**

- a) Auditors cannot be expected to know all the technicalities and the complexities of the business deals.
- b) Further, the relevant papers and documents to explain the transactions may not be really available to the Auditor and, even if they are available they may still need to be explained so that one can clearly understand the impact of the transactions on the accounts.
- c) The Management, which actually enters into transactions on behalf of the Company, is expected to have thoroughly understood the implications of all material transactions, and hence Auditors are empowered to obtain explanations from the management.

3. **Auditor's Responsibility:**

- a) If any vital information is deliberately withheld from the Auditor in the ordinary course of audit, and he had no means to know the existence of such information, in case the accounts turn to be wrong for that reason, the Auditor should not be held guilty or negligent.
- b) If however, the Auditor has means to know of the existence of such vital information but he ignored it, he would be held guilty on that account.
- c) Where the Auditor has not been able to obtain all information and explanations as required he should issue a Modified Audit Report (i.e. other than an Unqualified Report)

- **Branch Audit Reports be Considered by the Statutory Auditor**

1. **Forwarding of Branch Audit Reports:** Where the branch audit carried out by a person other than the Statutory Auditor, the Branch Auditor shall prepare a report on the accounts of the branch office examined by him and forward the same to the Company's Auditor who shall deal with the same in such manner as he considers necessary.

[Section 143]

2. **Qualifications in Branch Audit Reports:** If the Branch Auditor's Report contains any qualification, the Statutory Auditors should normally include it in their own report unless they are satisfied that either -

- a) Objections raised by the Branch Auditor have been met while preparing the Company's accounts or during the conduct of the Company's audit, or
- b) The matter on which the qualification is made is not material in the context of the Company's Accounts as a whole, or
- c) In the light of information and explanations given to them, which were not available to the Branch Auditor, they are satisfied that the qualification is not called for.

- **Scope of Enquiry u/s 143(1) of the Act**

A) **Inquiry:**

Every auditor of the company should inquire into the following matters, namely:—

- a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;

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- b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- d) whether loans and advances made by the company have been shown as deposits;
- e) whether personal expenses have been charged to revenue account;
- f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Provided that the auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.

B) Report:

- a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
- b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
- c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
- d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
- e) whether, in his opinion, the financial statements comply with the accounting standards;
- f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
- g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;
- h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
- j) such other matters as may be prescribed.

CARO – Companies (Audit Report) Order, 2015

Ans: CARO – COMPANIES (AUDITOR'S REPORT) ORDER, 2015 issued by the Central Government as per the power granted under section 143(11) of the Companies Act, 2013.

- According to 143, the auditor is required to report on certain matters only if he is not satisfied after his examination of the accounts but after this new order, the auditor has to make a statement on each of the specified matters likewise in case of Govt. companies, this order is in addition to the directions of the Comptroller and Auditor General in India.
- **This new order is applicable to every company except,**
 - a) Banking Company as defined u/s 5(c) of the Banking Regulation Act, 1949,
 - b) Insurance Company as defined u/s 2(21) of the Companies Act, 1956, [Insurance Company has not been defined under Companies ACT, 2013].
 - c) Company licensed to operate u/s 8 of the Companies Act, 2013 and
 - d) Small Company, One Person Company and Private Limited Companies subject to the following condition
 - ✓ Aggregate of Paid Up Capital and Reserves should not exceed Rs.50 Lakhs.
 - ✓ Loan outstanding from any Bank or Financial Institution should not exceed Rs.25 Lakhs.
 - ✓ Turnover should not exceed Rs.5 crores at any point of time during the financial year.

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- The order is applicable to foreign Companies incorporated outside India but having a place of business within India. The branches of the Companies liable to this order also come under the purview of this order.

The following matters are required to be dealt in the Auditor's Report:

