

# CHAPTER 7

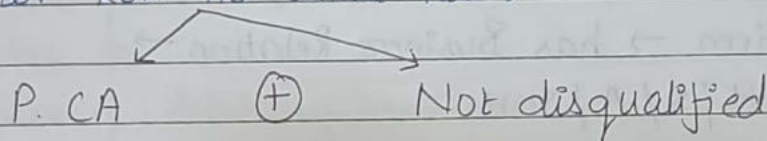
classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

## # Sec 141 Eligibility / Qualification / Disqualification of Auditors

- ① Qualification → CA in practice
- ② In case of → sign by CA partner only  
Firm (LLP)
- ③ Auditor kon ho sakta hai?



## # Disqualification of Auditor

Disqualification	(₹) Limits
① <del>Body Corporate</del> (-) LLP	-
② <del>Officer / Employee Co</del>	-
③ <del>Person is a partner/employee → of officer → of company</del>	-
④ A person / partners → holds security → in the Company / Holding / Associate / Subsidiary / Subsidiary of such Holding	-
⑤ The Relative → of person / partner holds security → in Co. / H / S / A / SOH [if relative acquire above threshold → after appointment of C.A → then such CA shall take corrective action within 60 days]	of value exceeding ₹1 lakh of F.V

\* PSC = Paid up Share Capital

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Date \_\_\_\_\_  
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- |                                 |   |  |
|---------------------------------|---|--|
| ⑥                               | Himself / Partner / Relative → indebted to → Co./H/S/A/SOH  | exceeding ₹5,00,000/-                            |
| ⑦                               | Himself / P/R → given guarantee/ security w.r.t → debt of any 3 <sup>rd</sup> person to the → Co./H/S/A/SOH | exceeding ₹1,00,000/-                            |
| ⑧                               | Himself / firm → has Business Relation → with Co./H/S/A/SOH   | -  |
| ⑨                               | Relative is the Director / Key Managerial Personnel → of the COMPANY.                                       | -  |
| ⑩                               | Person → full time employment elsewhere   | -  |
| <del>11</del> <sup>Imp</sup> 11 | Person / Partner of firm → app. auditor in more than 20 companies<br>(-) OPC<br>(-) Dormant Co.             | (-) Pvt. Co. having PSC < 100Cr<br>(-) Small Co. |
| 12                              | Person → convicted for offence involving fraud → & 10 years has not elapsed                                 | -  |
| 13                              | Person → providing services mentioned u/s 144 of CA, 2013   | -  |

## # Section 144 : Auditor not render certain services

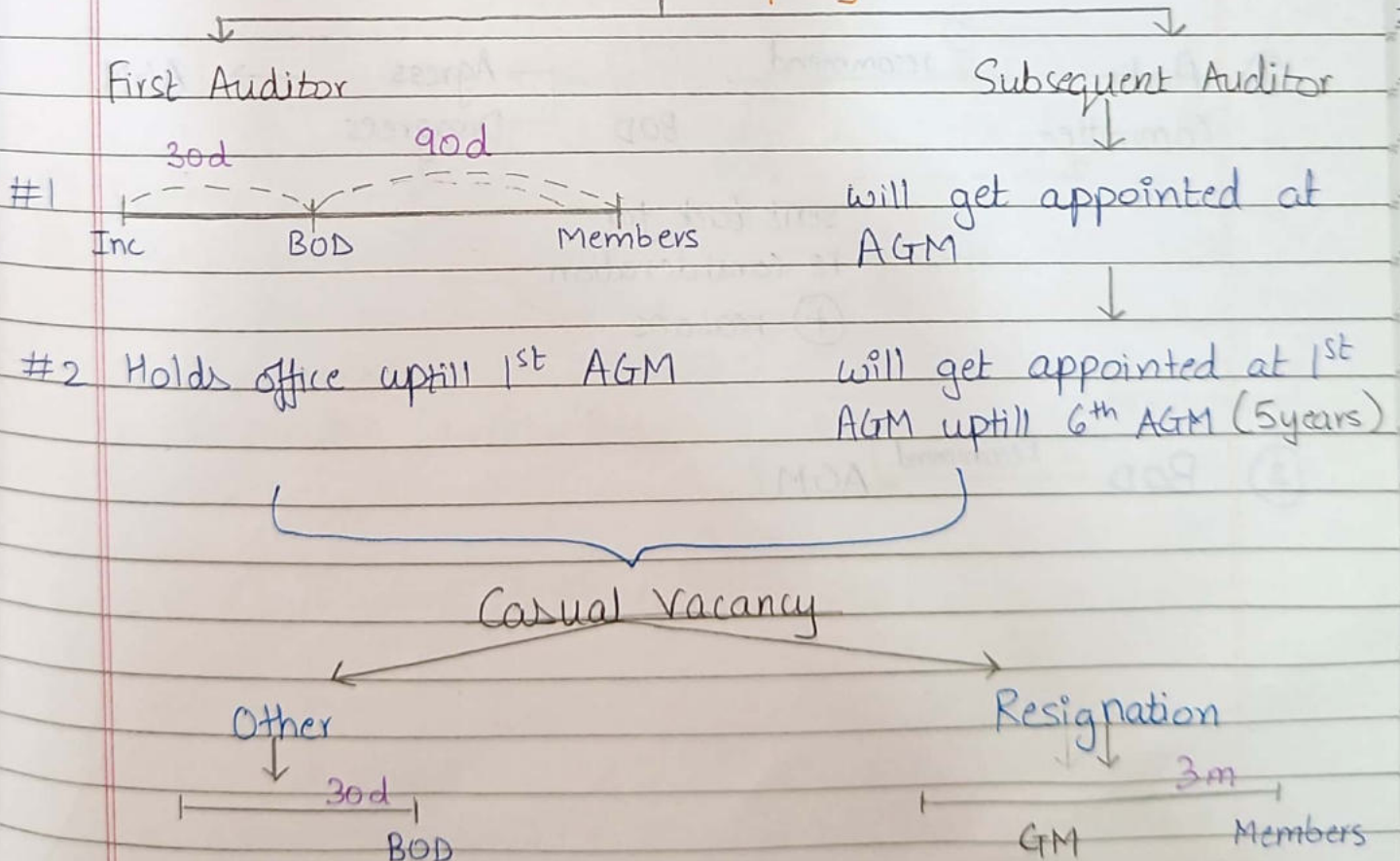
Auditor shall not render following services to Co./H/S

~~50M~~ A

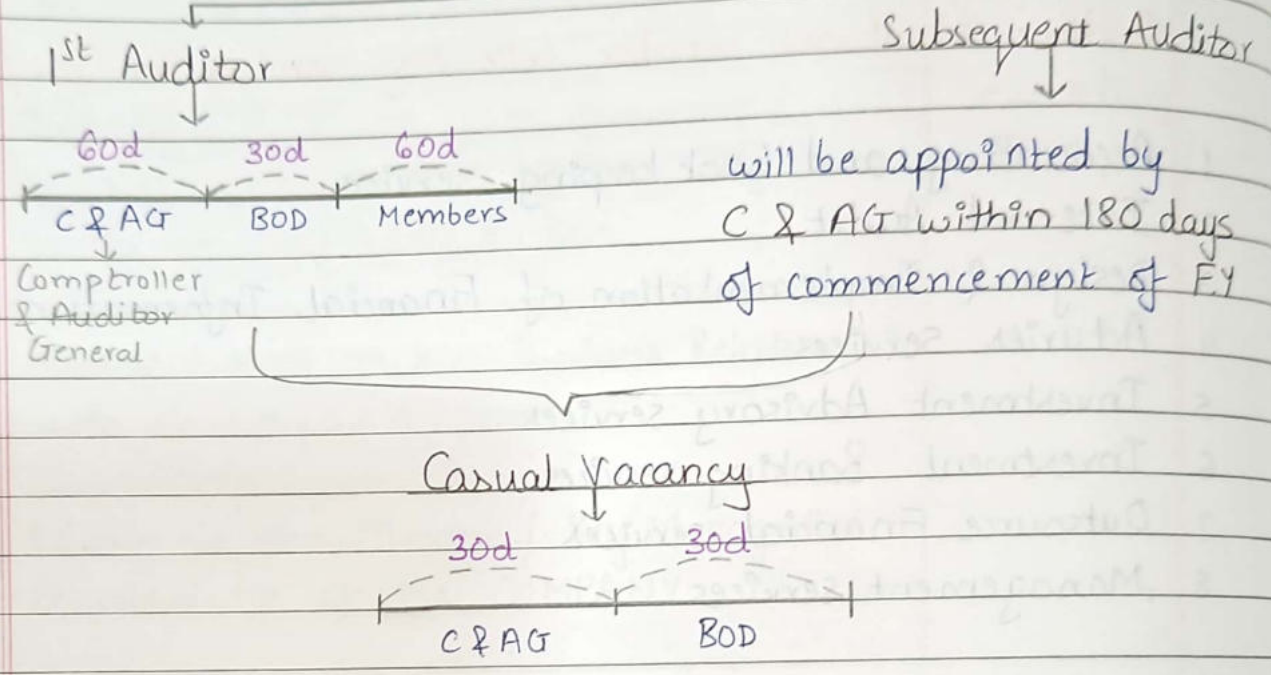
1. Accounting and book keeping service.
2. Internal Audit.
3. Design & Implementation of Financial Information system.
4. Acturaries Services.
5. Investment Advisory services
6. Investment Banking services
7. Outsource Financial services
8. Management services.

## # Section 139 : Appointment of Auditor

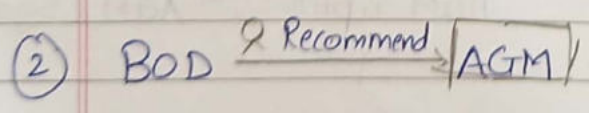
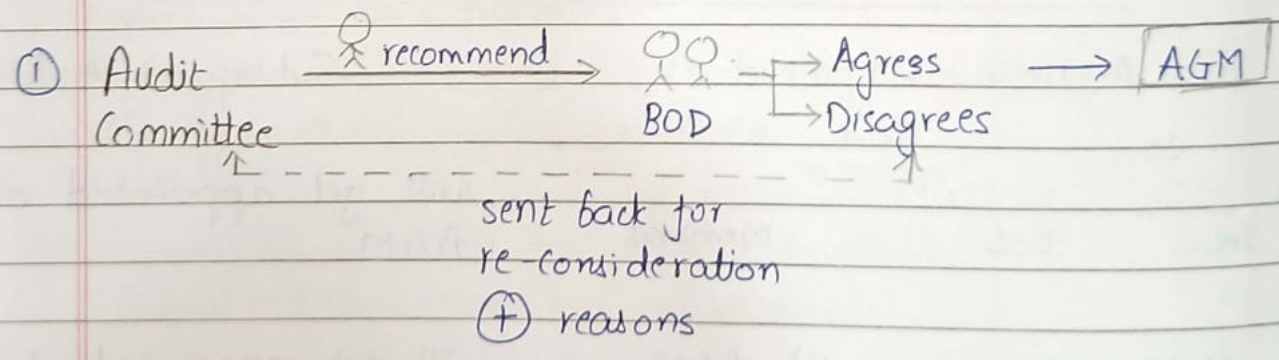
### (i) Normal Company



## (II) Government Companies



### # Manner and procedure of Selection of Auditor Section 139



BOD / AC shall :

→ take into consideration { experience  
qualification

→ ensure about any order or proceedings against professional.

