



# **Seminar on Important Aspects of Companies Act, 2013**

**Changes in Auditor's Report for Companies**

**Institute of Chartered Accountants of India**

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***Chartered Accountants***



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# Today's Agenda

- *New Formats of Auditor's Report*
- *Companies (Auditor's Report) Order, 2015 (CARO 2015)*
- *Various GN issued by ICAI*





# Reference

- Sections 143 (and certain other sections) of Companies Act 2013
- SA 700, 705, 706
- New Auditor's Report formats issued by ICAI (incl. CFS)
- GN on Reporting u/s 143 (3)(f) and (h) of Companies Act 2013
  
- Ministry of Corporate Affairs – CARO Order 2015
- GN on CARO 2015 by ICAI
  
- GN on Reporting u/s 143 (12) – Fraud



# Audit Report formats

- Audit Reporting in India for companies is governed by statute:
- Companies Act lays down various provisions for reporting by Statutory Auditors
  - Sec 227 of Companies Act, 1956
  - Sec 143 of Companies Act, 2013

**The statute however, only lays down the various points to be included in an audit report**

**The actual format in which reporting is to be done is governed by the applicable Standards on Auditing (SAs) issued by ICAI ( or NFRA as and when notified)**





# REFERENCE TO COMPANIES ACT, 2013



Companies Act, 2013

42 POINTS OF DIFFERENCE BETWEEN OLD AND NEW ACT

# Sec 143 of the Companies Act, 2013



- Powers and duties of auditors and auditing standards
- Corresponding to section 227, 228 and 619 of Companies Act, 1956
- Sub section (1) to (15)
- 143 (2) – auditor’s duty to report
- 143 (3) (a) to (j) – Audit Report
- 143 (11) - CARO
- 143 (12) & (13) - fraud



# Section 143 (1)

**Sec 143 (1)- Every auditor of a company shall amongst other matters 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;
- b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the co;
- c) where the company not being an investment company or 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 co;
- d) whether loans and advances made by the company have been shown as deposits;

**\* to be reported only if answer is in negative**





# Section 143 (I)

- (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.*



# Section 143 (2)

- Auditor to report to the members on the accounts examined
- every financial statements at general meeting
- Report - FS
  - In accordance with provisions of Act
  - Accounting standard s
  - Auditing standards and
  - Other matters required to be included under the Act and rules made there under
  - Order made under sub-section (11)
- to the best of his information and knowledge, the 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



# Section 143 (3)

- 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;



# Section 143 (3)

- 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; (not mandatory for FY 2014-15) [IFC defined in 134(5)]
- j) such other matters as may be prescribed\*.

\*- Rule 11



# Rule 11 u/s 143 (3) (j)

## Other matters to be included in auditors report u/s 143(3)(j): Rule 11

- Whether company has disclosed impact, if any, of pending litigations on its financial position in its FS.
- Whether company has provided for material foreseeable losses, if any, on long term contracts including derivative contracts.
- Whether there has been any delay in in transferring amounts to Investor Education and Protection Fund (IEPF).



# Section 143

- **Sec 143(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 there for.
- *Requirement of highlighting adverse observations/comments in audit report in thick type or italics omitted.*
- **Sec 143(5) to 143(7)** – Reporting to C&AG for government companies.
- **Sec 143(8)** – Branch Auditors – Reporting to main auditor – same responsibility as per sec 143(1) to 143(4), 143(12)
- **Sec 143(9) / (10)** – Auditor to comply with Auditing Standards (to be notified by NFRA). Till so notified, Standards on Auditing specified by ICAI shall be deemed to be auditing standards.
- **Sec 143(11)** – Statement to be included in report on matters specified (similar to CARO, 2003)



# Section 143

## Sec 143(12) - Reporting of frauds

- If an auditor of a company, in the course of the performance of his duties as auditor,
- has reason to believe that an offence involving fraud is being or has been committed against the company
- by officers or employees of the company,
- he shall immediately report the matter to the CG within the time prescribed.

**Sec 143(13)**- No duty of auditor w.r.t. fraud reporting to be deemed as having been contravened, if it is done in good faith.