1. **Fixed Assets:** Auditor should comment whether the company is maintaining proper records of fixed assets, the management verified the fixed assets frequently and the material discrepancies found were accounted properly, in the books of accounts.
2. **Inventory:** The auditor has to make following statements on verification and valuation of inventories.
 - a) Whether physical verification of Inventory has been conducted at reasonable intervals by the management.
 - b) Are the procedures of physical verification of inventories 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 have been noted on physical verification and if so, whether the same have been properly dealt with in the books of account.
3. **Loans:** In the case of loans revised, organized to firms etc. covered in the register maintained under Section 189 of the Companies Act, auditor has to make comments on the following :
 - a) Has the company granted any loans, secured or unsecured to companies, firms or other parties covered under the register maintained under Section 189 of the Companies Act.
 - b) Whether receipt of the principal amount and interest are also regular.
 - c) If over payment is more than one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
4. **Internal Control on Purchases of Assets and Sale of goods:** 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. **Public Deposits:** In case the company has accepted deposits from the public whether the directions issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provision 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. **Maintenance of Cost Records:** Where Maintenance of Cost Records has been specified by the Central Government under Section 148 of the Companies Act whether such accounts and records have been made and maintained.
7. **Deposit of Statutory Dues:** The Company Auditor has to report that –
 - a) Is the company regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom 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.
 - b) In case dues of Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Value Added Tax, Cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending may be mentioned, but he should, while reporting, remember that a mere representation to the department should not constitute a dispute.
- Whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder has been transferred to such fund within time.
8. **Sickness:** Where in case of a company which has been registered for a period not less than 5 years, its accumulated losses at the end of the financial year are not less than 50% of its net worth and whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year also.
9. **Default in Repayment of Dues:** Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported.
10. **Guarantees for loan taken by others:** 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. **Application of Term Loans:** Whether the term loans were applied for the purpose for which the loans are obtained.
12. **Fraud:** 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.
- Where in the auditor's report, the answer to any of the questions referred to above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be where the auditor is unable to express any opinion in answer to a particular question his report shall indicate such fact together with the reasons why it is not

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possible for him to give an answer to such question.

- The order stipulates that if the auditor given negative qualified answer to any of the above questions on which a statement is required on his report, he should give the reasons for that and where he is unable to give any opinion he should indicate this fact with reasons. The unfavourable answers to any of the question does not mean that the opinion of auditor on the true and fairness qualified answer the auditor can give an unqualified audit report, if the qualified answer does not materially affect the financial position discussed in the Profit and Loss Account and for Balance Sheet. The Board of Directors is supposed to give comments, in its annual report, on the adverse statements made by the auditor under the order.

Auditor's Report On Revised Accounts Of Companies Before Circulation To Shareholders

Ans: There may be instances, where the Management of a Company amends its audited accounts, and re-approves it and then requests the Statutory Auditors to make a Report once again on the amended accounts. The Auditors' duties in this regard are

1. **Return:** Ensure that all copies of the Original Accounts and Report are returned to the Auditor.
 2. **Disclosure:** Ensure that the fact of Revision of accounts already approved by the Board and reported upon by the Statutory Auditors, appears as a specific Note on the amended accounts.
 3. **Reporting:** Reporting requirements are as under
 - a) **Adequate Disclosure:** If the Statutory Auditor is satisfied that the disclosure made by the Company in the Notes on Accounts is adequate, there is no further need for the Auditor to refer to the revision of the Balance Sheet and/ or the Profit and Loss Account in his report.
 - b) **Inadequate Disclosure:** If the Notes on Accounts do not contain any note on the revision or if such Note is not considered as adequately comprehensive by the Auditor, the Auditor should refer to the fact of revision of the accounts in his report.
- The above principles are also applicable to the audit of Government Companies. **Revision/ Rectification Of Financial Statements**
 - i. **Qualified Report:** Where past accounts have been re-opened and revised on technical grounds, and the Company has asked the Auditor to give his report u/s 143 on the revised accounts, he should issue a Qualified Report only.
 - ii. **Format:** The Report should indicate that the Company has re-opened the accounts contrary to the opinion of ICAIRs. The relevant paragraph of the Report may appear as under -
 - “As per the opinion of the ICAI, a Company cannot re-open and revise the accounts once adopted by the Shareholders at an AGM. However, the Department of Company Affairs vide Circular dated 28.07.1987, has opined that for meeting technical requirements of taxation laws, the accounts can be re-opened. The Board of Directors of the Company, contrary to the aforesaid opinion of the ICAI, has re-opened and revised the aforesaid accounts for adjusting (the matter for meeting the technical requirements of taxation laws regarding which accounts are re-opened may be specified here).”