→ any such other information required.

### AC applicability

① listed Co.

② Public Co., having  
 PSC 10 cr or more, or  
 O/s Loan 50 Cr or more, or  
 T.O 100 Cr or more.

AGM



① Written Consent

② Certificate Stating:

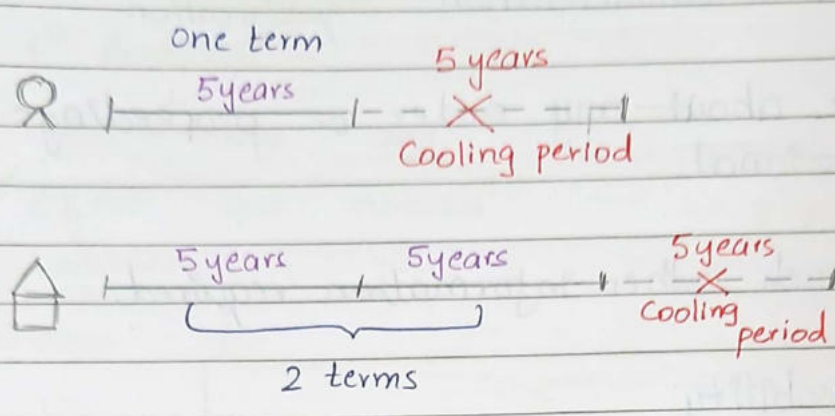
- 1) App as per CAA/1949
- 2) App as per Co. Act, 2013
- 3) pending proceeding

ROC

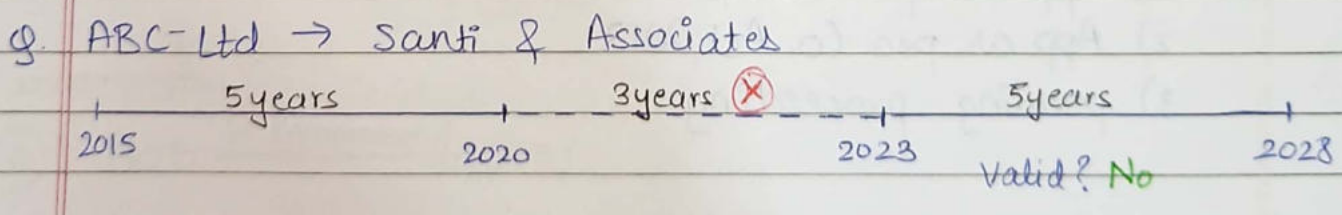
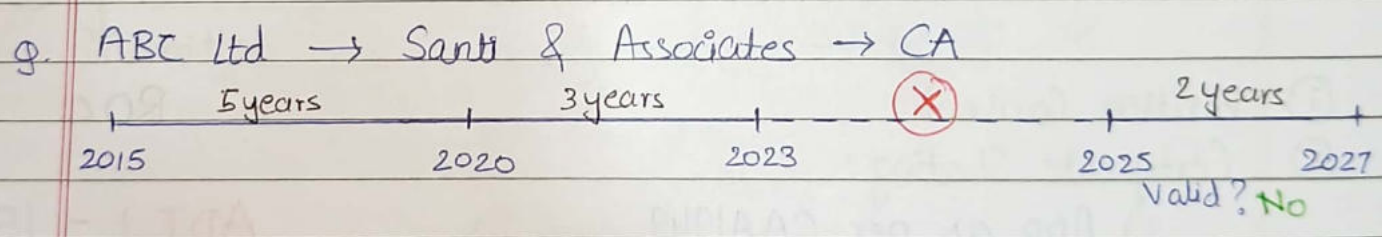
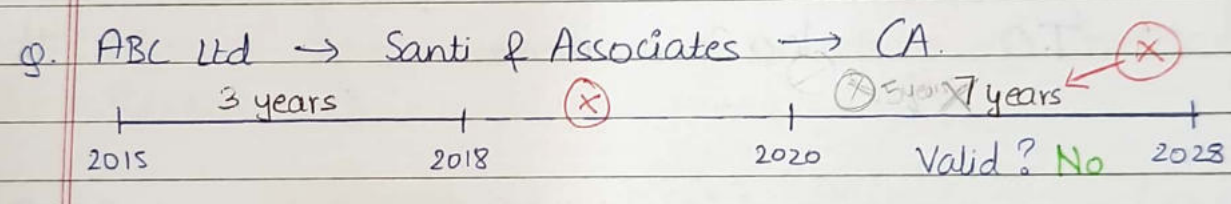
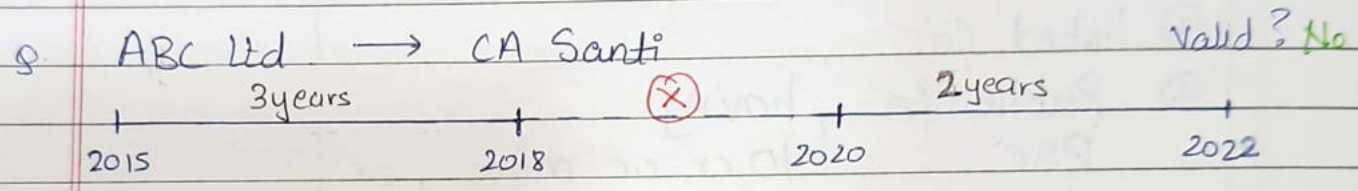
ADT 1 - 15d

↓  
Appointment form

# # Term of Auditor



- Applicable to:
- ① Listed Co.
  - ② Unlisted Public Co.  
→ PSC ≥ 10Cr
  - ③ Pvt. Co. → PSC ≥ 50Cr
  - ④ Co. has Borrowing  
→ ≥ 50Cr.



\* No audit firm having common partners / common network shall be appointed after expiry of terms during cooling period.

\* In case of Joint auditors - appointment shall be made in such a manner, that their term do not ends together.

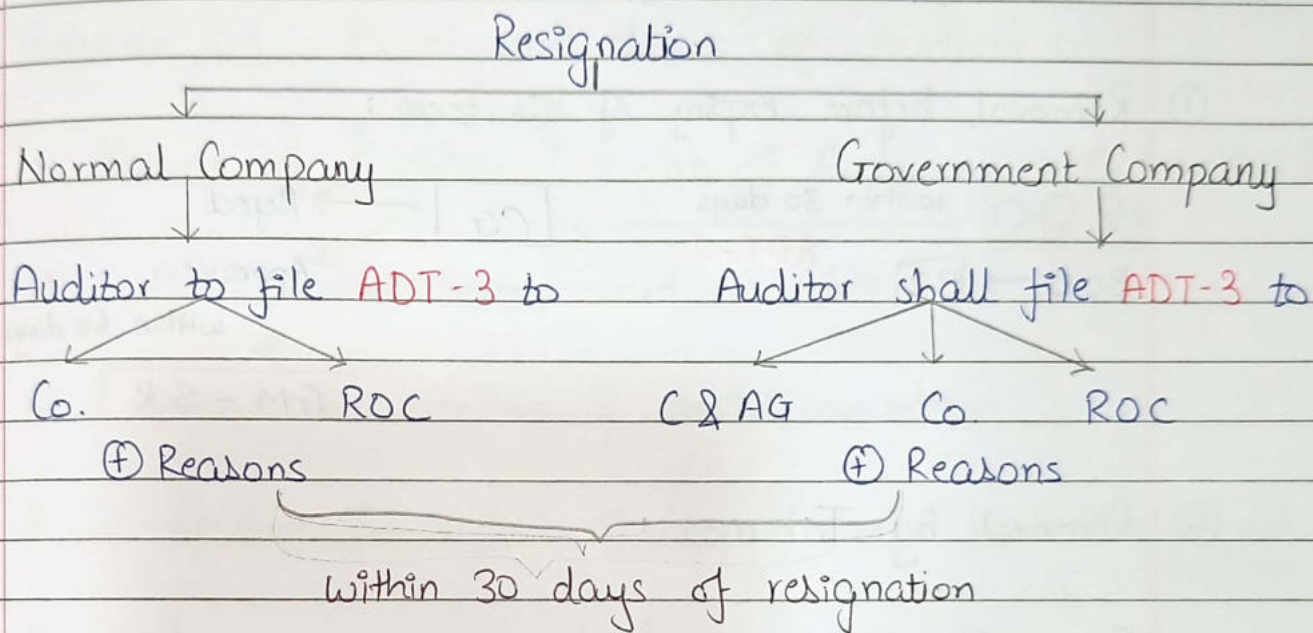
\* Members has powers to order :

① Internal relation of auditor in a firm

(OR)

② Audit to be done by two or more auditors.

# Section 140 : Resignation of Auditor



# Section 142 : Remuneration of Auditor

Not Applicable

Q1. Kon fix karega?

First Auditor

BOD

Subsequent Auditor

Members

Q2. Kya ⊕ ⊖ ?

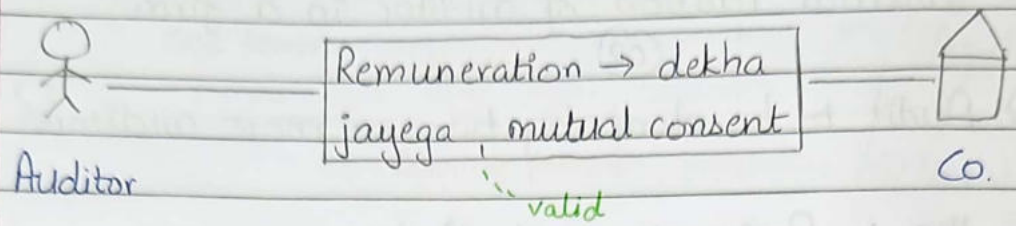
⊕ Remuneration fixed / fees payable

⊕ Other expenses w.r.t Audit

⊕ Any other services → w.r.t Audit

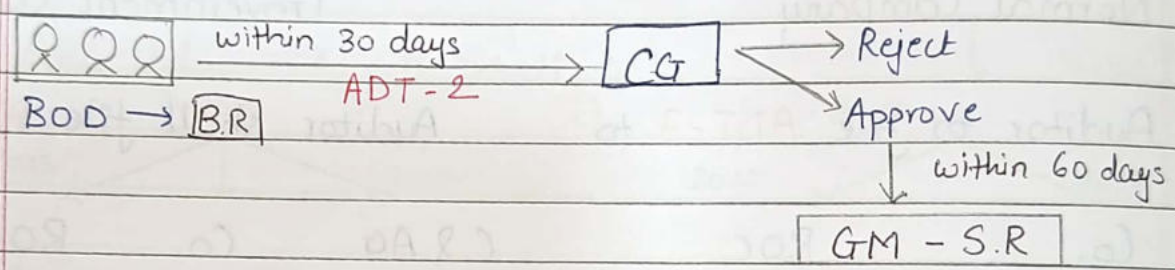
⊖ Remuneration paid for any other services.

