Company Audit

2014-15

All you need to know….

Jomon K. George FCA

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I-Introduction

The Companies Act 2013 and the allied rules have made sweeping changes in the way in which:

- **Accounts are to be maintained**
- **Financial Statements are to be prepared**
- **Auditors are to be appointed**
- **Audits are to be done**
- **Audit reports are to be prepared and issued**
- **Documents are to be filed with RoC**

Corporates and Auditors are not fully aware of their responsibilities under the new regime.

Here is the total guidance …

Read on… Learn & Apply

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II- The Frame work

The provisions relating to Accounts are contained in sections 128 to 138 in Chapter IX – Accounts of Companies.

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The allied rules are "Companies (Accounts) Rules 2014.

The provisions relating to audit are contained in sections 139 to 148 in Chapter X – Audit & Auditors.

Section	Particulars
139	Appointment of Auditors
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The allied rules are "Companies (Audit & Auditors) Rules 2014.

III- Whats New??

The major changes are given below :

- **Cash Flow Statements included the definition of Financial Statements (Ref. chapter V)**

- **Schedule III replacing age old Schedule VI**

- **Depreciation has to be calculated on the basis of useful lives and not rates. Schedule II contains the provisions and useful lives. Rates are to be derived. (Ref. chapter VII)**

- **Auditor to comply with Auditing Standards (Ref. Chapter X)**

- **New reporting responsibilities on Auditors u/s 143 (Ref. chapter IX)**

- **New format for Auditors Report. ((Ref. chapter IX)**

- **Auditor has to report on Fraud u/s 143(12). Penalties for failure. (Ref. chapter XI)**

- **CARO 2015 replacing CARO 2003 (Ref. Chapter IX)**

IV-Books of Accounts

Reporting Requirement:

- Whether proper books of account as required by law has 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.

The provisions relating to Accounts are contained in Chapter IX of The Act.

Section 128 of the Act requires every company to keep books of account as defined in section 2 (13) on accrual basis, under double entry system, at the registered office of the company.

Section 2 (13) states :

"**Books of Account**" includes records maintained in respect of-

(i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

(ii) all sales and purchases of goods and services by the company;

(iii) the assets and liabilities of the company ; and

(iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Other Points:

- Notice to RoC within 7 days, if kept elsewhere.
- Books of 8 years preceding the FY to be kept.

Books can be in electronic mode also. The manner of keeping books in electronic mode is given in Companies (Accounts) Rules 2014.

V- Financial Statement

Reporting Requirement:

- Whether to the best of his information and knowledge, the accounts and financial statements give a true and fair view of the state of affairs of the company's affairs as at the end of the financial year and profit/loss and cash flow for the year.

- Whether the Balance Sheet and the Profit & Loss Account dealt with in the report are in agreement with the books of account and returns.

Section 2(40) says Financial statements includes :

(i) a balance sheet as at the end of the financial year;

(ii) a profit and loss account/ income and expenditure account

(iii) cash flow statement for the financial year;

(iv) a statement of change in equity, if applicable; and

(v) explanatory notes annexed to or forming part thereof

Proviso to the Section clarifies that Small, Dormant and OPCs need not prepare Cash Flow Statements

Section 129 of the Act states as follows:

"Financial Statements" shall:

- **give a true & fair view of the state of affairs of the company**
- **Comply with ASs notified under section 133**
- **Shall be in the form prescribed in Sch. III**

The Board shall lay the accounts in every AGM. Consolidated Financial Statements shall also be laid in the AGM. The term "Subsidiary" includes Associates & JVs

Vide notification dated 14th October 2014, the MCA has :-

- ***deferred the consolidation of Associates and Joint Ventures by one year.***
- ***exempted, an intermediate wholly owned subsidiary (except one with an immediate 100% parent incorporated outside India) from preparing CFS.***

A statement containing the salient features of the Financial Statements of Subsidiaries shall be attached to the Financial Statements. **(Form AOC 1)**

VI- Accounting Standards

Reporting Requirement:

- Whether in his opinion, the financial statements comply with the accounting standards