Revision of Audit Report

Ans:

1. **Revision of Financial Statements:** The Auditor should issue a fresh report on the revised Financial Statements in accordance with -
 - (a) Guidance Note on Auditor's Report on Revised Accounts of Companies before circulation to Shareholders, and
 - (b) Guidance Note on Revision/Rectification of Financial Statements.
2. **Revision of Audit Report:**
 - a) **Situations:** Revision of Audit Report is required -

When the Auditor considers that amendment in Financial statements is not warranted, or When the Auditor advises amendment to Financial Statements, but the Management does not intend to revise the same, or

When the Management agrees for revision in the Financial Statements but is unable to do so despite its bonafide intention, but Management extends its co-operation to the Auditor and agrees to ensure that anyone in receipt of there previously issued Financial Statements together with the Audit Report thereon is informed of the situation and would be issued the revised Audit Report.
 - b) **Auditor's Duties:** In the above situations, the Auditor should -
 - (i) issue a Revised Report in which he should refer to the earlier report, and
 - (ii) state the reasons for revising the report.
 - c) **Timing:** For corporate entities, the Audit Report may be revised till the accounts are adopted at the AGM. For entities where such adoption is not required, the Auditor may consider revising the Audit Report within a reasonable time, but in any case not later than the issuance of the Audit Report for the immediately succeeding accounting period.

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d) **Subsequent Financial Statements:** A Continuing Auditor may consider that the revision of Financial Statements and issuance of a Revised Report is not necessary if appropriate disclosures are made in the Financial Statements of the immediately succeeding accounting period.

3. Preventing Reliance on Earlier Report:

a) If the management neither agrees to revise the Financial Statements nor agrees to circulate the proposed Revised Audit Report to the recipients of the earlier report, the Auditor should notify the persons ultimately responsible for the overall direction of the entity that action will be taken by him to prevent reliance on the Audit Report.

b) The Auditor may take the following steps in this regard -

Notify the client that the Audit Report must no longer be associated with the Financial Statements.

Notify the regulatory agencies (ROC / Income Tax Department / SERI / RBI / IRDA etc.) having jurisdiction over the client that the Audit Report should be no longer be relied upon.

Make an appropriate statement at the ACM, if requested by the Chairman.

4. **Withdrawal from Engagement:** When the Management neither agrees to revise the Financial Statements nor agrees to ensure that anyone in receipt of the previously issued Financial Statements and Audit Report thereon will be informed of the situation and would be issued Revised Audit Report, the Auditor may conclude that withdrawal from the further engagement with the entity is necessary.

5. **Signature:** Where a Firm is the Auditor, the Partner who signed the Original Audit Report, should also sign the Revised Report or the letter indicating preventing reliance on the Audit Report, as the case may be. In case of signing by any other Partner, the reasons thereof should be stated.

Audit of Abridged Financial Statements

Ans:

1. **Legal Requirements:** The Auditor should examine whether the requirements relating to Abridged Balance Sheet and Abridged Profit & Loss Account as laid down in Section 136 have been duly complied with.
2. **Subsequent Events:** If the Audit Report on Abridged Financial Statements is issued on a date subsequent to the issuance of the Audit Report on Annual Accounts as per Schedule III, the Auditor's responsibility in relation to events occurring after the Balance Sheet date is limited to the events occurring up to the date of his report on the annual accounts.
3. **Unqualified Report:** If the Auditor is satisfied that the Abridged Financial Statements are proper in all respects, he should issue an Unqualified Audit Report.
4. **Qualified Report:** The Auditor should express a Qualified Opinion or an Adverse Opinion, as appropriate, if he has certain reservations about the Abridged Financial Statements, e.g. if a material piece of information has not been disclosed in the Abridged Financial Statements or has been disclosed in an inappropriate manner

Provision for Proposed dividend

Ans:

1. When a Company does not provide for an amount for Proposed Dividend, the attention of Shareholders should be drawn to the fact that no appropriation has been made.
2. The fact that provision for Proposed Dividend has not been made should be disclosed by means of a Note in the Accounts.
3. The Auditor should refer to the Note in his Report and make his Report subject thereto

Accounts of liquidators / Report u/s 348 of Companies Act, 2013

Ans:

1. **Skills:** The professional skill and audit procedures to be applied for an audit u/s 348 are similar to that used during a normal audit of a Company.
2. **Report:** There should be a fair measure of uniformity in the Reports submitted by Auditors conducting an audit u/s 348 of the Companies Act, 2013. The Auditor's Report may be on the following lines -
 - a) Whether he has obtained all the information and explanations, which to the best of his knowledge and belief, were necessary for the purposes of his audit,
 - b) Whether in his opinion, proper books of account as required by the Companies Act, 2013 and Companies (Court) Rules, 1959 have been kept by the Liquidator, so far as appears from his examination of these books,