### Q3. Engagement Letter

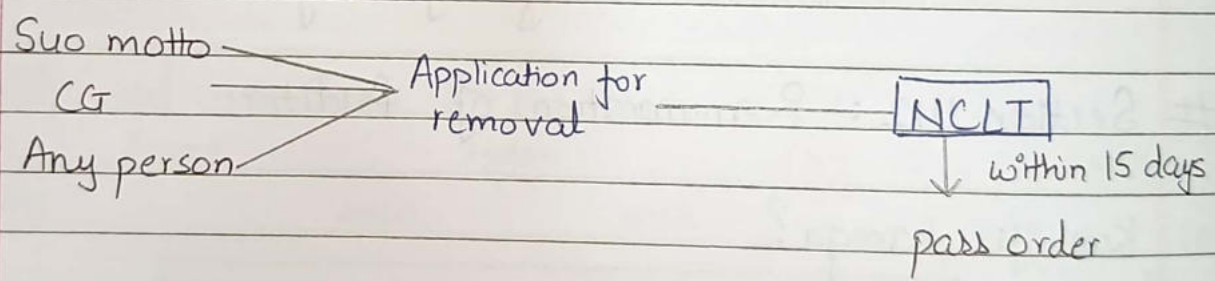


### # Section 140 Removal

① Removal before expiry of his term :



② Removal by Tribunal :



- |  |
|--|
| <ol style="list-style-type: none"> <li>Such Auditor → not to do Audit for next 5 years in any Co.</li> <li>Liable w/s 447</li> </ol> |
|--|

## # Deemed Re-appointment :

1. No notice by auditor (about his unwillingness)
2. Not disqualified
3. No. S.R → by members for removal of auditor / app. of new auditor.

## # Section 143 : Power and duties of Auditor :

### • Powers of Auditors / Rights of Auditors (HARRTIORS)

H Have audit report read at AGM.

A Attend the meeting of audit committee.

R Receive the report of branch audit from the branch auditor.

R Receive notes and attend general meetings.

I Inspect branch offices and branch accounts.

I Inspect books of accounts and vouchers

O Obtain information and explanation

\*R Right to be indemnified.

S Sign the audit report and other documents

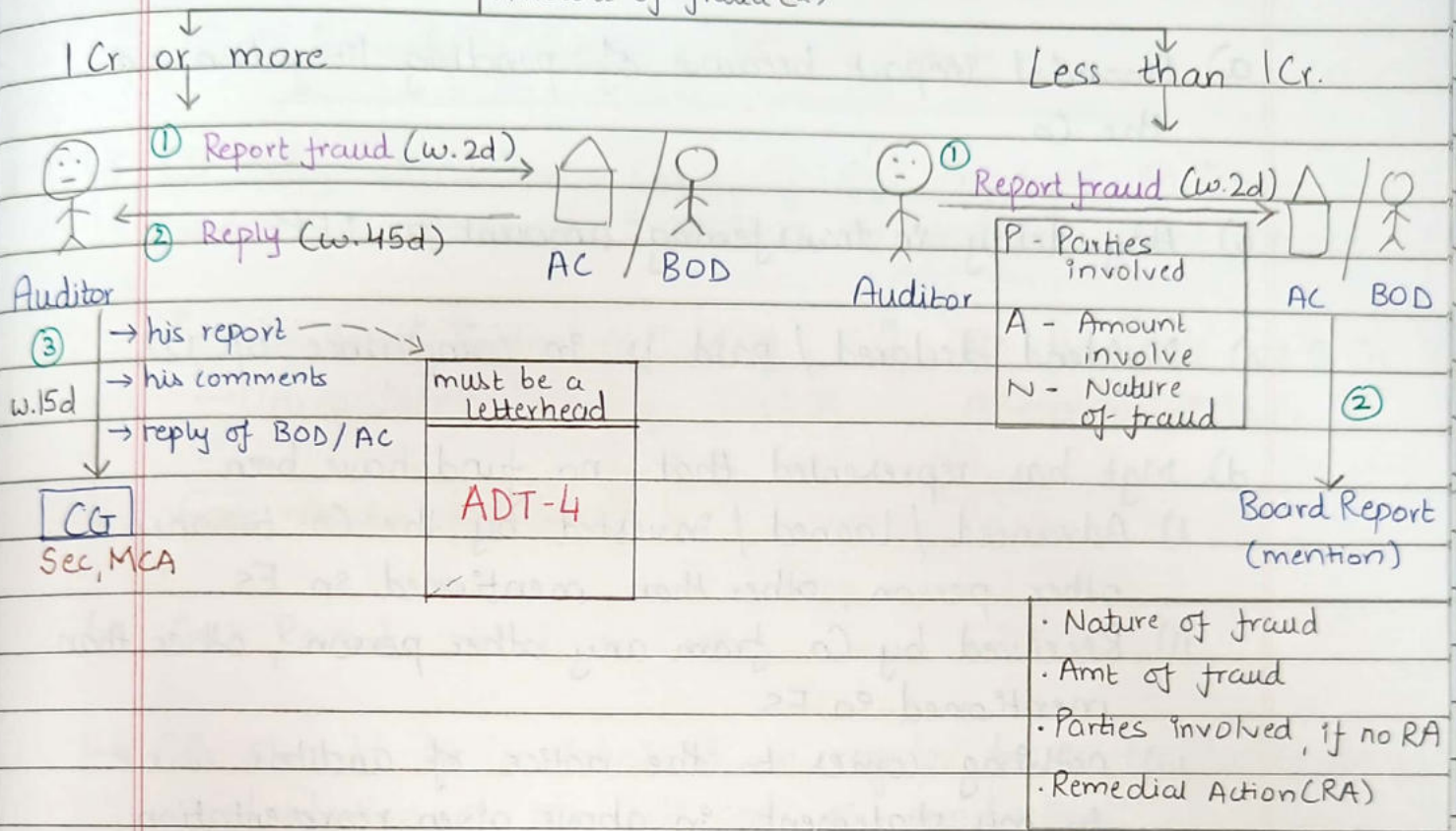


## • Duties of Auditors

- 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 loans and advances made by the company have not been shown as deposits / u/s 73 & 76 of C.A, 2013.
- c. Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company.
- d. In case of a company other than an investment company or a banking company, whether so much of the assets of the company as consists of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company.
- e. whether personal expenses have been charged to revenue account.

• **Fraud Section 143(12)** (Co does fraud)

Amount of fraud (₹)



**Imp** • **Audit Report Contents** (Companies Act, 2013)

1. All information and explanation were received & recorded in Report to the best of his knowledge. Any information not received → shall be stated therein & its impact on FS.
2. Co's P/L and BS dealt with Co's BOA & Returns.
3. FS comply with Accounting Standards.
4. Comments on such Financial Transaction having adverse effect on the Co.
5. Co. has adequate Internal Financial Control System.

6. Other matters as maybe prescribed :

a) Financial impact because of pending litigation on the Co.

b) Any delay in transferring amount to IEPF.

c) Dividend declared / paid is in compliance w/s 123.

d) Mgt has represented that, no fund have been :

i) Advanced / loaned / invested by the Co. to any other person ; other than mentioned in FS.

ii) Received by Co. from any other person ; other than mentioned in FS.

iii) nothing comes to the notice of auditor w.r.t to mis-statement in above given representation by management.

## 7.2 COST AUDIT

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

### # Section 148 : Cost Records and Audit

#### • Cost Records [Rule 3] Form CRA1

↳ CG may direct \*such class of Co. engaged in \*such production of Goods & Services to maintain Cost Record.

\*  
↳ Regulated Sector → Table A } TO from all G & S is  
↳ Unregulated Sector → Table B } minimum ₹ 35 Cr.

#### • ~~Cost Audit~~ [Rule 4]

↳ Cost Record → Form CRA1

↳ CR should be maintained on regular basis to facilitate :

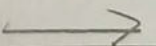
- Calculation of per unit cost of production.

- Cost of Operations

- Cost of Sales

- Margin for every financial year on monthly / quarterly / half yearly / annual basis.

↳ CR should enable company to exercise control over various operations and costs to achieve economies in utilization of resources.



① Regulated Sectors

↓  
Telecommunication  
Services

↓  
Electricity

↓  
Petroleum

↓  
Drugs &  
Pharmaceuticals

↓  
Fertilizers

↓  
Sugar &  
Industrial  
alcohol

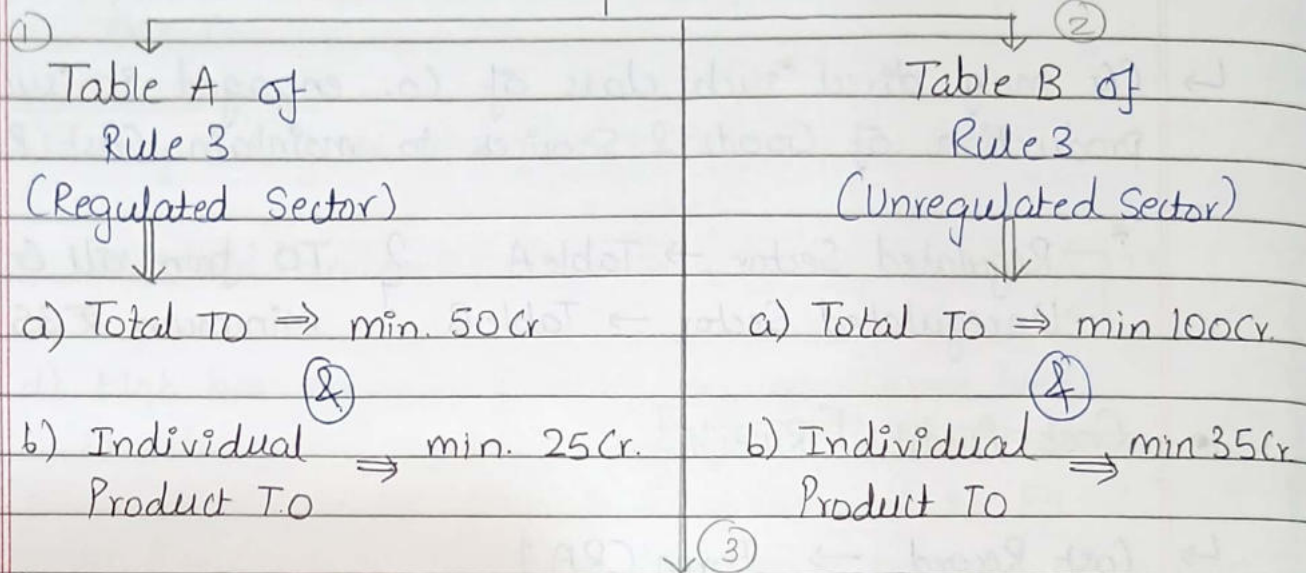
② Unregulated Sectors

↓  
Others

## • Cost Audit [Rule 4]

Applicability for Cost Audit

Cost Record = Cost Audit



### Negative List

- ① Export Income  $>$  75% of Total Income
- ② SEZ Unit
- ③ Electricity generation units

## # Appointment of Cost Auditor [Sec 148]

Who can be appointed as cost auditor :-

- $\hookrightarrow$  Cost accountant holding a valid certificate of practice & is in whole time practice. It also includes a firm/LLP of Cost accountants.
- $\hookrightarrow$  Provided, a person appointed u/s 139 as auditor of company shall not be appointed for conducting audit of cost records.

