Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)

Part - 2
Observations related to CARO and IFC

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The Quality Review Board (QRB) was constituted under the provisions of the Chartered Accountants Act, 1949. QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews bring out instances of various non-compliances regarding Standards on Quality Control (SQC), Standards on Auditing (SAs), audit reports, Companies (Auditor's Report) Order (CARO), Accounting Standards (AS), Indian Accounting Standards (Ind AS), Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013.

Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI based on common non-compliances observed. The task of developing the guidance was entrusted to the Auditing and Assurance Standards Board of ICAI.

I am happy to note that the Auditing and Assurance Standards Board has brought out the publication, "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)". The publication is a compilation of some common non-compliances observed by QRB while conducting quality reviews. The publication also contains suggested guidance by AASB for the members on these common non-compliances.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and all other members of the Auditing and Assurance Standards Board for their efforts in developing and bringing out this publication for the benefit of the members at large.

I am confident that the members and other interested readers would find this publication immensely useful.

April 23, 2024
New Delhi

CA. Ranjeet Kumar Agarwal
President, ICAI

Preface

Review of the quality of audit services performed by audit firms is an important mechanism to improve audit quality. In this regard, the role performed by the Quality Review Board (QRB) over the years is significant. The quality reviews conducted by QRB bring out instances of various non-compliances regarding (a) auditing requirements e.g. Standards on Quality Control, Standards on Auditing, audit reports, CARO, and (b) accounting requirements e.g. Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

AASB decided to engage various experts to prepare suggested guidance for the members on the matter. AASB also decided to constitute a consolidating group to review guidance prepared by these experts. It was also decided by AASB to bring out the guidance in separate volumes since this task is quite voluminous.

It gives us immense pleasure to place in hands of the members, this publication, “Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)” brought out by AASB. The publication is a compilation of some common non-compliances of auditing requirements observed by QRB while conducting quality reviews. The publication also contains suggested guidance by AASB for the members on these common non-compliances. The publication is in two parts i.e. Part 1 and Part 2. Part 1 contains the observations related to Engagement and Quality Control Standards. Part 2 contains the observations related to CARO and internal financial controls.

We would like to thank CA. Ranjeet Kumar Agarwal, President, ICAI and CA. Charanjot Singh Nanda, Vice-President, ICAI for their guidance and support in various endeavours of the Board.

We express our sincere thanks to Ms. Shefali Shah, IRS (Retd.), Chairperson, Quality Review Board and all the members and special invitees of the Quality Review Board for providing us the various observations noted by the Quality Review Board during quality reviews, which form the basis of this publication.

We are grateful to all experts *viz.* CA. Amit Kumar Garg, CA. Harsh Parekh, CA. Nitesh Jain, CA. Rajiv Sengupta and CA. Sumit Aggarwal for preparing the basic draft of guidance which has been included in this publication. We are also grateful to all members of the consolidating group *viz.* CA. Amit Chugh, CA. Amit Gupta, CA. Ashish Gupta, CA. Gaurav Gupta, CA. Kapil Kedar, CA. Rajeev Saxena and CA. Viren Shah for their contribution in reviewing and finalizing the guidance.

We wish to place on record high appreciation of all Council members and all Board members for their valuable contribution in finalising the publication. We appreciate the technical and administrative contribution/support provided by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director, CA. Vikas Kumar, CA Professional, CA. Nidhi Mallick, CA Professional, Ms. Anitha P., Private Secretary(SU) and other staff of AASB in finalising the publication.

We are confident that the publication would be well received by the members and other interested readers. We are of the firm belief that the publication would enhance the knowledge of auditors and would help them in performing quality audits.

CA. Vishal Doshi
Vice Chairman, AASB

CA. (Dr.) Sanjeev Kumar Singhal
Chairman, AASB

Introduction

About the Quality Review Board

With a view to improving the quality of audit services in India, the Ministry of Corporate Affairs, Government of India has established the Quality Review Board ("QRB") under Section 28A of the Chartered Accountants Act, 1949. Section 28B of the Chartered Accountants Act, 1949 authorises the QRB to perform the following functions:

(a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;

(b) to review the quality of services provided by the members of the Institute including audit services;

(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements; and

(d) to forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews involve assessment of the work of statutory auditors so that QRB is able to assess (a) quality of audit and reporting by the statutory auditors; and (b) quality control framework adopted by the audit firms in conducting audit.