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- c) Whether the Liquidator's Account relating to realisations and disbursements is in agreement with the books and records produced before him,
 - d) Whether in his opinion, and to the best of his information and according to the explanations given to him, the Liquidator's Account including Annexures give the information required by the Companies Act, 2013, and the Companies (Court) Rules, 1959 in the manner so required and give a true and correct view of the realisations and disbursements of the Liquidator.
3. **CA as Liquidator:** When a Chartered Accountant acts as a Liquidator, the Statements of Accounts to be filed u/s 348 of the Companies Act, 2013, shall be audited by a Qualified Chartered Accountant, other than the Liquidator Chartered Accountant.

Section 182 of the Companies Act and the Auditor

Ans:

1. Conditions for contribution to Political Party / Political Purpose:

- a) The Board should pass a resolution authorizing such contribution.
- b) The aggregate of the amount contributed in any financial year should not exceed 5% of the average net profits during three immediately preceding financial years.

2. Payments covered under Political Contribution:

- a) Contribution made directly to a Political Party whether in cash or in other form.
- b) Expenditure incurred on printing and distribution of posters and leaflets, either directly concerned or connected with elections or otherwise for a political purpose.
- c) Contribution made directly to a political party whether in cash or in other form for running an educational institution or for undertaking philanthropic activities.

- d) Donation, Contribution, or other form of support to a Trust, Society or Association in any of the under noted circumstances -
If the Trust, Society, or Association has any political objectives either wholly or even partially.

If the Trust, Society, or Association is formed for any political purpose either wholly or even partially.

If the Trustees or Governing Council or Committee of the Trust, Society, Association have the discretion of using the funds wholly or partially for a political purpose or in furtherance of a political objective. On the other hand, the mere fact that some of the objects of a particular Trust, Society, or Association are similar to the objects of a particular political party but are not of a political nature should not act as disqualification.

- e) Expenditure incurred on remuneration (including other benefits) to employees or on other establishment where the services of the employees are made available in connection with the activities of some political party, such as elections to Legislative Assembly, Parliament etc.
- f) Making available vehicles owned by the Company to any political party or to any candidate seeking election to any local authority, assembly, Parliament, etc. either free of cost, or at less than market rate.
- g) Expenditure incurred directly or indirectly by a Company on advertisement in any publication like Souvenir, Brochure, Tract, etc by or on behalf of a Political Party or for its advantage.
- h) Donation, Subscription or payment by a Company to any person which can be regarded as likely to affect public support for a Political Party shall be deemed as contribution for a political purpose.

3. Disclosure: Every Company should disclose in its P&L Account, the amount contributed by it during the financial year to any political party or for any political purpose, giving the particulars of the name of the recipient party or person.

4. Auditor's Duties:

- a) The Auditor should qualify his Audit Report under the following circumstances, if he is satisfied - that the political contribution has been made in excess of the limit prescribed. (He should also indicate the amount involved.)
that facts regarding such contributions are not properly disclosed.
- b) If the Auditor is in doubt about applicability of Section 182, he should disclose this fact in his report.
- c) The Auditor should obtain a certificate from the Board stating the following
That all amounts of contributions to Political Parties have been properly recorded;
No amounts of such nature other than those so included in the books have been paid / given directly or indirectly.
- d) The Auditor need not make any special inquiry to unearth cases of unauthorized political contributions if they are not readily apparent from the examination of the accounts made in the normal course of audit.
- e) Where the Auditor fails to discover cases of contraventions of Section 182, he would be responsible only to the extent it can be established that in the conduct of the audit he acted without reasonable care and skill.

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Audit of Consolidated financial Statements (CFS)

Ans:

1. **Parent Company:** The Parent Company (i.e. Holding Company) has the following responsibilities -
 - a) Identifying components, and including the financial information of the components to be included in the Consolidated Financial Statements,
 - b) Identifying reportable segments for segmental reporting,
 - c) Identifying related parties and related party transactions for reporting,
 - d) Obtaining accurate and complete financial information from components, and
 - e) Making appropriate consolidation adjustments.
2. **Objective of Audit of CFS:**
 - a) To satisfy that the CFS have been prepared as per the requirements of AS - 21, 23 & 27.
 - b) To enable the Auditor to express an opinion on the true and fair view presented by the CFS.
3. **Features of CFS:**
 - a) CFS are prepared using the Separate Financial Statements of the Parent, Subsidiaries, Associates and Joint Ventures and also other financial information, which might not be covered by the Separate Financial Statements of these entities.
 - b) The 'other financial information' would include disclosures to be made in the CFS about the Subsidiaries, Associates and joint Ventures, proportion of items included in the CFS to which different accounting policies have been applied, adjustments made for the effects of significant transactions or other events that occur between the Financial Statements of Subsidiaries, Associates or Joint Ventures and the Parent, as the case may be, etc.
 - c) The Auditor of the CFS has to use the work of other Auditors i.e. the Auditor of Financial Statements of the components, as required under SA 600.
4. **Verification Procedures:**

Aspects	Auditor's Duties
1. Completeness	To ensure that all relevant Subsidiaries, Associates and Joint Ventures (JVs) have been included, the Auditor should review the following - • His working papers for the prior years for known Subsidiaries, Associates and JVs, • Parent's procedures for identification of Subsidiaries, Associates and JVs, • Investments made, to determine the shareholding in other entities, • Joint Ventures and other relevant agreements entered into by the Parent, • Statutory records maintained by the Parent, e.g. Registers u/s 190 / 186.
2. Control	Since control of the composition of the Board of Directors/ Governing Body of an enterprise also results in a Parent-Subsidiary Relationship, the Auditor should examine the minutes of Board Meetings, Shareholder Agreements with entities to which technology or know-how might have been provided, etc.
3. Exclusion	• Where a Subsidiary / Associate / Jointly Controlled Entity is excluded from the CFS, the Auditor should examine the reasons for the exclusion. • If it is argued that the reason for exclusion from consolidation is that the relationship of the entity with the Parent is temporary, the Auditor should examine whether the Parent had the intention to dispose of its interest at the time of making the investment.
4. Other	The Auditor should - • Examine the relevant law and agreements to identify long-term restrictions prohibiting transfer of funds. • Review whether the procedures and disclosure requirements laid down by the relevant AS have been followed, in preparing the CFS. • Verify that the gross amounts of Goodwill and Capital Reserve have also been disclosed, if such Goodwill arising in respect of one Subsidiary is set-off against Capital Reserve arising in respect of another. • See whether any impairment loss exists in respect of Goodwill arising on consolidation.

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5. **Permanent Consolidation Adjustments:** The Auditor should see whether the following adjustments have been made appropriately -
- a) **Capital Reserve / Goodwill:** Determination of excess / deficit of the cost to the Parent of its investment in a Subsidiary over the Parent's portion of Equity of the Subsidiary, at the date on which investment in the Subsidiary is made (determination of Goodwill or Capital Reserve).
 - b) **Minority Interest:** Determination of the amount of equity attributable to minorities at the date on which investment in Subsidiary is made.
 - c) **Associates:** Determination of Goodwill or Capital Reserve arising on application of Equity Method to account for investments in Associates in CFS.
6. **Other Verification:** The Auditor should review the Memorandum Records to verify the adjustments entries made in the preparation of CFS including the following -
- a) Intra-group interest paid and received, or management fees, etc.
 - b) Unrealised intra-group profits on assets acquired from other Subsidiaries.
 - c) Intra-group indebtedness.
 - d) Adjustments related to harmonising the different accounting policies being followed by the Parent enterprise and its Subsidiaries.
 - e) Adjustments made for the effects of significant transactions or other events that occur between the date of the Financial Statements of the Parent and one or more of the components, if the Financial Statements to be used for consolidation are not drawn up to the same reporting date; and
 - f) Determination of movement in equity attributable to the minorities since the date of acquisition of the Subsidiary.

Corporate Governance

Ans: **Applicability of Clause 49**

The Clause 49 of the Listing Agreement shall be applicable to all companies whose equity shares are listed on a recognized stock exchange. However, compliance with the provisions of Clause 49 shall not be mandatory, for the time being, in respect of the following class of companies:

- a) Companies having paid up equity share capital not exceeding Rs.10 crore and Net Worth not exceeding Rs.25 crore, as on the last day of the previous financial year;

Provided that where the provisions of Clause 49 becomes applicable to a company at a later date, such company shall comply with the requirements of Clause 49 within six months from the date on which the provisions became applicable to the company.

- b) Companies whose equity share capital is listed exclusively on the SME and SME-ITP Platforms.