# Section 143

**Sec 143(14)** – Provisions u/s 143(12) shall *mutatis mutandis* apply to

- Cost Accountant in practice
- Company Secretary in practice

**Sec 143(15)**- If the auditor does not report the fraud committed or being committed, he shall be punishable with fine which shall not be less than Rs. 1 lakhs but may extend to Rs. 25 lakhs.





# **INDEPENDENT AUDITOR'S REPORT**

## **FORMATS BY ICAI**

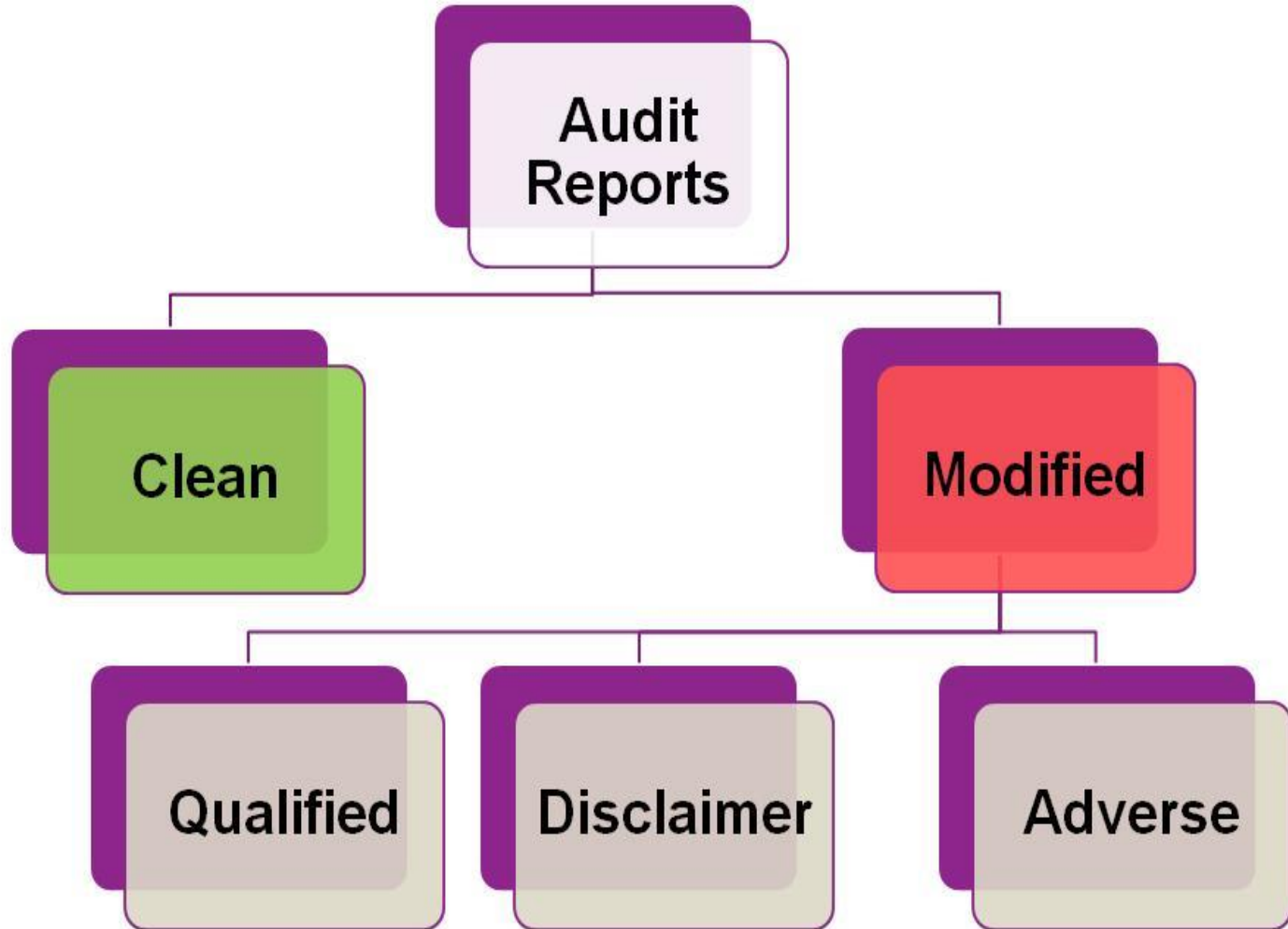


# Statutory Auditor's Reports

- Reporting Standards of Auditing (SA) 700, 705 & 706
- Adherence to SA – now part of law
- Not applicable to LR's etc.
- Deals with how to form an audit opinion, reach audit conclusions and issue AR accordingly
- ICAI has issued various illustrative formats (under different circumstances)