These quality reviews bring out instances of various non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB also refers these instances to the Council of the Institute of Chartered Accountants of India (ICAI). On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task of developing the guidance was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

About the Publication

This publication is a compilation of some common non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, internal financial controls observed by QRB while conducting quality reviews. This publication also contains suggested guidance developed by the Auditing and Assurance Standards Board on these common non-compliances. This publication is in two parts i.e. Part 1 and Part 2.

- Part 1 contains the observations related to Engagement and Quality Control Standards.
- Part 2 contains the observations related to CARO and internal financial controls.

In Part 1, observations have been classified standard-wise. In Part 2, observations have been classified topic-wise. The number of observations is given in Table below.

Part 1

S. No.	Topic	No. of Observations
1	SQC 1	13
2	SA 200	1
3	SA 210	4
4	SA 220	3
5	SA 230	8
6	SA 250	1
7	SA 300	1
8	SA 315	6
9	SA 320	2
10	SA 330	3
11	SA 500	1
12	SA 505	6
13	SA 530	4
14	SA 540	1
15	SA 550	1
16	SA 580	2
17	SA 610	2
18	SA 700	6
19	SA 706	1
20	SA 710	1
21	SA 720	1
Total		**68**

Part 2

S. No.	Topic	No. of Observations
1	CARO	9
2	Internal Financial Controls	1
Total		**10**

Readers may note that some observations given in this publication are based on the past provisions of law (e.g. CARO 2003, CARO 2016) and the pre-revised Standards on Auditing. In case of these observations, guidance has been given based on the current provisions of law (e.g. CARO 2020) and currently applicable Standards on Auditing. Further, these observations should be read in the light of any subsequent amendments/developments.

Readers may also note that this publication neither supersedes nor it is a replacement of any Standards, Guidance Notes, Pronouncements issued by ICAI. Readers are advised to read or use this publication in conjunction with the relevant Standards, Guidance Notes, Pronouncements issued by ICAI.

Contents

Chapter 1

Observations related to CARO

Observation 1

Non-compliance of CARO, 2016 for reporting on whether title deeds of freehold land and buildings were held in the name of the company instead of for all immovable properties.

Note:

This observation is based on CARO 2016. The corresponding clause of CARO 2020 is given below.

Clause 3(i)(c): Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held – indicate range, where appropriate	Reason for not being held in name of company*
-	-	-	-	-	*also indicate if in dispute

What is the issue?

Is the auditor required to verify and report that the title deeds of all immovable properties disclosed in the financial statements are held in the name of the Company?

AASB Suggested Guidance

As per clause 3(i)(c) of CARO 2020, auditor is required to report:

Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company.

If not, details are required to be reported in the format prescribed.

Please refer "Guidance Note on the Companies (Auditor's Report) Order, 2020 (Revised 2022 Edition)" (**"Guidance Note on CARO 2020"**) for details.

Technical Literature

Relevant Provisions

- This clause requires the auditor to comment whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format prescribed. The Act does not define the term "Immovable Property". However, as per the General Clauses Act, 1897, "Immovable Property shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth".

  In case of companies required to comply with Ind AS, it may be noted that in case of right of use (ROU) assets covered under Ind AS 116, where the auditee, under a lease agreement, obtains the right to use an asset, the same also should be considered by the auditor for reporting under this clause. In case of companies required to comply with Ind AS, it may also be noted that investment property (as defined under Ind AS 40) and non-current assets held for sale (as defined under Ind AS 105) will also be considered by the auditor for reporting under this clause.

  The auditor need not report in respect of other immovable properties not classified as property, plant and equipment, as they are outside the scope covered under this clause. Such items may relate to inventories of immovable property for a real estate company.

Audit Procedures and Reporting

- Based on review of the PPE register, the auditor is required to identify immovable properties and verify the title deeds of such immovable properties. Transfer Development Rights (TDRs), plant and machinery embedded in land, etc., are not considered as an immovable property.
- Schedule III to the Act requires the management to provide disclosure of details of title deeds of immovable properties (excluding leased properties) not held in the name of the company in the prescribed format and to disclose company's share, if jointly held. The auditor should review such disclosure before making comment under this clause.
- The Order is silent as to what constitutes 'title deeds'. In general, title deeds mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property. In case of leased assets, title deeds would imply the lease agreements and related documents.
- Following documents mainly constitute title deeds of the immovable property:

  Registered sale deed / transfer deed / conveyance deed, etc. of land, land & building together (other than properties where the company is the lessee and the lease agreements

are duly executed in favour of the lessee), etc. purchased, allotted, transferred by any person including any Government, government authority / body/ agency / corporation, etc. to the company.