The company agrees to comply with the provisions of Clause 49 which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below. In case of any ambiguity, the said provisions shall be interpreted and applied in alignment with the principles.

A) The Rights of Shareholders

The company should seek to protect and facilitate the exercise of shareholders' rights. The company should provide adequate and timely information to shareholders. The company should ensure equitable treatment of all shareholders, including minority and foreign shareholders.

B) Role of stakeholders in Corporate Governance

The company should recognise the rights of stakeholders and encourage cooperation between company and the stakeholders.

C) Disclosure and transparency

The company should ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company.

D) Responsibilities of the Board

Members of the Board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the company.

The Board and top management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture for good decision-making.

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E) Composition of Board

The Board of Directors of the company shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty percent of the Board of Directors comprising non-executive directors.

Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise independent directors and in case the company does not have a regular non-executive Chairman, at least half of the Board should comprise independent directors.

Provided that where the regular non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

F) Independent Directors

For the purpose of the clause A, the expression 'independent director' shall mean a non-executive director, other than a nominee director of the company:

- a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
- b) (i) who is or was not a promoter of the company or its holding, subsidiary or associate company;
(ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- c) apart from receiving director's remuneration, has or had no material pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
- d) none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

G) Limit on number of directorships

A person shall not serve as an independent director in more than seven listed companies. Further, any person who is serving as a whole time director in any listed company shall serve as an independent director in not more than three listed companies.

H) Maximum tenure of Independent Directors

The maximum tenure of Independent Directors shall be in accordance with the Companies Act, 2013 and clarifications/circulars issued by the Ministry of Corporate Affairs, in this regard, from time to time.

I) Non-executive Directors' compensation and disclosures

All fees / compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, in any financial year and in aggregate.

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.

Provided further that independent directors shall not be entitled to any stock option.

J) Audit Committee

i. Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
3. The Chairman of the Audit Committee shall be an independent director;
4. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
5. The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;
6. The Company Secretary shall act as the secretary to the committee.

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ii. Meeting of Audit Committee

The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

iii. Powers of Audit Committee

The Audit Committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

iv. Role of Audit Committee

The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - ✓ Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013
 - ✓ Changes, if any, in accounting policies and practices and reasons for the same
 - ✓ Major accounting entries involving estimates based on the exercise of judgment by management
 - ✓ Significant adjustments made in the financial statements arising out of audit findings
 - ✓ Compliance with listing and other legal requirements relating to financial statements
 - ✓ Disclosure of any related party transactions
 - ✓ Qualifications in the draft audit report
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;

v. Nomination and Remuneration Committee

The company through its Board of Directors shall constitute the nomination and remuneration committee which shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. Chairman of the committee shall be an independent director.

Provided that the chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.

vi. Subsidiary Companies

At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non-listed Indian subsidiary company.

The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.

The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

vii. Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:

1. Such entity is a related party under Section 2(76) of the Companies Act, 2013; or
2. Such entity is a related party under the applicable accounting standards.

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viii. Disclosures

Disclosure relating to –

1. Related Party Transactions
2. Disclosure of Accounting Treatment
3. Remuneration of Directors
4. Management
5. Shareholders
6. Proceeds from public issues, rights issue, preferential issues, etc.

ix. CEO/CFO certification

The CEO or the Managing Director or manager or in their absence, a Whole Time Director appointed in terms of Companies Act, 2013 and the CFO shall certify to the Board that:

- i. *They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief :*
 - a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - b) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- ii. *There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.*
- iii. *They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.*
- iv. *They have indicated to the auditors and the Audit committee:*
 - (a) Significant changes in internal control over financial reporting during the year;
 - (b) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (c) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

x. Report on Corporate Governance

There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non- compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure - XII to the Listing Agreement and list of non-mandatory requirements is given in Annexure - XIII to the Listing Agreement.

The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure – XI to the Listing Agreement. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.

xi. Compliance

The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

The non-mandatory requirements given in Annexure - XIII to the Listing Agreement may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance) / non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.

Audit Certificate

Sometimes apart from an audit report for general use, an auditor is often called upon to give a certificate for special purpose. The certificate should include the following: —

- i. Auditor should see that there is a suitable declaration by the management about the subject matter.
- ii. Auditor should give the certificate on his letter head or on stationary carrying his name and address to avoid misunderstanding.
- iii. Auditor should clearly state his limitations and indicate the extent to which he has relied upon a technical expert if any.
- iv. Auditor should indicate the specific record covered by the certificate.