Ind-AS and IFRS are not applicable for the F Y 2014-15

Therefore, preparation of Financial Statements by the management and reporting by auditors have to be based on Companies (Accounting Standards) Rules 2006 and existing ASs

List of AS applicable for 2014-15

1. Disclosure of Accounting Policies
2. Valuation of Inventories
3. Cash Flow Statements
4. Contingencies and Events Occuring after the Balance Sheet Date
5. Net Profit/Loss for the period, Prior Period Items and Changes in Accounting Policies.
6. Depreciation Accounting
7. Accounting for Construction Contracts

8. Accounting for Research & Development (withdrawn)

9. Revenue Recognition

10. Accounting for Fixed Assets

11. Accounting for the Effects of Changes in Foreign Exchange Rates

12. Accounting for Government Grants

13. Accounting for Investments

14. Accounting for Amalgamation

15. Employee Benefits

16. Borrowing Costs

17. Segment Reporting

18. Related Party Disclosures

19. Leases

20. Earnings per Share

21. Consolidated Financial Statements

22. Accounting for Taxes on Income

23. Accounting for Investments in Associates in Consolidated Financial Statements

24. Discontinuing Operations

25. Interim Financial Reporting
26. Intangible Assets
27. Financial Reporting of interests in Joint Ventures.
28. Impairment of Assets
29. Provisions, Contingent Liabilities & Contingent Assets

Extent of Applicability

To determine whether a particular standard is applicable to a given company and to what extent, one has to refer Companies (Accounting Standards) Rules 2006 as amended from time to time.

In order to exempt and provide relaxations to smaller companies from the technicalities of some standards, the CASR has categorized reporting companies into :

- **Small & Medium Companies (SMCs)**
- **Non SMCs**

An SMC is a company which meets all the following conditions :

- **Its equity/debt securities are not listed/ proposed to be listed in India/abroad.**
- **It is not a Bank, FI or Insurance Company.**
- **Its turnover does not exceed Rs.50 crores in the PY**
- **Its borrowings does not exceed Rs. 10 crores at any time during the PY.**
- **It is not a holding/subsidiary of a non-SMC**

AS - An update

Some of the key changes on ASs are listed below…

AS 1, AS 2, AS 4-14, AS 16, AS 18, AS 22, AS 24 & AS 26 are applicable to all companies in entirety. AS 3 & AS 17 are not applicable to SMCs.

AS 15

- **Applies to all entities**
- **Actuarial valuation mandatory**
- **Funding not mandatory. If funded, value depletion should also be provided for**
- **For SMCs, Termination Benefits due after 12 months need not be accounted on discounted basis.**

AS 19

Paras 22 (c), (e) & (f), 25(a), (b), (e), 37 (a) &(f) and 46 (b)& (d) dealing with additional disclosures about operating/finance leases are not applicable to SMCs.

AS 20

SMCs need not compute & disclose DEPS

AS 28

Option to measure "Value in Use" on a reasonable estimate basis.

AS 29

Disclosures about opening position, additions/deletions in para 66 & 67 does not apply.

SMCs to make the following statement

The company is a small & medium company as per the AS Rules. Accordingly, the company has complied with Accounting Standards applicable to SMCs only.

VII- Depreciation

It is in the context of section 123 of the Act (declaration of dividend) that depreciation is mentioned and reference is made to Schedule II to the Act.

As per Schedule II, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is Cost/Revalued amount minus residual value.

Useful life is the period over which the asset is expected to be available for use or the number of units expected to be obtained from it. Residual Value should not exceed 5% of its original cost.

A longer useful life and a higher residual value can be adopted based on technical evaluation. Disclosures will have to be made in the financial statements, if such a deviation is made.

Moving closer to IFRS, the new regime is based on useful lives of assets and consequently, there are no rates in the schedule. Rates will have to derived.

