Contents of effective Audit Report under Companies Act, 2013

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Section 143 (1)
of the Companies Act, 2013

- (The auditor 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 company;
  - (*c*) where the company not being an investment company or a 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 company;
  - (*d*) whether loans and advances made by the company have been shown as deposits;
  - (*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:

Section 143 (2)
of the Companies Act, 2013

- The auditor shall make a report to the members of the company
  - on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and
  - the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (*11*) and
  - to the best of his information and knowledge, the said 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)
of the Companies Act, 2013

- The auditor's report shall also state—
  - (*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;

Section 143 (3) (Contd.) of the Companies Act, 2013

- (*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;
- (*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;

  Note; Auditor reporting on existence and operation of internal financial controls made optional for the year ending March 31, 2015. However, Directors reporting obligations to continue
- (*j*) such other matters as may be prescribed.

Section 143 (4)

- 227 (4) of the Old Act : Where any of the matters referred to in clauses (*i*) and (*ii*) of sub-section (2) or in clauses (*a*), (*b*), (*bb*), **3**[(*c*) and (*d*)] of sub-section (3) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

- 143(4) of the New Act : 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 therefor.

Section 143 (5)
of the Companies Act, 2013

- In the case of a Government company, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (*5*) or sub-section (*7*) of section 139 and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.

- Corresponding to Section 619 of the Old Act.

Section 143 (8)

- Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:
- Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
- Corresponding to Section 228 of the Old Act.

- Every auditor shall comply with the auditing standards [Section 143(9)]

- The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:
- Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.
- – [Section 143 (10)]

Section 143 (11)
of the Companies Act, 2013

- 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.

- [CARO, 2003] 227 (4A) of the Old Act : The Central Government may, by general or special order*, direct that, in the case of such class or description of companies as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein :

  Provided that before making any such order the Central Government may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949), in regard to the class or description of companies and other ancillary matters proposed to be specified therein unless the Government decides that such consultation is not necessary or expedient in the circumstances of the case.

  [*Companies (Auditor's Report) Order 2015 issued on 10th April 2015]

- 143 (*11*) of the new Act : 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.

Section 143(12)

- 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.

Companies (Audit & Auditors)Rules, 2014

- **Rule 13. Reporting of frauds by auditor.-**
- (1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient 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 report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:
  - (i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
  - (ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee alongwith his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
  - (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government alongwith a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

Companies (Audit & Auditors)Rules, 2014

- **Rule 13. Reporting of frauds by auditor (Contd.) :-**
- (2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.
- (3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
- (4) The report shall be in the form of a statement as specified in Form **ADT-4.**
- (5) The provision of this rule shall also apply, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively.

Definition of Fraud

- Explanation to Section 447 of the Act defines fraud:
- (*i*) "fraud" in relation to affairs of a company or any body corporate, includes
  - any act, omission, concealment of any fact or abuse of position
  - committed by any person or any other person with the connivance in any manner,
  - with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person,
  - whether or not there is any wrongful gain or wrongful loss;
- (*ii*) "wrongful gain" means the gain by unlawful means of property to which the person gaining is not legally entitled;
- (*iii*) "wrongful loss" means the loss by unlawful means of property to which the person losing is legally entitled.

Companies (Audit & Auditors)Rules, 2014

- **Rules 11 : Other matters to be included in auditors report.-**
- The auditor's report shall also include their views and comments on the following matters, namely:-

  (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;

  (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;

  (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

Auditing Standards issued by ICAI

- SQC – 1 : Standards on Quality
- SA 200 : Overall objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards of Auditing
- SA 210 : Agreeing the terms of Audit Engagement
- SA 220 : Quality Control of an Audit of Financial Statements
- SA 230 : Audit Documentation
- SA 240 : Auditor's responsibilities relating to Fraud in an audit of financial statements.
- SA 250 : The Auditor's 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

Auditing Standards issued by ICAI (Contd.,)

- SA 299 : Responsibility of Joint Auditors
- SA 300 : Planning an audit of Financial Statements
- SA 315 : Identifying and assessing the risk of material mis-statement through understanding the Entity and its environment
- SA 320 : Materiality in Planning and performing an audit.
- SA 330 : The auditor's responses to assessed risks
- SA 402 : Audit considerations relating to an entity using a service organisation.
- 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 Confirmation