# Types of Statutory Audit Reports





# Clean Report – SA 700

- Auditor's opinion on - General purpose financial statements
- FS prepared in accordance with a general purpose framework
- No modifications/qualifications – clean report
- New illustrative formats – issued by ICAI

## INDEPENDENT AUDITOR'S REPORT

### To the Members of ABC Limited

#### Report on the Financial Statements

We have audited the accompanying financial statements of **ABC Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss, the **Cash Flow Statement** for the year then ended, and a summary of the significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

The Company's Board of Directors are responsible for the matters stated **in Section 134 (5) of the Companies Act, 2013** ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and **cash flows** of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified **under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014**. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

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

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

## Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2015, and its **profit/loss** and its **cash flows** for the year ended on that date.

## Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2015 ("the Order) issued by the Central Government in terms of **Section 143 (11) of the Act**, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order.

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

- a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
- c) [The reports on the accounts of the branch offices of the Company audited under **Section 143(8) of the Act** by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.]
- d) The Balance Sheet, Statement of Profit and Loss, and **Cash Flow Statement** dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us].

- e) In our opinion, the aforesaid financial statements comply with the Accounting Standards referred of section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- f) On the basis of written representations received from the directors as on March 31, 2015, and taken on record by the Board of Directors, none of the directors are disqualified as on March 31, 2015, from being appointed as a director in terms of section 164 (2) of the Act.
- g) With respect to the other matters to be included in the Auditor's Report in accordance with **Rule 11 of the Companies (Audit and Auditors) Rules, 2014**, in our opinion and to the best of our information and according to the explanations given to us:
  - i. The Company does not have any pending litigations which would impact its financial position.
  - ii. The company did not have any long term contracts including derivative contracts for which there were any material foreseeable losses.
  - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For \_\_\_\_\_

**Chartered Accountants**

**Firm Registration No.:** \_\_\_\_\_

\_\_\_\_\_  
Partner

Membership No. \_\_\_\_\_

Date: April 17, 2015

Place: Mumbai



## **Management's Responsibility for the Financial Statements (Old report)**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ('the Act') [which continue to be applicable in respect of section 133 of the Companies Act, 2013 in terms of General Circular 15/2013 dated 13 September 2013, issued by the Ministry of Corporate Affairs]. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

## **Management's Responsibility for the Financial Statements(New report)**

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. **This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records,** relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility (Old report)**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Auditor's Responsibility (New report)**

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

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

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, **the auditor considers internal financial control** relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the **Company's Directors**, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

## Opinion (Old report)

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;
- in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
- in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

## Opinion (New report)

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31<sup>st</sup> March 2015, and its profit and **its cash flows for the** year ended on that date.



# Modified Report – SA 705

- Modifications/qualifications
- Definition - Pervasive
- Circumstances when a modified report is required
- Examples:
  - Non-provision for bad debts
  - Non provision for a known liability
  - Non compliance of any AS
- Basis for qualified opinion – before the opinion
- New illustrative formats – issued by ICAI



# EOM & Other Matters – SA 706

- Emphasis of Matter & Other Matters
- Examples
  - Going concern issues
  - Pending litigation – contingent in nature
  - Outcome of a pending court case/government action
- EOM para after the opinion
- New illustrative formats – issued by ICAI



# EoM & OM Para in Audit Report (SA 706)

- **Emphasis of Matter (EoM)** is included to refer to a matter that is appropriately presented or disclosed in the FS but, in the auditor's judgment, is of such importance that it is **fundamental to users' understanding of the FS;**
  - E.g. going concern assumption
- **Other Matter (OM)** is included in the auditor's report to refer to a matter other than those presented or disclosed in the FS that, in the auditor's judgment, is **relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.**
  - E.g. reliance on audit reports of subsidiaries for audit of CFS
- **Placement of EoM and OM paragraphs**
  - **after the opinion paragraph**



