

(13) Branch Audit: Sec. 143(8), Rule 12 of CAAR, 2014 and SA 600

(a) Who can be appointed as Branch Auditor:

Accounts of a branch may be audited by:

(i) Company Auditor; or

(ii) any person qualified u/s 141 of Companies Act, 2013; or

(iii) in relation to a branch located outside India, by:

(a) Company Auditor; or

(b) Person qualified u/s 141 of Companies Act, 2013; or

(c) Person qualified under the laws of Country in which branch is situated.

(b) Duties of Branch Auditor:

- Branch Auditor shall prepare a report on accounts of the branch examined by him; and

✓ send it to the company auditor, who shall deal the report in such (manner) as he considers appropriate.

(c) Rights and duties of company auditor w.r.t. branches (Rule 12):

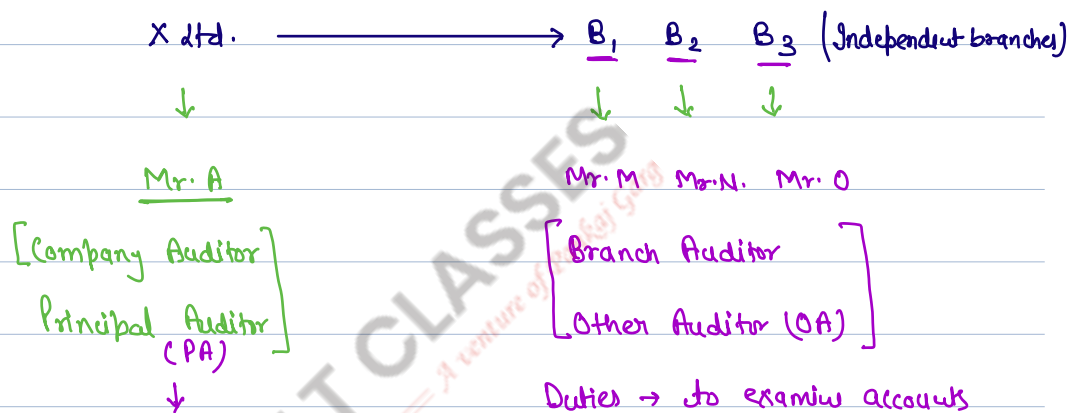
- Company Auditor's rights and duties w.r.t. branches are same as prescribed u/s 143(1) to 143(4).

- Branch Auditor shall submit his report to Company Auditor.

- However, provisions of sec. 143(12) relating to reporting of frauds also extends to branch auditor.

Note! For the purpose of evaluation of work of branch auditor by statutory auditor (Company auditor/ Principal auditor) "SA-600 - Using the Work of Another Auditor" <sup>\*</sup> prescribes the procedures to be performed by statutory auditor.

\* Excluded from syllabus.



✓ Duties :- Evaluate Competency of OA.

- To determine whether he can rely on work of OA.

- To share time-table with OA

- To discuss significant findings of OA

- To visit the branches, if required

- Reference of OA report in Main audit report. [Other Matter Para - SA 706]

maintained by branch

- To report on accounts examined by him

- To submit report to PA

(14) Cost Records and Cost Audit: - Sec. 148 of Companies Act, 2013

- Rule 14 of CARR, 2014

↪ Companies (Cost Records and Audit) Rules, 2014

(a) Requirement of Maintenance of Cost Records:

Sec. 148(1): C.G. may by order, in respect of certain companies engaged in production of prescribed goods or rendering of prescribed services

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direct that particulars relating to material, labour and other items of cost shall be included in the books of account.

Rule 3 of Companies (CRA) Rules, 2014:

Companies (including foreign companies) engaged in production of goods or rendering of services, as specified (Regulated Sector | Non-Reg. Sector)

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shall include cost records in their books

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if Overall T/o from all products or services during preceding [FY ≥ 35 cr.]

