

CA IPC INDEX (AUDIT Amendments May 2017)

SR. NO.	TOPIC	Details		PAGE NO.	1. These all are Amendments/ Changes/ Addition for May 2017 for CA IPCC AUDIT. 2. Video Lectures of the same will be provided to registered students in few days. For any queries, you can contact us @ ravitaorisir@gmail.com or 9322011915.
2	Company Audit I	Amendment	Lecture Updated @ CCI	1 - 3	
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4	SA 610 Revised	Amendment	Already covered in Notes & Lectures	8 - 13	
9	IFC & IFCR	Amendment	Lecture Updated @ CCI	14 - 18	

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Amendments Company Audit I (Sec 139 to Sec 148)

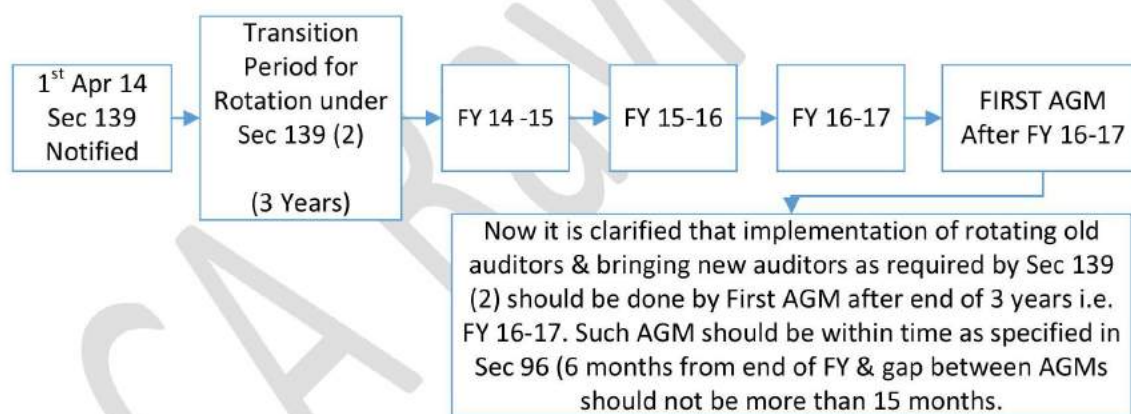
1. Sec 139 / Rotation of Auditor

Old Provision

"Provided also that every company, existing on or before the commencement of this Act which is required to comply with the provisions of this sub-section, shall comply with the requirements of this sub-section within three years from the date of commencement of this Act:"

New Provision

"Provided also that every company, existing on or before the commencement of this Act which is required to comply with the provisions of this sub-section, shall comply with requirements of this sub-section within a period which shall not be later than the date of the first annual general meeting of the company held, within the period specified under sub-section (1) of section 96, after three years from the date of commencement of this Act."



2. Sec 148 / Cost Audit

Cost Audit Rules 2014 are amended.

Rule 2 Definition of Cost Audit Report is elaborated. Not significant from exams point of view.

Rule 3 There are 6 industries in regulated sector and 33 in unregulated sector, description of some industries is elaborated to include more companies under rules. Not significant from exams point of view.

Rule 4 One more exemption from Cost Audit, earlier there were 2 now its total 3 Company which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005.

Rule 6 which is regarding process of cost audit.

Covering whole rule for better understanding not just amendments.

1. Cost Records should be maintained in form CRA-1
2. Before appointment take written consent of the cost auditor to such appointment, and a certificate from him. (Amendment)

Contents of Certificate

- the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959 (23 of 1959) and the rules or regulations made thereunder;
- the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
- the proposed appointment is within the limits laid down by or under the authority of the Act; and
- the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

1. Company shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor
2. Every company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified.
3. The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon.

4. Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.
5. Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
6. Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format.
7. Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed
8. The cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing:

Provided further that the Form CRA-2 to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect
Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company. *(Amendment)*

1. Any casual vacancy in the office of a cost auditor, whether due to resignation death or removal, shall be filled by the Board of Director, within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor. *(Amendment)*
2. The provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules. *(Amendment)*

Amendments

Company Audit II (Sec 128 to Sec 138)

1. Sec 129 / Consolidation

Sec 129 (3) deals with consolidated financial statements. Rule 6 of Companies (Accounts) rule deal with manner of consolidation. This rule provides for exemption from consolidation.

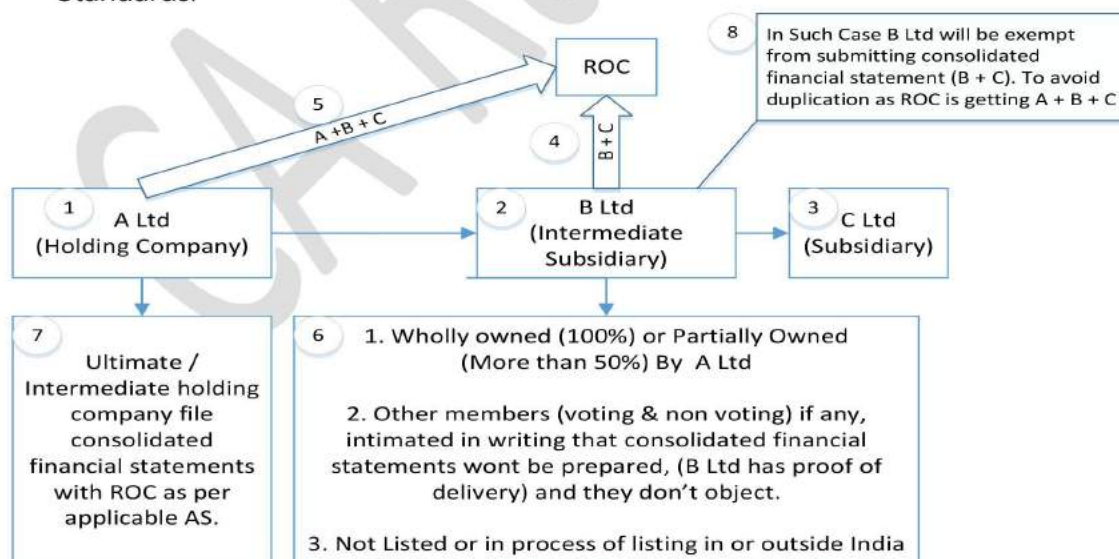
Old Provision (No need to read just for reference if required)

"Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statement by an intermediate wholly-owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India"

New Provision

"Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statements by a company if it meets the following conditions:—

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards."



2. Sec 130 / Re-opening of accounts on court's or Tribunal's orders

(Notified and applicable first time)

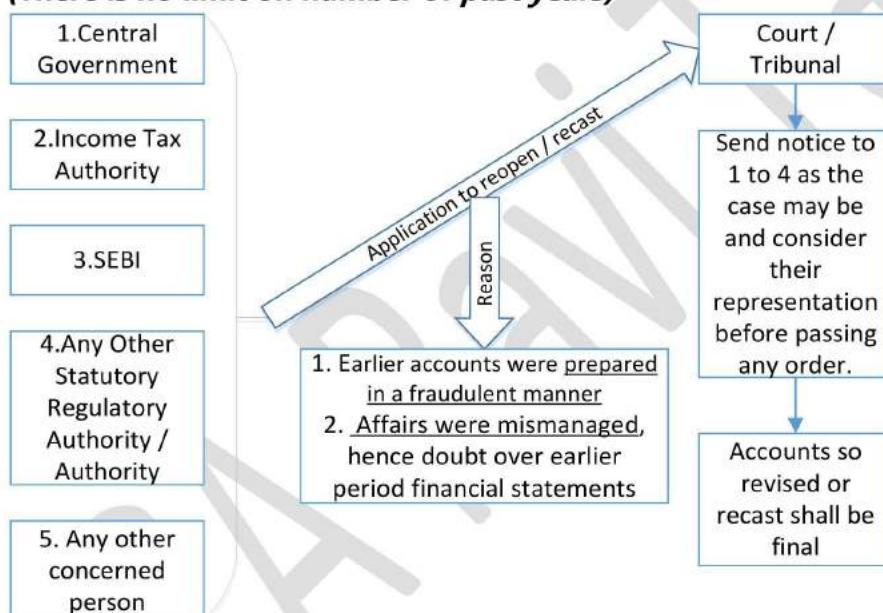
Sec 130. (1) A company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that:-