Q Who shall appoint Cost auditor :-

Company required to constitute audit committee

Company not required to constitute audit committee

- Board shall appoint an individual who is Cost Accountant or firm of Cost Accountants in practice, as cost auditor on recommendation of Audit Committee.
- Committee shall also recommend remuneration for cost auditor.
- Remuneration so recommended shall be considered and approved by BOD and ratified subsequently by shareholders.
- Board shall appoint an Individual who is Cost Accountant of firm of cost account in practice as Cost Auditor.
- Remuneration of such auditor shall be ratified by shareholders subsequently.

Q. Manner and Procedure for Appointment :-

↳ To be appointed within 180 days of commencement of every F.Y.

⊛ Before appointment is made, written consent of Cost Auditor to such appointment to be obtained along with certificate stating that :-

- He is eligible for appointment and not disqualified for appointment.
  - It satisfies the criteria as provided in section 141 of Act.
  - Proposed appointment is within limit laid down by Act
  - List of proceedings against cost auditor / audit firm or any partner of it w.r.t professional matter of conduct, as disclosed is true and correct.
- \* Every company shall file Notice of appointment with CG within 30 days of Board Meeting in which appointment is made } Earlier
- (OR)
- within 180 days of commencement of F.Y.

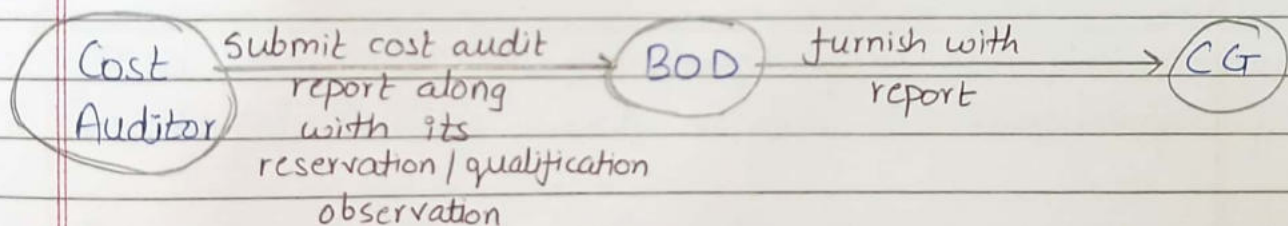
### ¶ Tenure

Every Cost Auditor so appointed shall continue in such capacity till expiry of 180 days from closure of F.Y or till he submits Cost Audit Report for the F.Y.

- Removal of Cost Auditor before expiry of his term:
- Through Board Resolution after giving reasonable OOBH.
- Recording reasons for removal in writing.

- Casual Vacancy caused either due to resignation / death / removal :
  - Shall be filed by BOD within 30 days.
  - & Inform CG in form CRA-2 within 30 days of such appointment of cost auditor.
- Cost auditor shall comply with cost auditing standards as issued by Institute of Cost Accountants of India, with approval of CG.

### g) Cost Audit Report (CAR) :



in Form CRA-3  
within 180 days  
of closure of F.Y  
to which report  
pertain

within 30 days of  
receipt of report  
along with full information  
and explanation of every  
reservation & disqualification

## Q. Importance of Cost Audit

1. It provides for authentic data on cost which helps in making decisions on pricing policy, product mix, etc.
2. It identifies inefficiencies and improves the productivity.
3. It ensures the optimum utilization of limited resources.
4. Cost Audit data helps in determining standard cost data.
5. It appraises the cost control mechanism in an organization.

## 7.3 SECRETARIAL AUDIT

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

### # Section 204 : Secretarial Audit

#### I. Applicability

1. Listed Company
2. Public Company  $\left\{ \begin{array}{l} \rightarrow 50\text{cr. or more ; or - Psc} \\ \rightarrow 250\text{cr. or more - T.O} \end{array} \right.$
3. Company  $\rightarrow$  o/s borrowings [F.I. & Banks] is 100 cr. or more

#### II Kuch Baatein

1. Secretarial Report  $\rightarrow$  MR 3
2. It is the duty of the company to give assistance to Secretarial Auditor w.r.t records of the company.
3. A qualified CS having certificate of practice can be a secretarial auditor.
4. In case of listed entities, secretarial audit report shall be annexed to annual reports.  
In case of listed companies, submit secretarial compliance report to stock exchanges within 60 days of financial year.
5. Appointment of Secretarial Auditor  $\rightarrow$  BM - BR
6. If there is any change in secretarial auditor the company shall report it to members through Board Report.

$\rightarrow$

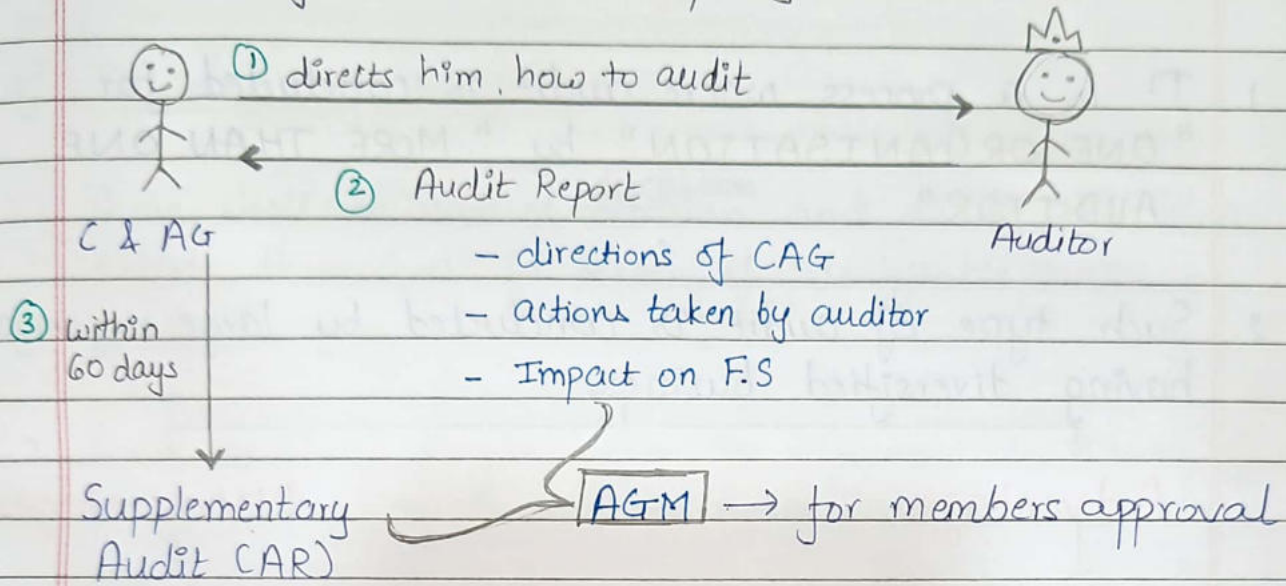
7. If there is any qualification, observation, remark made by the secretarial auditor in his report, the BOD shall explain in full about the same in its board reports.

also applicable  
to Cost  
Audit 1/8

All the provisions related to "Statutory Auditor" applies <sup>same to same</sup> mutandis mutatis to Secretarial Auditor.

7.1

## # Audit of Government Company

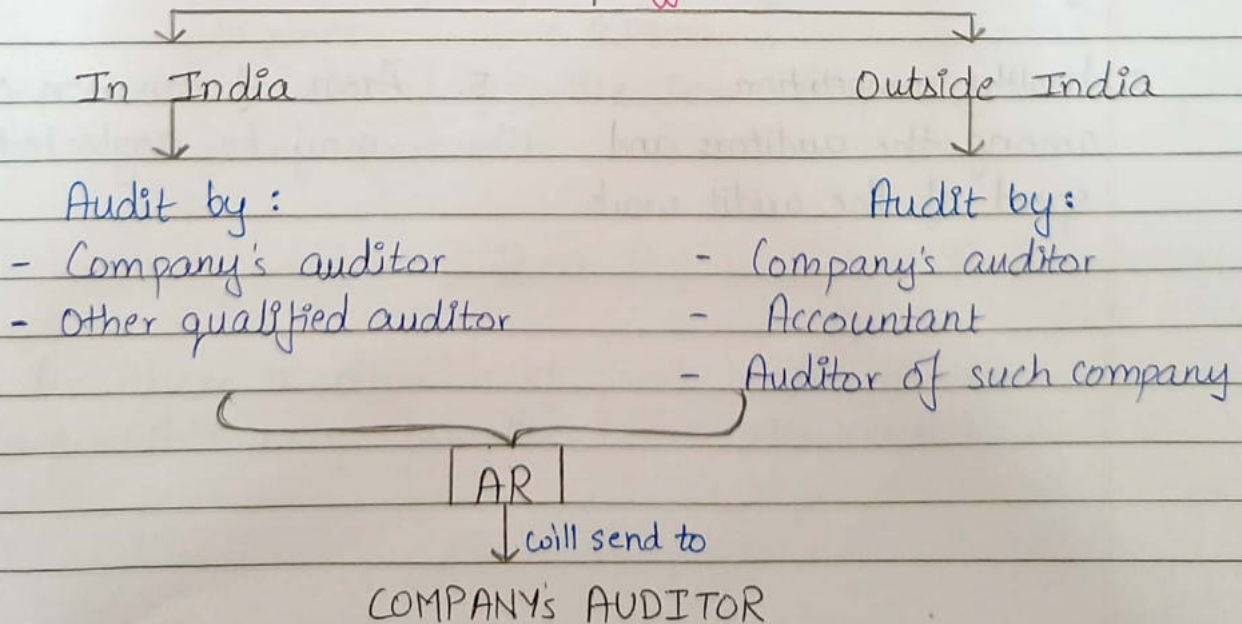


## # Section 128: Branch Audit

- ① BOA & records shall be kept at R.O. <sup>Registered</sup>  
 (-) can keep at any other place → if <sup>in</sup> BR and the same shall be intimated to ROC within 7 days.
- ② Deemed complied above provisions → if <sup>Branch</sup> B.O sends periodical summarized returns to the R.O.