# Modified Report Vs. EoM / OM para

- There is clear distinction between 'modified report' and report containing EoM / OM para.
- EoM / OM Para not a substitute for modification in audit report
- If an auditor instead of giving a 'modified' opinion includes the same subject matter as an EoM / OM paragraph, it cannot absolve him of his responsibility



# Format of Independent Audit Report

- AASB of ICAI has revised the illustrative formats of the Independent Auditors reports (2014-15 onwards)

Illustration 1	Unmodified Opinion on Standalone FSs, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding internal financial controls (IFC) is required.	<i>Will be added to Appendix to SA 700</i>
Illustration 2	Unmodified Opinion on Standalone FSs, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding IFCs is not required.	
Illustration 3	Qualified Opinion on Standalone FSs, Qualification is quantifiable, Reporting on clause 143(3)(i) regarding IFCs is not required.	<i>Will be added to Appendix to SA 705</i>
Illustration 4	Qualified Opinion on Standalone FSs, Qualification is not quantifiable, Reporting on clause 143(3)(i) regarding IFCs is not required.	
Illustration 5	Adverse Opinion on Standalone FSs, Reporting on clause 143(3)(i) regarding IFCs is not required.	
Illustration 6	Disclaimer of Opinion on Standalone FSs, Reporting on clause 143(3)(i) regarding IFCs is not required.	





# Illustrative Format (ICAI)

## Emphasis of Matters

We draw attention to the following matters in the Notes to the financial statements:

- a) **Note X** to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company.
- b) **Note Y** in the financial statements which indicates that the Company has accumulated losses and its net worth has been fully / substantially eroded, the Company has incurred a net loss/net cash loss during the current and previous year(s) and, the Company's current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in **Note Y**, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However, the financial statements of the Company have been prepared on a going concern basis for the reasons stated in the said Note.

Our opinion is not modified in respect of these matters



# Illustrative Format (ICAI)

## Report on Other Legal and Regulatory Requirements

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

- a) .
- b) .
- c) .
- d) .
- e) .
- f) The going concern matter described in sub-paragraph (b) under the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- g) .
- h) .



# Format of Independent Audit Report...

- Following new paras have been added:

- Management's Responsibility

- Addition *“This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent”*

- Auditor's Responsibility

- Addition *“We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder”*



# GN – Reporting u/s 143 (3)(f) & (h)

- f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

## Opinion

## Emphasis of Matters

### Report on Other Legal and Regulatory Requirements

(f) The going concern matter described in sub-paragraph (b) under the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.



# GN – Reporting u/s 143 (3)(f) & (h)

- f) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.

## Basis for Qualified Opinion

## Qualified Opinion

## Report on Other Legal and Regulatory Requirements

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

.....

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



# Reporting - rule 11 u/s 143 (3)(j)

- i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; [or the Company does not have any pending litigations which would impact its financial position]
  - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]
  - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company}.



# GN – Reporting u/s 143 (3)(i)

- i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls; (not mandatory for FY 2014-15) [IFC defined in 134(5)]

## Auditors Responsibility

An ....., the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, ~~but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls.~~ An audit also ..... the financial statements.

*However if reporting is done under 143(3)(i) i.e. internal financial controls, then above underline words will be deleted. [as per illustrative formats issued by the AASB]*



# GN – Reporting u/s 143 (3)(i)

- i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls; (not mandatory for FY 2014-15) [IFC defined in 134(5)]

## Report on Other Legal and Regulatory Requirements

(i) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.





# Report on Consolidated FS

## Other Matters

- a) We did not audit the financial statements / financial information of \_\_\_\_\_ subsidiaries, and \_\_\_\_\_ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20XX, total revenues of Rs. \_\_\_\_\_ and net cash flows amounting to Rs. \_\_\_\_\_ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. \_\_\_\_\_ for the year ended 31<sup>st</sup> March, 20XX, as considered in the consolidated financial statements, in respect of \_\_\_\_\_ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, insofar as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.