- (i) the relevant earlier accounts were prepared in a fraudulent manner; or
- (ii) the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements;

Provided that the court or the Tribunal, as the case may be, shall give notice to the Central Government, the Income-tax authorities, the Securities and Exchange Board or any other statutory regulatory body or authority concerned and shall take into consideration the representations, if any, made by that Government or the authorities, Securities and Exchange Board or the body or authority concerned before passing any order under this section.

(2) Without prejudice to the provisions contained in this Act the accounts so revised or re-cast under sub-section (1) shall be final.

(There is no limit on number of past years)



3. Sec 131 / Voluntary revision of financial statements or Board's report.

Sec 131.

(1) If it appears to the directors of a company that—

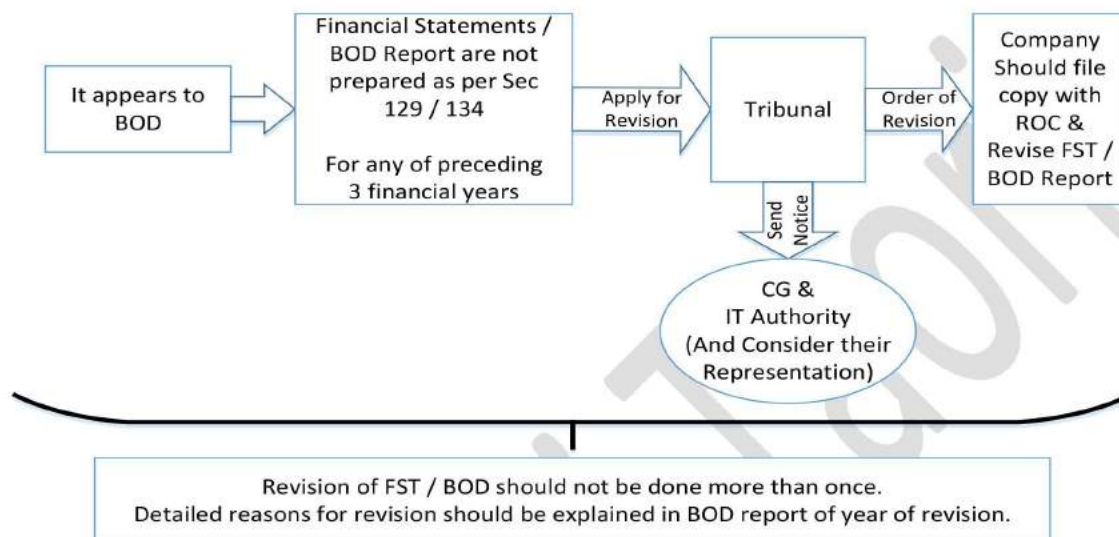
- (a) the financial statement of the company; or
- (b) the report of the Board,

do not comply with the provisions of section 129 or section 134 they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar.

