

Chapter - 8 "Audit Reports"

(1) Jo (9) - Basics and types of audit reports, SA 700, 701, 705, 706, 710

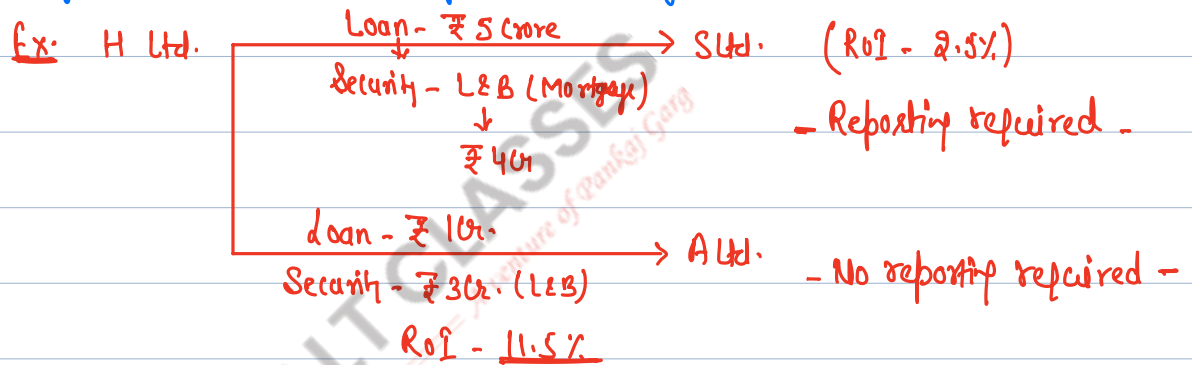
(10) - Branch audit and SA 600

(11) - Joint audit and SA 299

(12) - Reporting requirements under Companies Act, 2013:

(i) Inquiry into propriety matters: Sec. 143(1)

(a) Whether loans and advances made by the company, on the basis of security, have been properly secured and whether the terms are prejudicial to interests of the company or its members.



(b) Whether drawals represented by book entries are prejudicial to the interests of the company. (Set-off, depⁿ, provision etc.)

(c) In case of non-banking and non-investment company, whether assets as consists of share, debⁿ and other securities are being sold at a price lower than acquisition cost.

(d) whether loans and advances made are shown as deposits

I

II

Ex: Cash = 50 lakh

Cash = 10 lakh

Ex: Cash = 50 lakh

Cash = 10 lakh

loan to Co = 40 lakh

FD = 40 lakh

(e) whether personal expenses have been charged to revenue account.

(f) Where it is stated in books that shares have been allotted for cash, whether cash has actually been received in respect of such allotment and if not, whether position stated in B/s is correct and not misleading.

Note: Reporting required only in case of negative findings.

(ii) Reporting on accounts: Sec. 143(2)

Auditor shall make a report to the members of the company on:

- (a) accounts examined by him; and
- (b) f.s. laid before the company in general meeting.

Report shall state that to the best of his information and knowledge, the accounts and f.s. reflects a true and fair view of state of affairs, financial results, cash flows and such other matters as prescribed under Rule 11 of CAAR, 2014.

(iii) Reporting on Other Matters: Sec. 143(3)

- (a) Information and Explanation.
- (b) keeping Proper Books of Accounts and Returns from Branches not visited.
- (c) Branch Auditor's report
- (d) B/S + P&L A/c - agreed with books of A/c and returns.
- (e) f.s. comply with ASs.
- (f) Observations/Comments on financial matters - adverse effect
- (g) whether any director disqualified u/s 164(2).
- (h) Q/A/R related to maintenance of accounts.
- (i) Adequacy of IFC w.r.t. f.s. and its operating effectiveness.

Exception: Pvt. co - OPC / Small co.
↳ T/o < 50 crore and Borrowing < 25 cr

- (j) Other Matters as prescribed.

(Rule 11 of Companies (Audit and Auditor's) Rules, 2014)

Rule 11 of Companies (Audit and Auditor's) Rules, 2014:

- (i) Disclosure of Impact of pending litigation on financial position.
- (ii) Provision for material foreseeable losses on long term contracts including derivative contracts.
- (iii) Delay in drawing amount to IEPF
- (iv) - Mngt. representation that no funds advanced to intermediaries for benefit of ultimate beneficiaries
- Mngt. representation that no funds received from funding company for benefit of ultimate beneficiaries.
- Mngt. representations do not contain material misstatements.
- (v) Dividend declared/paid is in accordance with Sec. 123.
- (vi) A/cing sl/w used by co. has feature of secondary audit trail.
↓
Operated throughout the year to record all transactions. ↓
No tampering ↓
preserved for specific period.

(iv) Sec. 143(4): State the reasons for negative remarks on matters reported u/s 143(3).

(v) Sec. 143(5) (6) (7): xxx

(vi) Sec. 143(8): Branch audit

(vii) Sec. 143(9): Every auditor shall comply with auditing standards.

Sec. 143(10): Auditing standards - C.G. - [ICAI] - NFRA

(viii) Sec. 143(11): C.G. may, by an order, direct, in respect of specified companies, that the auditor's report shall include a statement on such matters as specified.

* Companies (Auditor's Report) Order, 2020 [CARO]

(ix) Reporting of fraud: Sec. 143(12)

If an auditor in the course of performance of his duties as auditor,



has reason to believe that an offence of fraud involving such amount as prescribed (Rule 13: 7/1 Cr.)



is being or has been committed [in the company] - Individually -



by its [officers or employees]



Auditor shall report the matter to C.G. in prescribed manner.

Note: If amt. of fraud is $< 1 Cr.$, auditor shall report the matter to the Audit Committee or Board of Directors, as the case may be.