Sec 143(8)

Branch Office



## Imp # Joint Audit

1. It is a process where audit is conducted for "ONE ORGANISATION" by "MORE THAN ONE AUDITOR"
2. Such type of audit is conducted by large organization having diversified business.

### Advantages

1. Reduces the workload
2. Timely completion of work.
3. Share their expertise & solve critical problem
4. Improves the quality of audit work to a great extent.
5. healthy competition among the auditors and speed of the audit work

### Disadvantages

1. Superiority complex
2. Not suitable for a small entity due to cost burden
3. Lack of co-ordination may slow down the speed of work
4. Uncertainty about the liability of any work
5. Areas of common concern may be neglected

- \* SA → Standards of Accounting
- \* UPSI → Unpublished Price Sensitive Information.

## Imp SA - 299: Guidelines of Joint Auditing:

(D) Dake (Dangerous) (R) Rascals (K) de Khelga

### A] Division of Work:

1. There shall be mutual <sup>discussion</sup> ~~decision~~ and divide the audit work among themselves in terms of identifiable units or specified areas <sub>of audit</sub>.
2. Such divisions maybe with the reference to items of assets or liabilities or income or expenditure, etc.
3. Certain areas of work having too much importance / would often not be divided and would be covered by all the joint auditors.
4. The division of work shall be documented and communicated to the entity / Co.

### B] Co-ordination:

1. A joint auditor comes across any matters which are relevant to the areas of another joint auditors.
2. He should <sup>in writing</sup> ~~communicate~~ <sup>by way of report</sup> the same to such auditor prior to finalization of audit.

### \*\* C] Relationship between Joint Auditors and Responsibilities:

As there is division of work, each auditor is responsible only for the work allocated to him.

- But in the following cases all the joint auditors will be jointly and severally responsible :
  1. Audit work is not divided and is carried out by all
  2. Decisions are taken by all joint auditors:
    - (-) Exception : Execution of decision is separate & specific responsibility → in such case all the joint auditors will not be liable.
  3. Any matter which are brought to the notice of the joint auditors and was neglected.
  4. Financial statements do not comply with the disclosure requirement of the relevant statute or law.
  5. Audit Report does not comply with relevant law.

#### D] Dependence of Auditor :

1. There is a general assumption that the other auditors have carried out their part of audit work in accordance with Generally Accepted Audit Procedures.
2. It is not necessary for the joint auditors to review each other's work.

#### E] Reporting Responsibilities :

1. All the joint auditors shall arrive at an agreed report. However, if any one of the joint auditors is of a different opinion, a separate report shall be made by him. (+) Reasons

## # Section 177: Audit Committee

### I Applicability

↓  
Listed Company

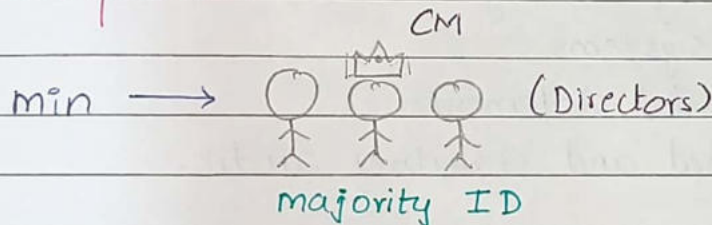
↓  
Public Company

PSC → 10 Cr. or more

O/s loan → 50 Cr. or more

Turnover → 100 Cr. or more

### II Composition

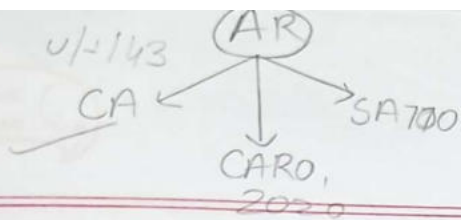


all of them shall be financially literate and be able to read financial statements

### III Functions

1. Appointment, remuneration and terms of appointment of auditor.
2. Review and monitor the auditor's independence and performance and effectiveness of audit process.
3. Examination of the financial statement and the auditor's report.
4. Scrutiny of inter-corporate loans and investments.





- FR = Free Reserves
- NCA = Non-Current Assets

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

## Safeguards against victimization

- The vigil mechanism shall provide for adequate safeguards against victimization of persons.
- It shall include a provision for direct access to the chairperson of the AC in exceptional cases.
- Disclose the mechanism  $\begin{matrix} \rightarrow \text{website} \\ \rightarrow \text{BR} \end{matrix}$

# CONTENTS OF AUDIT REPORT

Companies  
Act, 2013

CARO,  
2020

SA 700

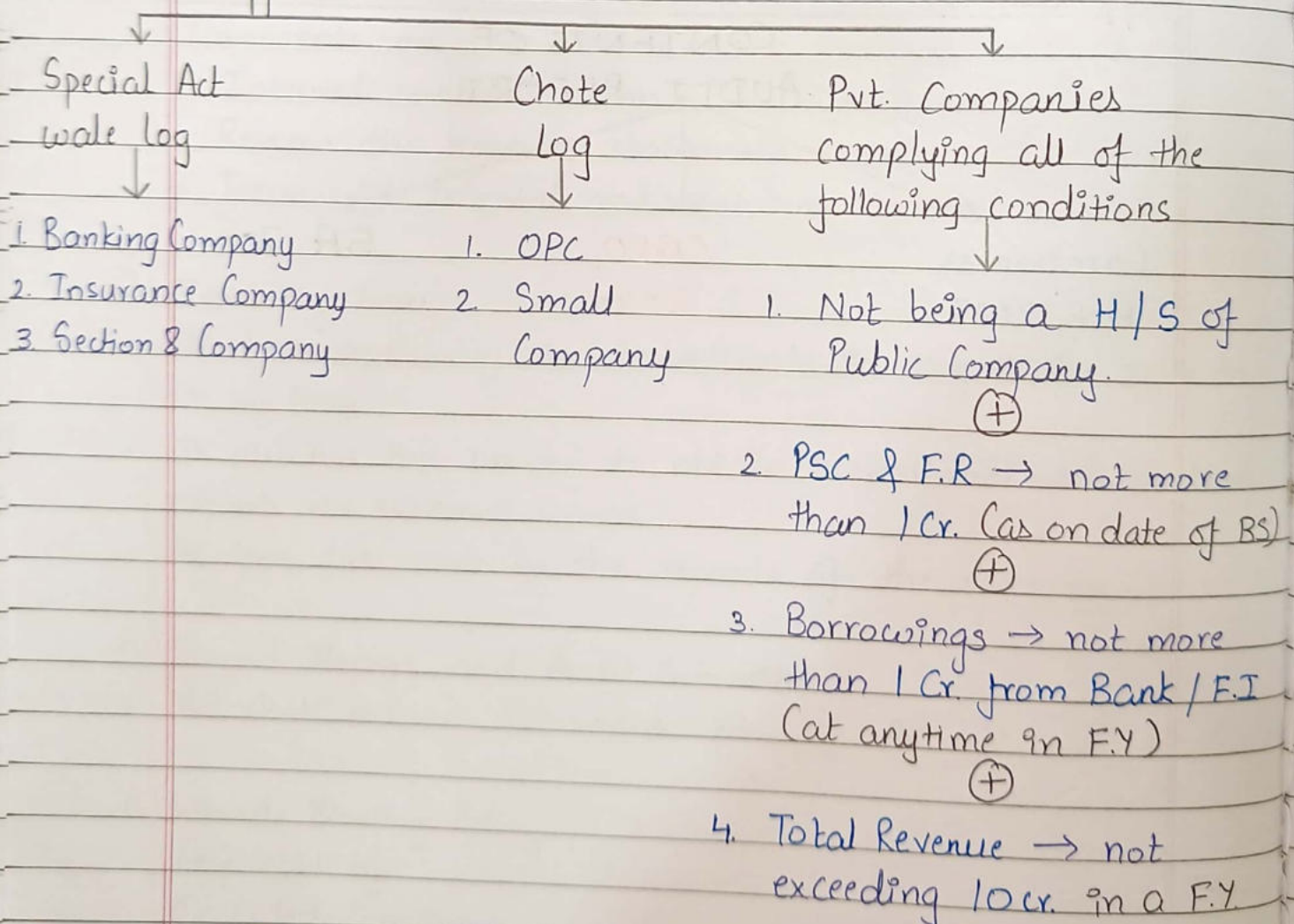
23/7/24

## 7.5 Audit Report, Report v/s Certificate, Reporting Requirement under Companies Act, Contents of the Reports and Modifications in Report (with coverage of CARO)

### # Audit Report as per CARO [Company (Audit Report) Order] 2020

#### • Applicability

Applies to every company <sup>(including)</sup> ~~(excluding)~~ foreign company) except:



## • Matters to be included in CARO

\* 1. 3 (i) → NCA <sup>Non Current Assets</sup>

→ PPE → maintenance of records

→ quantitative details

→ situation of property <sup>location</sup> <sup>assets</sup>

Particulars of Intangible Assets

→ PPE → physical verification

→ any material discrepancies found

→ properly dealt in BOA.

→ I.M.P → existence of title deeds

<sup>Immovable  
Property</sup>

→ in the name of company

→ P.P.E./ → any revaluation

Int. A. → if 10% or more, specify the amount in report.

→ Proceedings pending or initiated w.r.t. Benami Property

2. 3 (ii) → Inventory

1. Physically verified by management

2. If yes, the procedure adopted was appropriate or not.

3. If any discrepancies is of 10% or more,

→ disclose in report

→ check how it is dealt in BOA.

24/7/24

\* 3. 3(iii) → Investment providing Guarantee / Security / Granting Loans or Advances :

a) Whether the company during the F.Y provides the G/S/L/A :

i) Such G/S/L/A has been provided to other entity, company shall indicate

- amount
- balance outstanding at the end of F.Y

to Joint Venture  
or Subsidiary Co.  
or Associate Co.

ii) G/S/L/A provided to :

- amount
- balance outstanding at the end of F.Y

Others

b) G/S/L/A is not prejudicial to the company's interest.

c) L/A → Whether repayment of principle and interest is scheduled or not.

d) If the amount is over due for more than 90 days → whether the reasonable ~~the~~ steps has been taken for recovery

e) Any L/A which has fallen due, has been renewed  
State the -

- Aggregate amount
- Total percentage of interest
- Maturity date

4. 3(iv) → Loan to Director and Investment by the Company

Whether the Company has complied with Sec. 185 & 186 of the Companies Act, 2013.

5 3(v) → Acceptance of Deposits

a. Whether the company has complied with RBI directions and Sec. 73 to 76 of Companies Act, 2013

b. Whether the company has followed the order issued by RBI or NCLT w.r.t issue of deposit, if any

6 3(vi) → Maintenance of Cost Records

Whether the company has complied with Sec. 148 of Companies Act, 2013 or not.