Provided that the Tribunal shall give notice to the Central Government and the Income-tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:

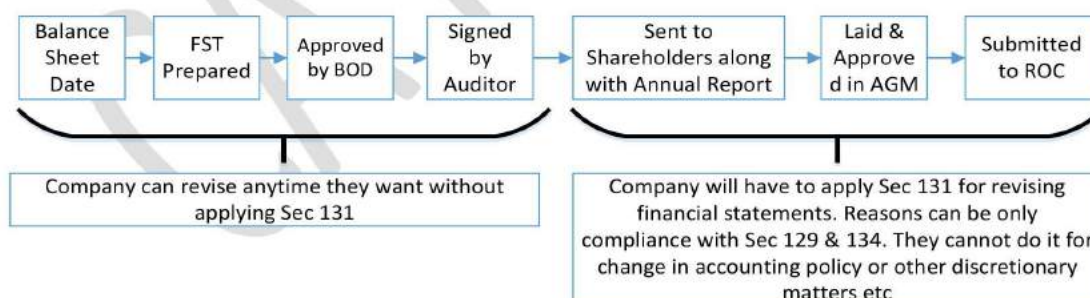
Provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:

Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.



(2) Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to—

- (a)** the correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134; and
- (b)** the making of any necessary consequential alternation.



(3) The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular:-

- (a)** make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;

- (b) make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;
- (c) require the directors to take such steps as may be prescribed.

4. Sec 134 / BOD Report

Sec 134 prescribes matter to be included in BOD Report. Rule 8 of Companies (Account) Rule 2014 further clarifies matters to be included.

Old Provisions (No need to read just for reference if required)

The Board's Report shall be prepared based on the stand alone financial statements of the company and the report shall contain a separate section wherein a report on the performance and financial position of each of the subsidiaries, associates and joint venture companies included in the consolidated financial statement is presented.

New Provisions

The Board's Report shall be prepared based on the stand alone financial statements of the company [and shall report on the highlights of performance of subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the period under report. *(So as per amendment not just subsidiaries, associates & joint ventures who are consolidated but others also)*

5. Sec 138 / Internal Audit

Sec 138 is all about internal audit. Rule 13 guides regarding implementation of Sec 138.

Old Provision

The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

New Provision

The following class of companies shall be required to appoint an internal auditor [which may be either an individual or a partnership firm or a body corporate] namely:- *(So now apart from individuals & firms even companies can do internal audit, but as per CA Act Cas can create companies for consultancy called MCS but it cannot do periodical and statutory audits, so we need a change in CA Act for this provision is practical)*

Old Provision

(ii) the term "Chartered Accountant" shall mean a Chartered Accountant whether engaged in practice or not.

New Provision

(ii) the term "Chartered Accountant" or "Cost Accountant" shall mean a "Chartered Accountant" or a "Cost Accountant", as the case may be, whether engaged in practice or not *(So now even non-practicing CWA or CMA can be internal auditor)*

SA 610 Revised USING THE WORK OF INTERNAL AUDITORS

1. SCOPE AND OBJECTIVES OF THE INTERNAL AUDIT FUNCTION

Internal audit function – A function of an entity that performs assurance and Consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:



➤ Activities Relating to Governance

- The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

➤ Activities Relating to Risk Management

- The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).
- The internal audit function may perform procedures to assist the entity in the detection of fraud.

➤ Activities Relating to Internal Control

- Evaluation of internal control The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.

- Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
- Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including nonfinancial activities of an entity.
- Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

2. Difference between Internal Audit & External Audit

Particulars	Internal Audit	External Audit
Definition	It is a review of activities, as a service to all levels of Management.	Audit of financial or other quantitative information of any entity with a view to express an opinion thereon.
Objective	Report upon the effectiveness of Internal Controls, financial and others, as a contribution to the efficient use of resources within an organization.	To express an opinion on the true and fair view presented by Financial Statements.
Necessity	It is voluntary. Compulsory to some companies U/S 138	It is normally compulsory. U/S 143
Auditor	Generally an employee of the Organization.	The External or Statutory Auditor is not part of the organization.
Appointment	By the Management (BOD) of the enterprise.	By the owners (Shareholders) of the enterprise.
Scope of work	It is determined by the Management and ranges from the pure review of accounting functions to the review of various operational services in the organization.	It arises from the responsibilities placed on him by the statute or the terms of engagement.
Submission of Report	To the Management.	To the Shareholders.
Format of Report	No format is prescribed. Guidelines in SIA 4	The aspects to be covered in the Report are prescribed by law. SA 700