# Report on Consolidated FS

## Other Matters

- b) We did not audit the financial statements / financial information of \_\_\_\_\_ subsidiaries and \_\_\_\_\_ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20XX, total revenues of Rs. \_\_\_\_\_ and net cash flows amounting to Rs. \_\_\_\_\_ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. \_\_\_\_\_ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of \_\_\_\_\_ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.



# Report on Consolidated FS

## Report on Other Legal and Regulatory Requirements

(i) As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, based on the comments in the auditors' reports of the Holding company, subsidiary companies, associate companies and jointly controlled companies incorporated in India, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.



# COMPANIES (AUDITOR'S REPORT) ORDER 2015

**Companies Act 2013**





# Section 143 (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.



# Companies (Auditor's Report) Order 2015

- MCA notified on April 10, 2015
- In consultation with ICAI
- Effective from date of its publication in the Official Gazette
- Similar to sec 227 (4A) of earlier Act
- Applicable for FY 2014-15 onwards





# CARO 2015

- Include the following sections
  - Applicability
  - Effective date
  - Matters to be included in the Audit Report
  - Reasons to be stated for unfavorable or qualified answers



# CARO 2015

- **Companies (Auditor's Report) Order, 2015 applicable for FY commencing on or after 1.4.2014.**
- **CARO 2015 applies to every company including a foreign company, except:**
  - banking company
  - insurance company
  - company licensed to operate under section 8 (with charitable objects) of the Companies Act ;
  - One Person Company and a small company
  - private limited company with – at any point of time during the FY:

Paid up capital and reserves	Not more than Rs.50 lakh AND
Loan o/s from any bank/FI	Not exceeding Rs.25 lakh AND
Turnover	Not exceeding than Rs.5 crores





# CARO 2015

- Foreign Companies are covered
  - Branch offices / LO
- 21 points under CARO 2003 now reduced to 12
- Auditor's response to any matter is unfavorable/qualified, the auditor should state the reason for such response
- If the Auditor is unable to express any opinion in response to a particular question, the Audit Report shall indicate such a fact together with the reason why it is not possible to give an answer to such a question



## (i) Fixed Assets

- a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
- b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

**No Change**



Requirement to report disposing off of substantial part of fixed assets during the year, if any, has been done away with



## (ii) Inventories

- a) whether physical verification of inventory has been conducted at reasonable intervals by the management;
- b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported;
- c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;

No Change





## (iii) Granting of Loans to Certain parties

Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act. If so,

- (a) whether receipt of the principal amount and interest are also regular; and
- (b) If overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;



Other clauses of CARO 2003 done away with  
Reporting on loans taken by the Company – not included in CARO 2015  
Reporting on rates charged not required under CARO, 2015 as company will charge as per Section 186 (7).



## (iv) Internal Control System

Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system.

No change





## (v) Acceptance of Deposits

In case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed there under, where applicable, have been complied with? If not, the nature of contraventions should be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

No change, except reference to relevant section of the Co Act 2013

CARO 2003 – referred to acceptance of deposits from Public



## **(vi) Maintenance of Cost Records**

where maintenance of cost records Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained

**No change, except reference to relevant section of the Co Act 2013**



## (vii) Deposit of Statutory Dues

- a) Is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.
- b) In case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute).
- c) Whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made there under has been transferred to such fund within time.

No Major Change, except (c) above

CARO 2003 – required auditor to also comment on regularity in deposit of undisputed dues to IEPF





## (viii) Accumulated Losses and cash losses

Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year;

No change





## (ix) 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;

No change



## (x) Guarantees for loans 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;

No change



## (xi) Application of Term loans

Whether term loans were applied for the purpose for which the loans were obtained;

No change



## (xii) Reporting on 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;

No change





# Clauses deleted

- (i)(c) if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern
- (iii)(a) Loan given to 301 parties. If so, give the number of parties and amount involved in the transactions.
- (iii)(b) whether the rate of interest and other terms and conditions of loans given or taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company
- (v)(a) whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered
- (v)(b) whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time



# Clauses deleted

- (vii) Internal Audit system requirement
- (xii) documentation for loans given by pledging the shares
- (xiii) Compliance provisions applicable to Nidhi, Chit fund
- (xiv) companies dealing in Shares
- (xvii) short term loans are used for Long term purpose
- (xviii) preferential allotment to parties and companies registered in 301 Register
- (xix) securities created in respect of Debentures issued
- (xx) end use of money raised by public issue.