- The auditor should carry out detailed examination in the cases where immovable property is transferred as a result of conversion of partnership firm or limited liability partnership into company or amalgamation of companies, as in such cases title deeds may be in the name of the erstwhile entity.

- Where the title deeds of the immovable property have been mortgaged with the banks/financial institutions, etc., for securing the borrowings and loans raised by the company, a confirmation about the same should be sought from the respective institution to this effect. The auditor may also consider verifying this information from the online records, if available, of the relevant State.

- There may be instances where the title deeds were lost accidentally or otherwise. In such cases, the certified copies of the documents, as available with the company, and details about the FIR filed about loss of such documents needs to be obtained and documented. The auditor should also seek written representation from the management in this regard.

- The management is responsible for legal determination of the validity of title deeds. The auditor may refer SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" to the extent considered relevant and obtain sufficient and appropriate audit evidence. Further any discrepancy, including any pending/disputed court cases relating to ownership, needs detailed discussion with the management and should be properly documented. In this context, the auditor may also consider communicating with the legal counsel, whether in-house or external, in accordance with the principles enunciated in SA 501, "Audit Evidence – Specific Considerations for Selected Items". The auditor may also consider disclosing the dispute while reporting under this clause.

- The auditor should verify the title deeds available and reconcile the same with the PPE register. The scrutiny of the title deeds of the immovable property may reveal a number of discrepancies between the details in the PPE register and the details available in the title deeds. This may be due to various reasons which need to be examined.

- Situations may arise wherein lessor has also obtained the land and land & building under long term lease and has given on sub-lease to other party. However, in such case, to meet the objectives of reporting under this clause, the auditor need not verify executed lease deed in favour of lessor to ascertain whether the title of those long-term leasehold immovable properties relates to lessor. The fact that such a sub-lease transaction has been entered, may be disclosed.

- It may be noted that no direct responsibility is cast on the auditor for reporting in case of properties where company is lessee and lease agreements are duly executed in favour of lessee. However, with respect to cases where there are discrepancies in lease agreements or lease agreements are not duly executed, it shall be prudent to include in the report, facts of any case where the company has taken immovable properties on lease but lease

agreement is not formal or is not executed in favour of lessee or not duly executed in any other manner.

- In case the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are not held in the name of the company, the auditor should ascertain the following information for the purpose of reporting under this clause:
    - Description of the property, including location, identification number from land records, municipal records, etc.
    - Gross carrying amount as per balance sheet of the company.
    - Name of the individual (s) who are holding the title of immovable property.
    - The auditor to report specifically if the immovable property is held in the name of the promoter, director or their relative or employee.
    - The auditor to indicate the period of such holding; and
    - The auditor to state the reason for the immovable property not being held in the name of the company (for example, the registration process of transfer of name may be continuing as on the date of the audit report).
- The auditor may obtain the support of any legal expert in case there is any dispute or litigation as to the title of the immovable property or where the auditor seeks clarity in matters related to this clause.

Observation 2

Not mentioning complete names of the statutes while reporting under clause 3(vii)(b).

Or

Not reporting the fact of deposit of disputed dues having been made under protest in his report under clause 3(vii)(b) of CARO 2020 (read together with Para 59(g) and 59(i) of the Guidance Note on Companies (Auditor's Report) Order, 2020.

Or

No audit evidence or working paper in audit file to warrant the opinion given under clause 7(a) of Annexure A to the Audit Report.

Note:

This observation is based on CARO 2016/CARO 2020. The corresponding clause of CARO 2020 is given below.

Clause 3(vii)(a): Whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on 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.

Clause 3(vii)(b): Where statutory dues referred to in sub-clause (a) 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 be treated as a dispute).

What is the issue?

Which statutes are covered for the purpose of reporting under clause 3(vii)(a) and clause 3(vii)(b) of CARO 2020. Further, what is the reporting requirement relating to disputed amounts deposited under protest?

AASB Suggested Guidance

As per clause 3(vii)(a) of CARO 2020, auditor is required to report:

Whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on 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.

As per clause 3(vii)(b) of CARO 2020, auditor is required to report:

Where statutory dues referred to in sub clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending should be mentioned (a mere representation to the concerned Department shall not be treated as a dispute).