Part C of Schedule II gives the useful lives of various tangible assets

Sl No.	Asset	Useful Life
1.	**BUILDING**	
	i. RCC frame structures	60
	ii. Other than RCC structures	30
	iii. Factory building	30
	iv. Others (including temporary structures)	3
2.	**BRIDGES, CULVERTS, BUNDERS**	30
3.	**ROADS**	
	i. Carpeted RCC	10
	ii. Carpeted non RCC	5
	iii. Non carpeted	3
4.	**PLANT AND MACHINERY**	15
5.	**FURNITURE & FITTINGS**	
	i. General	10
	ii. in hotels, restaurants, schools, theatres etc	8
6.	**MOTOR VEHICLES**	
	i. Motor cycles, Scooters	10
	ii. motor bus, car or lorries running for hire	6
	iii. motor bus, car or lorries not on hire	8
7.	**SHIPS**	
	i. Ocean going bulk carriers	25

	ii. inland speed boats	13
	iii. Inland other vessels	28
8.	**AIRCRAFTS OR HELICOPTERS**	20
9.	**RLY SLIDINGS, LOCOMOTIVES, TRAMWAYS**	15
10.	**ROPEWAY STRUCTURES**	15
11.	**OFFICE EQUIPMENTS**	5
12.	**COMPUTER**	
	i. Servers & networks	6
	ii. Desktops, laptops	3
13.	**LABORATORY EQUIPMENTS**	
	i. General	10
	ii. Used in educational institutions	5
14.	**:TRICAL INSTALLATIONS AND EQUIPMENTS**	10
15.	**HYDRAULIC WORKS, PIPELINES & SLUICES**	15

How to charge depreciation

With effect from 01.04.14, the carrying amount (WDV) as well as the cost of newly acquired assets shall be depreciated over the remaining useful lives of the assets, applying new derived rates.

If the remaining useful life is NIL, the carrying amount as reduced by residual value should be recognized in opening balance of reserves & surplus (retained earnings).

In many cases, the rate will have to be accelerated. For example, if the WDV balance of an item of Plant & Machinery after depreciating for 13 years is Rs. 100/- and the residual value is say Rs.5/-.

As the useful life as per Schedule II is 15 years, the balance amount of Rs. 95/- will have to depreciated over the next two years.

Under SLM, it is enough to write of Rs. 42.50 each in 2014-15 & 2015-16.

But under WDV, you will have to arrive at the rate using a mathematical formula. By trial & error, in the above case, the WDV rate has to be as high as 78%.

There is no mandatory requirement to write off items of machinery of value less than Rs.5000/-

The ICAI has issued " Application Guidance on Schedule II to The Companies Act 2013".

VIII- The Audit Function

The objective of an audit is to express an opinion on the financial information. This opinion helps to determine whether the information gives a true and fair view of the position, performance and the cash flows.

SA 300 on "Planning an audit of Financial Statements" requires the auditor to plan the audit so as to ensure quality in reporting. Audit Programmes and Time budgets are highly recommended.

The focus of the audit will thus depend upon the reporting requirements. Section 143 contains the provisions in this regard.

This includes reporting on/that :

- *the impact of pending litigations on financial position,*
- *whether 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,*
- *there has been no delay in transferring amounts to the Investor Education and Protection Fund.*

IX- Auditors Report

Section 143 of The Companies Act 2013 has cast upon the statutory auditor many new reporting requirements.

SA 700 deals with "Forming an Opinion and Reporting on Financial Statements". SA 705 deals with "Modifications to the Opinion in the Independent Auditors Report". SA 706 deals with "Emphasis of matter paragraphs and other matter paragraphs in the independent auditors report"

Illustrative Formats of various types of reports have been added as appendices to these standards.

The format of a clean report is given below:

INDEPENDENT AUDITOR'S REPORT

To the members of ABC Private Limited

We have audited the accompanying standalone financial statements of ABC Private Limited which comprise the Balance Sheet as at 31st March, 20XX, 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, [*in which are incorporated the Returns for the year ended on that date audited by the branch auditors of the Company's branches at (location of the branches).*

Management's Responsibility for the Standalone Financial Statements

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 standalone 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 standalone 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.

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 standalone 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, 20XX, 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 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 purposes of our audit.**

(b) **In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [***and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.5***]**

(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, the Statement of Profit and Loss, and the 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 standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.**

(f) **On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.**

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 XXX to the financial statements

iii) there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company

For XYZ & Co

Chartered Accountants

(Firm's Registration No.)