# CARO 2015 -

- Auditor's response to any matter is unfavorable/ qualified, the auditor should state the reason for such response
- If the Auditor is unable to express any opinion in response to a particular question, the AR shall indicate such a fact together with the reason why it is not possible to give an answer to such a question





# ICAI Guidance on Reporting under CARO 2015

- Issued by ICAI
- Continue to draw guidance from relevant paras of earlier statement on CARO 2003.
- Consequential Amendment to the Format of the AR





# Important Takeaways

- Effect on Foreign Companies
- Possibility of increased number of companies being covered
- Ambiguity on reporting on delays in deposition of cess – now done away with
- Additional reporting on delays in transferring to IEPF – also part of rule 11 u/s 143 (3)(j)



# Fraud Reporting

- Governed by sec 143 (12) & Rule 13
- Timelines and procedure prescribed
- ICAI has issued Guidance Note
  - Frauds detected 'in the course of performance of duties as an auditor' – Implies in the course of performance of an audit as per the SAs
  - An Auditor has to consider the requirements of SAs to assess risk of fraud (SA 240)
  - Reporting is applicable only when an auditor has evidence that fraud exists
  - Scope of Sec 143(12) is restricted only to fraud by officers or employees of the company and does not include fraud by third parties such as vendors / customers.
  - Concept of Materiality (**not yet prescribed**)



# Fraud Reporting

- Auditors appointed under other statutes (E.g. VAT auditors, Tax Auditors) – Not covered
- Internal Auditors – Not covered
- **Auditor should also report in case of Corruption, Bribery, Money Laundering and Non-compliance with other Laws and Regulations**
- Auditor is responsible to report – if he is the first person to identify the fraud.
- If the fraud has been reported earlier then the auditor is not required to report the same again.
- If the auditor is dissatisfied and the management does not conduct additional procedures within 45 days then auditor has to evaluate whether he should report same to CG or not.



# Fraud Reporting

- Fraud noticed in CFS
  - Indian & Foreign Components – not against the parent Co
  - Against the Parent Co –
    - Identification by auditor
    - Informed by component auditor & management is unaware
    - Component auditor not covered by 143 (12)
- Reporting when the suspected offence relates period prior coming to the effect of Companies Act, 2013
  - Identified by the auditor AND
  - Not dealt in FS,AR & board report in PY
- Decision tree

# QRB Observations

- SA 700 – Forming an opinion and Reporting on Financial Statements
  - The auditor while signing the Balance Sheet, Statement of Profit & Loss and Cash Flow statement did not mention his membership number and firm's FRN
  - The auditor's report of a listed Bank had been addressed to the President of India instead of to the Members
  - The requirement of SA 700 was not complied with in respect of one of the branch
  - Long format audit report did not comply with the provisions of SA-700; it did not bear the date, place and signature of the auditor
  - The auditor has to mandatorily report the compliance of all the applicable Accounting Standards in its report; however, the audit firm had not reported it in its report

# QRB Observations

- SA 700:
  - According to SA 700, an audit report should be appropriately addressed as required by the circumstances of the engagement; however, the firm had not mentioned the addressee, to whom it was addressed in its report
  - The Independent Auditor's Report was issued in old format i.e. not as per SA-700(Revised) as applicable to the financial year 2012-13
  - In the heading of auditor report for consolidated financial statement of the company the word "Independent" was not used. It should have been "Independent Auditor's report"
  - Annexure to audit report did not comprise comments on internal control system with respect to purchase of inventories, fixed assets, and for the sale of goods and services
  - The firm had not reported in its auditor's report that whether any fraud on company or by the company had been noticed or reported during the period of audit or not

# QRB Observations

- SA 706 – Emphasis of Matter paragraph and Other Matter paragraphs in the Independent Auditor’s Report
  - There had been a continuous diminution in the value of the investments, which according to the company was temporary in nature. However, there were not sufficient documents to prove that diminution was temporary and no provision was made, moreover the matter was not emphasized in Auditor’s Report as required by SA 706





Thank  
You

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