Orientation	Management Oriented.	Oriented to the needs of the users of Financial Statements and also Management.
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3. Using Work Vs Taking Direct Assistance

Using work of Internal Auditor	Direct Assistance of Internal Auditor
Step 1:- Can we rely on Internal Auditor? (Evaluating Internal Audit Function) Statutory auditor shall determine can he rely on Internal Auditor. It depends on following ➤ Level of <u>Competence</u> ➤ <u>Objectivity</u> of Internal Auditor ➤ <u>Systematic & Disciplined</u> Approach If any of above factor is not fulfilled then he should not rely on internal auditor.	Step 1:- Can we take direct assistance of internal auditor? Statutory auditor can take direct assistance depending on following ➤ It should not be prohibited by law ➤ Significant threats to <u>Level of Competence</u> ➤ Significant threats to <u>Objectivity of Internal Auditor</u> If any of above factor is not fulfilled then he should not rely on internal auditor.
Step 2:- Which work can he use ? (Example of Salary Checking Vs Brand Valuation) ➤ All <u>significant judgments</u> should be made by statutory auditor Hence don't select areas where more judgement is involved in Planning / Performing / Evaluating audit evidence ➤ Don't select areas where <u>RMM is High</u> ➤ Selection of areas again depends on <u>factors discussed earlier</u>. Don't select areas where Competence is low, Objectivity is less & Nature of work performed or is planned to be performed is not systematic & Disciplined. Statutory auditor should be sufficiently involved in audit, major portions should be covered by him. Communicate with TCWG how external auditor plans to use work on internal auditor.	Step 2:- Which work can be assigned ? (Example of Salary Checking Vs Brand Valuation) ➤ All <u>significant judgments</u> should be made by statutory auditor Hence don't select areas where more judgement is involved in Planning / Performing / Evaluating audit evidence ➤ Don't select areas where <u>RMM is High</u> ➤ Selection of areas again depends on <u>factors discussed earlier</u>. Don't select areas where Competence is low, Objectivity is less & Nature of work performed or is planned to be performed is not systematic & Disciplined. Statutory auditor should be sufficiently involved in audit, major portions should be covered by him. Communicate with TCWG how external auditor plans to use work on internal auditor.
Step 3:- Using work of Internal Auditor	Step 3:- Taking Direct Assistance from

➤ Discuss planned use & Co-ordinate Activities ➤ Read report to understand NTE and related findings ➤ Perform Audit Procedures on body of work of Internal Auditor to evaluate whether work is planned / performed / supervised / reviewed / documented / S&A Evidence to draw conclusions / conclusions drawn are consistent with evidence obtained. ➤ His own audit procedures should be responsive depending on factors discussed earlier Judgment / RMM / (Competence / Objectivity / Work Performed by IA) and should always include reperformance of some work.	Internal Auditor (<i>Example of Transport Charges Checking</i>) ➤ Obtain written agreement from authorised representative of company that internal auditor will be allowed to follow external auditors instruction & that entity will not intervene in his work ➤ Obtain written agreement from internal auditor that he will keep confidential specific matters as instructed by external auditor and they will inform any threat to objectivity ➤ External Auditor should direct / supervise and review work in internal auditor. He should keep in mind that internal auditor is not independent. It should be responsive of factors considered earlier. ➤ External auditor should check back to the underlying audit evidence for some of the work performed by the internal auditors.
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4. Can we rely on Internal Auditor ?