Auditing Standards issued by ICAI (Contd.,)

- SA 510 : Initial Audit Engagement – Opening Balance
- 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 : Using the work of Another Auditor
- SA 610 : Using the work of Internal Auditor.
- SA 620 : Using the work of an Auditor's Expert

Auditing Standards issued by ICAI (Contd.,)

- SA 700 : Forming an opinion and reporting on financial statements
- SA 705 : Modifications to the opinion in the Independent Auditor's report.
- SA 706 : Emphasis of Matter paragraphs and Other matter paragraphs in the Independent auditor's report.
- SA 710 : Comparative Information – Corresponding figures and comparative financial statements.
- SA 720 : The Auditor's 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 – Audit of Single Financial statements and specific elements, accounts or items of a financial statement.
- SA 810 : Engagement to report on summary financial statements.

Other Standards issued by ICAI

- Standards on Review Engagements
  - SRE 2400 : Engagements to review financial statements.
  - SRE 2410 : Review of Interim Financial Information performed by the independent auditor of the entity.

- Standards on Assurance Engagements
  - SAE 3400 : The Examination of prospective financial information.

- Standards on Related Services
- SRS 4400 : Engagement to perform agreed upon procedures regarding financial information.
- SRS 4410 : Engagement to compile financial informationSA 800 : Special Considerations – Audits of financial statements prepared in accordance with special purpose framework.

Introduction

- ✓ FS under special purpose framework are dealt by SA 800 & SA 805

The Purpose of the Audit Report

- Definition of auditing: "… communicating results to interested users."
- Indicate whether the FS are in accordance with GAAP
  - ✓ Provide indication of what the FS would be like if GAAP were followed
  - ✓ Provide any company-omitted disclosures
- Indicate any unusual aspects of the audit examination
  - ✓ Scope limitations
  - ✓ Division of responsibility
- Indicate any unusual matters related to the company
  - ✓ Going concern uncertainty
  - ✓ Consistency
  - ✓ Emphasize a matter

- **Unmodified Opinion –**
  - ✓ A True and Fair View
  - ✓ Accordance with FRF
  - ✓ GAAP consistently applied
  - ✓ Complies with relevant statutory requirements
  - ✓ Adequate disclosure of all material matters relevant to proper presentation subject to statutory requirements.

- A FRF designed to meet common financial info needs of a wide range of users.
- **Fair Presentation Framework**
  - Acknowledges explicitly/ implicitly that the following may be necessary for fair presentation of FS:
    - management may need to provide disclosures beyond those specifically required by FRF
    - management to depart (in extremely rare situations) from a requirement of framework
- **Compliance Framework**
  - Refers to FRF that requires compliance with requirements of the framework but does not contain the acknowledgement as in Fair Presentation Framework

- Additional communication in audit report (AR)
- When auditor considers necessary
- To draw users' attention to:
  - Matter/s presented or disclosed in FS that are of such importance that they are fundamental to users' understanding of FS

    OR
  - Matter/s other than those presented/ disclosed in FS that are relevant to users' understanding of audit/ auditor's responsibilities/ AR

Emphasis of Matter Paragraph (EoMP) para included in AR

- ✓ refers to a matter appropriately presented/ disclosed in FS that
- ✓ in the auditor's judgment is of such importance that it is fundamental to users' understanding of FS

Other Matter Paragraph (OMP)

- ✓ Para included in AR
- ✓ Refers to matter other than those presented/ disclosed in FS
- ✓ In auditor's judgment, is relevant to users' understanding of audit, auditor's responsibilities or auditor's report

Types of Audit Reports

Type of Report	Interpretation
Unqualified Opinion	Financial statements taken as a whole *present fairly* the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP).
Qualified Opinion	"*Except for*" the effects of a particular matter, the financial statements *present fairly* the financial position, results of operations, and cash flows in conformity with GAAP.
Adverse Opinion	Financial statements *do not present fairly* the financial position, results of operations, and cash flows in conformity with GAAP.
Disclaimer of Opinion	Auditor *does not express an opinion on* the financial position, results of operations, or cash flows.