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Clause 3(vii)(a)

Relevant Provisions

- It may be noted that the use of the words "any other statutory dues" indicates that this clause covers all types of dues under various statues which may be applicable to a company having regard to nature of its business. Apart from the statutory dues listed, the auditor is required to report on the regularity of the company in depositing "any other statutory dues" payable by the company to appropriate authorities under the statutes applicable to the company. As far as identification of "Any other statute and dues thereunder" is concerned, the auditor can draw further guidance from SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements".
- The intention of the Government, in this clause is to ascertain how regular the company is in depositing statutory dues with the appropriate authorities. Since the emphasis of this clause is on the regularity, the scope of auditor's inquiry is restricted to only those statutory dues, which the company is required to deposit regularly to an authority. The auditor is not required to ascertain whether the company is regular in depositing amounts, which may be levied by an appropriate authority from time to time upon occurrence or non-occurrence of certain events and therefore are not required to be paid regularly. Any sum, which is to be regularly paid to an appropriate authority under a statute (whether Central, State or Local or Foreign) applicable to the company, should be considered as a "statutory due" for the purpose of this clause. In other words, obligation to pay a statutory due is created or arises out of a statute, rather than being based on an independent contractual or legal relationship. Thus, examples of "statutory dues" would include municipal taxes, taxes deducted at source, fees payable to the licensing authority in respect of business being carried on under license granted by an authority, say a cinema hall. Accordingly, any sum payable to an electricity company as electricity bill would not constitute a statutory due despite the fact that such electricity company has been established under a statute. This is so because the due has arisen on account of contract of supply of goods or services between the parties. Similarly, where any sum is payable to public sector undertakings, namely, State PSUs or Central PSUs, as the case may be, the same shall not be considered as 'statutory due' despite the fact that such undertakings are incorporated, owned and operated by the State/Central Government. However, care shall have to be taken that in case any dues are recoverable as arrears of land revenue by the concerned authority, the same shall be treated as a statutory due. The similar view is possible for payment of bonus to an employee though the same is under Payment of Bonus Act, 1965 it will not be considered as a

statutory due. This is because the due has arisen on account of contract existing between employer and employee. However, care should be taken for unclaimed bonus which the company has not paid for more than a particular number of years and due has arisen to be transferred to a specified fund account as prescribed. Even dividend payment to shareholders under the Companies Act 2013 will not be considered as statutory due as the same is on account of contractual obligation with the shareholders. However, dividend declared and not paid to the shareholders within specified time limit and which is required to be transferred to specified fund will be considered as a statutory due.

Audit Procedures and Reporting

- The auditor should make plans to test whether the company is regular in depositing undisputed statutory dues. The auditor, in order to be able to comment on this clause, should have a general understanding of the various statutes governing the company and the dues payable by the company under those statutes. The auditor should also enquire of the management of the company about the statutes under which the company is required to pay any statutory dues. The auditor should also discuss with the management, the policies or procedures adopted for identification and payment of statutory dues. The auditor may also obtain from the management or himself prepare a calendar of dates for submission of various statutory dues by the company for his reference.
- The information necessary to comply with the requirement of this clause may be obtained from the company in the form of a statement. The statement should contain a list of various statutes under which the company is required to make payments regularly to appropriate authorities, the kind of payments under each statute, the due date for making the payment to the appropriate authority, the date on which the payment is made by the company, the arrears not due and the arrears overdue for more than six months. The auditor should verify the statement provided by the management with the underlying documents and records. The auditor's general understanding of the various statutes governing the company and the dues payable by the company under those statutes would help the auditor in assessing the completeness of the statement. The auditor should recognise that there could be a situation that a statutory due might have become payable but has not been captured by the accounting and internal control systems established by the company and, therefore, the auditor should perform procedures to mitigate risk arising from such a situation.
- The auditor should obtain a written representation with reference to the date of the balance sheet from the management:
    - specifying the cases and the amounts considered disputed;
    - containing a list of the cases and the amounts in respect of the statutory dues which are undisputed and have remained outstanding for a period of more than six months from the date they became payable; and
    - containing a statement as to the completeness of the information provided by the management.

Clause 3(vii)(b)

Relevant Provisions

- The reporting under this clause is wide enough to cover all the disputed statutory dues including but not limited to income tax, Goods and Services Tax etc. This clause requires that in case of disputed statutory dues, the amounts involved should be stated along with the forum where the dispute is pending. Therefore, even minor amounts would be required to be reported under this clause. The auditor should report in a manner so that the reader is able to understand the dispute and the amount involved therein.