1. Technical Competence	
Team is Appropriately Resourced	30 people
Established policies for hiring / training / assigning	Every 3 months / No graduates / Pre audit 9 day training / assigning as per talent
Qualification	CA / CPA /CIMA / CIA
Technical Training & Proficiency	Trained for AS / Ind AS / IFRS / SOX
Membership of Professional Bodies (Compliance to Standards & Continuing Professional Development)	Majority governed by CA Act which require compliance to SAs & also Continuing Professional Education Programme
Knowledge of entity's FR & FRF	Team worked in same industry for past 10 years & working on same client for past 4 years
2. Objectivity	
Conflict of Interest	Not holding any post other than internal auditor in current & past.
Appointment	Audit Committee / BOD
Staff Appointments	Always in consultation with AC / BOD
Scope	No restrictions
Status	In line with directors
Authority	All the powers like director for internal

	auditor.
Accountability	Quarterly presentations & performance report.
Recommendations	Full Compliance
Membership obligation towards objectivity	As per CA Act & Regulations
3. Systematic and Disciplined Approach	
Documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting	There are 3 volumes of 1000 page each giving principles / formats / guidance on planning / risk assessment / procedures / reporting of Internal Audit.
Quality control policies and procedures	Internal Audit Firm is governed by Quality Control Procedures established under Internal Auditing Standards & SQC 1

5. Relationship between the Statutory and the Internal Auditors

It is not part of SA, it is from module but flow and concepts are same as expressed in SA610

Features of Internal Audit

The function of an internal auditor being an integral part of the system of internal control. It is statutory requirement too as per section 138 of the Companies Act, 2013 where the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

Evaluate Effectiveness of Internal Audit

However, it is obligatory for a statutory auditor to examine the scope and effectiveness of the work carried out by the internal auditor. For the purpose, he should examine the Internal Audit Department of the organisation, the strength of the internal audit staff, their qualification and their powers. Afterwards the procedures should be studied; also the scope of the audit examination carried out should be ascertained on referring to audit programmes, reports submitted, points raised in audit and how these had been dealt with subsequently. The extent of independence exhibited by the internal auditor in the discharge of his duties and his status in the organisation are important factors for determining the effectiveness of his audit. In a large business, it has been increasingly recognised that, if their functions and those of statutory auditors could be integrated, it might not be necessary for the statutory auditors to go over the same facts and figure as have been previously examined by a competent and trustworthy internal audit staff. But so far, the practice of audit being conducted jointly by the internal auditors is of great assistance to statutory auditors.

Reliance on Internal Auditor

If the statutory auditor is satisfied on an examination of the work of the internal auditor, that the internal audit has been efficient and effective, he often decides to curtail his audit programme by dispensing with some of the detailed checking already carried out by the

Internal Audit Department after or without testing the work already done. He, at times, also decides to entrust certain items of work to the internal auditor. Given below are items of audit work in regard to which the statutory auditor accepts the checking that has already been carried out by the internal auditor;

- (i) Verification of the system of internal control;
- (ii) Verification of assets, e.g., inventory in trade, fixed assets, book debts, etc.; and
- (iii) Verification of amounts provided for expenses as well as amounts adjusted as prepaid expenses.

No reduction in Liability of Internal Auditor

It must however be mentioned that the area of co-operation between the statutory and the internal auditor is limited by the fact that the statutory auditor and the internal auditor owe their allegiance to separate authorities, the shareholders in one case and the management in the other. Therefore, the former is not protected against the liability for negligence which may arise in such a case.

Internal Financial Control (IFC) is explained in Explanation to Sec 134 (5) (e).

It is defined as

Policies and procedures adopted by the company for ensuring the

→ orderly and efficient conduct of its business including adherence *(There should be defined set of procedures & policies for Purchase of Goods, Services, Fixed Assets / Recruitment of Employees / Production Process / Sales Cycle and Financial Function)*

→ to company's policies *(It is company's policy to purchase from vendors with at least 5 years of experience in the business)*

→ the prevention and detection of frauds and errors, *(Purchase price & quality is approved by 2 purchase managers and GRN is checked by Store Manager)*

→ the safeguarding of its assets, *(Units purchased are marked with company logo & kept under CCTV surveillance)*

→ the accuracy and completeness of the accounting records, *(Barcode reader is used for recording purchases)*

→ and the timely preparation of reliable financial information *(Weekly Purchase report is prepared by locations & consolidated at HO)*