Audit Report

- v. Auditor should mention the manner in which the audit was conducted.
 - vi. Auditor should indicate in the certificate if he has made certain fundamental assumptions. Auditor should make a reference to the information and explanations obtained. Auditor should give clear title to it, indicating whether it is a report or a certificate.
 - vii. Auditor should mention whether he has used any general purpose statement like Profit & Loss Account for his investigation and also, state whether that general purpose statement has been audited by other auditors.
 - viii. Auditor should be careful while interpreting any law related matter, he should clearly mention that he is expressing merely his own opinion.
 - ix. Auditor should see that the certificate should be self contained documents. Auditor should clearly mention the responsibility assumed by him.
 - x. Auditor should, if he has referred the audited statements, clearly mention that the figures are used from the audited statements and relied upon.
 - xi. Auditor should address the certificate to the client or the Public Authority or the person requiring it as the case may be. In appropriate circumstances it may be issued by using the words as “to whom so ever it may concern”
- There are many more circumstance, where for, auditor is called for issuing a certificate, e.g.,
 - (i) “Deposits Return” Certificate.
 - (ii) “Ability to Refund Depositors” Certificate.
 - i. **Deposits Return Certificate:** As provided under rule 10(1) of the Companies (Acceptance of Deposits), Rules, a non banking, non financial company has to file periodical return in prescribed form containing the information about deposits accepted and the copy of the return is required to be filed with the R.B.I. This return is to be certified by the Company Auditor.
 - ii. **Ability to Refund Deposits Certificate:** As per the provisions of the Non Banking Financial Companies(Reserve Bank) Directions, issued from time to time every non banking financial company is required to furnish to the RBI a certificate from its auditor to the effect that, the full liabilities to the depositor of the company including interest are properly reflected in the Balance Sheet and that the company is in a position to meet the amount of such liability to the depositors. As prescribed by the RBI, the certificate shall be in following format—

Difference between Audit Report and Audit Certificate

Ans:

- i. **Meaning:** Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts. While Audit Certificate is a written confirmation of the accuracy of the information stated there in.
 - ii. **Opinion:** Audit Report contains the opinion of the auditor on the accounts, while Audit Certificate does not contain any opinion but only confirms the accuracy of the figures with the books of accounts.
 - iii. **Basis:** Audit Report is made out on the basis of information obtained & books of account verified by the auditor, while Audit Certificate is made out on the basis of the particular data capable of verification as regards accuracy.
 - iv. **Guarantee:** Audit Report may not guarantee correctness of financial statement in absolute terms, while Audit Certificate guarantees absolute correctness of the figures & information mentioned in the certificate.
 - v. **Coverage:** Audit Report always covers entire accounts of the concern, while Audit Certificate covers only certain part of the accounts of the concern.
 - vi. **Responsibility:** Audit Report does not hold auditor responsible for anything wrong in the accounts, while Audit Certificate makes an auditor responsible if anything mentioned in the certificate found as wrong later on.
 - vii. **Suggestion:** Audit Report may provide certain suggestions for improvement while Audit certificate does not provide any such suggestion.
 - viii. **Nature:** Audit Report is based on the vouching & verification of books of accounts, voucher, assets & liabilities, while Audit Certificate is based on checking arithmetical accuracy of the facts.
 - ix. **Scope:** Audit Report covers all transactions done during the year, while the Audit Certificate is very specific.
 - x. **Characteristics:** Audit Report is subjective as it is opinion oriented, while Audit certificate is objective as it is fact oriented.
 - xi. **Form:** Audit Report is required to be presented in the prescribed format, while Audit Certificate, except in few cases, is not required to be presented in any standard format.
 - xii. **Address:** Audit report is addressed to the members of the company at large or appointing authority, while Audit Certificate is addressed to particular person or sometimes may include the words like “To Whomsoever it may concern”.
- **Audit report versus Audit certificate**
 - a) Audit report is an expression of opinion on the truth and fairness of the accounts.
 - b) Audit certificate is authentication of true and correctness of the data or fact certified.
 - c) The existence of opinion distinguishes a report from the certificate.
 - d) The example of audit report is report issued by statutory auditor of a company u/s. 143 of the Companies Act, 2013.
 - e) The example for audit certificate is certification of consumption of imported items to be submitted to the government department for obtaining some license etc.