Partner

(Membership No. XXXXX)

Place/Date :

Companies (Auditors Report) Order, 2015

Introduction

The Ministry of Corporate Affairs, on 10th April, 2015, notified the Companies (Auditor's Report) Order, 2015 (CARO, 2015).

Contains Twelve Reporting Clauses. Nine clauses from CARO 2003 have been dropped.

It has been notified under section 143(11) of the Companies Act, 2013 which provides that auditor's report shall include a statement on such matters as may be specified therein by the Central government in consultation with National Financial Reporting Authority. CARO-2015 will be applicable for the financial year commencing on or after 1st April, 2014.

It shall apply to every company including a foreign company except:

- A banking company
- An insurance company.
- A section 8 company.
- One Person Company.
- A Small Company.
- A Private Limited Company-
  - ***With paid up capital & reserves of not more than Rs.50/- lakhs, and***
  - ***Which does not have loan outstanding exceeding Rs.25/- lakhs from any bank or FI and (earlier Rs.10/- lakhs), and***
  - ***Does not have a turnover exceeding Rs.5/- crores.***

Matters to be included in the auditor's report

A. 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 vis-à-vis CARO, 2003. However, the requirement of reporting whether disposition of substantial part of fixed assets has affected the going concern has been dispensed with.

B. 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 vis-à-vis CARO, 2003.

C. Loans Granted

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.

No comments to be given w.r.t loans taken from parties.

Reporting requirements regarding rate of interest, other terms etc. are prejudicial to the interest of the company is deleted.

D. 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.

E. Deposits

In case the company has accepted deposits:

a. 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?

b. If not, the nature of contraventions should be stated;

c. 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?

Deposits from Public broadened to Deposits.

F. Cost Records

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

No change vis-à-vis CARO, 2003.

G. 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.

VAT has been added.

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).

VAT has been added.

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.

This is a new requirement.

H. 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 vis-à-vis CARO, 2003.

I. 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 vis-à-vis CARO, 2003.

J. Guarantees

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 vis-à-vis CARO, 2003.

K. <u>Term Loans</u>

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

<u>No change vis-à-vis CARO, 2003.</u>

L. <u>Fraud Reporting</u>

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.

<u>No change vis-à-vis CARO, 2003.</u>

X- Standards on Auditing

Section 143(9) of The companies Act 2013 states….
"Every auditor shall comply with Auditing Standards"

The level of awareness and application of SAs is very poor. This has to change. Members need to empower themselves on this area.

Following is a brief on the history and evolution of auditing standards :

The Institute of Chartered Accountants of India constituted the **Auditing Practices Committee (APC)** in 1982 to review the auditing practices in India and to develop statements on standard auditing practices (SAPs). In July 2002, the APC was renamed as **Auditing & Assurance Standards Board (AASB)**. Consequently, SAPs came to be called as **"Auditing & Assurance Standards"**

In line with the international practices, the AASB issued a new "Preface to Standards on Quality Control, Auditing, Review, Other Assurance & Related Services" effective from 01.04.2008. This new preface does away with the terminology of "Auditing & Assurance Standards".

The standards are now classified into:

- ***Standards on Quality Control – Applicable to all services***
- ***Engagement Standards***

Engagement Standards are further classified into:

- ***Standards on Auditing (SAs)***
- ***Standards on Review Engagements (SREs)***
- ***Standards on Assurance Engagements (SAEs)***
- ***Standards on Related services (SREs)***

The list of standards in force as on date are given below ::

Number	Name/Caption of the standard
SA 200	Overall Objectives of the Independent auditor and the conduct of an audit in accordance with Standards on auditing
SA 210	Agreeing the Terms of Audit Engagements
SA 220	Quality Control for an Audit of Financial Statements
SA 230	Audit Documentation
SA 240	The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements
SA 250	The auditors responsibilities relating to Laws and Regulations in an Audit of Financial Statements
SA 260	Communication with those charged with governance
SA 265	Communicating deficiencies in internal control to those charged