7 3(vii) → Statutory Dues

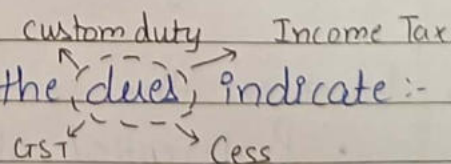
a. Whether company is regularly depositing statutory dues including:-

- GST, Income Tax
- Cess
- Provident funds
- Custom duty
- Pension funds
- Insurance funds of the employees.

b. If not paid / deposited for period of more than 6 months → Auditor shall indicate separately in the reports about the arrears of outstanding statutory dues.

c. In case of disputes related to the (dues) indicate:-

- amount involved
- forum where dispute is pending



8. 3(viii) → Disclosure of Unrecorded incomes  
Whether any transaction / income not recorded in the books have been disclosed as income for the year, and whether it has been properly disclosed in BOA.

\*9. 3(ix) → Repayment of Loan

a. Whether any default in repayment of loan, if yes state the amount  
↙  
↘  
period of default.

b. Whether company is declared as wilful defaulter.

c. Whether the loan has been applied for the purpose which they were obtained, if not state the :-

- amount so diverted
- purpose for which it is used.

10. 3(x) → Utilisation of IPO and FPO

a. Whether the money raised by way of IPO / FPO were applied for the purpose for which they were raised, if not :-

provide details about :-

- reasons for default
- ratification of shareholders

b. Whether the company has made :-

- Preferential allotment
- Private Placement
- Convertible debentures

143(12)  
ICR or ↑      less than ICR

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

11. 3(xi) → Reporting of fraud  
a. Whether any fraud has been reported / noticed during the year if yes state:  
• amount involved  
• nature of fraud

b. Whether form ADT-4 has been filed with CG.

12. 3(xii) → Nidhi Company

13. 3(xiii) → Related Party Transactions

a. Whether the company has complied with sec 188 & 177 of Companies Act, 2013 and whether the same have been disclosed in F.S.

14. 3(xiiii) → Internal Audit

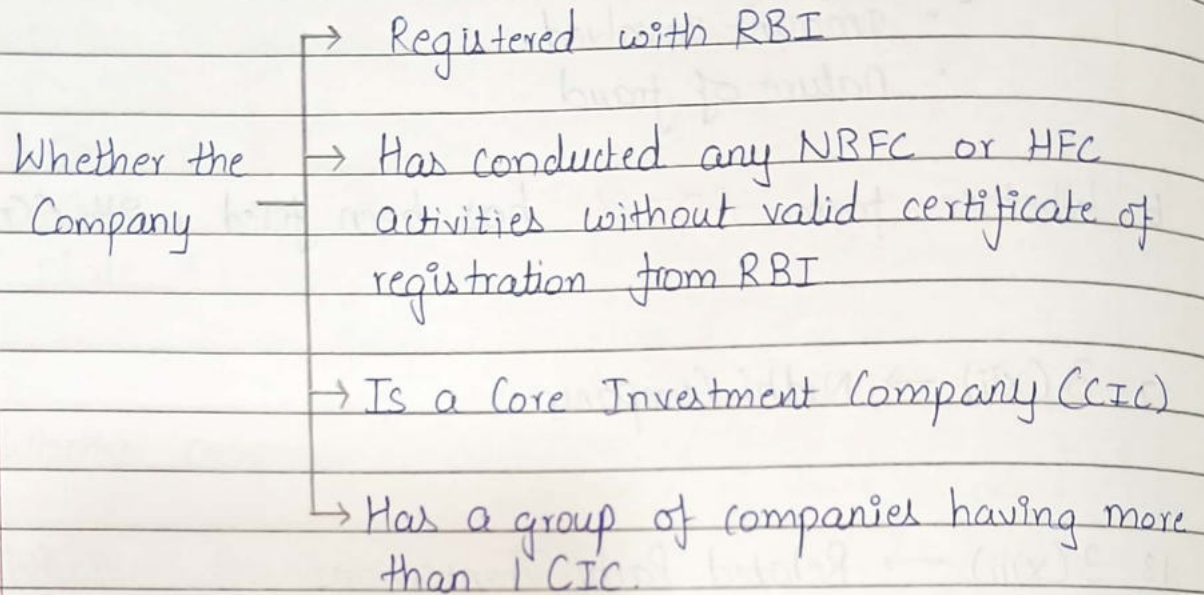
a. Whether the internal audit <sup>system</sup> report has been included in the company.

b. Whether the internal audit report was considered by statutory auditor.

15. 3(xv) → Non Cash Transaction

a. Whether the company has entered into NCT with director or person concerned with him, and if so whether Companies Act has been complied or not with sec 192.

16. 3(xvi) → Registration of Company, Nature of the Company



17. 3(xvii) → Cash losses

a. Whether the company has incurred cash losses in ↗ Current Financial Year  
↘ Preceding Financial Year  
(₹) state the amount.

18. 3(xviii) → Resignation of Statutory Auditor

a. Whether the statutory auditor has resigned, if so state the reasons.

19. 3(ix) → Information about Financial Assets and Liabilities

a. State on the basis of financial ratios, realisation of financial assets and payment of financial liabilities that there is no material uncertainty.

- 20 3(xx) → Unspent CSR Expenditure Amount
- Whether the company has transferred any unspent amount into a fund specified in Schedule VII within 6 months of expiry of F.Y.
  - Whether the company has complied with sec. 135 of the Companies Act, 2013.
- 21 3(xxi) → Qualification / Adverse Remarks
- Whether there is any qualification or adverse remark by the auditor in CARO report.

## # AUDIT REPORT as per SA - 700

### 1. Title

- must have a title "Independent Auditors Report"
- to distinguish it from other reports

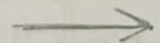
### 2. Addressee

- Report should be addressed to the person as per law
- eg. Public Company shall address its AR to its MEMBERS

### 3. Auditor's Opinion

→ State the :

- Name of the client
- FS has been audited
- Date of FS
- Title of FS



#### 4 Basis for Opinion (if qualified 'Basis for Qualified Opinion')

- Auditor shall provide for basis of opinion, including:
- Complied with SA (Standards of Audits)
  - Auditor's responsibility as per SA.
  - Independence & comply with COC/COE.
  - Evidence obtained are sufficient and appropriate

#### 5 Report on going concern assumption

- where applicable, state that the company is going concern (as per SA-570 revised)

#### 6 Key Audit Matters

KAM

- In case of listed entities, auditor shall communicate key audit matters which are of most significance (eg. valuation of assets)

#### 7 Responsibilities for Financial Statement

MA

- Management is responsible for preparing FS as per FRF (Financial Report Framework)
- Management is also accountable for designing, implementing & maintaining for IFC (Internal Financial Controls)
- Management shall also assess the ability to continue its operations as per going concern.

## 8. Auditor's Responsibilities for the audit of Financial Statement

Auditor's Objective	Level of Assurance	Nature of mis-statement	Additional Auditor Responsibility
<ul style="list-style-type: none"> <li>• Ensure FS are free from material (MMS) mis-statement</li> <li>• Issue an opinion in AR</li> </ul>	<ul style="list-style-type: none"> <li>• Reasonable assurances provided</li> </ul>	<ul style="list-style-type: none"> <li>• Fraud or Error</li> <li>• Having impact on user's economic decision</li> </ul>	<ul style="list-style-type: none"> <li>• Apply for Prof. judgements</li> <li>• Identify &amp; assess risk</li> <li>• Understand Internal Audit</li> <li>• Evaluate accounting practices.</li> <li>• Appropriateness of going concern concept.</li> </ul>

## 9. Other reporting

→ If there is any other additional responsibility beyond SA, they shall be addressed under title "Report on other Legal and Regulatory Requirements."

## 10. Signature of Auditor

→ Signed by individual auditor along with his membership number.

→ Auditor is LLP ⇒ can be signed by any auditor along with FRN (Firm Registration Number).

## 11. Place of Signature

→ AR shall have a specific location, generally the area/city where it is signed.

PIN → Pervasive in nature

pg 493

AE → Audit Evidence

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

## 12. Date of Audit Report

→ The date on which the auditor signs the report.

### \*Imp# Audit Report v/s Audit Certificate

Points	Audit Report	Auditor's Certificate
1. Definition	Here, auditor expresses the opinion regarding F.S	Here, auditor confirms the accuracy of facts stated therein
2. Nature	Opinion of Financial Statements	Confirmation of correctness about some matters.
3. Basis of Audit	Assumption and Estimates	Actual facts and figures
4. Scope	Large	Limited
5. Constructive Advice	✓	✗
6. Guarantee	Reasonable Assurance	Absolute Assurance
7. Time of issue	After audit is completed	As and when required
8. Liability of Auditor	All can impose penalty	Only specific authority can impose penalty.
9. Format	Prescribed format	No standard format

AE → Audit Evidence  
 MMS → Material Mis-statement  
 PIN → Pervasive in Nature

**\*Imp # Auditor's Opinion**

Unmodified Opinion

Modified Opinion

Also known as "Clean Report" / "Unqualified Report"

In the following case, Auditor will give M.O.

Here the Auditor is satisfied w.r.t following matters:

→ Evidence is obtained, FG are not free from MMS  
 → Evidence not obtained, Cannot conclude about MMS in FS.

- F.S are as per GAAP
- F.S comply with statutory requirement.
- All adequate disclosure are made.
- If any change in AS → proper disclosure & effect has been made in F.S.

**TYPES**

**Qualified Opinion**

**Adverse Opinion**

**Disclaimer Opinion**

AE →  <sup>①</sup>  <sup>②</sup>  
 MMS →    
 PIN →

AE   
 MMS   
 PIN

AE →   
 MMS →   
 PIN →

① Basis of Opinion ⇒ Basis of Q.O

① Basis of Opinion ⇒ Basis of Q.O

① Basis of Opinion ⇒ Basis of D.O.