Contents of Audit Report

- A clear written expression of opinion on the whole.
- Basic Elements – Title / Addressee / Opening / Scope para / Opinion para / Auditor's Signature / Place / Date of Report
- Opening para
  - Identify FSs (Entity's name / Period/ Management's responsibility)
  - Auditor's Responsibility
- Scope – Description of Audit Function (Test check / Accounting Principles / Estimates / GAAP / Audit provides reasonable assurance)
- Opinion – Identify FRF / a true & fair view / statutory requirement
- Date – Date not earlier than date on which FSs are approved by the Management.
- Place of Signature – Specific location where auditor's report is signed.

Contents of Audit Report

What should be included in the Audit Report?

- **Title :** Clearly indicates that it is the report of an independent auditor
- **Addressee :** Those for whom the report is prepared
- **Introductory paragraph :**State the entity whose financial statements have been audited and should state that the financial statements have been audited. The introductory paragraph should also:
  - Identify the title of each of the financial statements that comprise the complete set of financial statements;
  - Refer to the summary of significant accounting policies and other explanatory notes; and
  - Specify the date and period covered by the financial statements.

What should be included in the Audit Report?

Management responsibility

For the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes :

- ✓ Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ✓ Selecting and applying appropriate accounting policies; and
- ✓ Making accounting estimates that are reasonable in the circumstances.

What should be included in the Audit Report?

Auditor responsibility

- To express an opinion on the financial statements based on the audit
- The auditor's report should state that the audit was conducted in accordance with Standards on Auditing. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Other Reporting Responsibilities

- Include a sub heading: ***"Report on Other Legal & Regulatory Requirements"***

- If audit report contains a separate section on other reporting responsibilities, then introductory para, management responsibility para and auditor's responsibility para to be under main head "***Report on the FS"***

Auditor's Signature

- Audit report to be signed
- To be signed in auditor's personal name
- Where firm appointed as auditor, report signed in personal name & in name of audit firm
- Also mention firm registration number & membership number of ICAI

Date of Audit Report

Not earlier than date on which auditor has obtained sufficient amount of Audit Evidence on which to base auditor's opinion:

- ✓ All statements that comprise FS including related notes that have been prepared
- ✓ Those with recognised authority have asserted that they have taken responsibility for those FS

Place of Signature

- Name specific location
  - ✓ Ordinarily the city where audit report is signed

Supplementary Info Presented with FS

- Supplementary info presented but not required by FRF
  - ✓ Evaluate whether Supplementary Info clearly differentiated from audited FS
  - ✓ If not, ask mgt to change presentation of unaudited Supplementary Info
  - ✓ If mgt refuses, explain in Audit Report that Supplementary Info is unaudited
- If such Supplementary Info is nevertheless integral part of FS due to its nature & how it is presented, auditor to cover it in his audit opinion

Auditor's report

- To, The Shareholders/Members, of M/s. _____ Limited/Private Limited, Place
- We have audited the attached
  - Balance Sheet of _____Limited/Private Limited as at 31st March 2015; and
  - the Statement of Profit and Loss for the period/year ended on that date; and
  - also the Cash Flow Statement for the period/year ended on that date
  - These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- We believe that our audit provides a reasonable basis for our opinion.

- **Management's Responsibility for the Financial Statements**
- Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance of the Company in accordance with the Accounting Standards notified under the Companies Act, 1956 (the Act) read with the General Circular 15/2013 dated 13th September, 2013 and General Circular 8/2014 dated 4th April, 2014 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013 and in accordance with the accounting principles generally accepted in India. 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.

- **Auditor's Responsibility**
- 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.

- The company is governed by the Electricity Act 2003 w.e.f. 10.06.2003. Though the said Act has repealed the Electricity (Supply) Act 1948 and Electricity Regulatory Commission Act 1998, certain provisions, to the extent they are not inconsistent with the provisions of said Act, continued to be applied by the company while preparing the final statements. Further, the provisions of the said Act read with the rules thereunder, have prevailed wherever the same have been inconsistent with the provisions of the Companies Act, 1956. The company is also governed by the provisions of Delhi Electricity Regulatory Commissions Act, 2000.
- ~~4. As required by the Companies (Auditor's Report) order, 2003, read with Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure "A" a statement on the matters specified in paragraphs 4 and 5 of the said order.~~