✓ Regulated sector: Telecommunication, Industrial Alcohol, Sugars,  
Fertilisers, Drugs and Pharma, Electricity and  
Petroleum products.

✓ Non-regulated sector: Iron, Cement, Steel, etc.

Example: (ABC Ltd.)

	Business - A (Fertiliser - <u>Reg.</u> )	Business - B (Steel - <u>Non-Reg.</u> )	Business - C (Other than Reg. NR)	Total	Records
T/o	10 Cr.	20 Cr.	-	30 Cr.	X
T/o	20 Cr.	5 Cr.	7 Cr.	32 Cr.	X
T/o	30 Cr.	-	10 Cr.	40 Cr.	Reg. Business
T/o	5 Cr.	10 Cr.	21 Cr.	<u>36 Cr.</u>	R + NR
T/o	-	45 Cr.	-	45 Cr.	NR

Note: Once the provisions become applicable over a company, it has to maintain the records forever (Once applicable, forever applicable)

(b) Requirement of Cost Audit:

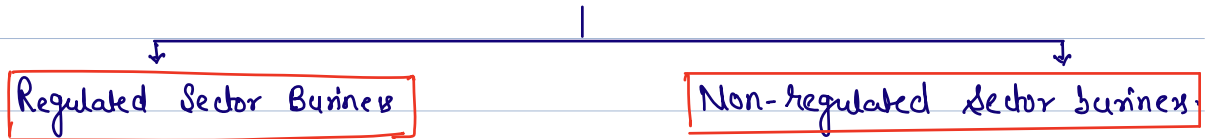
Sec. 148(2): C.G. may by order, direct that cost records of companies covered U/s 148(1) of Companies Act, 2013 having prescribed network or turnover

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need to be audited in prescribed manner.

## Rule 4 of Companies (CRA) Rules, 2014 :

Cost records maintained under Rule 3 are required to be audited, in case of



if Overall T/o of all products or services in immediate preceding FY  $\geq$  50 Crores (R + NR + O)

And

Aggregate T/o of Individual products or services for which records are maintained under Rule 3 in immediate preceding FY  $\geq$  25 Cr (R + NR)

if Overall T/o of all products or services in immediate preceding FY  $\geq$  100 Crores (R + NR + O)

And

Aggregate T/o of Individual products or services for which records are maintained under Rule 3 in immediate preceding FY  $\geq$  35 Cr. (R + NR)

### Example:

Reg.	NR	Other	Total	<u>Rule 3</u> (Cost records)	<u>R + NR</u>	<u>Rule 4</u> (Cost Audit)
10 Cr.	25 Cr.	Nil	35 Cr.	✓ (R + NR)	35 Cr.	X
15 Cr.	25 Cr.	20 Cr.	60 Cr.	✓ (R + NR)	40 Cr.	R ✓ NR X
20 Cr.	40 Cr.	50 Cr.	<u>110 Cr.</u>	✓ (R + NR)	<u>60 Cr.</u>	R ✓ NR ✓
40 Cr.	-	70 Cr.	<u>110 Cr.</u>	✓ (R)	<u>40 Cr.</u>	R ✓ NR X
30 Cr.	90 Cr.	-	120 Cr.	✓ (R + NR)	120 Cr.	R ✓ NR ✓
-	30 Cr.	45 Cr.	<u>75 Cr.</u>	✓ (NR)	<u>30 Cr.</u>	R X NR X

### Exemption from Cost Audit:

A company covered under Rule 3, is exempted from the requirements of audit of Cost records, if:

- (a) Revenue from exports in foreign exchange  $> 75\%$  of total revenue; or
- (b) company is operating from a SEZ; or
- (c) company is engaged in generation of electricity for capitive consumption.

(c) Provisions related to appointment / removal / rights and duties of Cost Auditor; Cost Audit Report etc.

Chapter No. 10 - Part I - Common - law and Audit

Part II - Exclusive to Audit Paper - (i) CARO, 2020

(ii) Joint audit ✓