	with governance and management.
SA 299	Responsibilities of Joint Auditors
SA 300	Planning an audit of Financial Statements
SA 315	Identifying & Assessing the Risks of Material misstatement through understanding the entity & its environment
SA 320	Materiality in Planning and Performing an Audit.
SA 330	The auditors responses to Assessed Risks
SA 402	Audit Considerations relating to an Entity using a Service Organization.
SA 450	Evaluation of misstatements identified during the audit
SA 500	Audit Evidence.
SA 501	Audit Evidence – Specific considerations for selected items.
SA 505	External Confirmations
SA 510	Initial Audit Engagements – Opening Balances
SA 520	Analytical Procedures
SA 530	Audit Sampling
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
SA 550	Related Parties
SA 560	Subsequent Events
SA 570	Going Concern
SA 580	Written Representations
SA 600	Special Considerations – Audits of Group Financial Statements (including the work of component auditors)
SA 610	Using the Work of Internal Auditors.

SA 620	Using the work of an Auditor's expert.
SA 700	Forming an opinion and reporting on Financial Statements
SA 705	Modifications to the opinion in the independent auditors report
SA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditors report
SA 710	Comparative Information – corresponding figures and comparative financial statements
SA 720	The auditors responsibility in relation to other information in documents containing audited financial statements
SA 800	Special considerations – Audits of financial statements prepared in accordance with special purpose framework
SA 805	Special considerations – Audits of single purpose financial statements and specific elements, accounts or items of a financial statement.
SA 810	Engagements to report on summary financial statements

SREs, SAEs & SRSs

Number	Name/Caption of the standard
SRE 2400	Engagements to review Financial Information
SRE 2410	Review of Interim Financial Information performed by the independent auditor of the entity.
SAE 3400	The examination of prospective financial information.
SRS 4400	Engagements to perform agreed upon procedures regarding Financial Information
SRS 4410	Engagements to compile Financial Information

XI- Fraud Reporting

Section 143(12) of The companies Act 2013 states....

"If an 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 central government in the manner prescribed.

Fraud reporting requirement is not new altogether. Earlier, under CARO 2003, the auditor had to report on fraud under a wide scope.

Now, in 143(12), this is brought in with added focus and with penalties for failure to report.

The requirement is :

Notwithstanding anything contained in this section, 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 Central Government within such time and in such manner as may be prescribed.

The ICAI has come out with a detailed guidance note on this.

The key aspects of the guidance are :

The responsibility to report fraud is in addition to the existing reporting requirements

143(12) do not apply to :

- **Tax Auditor**
- **Sales Tax or VAT Auditors**
- **Internal Auditors covered u/s 138**
- **143(12) includes only fraud by officers or employees of the company**

Fraud as defined in section 447 when compared to SA 240 also includes acts with an intent to injure the interest of the company or shareholders or creditors whether or not there is any wrongful gain/loss

Fraud detected and reported by the Management or any other person is not required to be reported u/s 143 (12). Apply professional skepticism to evaluate that fraud was identified in all aspects

Fraud Reporting shall commence when there is "Reason to believe" that fraud has or is being committed against the company and convincing evidence to advance beyond suspicion that a fraud exists

XII- Prohibited Services for the Statutory Auditor

As per section 144 of The Companies Act 2013, the statutory auditor of a company shall not (directly or indirectly) render the following services to THAT company, its holding company or its subsidiary :

- **accounting & book keeping**
- **internal audit**
- **design & implementation of FIS**
- **actuarial services**
- **investment banking/investment advisory**
- **outsourced financial services**
- **management services**
- **any other services as may be prescribed**

The rules had given one year time to comply with this section. Thus, it is effective from 1st April 2015.

Note :

The term Management Services has not been defined. There is a general consensus that the services that the management cannot do ie. Tax Audit, State VAT Audit, Certifications etc. will not come under the definition. All other services such as Tax representation, RoC filing, Preparation of project Report etc. will be covered and prohibited.

XIII- Penalties

If any of the provisions of sections 139, 143, 144 or 145 are contravened, the auditor shall be liable to pay a fine of not less than Rs. 25000 and not more than Rs.5,00,000/-

If found wilfully done, he shall be punishable with imprisonment of one year and fine of 1lac to 25 lacs.

He shall be required to refund the remuneration

He shall also pay damages to the company, authorities for loss arising out of incorrect reporting.

The partners and the firm will responsible jointly and severally.

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