- Further to our comments in above we report that
  - 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:
  - In our opinion proper books of accounts as required by law under section 128 (1) of the Companies Act, 2013 have been kept by the company, so far as appears from our examinations of the books.
  - The Balance Sheet and Profit & Loss account dealt with by this report are in agreement with the Books of Account.
  - In our opinion and to the best of our information and according to explanations given to us, the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by this report are prepared in compliance with the applicable Accounting Standards referred to in Section 129 read with Section 133 of the Companies Act 2013 except as mentioned hereafter in our report.
- The Government of National Capital Territory of Delhi are appointing nominee Directors who are exempt from provisions of section 164(2) of the Companies Act 2013 in view of circular issued No 8/2002 dated 22.03.2002 by the Department of Company Affairs

- We also report that :
- the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
- the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- there have been no/minor delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
- The statement of changes in equity during the year, has been prepared from the records of the company.

- We further report that: _____
_____

- In our opinion and to the best of our information and according to the explanations given to us, the said accounts (financial statements), read with Notes on Accounts and Significant Accounting Policies and subject to our qualifications elsewhere in the report, give the information required by the Companies Act, 2013 in the manner so required and give true and fair view:
  - In the case of the Balance Sheet, of the State of Affairs as at 31stMarch, 2015.
  - In case of Statement of Profit & Loss, of the profit/(loss) for the year ended on that date.
  - In case of cash flow statement, of the cash flows for the year ended on that date.

- For XYZ & Co.,
- Chartered Accountants,
- Firm Regn. No.: 999999A.
-
-
- XYX
- Proprietor/ Partner
- Membership No.: 99999
- Place: _____
- Date: _____.

Companies (Auditor's Report) Order, 2003

- In exercise of the powers conferred by sub-section (11) of Section 143 of the **Companies Act, 2013** (1 of 1956), read with the Notification of the Government of India in the Ministry of Company Affairs, number G.S.R. ____, dated 10th April, 2015, and after consultation with the Institute of Chartered Accountants of India [constituted under the Chartered Accountants Act, 1949 (38 of 1949)], in regard to class of companies to which this order applies and other ancillary matters, the Central Government hereby makes the Order.

- CARO 2015, replaces CARO 2003

Auditor's Position

- Position of Auditor – Fiduciary relationship with shareholders
- Not an Adviser
- Not an insurer
- Not a critic of management decision
- A Watch-dog, Not a Bloodhound
- An agent of shareholders to a limited extent to audit the books of accounts.

Companies (Auditor's Report) Order, 2015

- Applicability to every company including a foreign company
- Non-applicability:

a) Banking Company
b) Insurance Company
c) Company licensed to operate u/s 8 of the Act.
d) One Person Company [Section 2(62)]
e) Small Company [Section 2(85)]
f) Private Limited Company
   - with paid-up capital and reserves <= 50 lacs rupees and
   - loan outstanding <= 25 Lacs rupees from any bank or financial institution and
   - turnover <= five crore rupees

   at any point of time during the financial year

3(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;

3(ii) Inventory :

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;

3(iii) Loans Given :

a) *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 Act, and 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/payment of the principal and interest;*

(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;*

3(v) Deposits from Public :

- in case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of *sections 73 to 76 or any 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?

3(vi) Cost Records :

where maintenance of cost records has been prescribed 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;

3(vii)(a) Undisputed Statutory Dues :

a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, *Service Tax*, Custom Duty, Excise Duty, 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.

3(vii)(b) & (c) Disputed Statutory Dues :

a) *Relating to undisputed statutory*

b) *in case dues of income tax/sales tax/wealth tax/service tax/ customs duty/ excise duty/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 Department shall not constitute the 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 and rules made thereunder has been transferred to such fund within time.*

3(viii) Net-worth eroded Companies :

- 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;*

3(ix) Dues to Banks, etc.:

- 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;

3(x) Terms and conditions of guarantees given :

- 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;

3(xi) Utilisation of term loans :

- whether term loans were applied for the purpose for which the loans were obtained;

3(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 amount involved is to be indicated.*

Reporting requirements

- Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.

- Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

Contents of effective Audit Report under Companies Act, 2013

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