② Examples:

- Not followed AS-2
- Auditor was prevented by management for physical verification of inventory

② Examples:

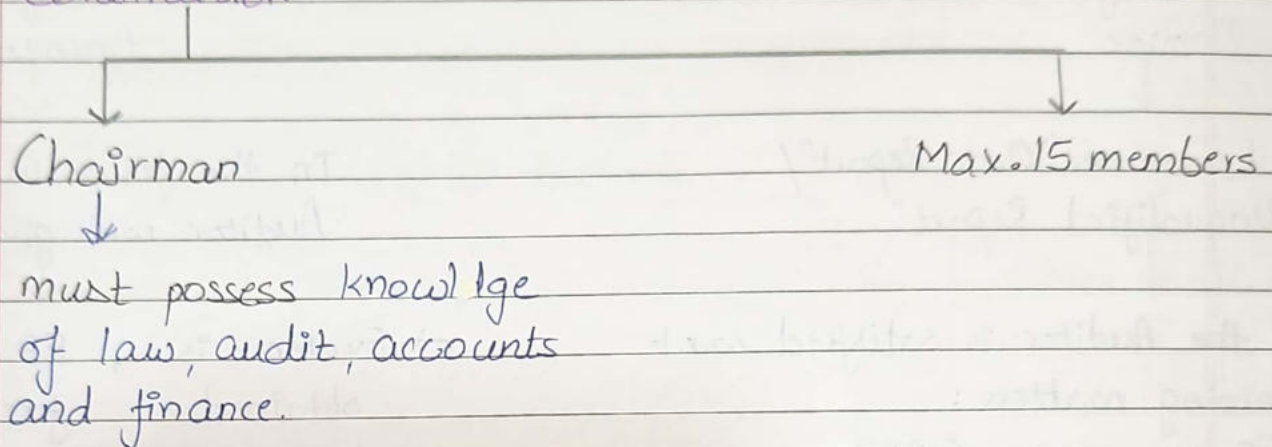
- FS are per Going Concern; whereas the Co. is going to cease to exist in next 6m
- Inadequate provision for R.D.D

② Examples:

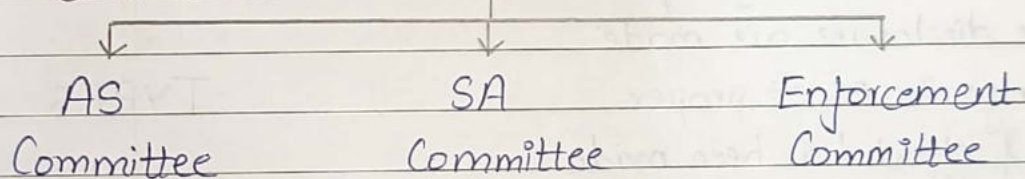
- Auditor was prevented by Mgt.
- physical verification of Inventory
- External Information (Creditors/Debtors)
- non-receipt of AR of Branches

## 1/8/24 7.7 National Financial Reporting Authority (NFRA)

### \* Constitution



### \* Committee included in NFRA



### \* Functions and Duties of NFRA :-

1. Recommend AS, SA for approval by CG.
2. Monitor and enforce compliance of AS and SA.
3. Oversee the quality of service of professionals associated with compliance of such AS and SA.
4. Perform such other functions as maybe necessary.

## \* NFRA's Rules in Auditing

Recommend SA/AS	* Monitor & Enforcement of SA	Powers to Investigate
<p>① ICAI ↓ recommend NFRA ↓ recommend CG</p> <p>② NFRA may call for additional information from ICAI w.r.t any AS or SA</p>	<p>① This is governed under Rule 3, the Authority may:</p> <p>a) review working, papers, audit plan and other audit related matters</p> <p>b) Evaluate the sufficiency of Quality Control System Manner of documentation</p> <p style="text-align: center;">By Auditor</p> <p>c) Perform such other testing of audit quality control procedure of the audit.</p> <p>② NFRA may require any additional Personal information Presence of auditor for seeking explanation</p> <p>③ NFRA shall publish its findings relating to non-compliance on its website only when it is in public interest.</p>	<p>① Into any matter of professional misconduct.</p> <p>② Non-compliance of law</p> <p>③ Suo-motto investigation.</p>

④

reasons in writing

④ NFRA shall not publish any proprietary or confidential information.

⑤ The Authority may send a separate report about such confidential information to CG.

⑥ If NFRA finds that any professional has violated any law  $\Rightarrow$  may call for investigation.

• AGM → Final Div  
AGM → Interim Div

classmate

Date \_\_\_\_\_

Page \_\_\_\_\_

special emphasis on audit of inventory & PPE

## 7.4 Audit of various Items of Financial Statements

### \* Types of Dividend

#### I. Interim Dividend

① Declared by BM-BR

② It is a dividend given between 2 AGM's

③ Sources:

Profit { a) Surplus in P & L A/c → FR <sup>Free Reserved</sup>  
b) Profit of the C.FY  
c) Profits generated uptill last quarter

④ In case of loss in C.FY

⇒ Max. rate of dividend = Average Rate of Dividend of Preceding 3 FY

⑤ Amount of "dividend declared" → deposit in "separate Bank A/c" → within 5 days of declaration of dividend

⑥ Can be <sup>Yes</sup> revoked ⇒ Consent of all shareholder

#### II. Final Dividend

① Dividend is declared at AGM.

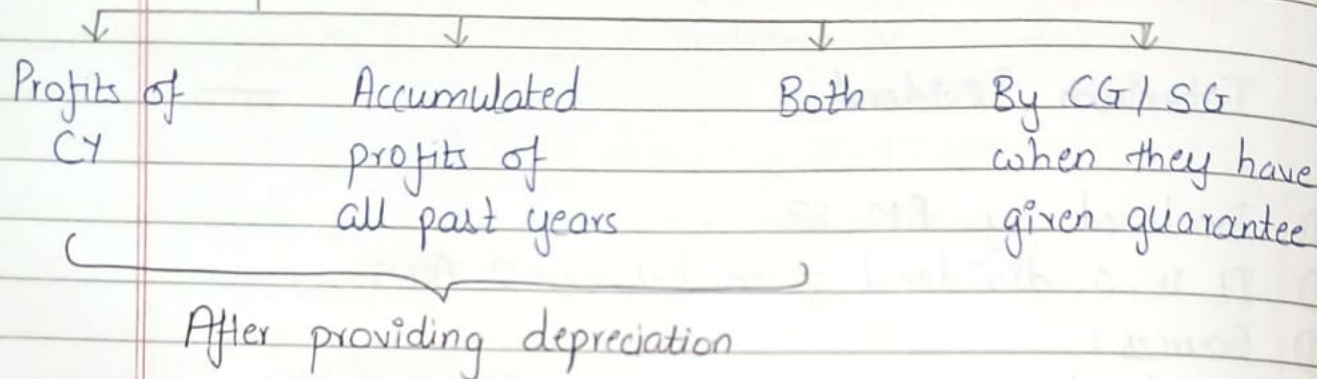
② Rate of dividend cannot be increased by members than declared by B.O.D.

③ Once declared cannot be revoked <sup>No</sup>

Co. Act, 2013

## # Sec 123 : Declaration & Payment of Dividend

### A] Sources :



B] Co. can t/f any amount out of profits into FR  
↓  
at its discretion

Imp

C] Declaration of dividend ↳ Inadequacy of Profits or Loss

Refer  
CA III 43  
pg 8.12

⊕ [C1] → Rate  $\leq$  Avg ROD of preceeding 3Y

⊕ [C2] → Amount  $\leq$  10% (PSC + FR)

⊕ [C3] → C<sub>2</sub> - Accumulated losses

⊕ [C4] → FR - Amt of dividend  $\geq$  15% of PSC

D] Dividend once declared → shall be deposited in a 'Separate Bank A/c' at a SCB within 5 days