Broadly we can say it covers

- i. Operational Controls *(Efficient & Economical acquisition & utilization of resources and achieve objective effectively)*
- ii. Fraud Prevention *(Identifying fraud risk factors & designing controls to compensate it)*
- iii. Internal Financial Reporting over Financial Reporting (IFCR) *(Safeguarding Assets / Only Authorised Transactions are recorded / Detailed & Accurate maintenance of Financial Records / Compilation of financial information)*

IFC = Operational Controls + Fraud Prevention Controls + Internal Financial Control Over Financial Reporting

Operational
Controls

Fraud
Prevention
Controls

Internal
Financial
Control
over
Financial

IFCR is defined in in Guidance note on Audit of IFCR.

A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles".

A company's internal financial control over financial reporting includes those policies and procedures:

→ Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Safeguardin
g Assets

→ that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and

Authorisation
of

→ Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

Maintenance
of Records &
Preparation of
FST

→ Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles

IFCR = Safeguarding Assets + Authorisation of Transactions + Maintenance & Preparation of FST

Regulatory Requirements

IFCR

- i. Companies Accounts Rules 2014, Rule 8 (v) (vii):- All companies should specify following in BOD report:- the details in respect of adequacy of internal financial controls with reference to the Financial Statements. (That means IFCR)
- ii. Sec 143 (3) (i):- Auditors to report if the company has adequate IFC systems and that they are operating effectively. (Word used is IFC but guidance notes says that it should be read as IFCR taking into account role of auditor & similar requirement in other countries also. (Again related to IFCR)

IFC

- iii. Sec 134 (5) (e):- Board of director has to specify in Director Responsibility Statement annexed to BOD Report that IFC are adequate & operating effectively in Listed Companies
- iv. Sec 177 (4) (vii):- Companies in which audit committee is applicable, AC has to evaluate Internal Financial Controls
- v. Sec 149(8) & Sch IV:- In case of all companies where Independent Directors are required, IDs to satisfy themselves on the integrity of financial information and that financial controls are robust and defensible

Audit Report of IFCR*(Title)*

REPORT ON THE INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING UNDER CLAUSE (i) OF SUB- SECTION 3 OF SECTION 143 OF THE COMPANIES ACT, 2013 ("THE ACT")

(Intro)

We have audited the internal financial controls over financial reporting of RELIANCE INDUSTRIES LIMITED ("the Company") as of March 31, 2016, in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

*(Management Responsibility)***MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS**

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

*(Auditor Responsibility)***AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and payments of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

In our opinion, to the best of our information and according to the explanations given to us, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

Signature / Date / Place

Guidance Note on 143(3) (f) & (h)

Section	143(3)(f)	143(3)(h)
Consider	→Observations (Qualification/ Adverse / Disclaimer) →Comments (EMP / OMP) Both on Financial Statements or Adequacy on IFCR	→Observations (Qualification/ Adverse / Disclaimer) Both on Financial Statements or Adequacy on IFCR
Determine	Whether it indicates adverse impact on functioning of the company (Losses / Expenses are suppressed or Profits / Incomes are artificially overstated)	Any qualification, reservation or adverse (EMP / OMP not covered) remark relating to the maintenance of accounts and other matters
Example	Impairment of assets not done / Obsolete inventory not written off / Going concern assumption is invalid still financial statements are not adjusted / Company is not having appropriate system for receipt, issue of Inventory	(Journal / Ledger / Cash Book not updated, not accounted regularly, many mistakes, not properly totalled , TB doesn't tally etc) connected therewith

Example for 143(3) (f) & (h)**Basis for Disclaimer of Opinion**

We were appointed as auditors of the Company after March 31, 20X1 and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at `XXX and `XXX, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X0 resulted in numerous errors in accounts receivable. As of the date of our audit report, Management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of `XXX as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable in the Balance Sheet, and the corresponding elements making up the Statement of Profit and Loss and Cash Flow Statement.

Opinion

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

Report on Other Legal and Regulatory Requirements

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

.....

 (f) The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

.....
 (h)The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion paragraph above.