Ex:

<u>Ex.</u>	<u>Amt. of fraud</u>	<u>fraud Committed by</u>	<u>fraud Committed on</u>	<u>Reporting.</u>
①	₹ 1.5 Cr.	Director	Company	<u>C.G.</u>
②	₹ <u>0.9 Cr.</u>	Director	Company	<u>Audit Committee</u> <u>or BoD</u>
③	₹ 1.50 Cr.	Creditor	Company	- N.A. -
④	₹ 1.25 Cr.	Company	Employees	- N.A. -

(13) CARO, 2020: Applicability of CARO, 2020:

CARO shall apply to Every Company including foreign company.
Except the following:

(a) Banking Companies;

(b) Insurance " ;

(c) Sec. 8 " ;

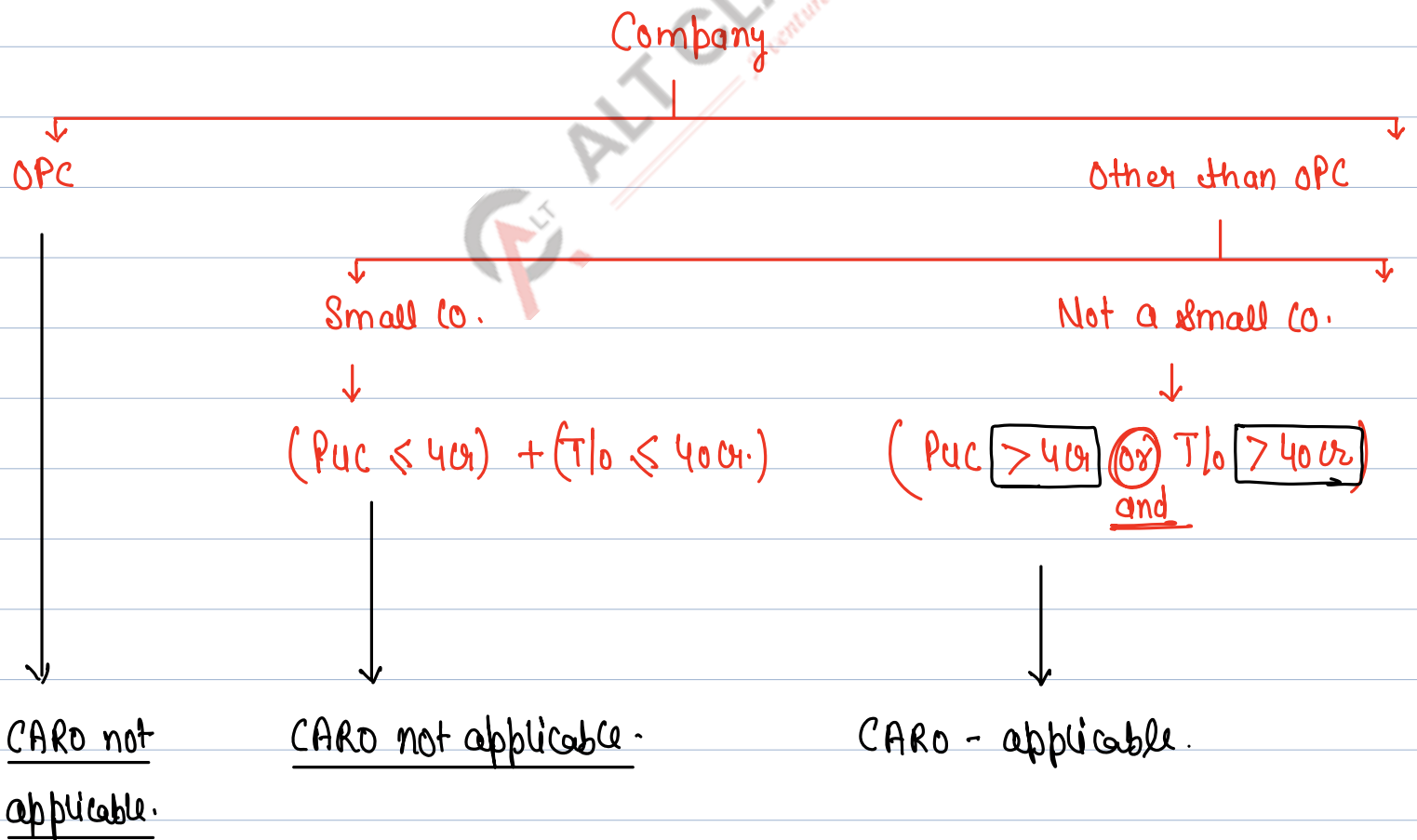
(d) OPC and Small Companies; [Pvt. Co. - PUC \leq 4cr \oplus T/o \leq 40cr]

(e) Pvt. Limited Company (not being sub. or holding of public Co.)

having PUC + RES \leq 1cr as on B/s date;

borrowings from bank or F.I. \leq 1cr at any point of time; and \oplus

total revenue as disclosed in Sch. III \leq 10 cr.



Ex: ABC (P) Ltd. - Sub. of X (P) Ltd. - (Not a Small Company) being a subsidiary

↓
 PUC = 80 lakh
 RES = 10 lakh
 Borrowing = 25 lakh
 Revenue = 8 Cr.
 (CARO not applicable)

Ex: ABC (P) Ltd. - Sub. of X Ltd. (not a small co. being a subsidiary)

↓
 PUC = 80 L
 RES = 10 L
 Borrowing = 25 L
 Revenue = 8 Cr.
 (CARO applicable)

Ex: ABC (P) Ltd. - Sub. of X (P) Ltd. (not a small co.)

PUC : 80 L
 RES : 25 L } > 1 Cr.
 ✓ Borrowing : 25 L
 ✓ T/o : 9 Cr.
 (CARO applicable)