### E] Payment

↓

Registered Shareholder  
on Record Date

↓

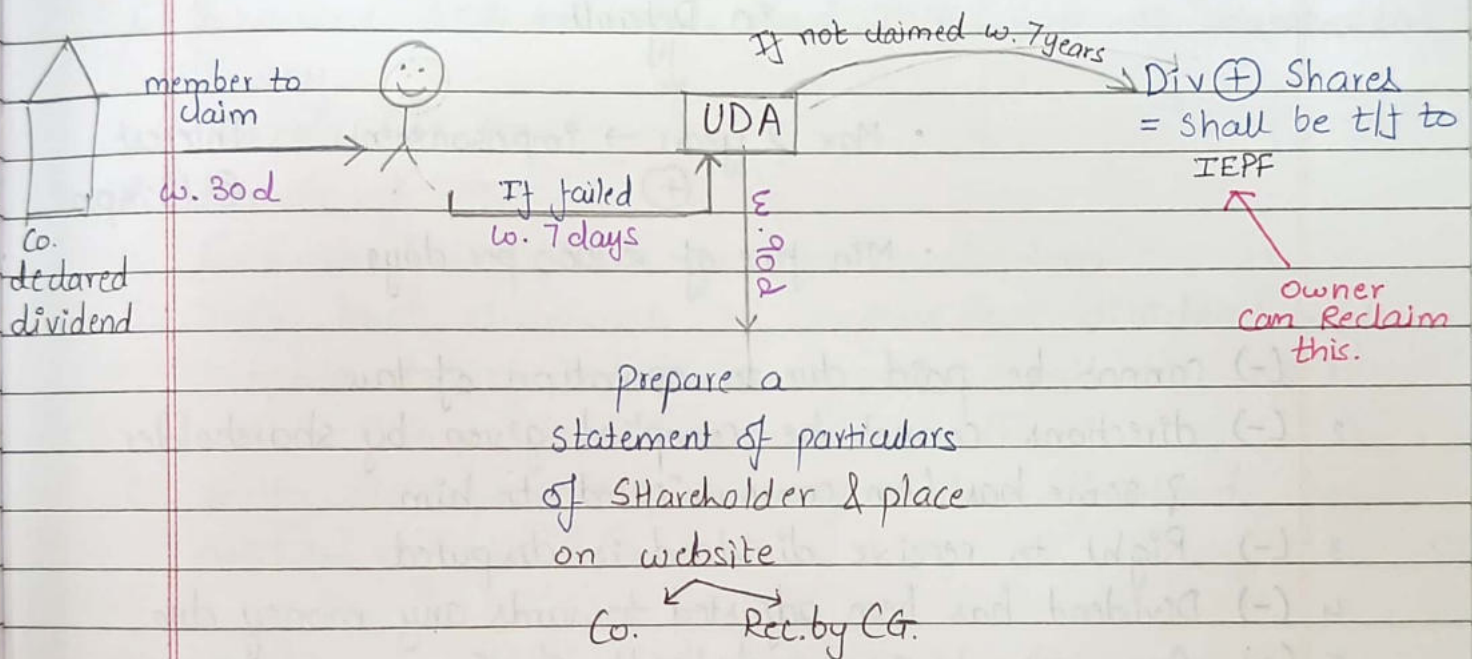
must be in CASH  
and not in kind

## F] Prohibition on declaration of dividend

Defaulted  
u/s 73 and 74

It is a  
Sec 8 Company

## # Sec 124 : Undaimed Dividend Account

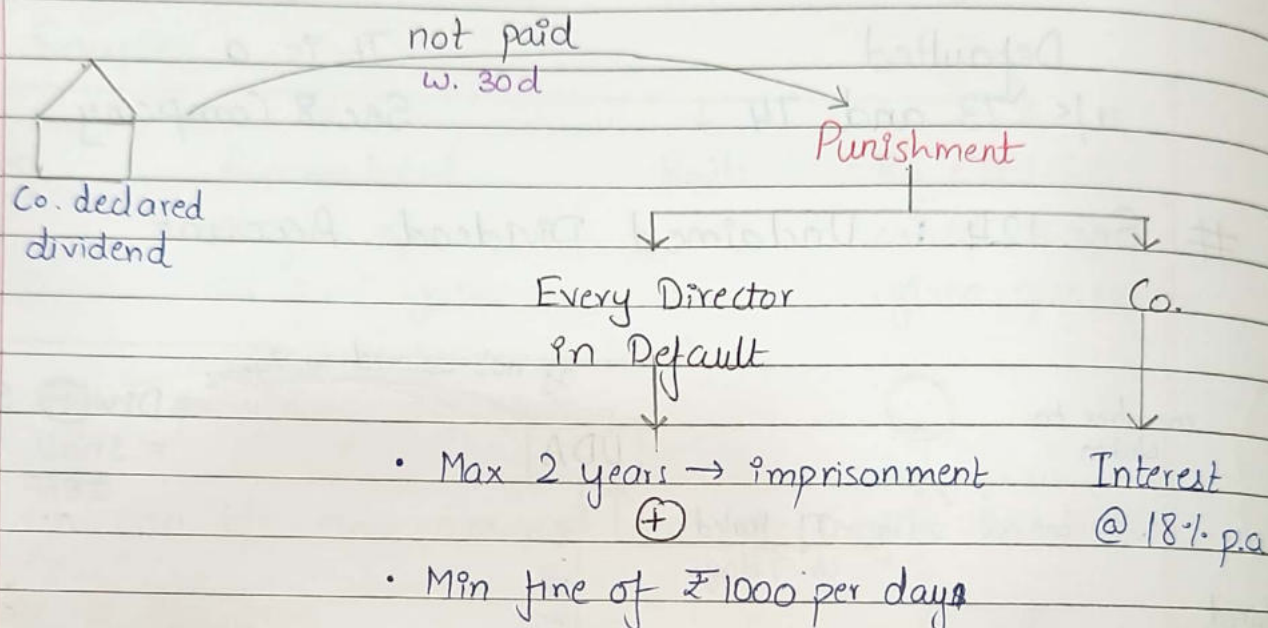


### \* Notes :

1. If Co. fails to deposit to UDA → Interest @ 12% p.a.
2. Claimant can claim from Co.  
Shareholder

\* IEPF → Investor's Education & Protection Fund

## # Sec 127



1. (-) cannot be paid, due to operation of law.
2. (-) directions cannot be complied given by shareholder & same has been communicated to him.
3. (-) Right to receive dividend is disputed
4. (-) Dividend has been adjusted towards any money due
5. (-) Any reason → no default of Co.

## # Audit procedure for Final Dividend

1. Examine AOA to understand DVR/SVR of shareholders, if any.
2. Inspect BM - BR.
3. Minutes of BM and GM.
4. Verify whether dividend calculation was accurate.
5. Ensure the legal compliance of Companies Act, 2013.
6. Verify bank statements to confirm that dividend was properly transferred to a separate bank account within 5 days and then to shareholders.

7. Verify dividend receipt to confirm that dividend was paid to rightful owner.
8. Assess distribution efforts to confirm that management made sufficient efforts to distribute dividend within 30 days.

### # Audit Procedure for Interim Dividend

1. Examine AOA to understand DVR/SVR of shareholders, if any.
2. Inspect BM-BR
3. Minute of BM.
4. Evaluate justifications for interim dividend.
5. Verify bank statements to confirm that dividend was properly transferred to a separate bank account within 5 days and then to shareholders.
6. Verify dividend receipt to confirm that dividend was paid to rightful owner.

### # Audit procedure for Unpaid Dividend

1. Obtain a statement about details of unpaid dividend, shareholder's name.
2. Conduct enquiry for company's fault, if any.
3. Verify statement along with supporting documents like dividend register, bank statements, etc. Verify that dividend amount has been accurately calculated.
4. Confirm whether amount has been transferred to UDA within 7 days from the end of 30<sup>th</sup> day period allowed for declaration.
5. Check for payment w.r.t faults and penalties i.e. interest @ 12% has been deposited to UDA, if it is delayed.

6. Verify that the company has published details of unpaid ~~an~~ dividend on its website and other websites approved by government.
7. Verify that if any amount of dividend remains unpaid and unclaimed for more than 7 years, that company has transferred the amount of dividend and shares into IEPF.  
⊕ interest thereof.

## # Audit of some Special Transactions

### 1. Alteration in Share Capital

- i. AOA permit
- ii. BM - BR
- iii. Minutes of BM
- iv. GM - OR
- v. Effect has been made in AOA / MOA.
- vi. Obtain reasons for alteration
- vii. Determine change in share holding pattern.
- viii. Per share unit is not less than ₹1 (F.V)
- ix. BoA have been properly effected or not.

### 2. Bonus Shares

- i. AOA permits
- ii. BM - BR
- iii. Minutes of BM
- iv. GM - OR
- v. Verify that BS has been issued to its members only.
- vi. Confirm that BS not made from revaluation reserve.
- vii. Confirm that no BS be issued on lieu of dividend.
- viii. Confirm that company has not made default in repayment of debt security and statutory due.

### 3. Splitting of shares

- i. AOA permits
- ii. BM - BR
- iii. Minutes of BM
- iv. Altered in MOA / AOA
- v. Verify proper accounting entries are passed

### 4. Re-issue of Forfeited Shares (RFS)

- i. BoD has authority under AOA to re-issue forfeited share
- ii. BM - BR
- iii. Required accounting entries have been made.
- iv. Ensure that total amount received is not less than the par value.
- v. Surplus have been credited to Capital Reserve Account.

### 5. Issue of Debentures

- i. Prospectus is issued.
- ii. Prospectus is filed with ROC before allotment.
- iii. Check amount collected with application form
- iv. Examine debenture trust deed.
- v. If debentures are ~~issued~~ secured, verify that it has been recorded and registered and filed with ROC.
- vi. Ensure compliance with SEBI guidelines.

### 6. Redemption of Debentures

- i. Inspect the debenture trust deed for terms & conditions of redemption.
- ii. BM - BR
- iii. Minutes of BM
- iv. Verify the effect in BOA
- v. Examine the accounting treatment.

• There are 3 types of debentures

- By creating a debenture redemption reserve account.
- By way of payment of a fixed date
- By payment whenever the company desires to do so.

## # Vouching and Verification

a Vouching refers to examination of accuracy, authority, authenticity (AAA) that appears in the books of accounts

The vouching examines whether,

- C - Completeness
- R - Relevance to organization
- A - Accuracy of Value
- F - Fraud Prevention
- T - Timing & Accrual basis
- 
- D - Documentation Availability
- A - Authorization
- P - Proper Accounting entries
- S - Supporting documents

b. Verification is a process of verifying assets and liabilities recorded in BoA. By means of :-

- Physical inspection
- Examination of official documents
- Forming expert opinion

- C - Correctness
- A - Accounting Treatment
- C - Charges
- A - Adequacy of disclosure
- P - Possession
- O - Ownership
- E - Existence

# Role of Management assertions in designing the audit procedure in audit of financial statements.

\* Assertion to Revenue & operations (P & L) These are common points

### a) Occurrence

- Ensure that item recorded represents the actual transaction during the year.
- Ensure that items are genuine and not recorded twice.
- Ensure that documentation evidence is available.
- Ensure that all expenditure charge against the revenue are genuine and matching principle is followed.
- Ensure that no fake transactions have been recorded.

### b) Cut-off — 31<sup>st</sup> March

- Ensure that item includes revenue or expense performed during the year only.



### c) Completeness

- The items effected during the year have been completed, included in revenue or expense.
- Verify all items received / <sup>due, not received</sup> accrued / paid / outstanding are being properly included.
- Verify that no item have been overstated / understated.

### d) Measurement — Assets - (Dep<sup>n</sup>) \* AS → WDV

- Items have been accurately measured based on the relevant ~~At~~ AS or principle of accounting.
- Taxation treatment have been done effectively.
- Required deductions have been accurately determined.

### e) Presentation and Disclosure

- Required disclosure as per regulations have been appropriately done (for eg. CA, 2013 - Schedule III)

## \* Assertion to Balance Sheet items

### a) Existence

- Ensure physical verification / documentation of assets to confirm that they exist.
- Ensure that the assets which are not in working condition has been accounted for deletion.
- Tally the aggregate items with balance sheet.
- Depreciation or amortization have been properly effected.
- Age of item is properly determined. (assets)

### b) Rights and Obligations

- Ensure that every item is in the name of company, check regular deductions for respective items.

### c) Valuation

- The auditor must ensure that the items are recorded at cost - depreciation / amortization.

### d) Completeness

### e) Cut-off

### f) Presentation and disclosure

} Same as P & L

## 7.6 Report on Internal Financial Control over Financial Reporting

### \* Meaning -

IFC means policy and procedure adopted by company for orderly and efficient conduct of the business.

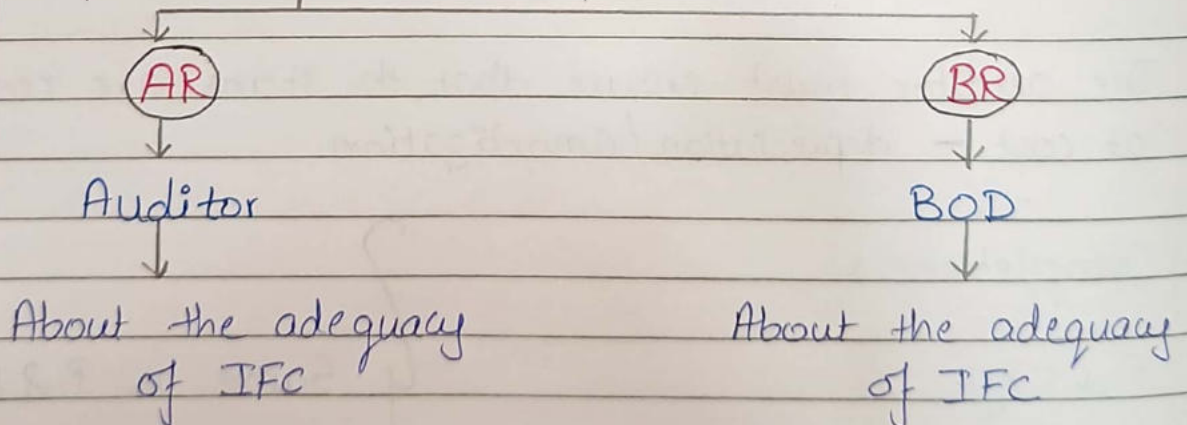
SAP-T

- ⊕ safeguarding the assets
- ⊕ prevention and detection of fraud
- ⊕ accuracy and completeness of accounting records.
- ⊕ timely preparation of financial information.

### \* Importance -

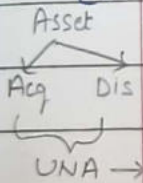
- a) Reduce the burden of the auditor.
- b) It provides reasonable assurance about the appropriateness of accounts to the auditor.

### \* Report on IFC - as per C.Law



## \* Report on IFC over Financial Reporting (FR) by Auditor:

- That whether the (maintenance of record is accurate) and fairly reflected in the books.
- Provide reasonable assurance that (transactions are recorded) as necessary (to permit) preparation of FS as per GAAP.
- Provide ~~no~~ reasonable assurance regarding (timely detection of unauthorized acquisition or disposition) of assets that has material effect on financial statement.



## \* Objective

- To express an opinion on the effectiveness of the company's IFC.
- To get known to the company about the adequacy about their IFC.