Audit Procedures and Reporting

- The audit procedures applied by the auditor for commenting on the previous clause i.e. clause 3(vii)(a), including obtaining a statement from the management in regard to the matters specified in the clause, would help the auditor in determining the dues of Goods and Services tax/ sales tax/income tax/ duty of customs/ service tax/duty of excise/provident fund/ employees' state insurance and any other statutory dues to the appropriate authorities that have not been deposited on account of any dispute, the amounts involved and the forum where dispute is pending. The auditor should also obtain a management representation about the disputed dues, the amounts involved and the forum where the dispute is pending. The auditor should carry out necessary audit procedures to verify the information provided by the management.
- The information required by this clause may be reported in the following format:

Statement of Disputed Dues

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending	Remarks, if any

- Further, a plain reading of this clause suggests that the amounts to be reported under this clause are those which have not been deposited on account of any dispute, irrespective of the treatment of such disputed amounts in accounts. It is quite possible that an amount is disputed and has not been deposited but on consideration of the likely outcome of the dispute, a provision has been made in the accounts. Such an amount will need to be reported, notwithstanding that it has been provided for in accounts. Similarly, even if it had not been provided for in accounts, it would have to be reported as long as it is not deposited. It is also possible that an amount is disputed, has been deposited and on consideration of the likely outcome of the dispute, has been shown as a recoverable. Though such an amount is not contemplated for reporting under this clause, since it has been deposited, the fact of such deposit having been made under protest should be brought out by the auditor in his report under this clause.

  Whether a disputed amount should be provided for in the accounts or not will need to be judged in the context of AS 4, "Contingencies and Events Occurring After the Balance Sheet Date/Ind AS 10, "Events after the Reporting Period" and AS 29, "Provisions, Contingent Liabilities and Contingent Assets"/Ind AS 37, "Provisions, Contingent Liabilities and Contingent Assets".

Observation 3

Non-compliance of CARO, 2016 for not reporting with respect to whether any fraud "by the company" has been noticed or reported during the year.

Note:

This observation is based on CARO 2016. The corresponding clause of CARO 2020 is given below.

Clause 3(xi)(a): Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.

What is the issue?

Whether auditor in his audit report is also required to comment on the perpetration of fraud by the company?

AASB Suggested Guidance

As per clause 3(xi)(a) of CARO 2020, auditor is required to report:

Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Relevant Provisions

- Under this clause, the responsibilities of the auditor have been widened by removing the words “officers or employees”. This clause requires the auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company. If any fraud is noticed / reported, the auditor is required to state the amount involved and the nature of fraud. This clause does not require the auditor to discover such frauds on the company and by the company. The scope of auditor’s inquiry under this clause is restricted to frauds ‘noticed or reported’ during the year. The use of the words “noticed or reported” indicates that the management of the company should have knowledge about the frauds on the company or by the company that have occurred during the period covered by the auditor’s report. It may be noted that reporting under this clause does not relieve the auditor from his responsibility to consider fraud and error in an audit of financial statements. In other words, irrespective of the auditor’s comments under this clause, the auditor is also required to comply with the requirements of SA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”. Further, the auditor is required to comply with the requirements of section 143(12) of the Companies Act, 2013. In this context, the auditor should also have

regard to the "Guidance Note on Reporting on Fraud under Section 143(12) of the Companies Act, 2013", issued by ICAI.

- The term 'fraud' as defined in explanation to section 447 of the Act 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. The term "fraud" is defined in SA 240 as "An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage". The definition of fraud as per SA 240 and the explanation of fraud as per section 447 of the Act are similar, except that under section 447 of the Act, fraud includes 'acts with an intent 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.' However, an auditor may not be able to detect acts that have intent to injure the interests of the company or cause wrongful gain or wrongful loss, unless the financial effects of such acts are reflected in the books of account/financial statements of the company. For example, an auditor may not be able to detect if an employee is receiving pay-offs for favoring a specific vendor, which is a fraudulent act, since such pay-offs would not be reflected / recorded / traced in the books of account of the company. However, the auditor should report all such frauds under this clause noticed or reported to him while conducting the audit. It will also cover frauds which may have an indirect impact on financial statements of the company.

- The auditor is required to report separately on the nature and amount involved for (i) fraud on the company (ii) fraud by the company. Further, the auditor should consider the frauds noticed or reported while performing audit.

Audit Procedures and Reporting

- Under clause 3(xi)(c), the auditor is required to report whether he has considered whistle-blower complaints, if any, received during the year by the company. The auditor should be mindful while performing the procedures under this clause and consider complaints received under whistle blower mechanism. The auditor should consider whether additional procedures are required to be performed under SA 240 in this regard.

- Under clause 3(viii), the auditor is required to consider whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments. The auditor should consider such voluntary surrender of income and assess if the company has intentionally not accounted income in any of the previous years and has offered it to taxes at the time of assessment. It may be an indicator that the company had misstated the results which may lead to fraudulent financial reporting. The auditor should make necessary inquiries from the management in this regard.

- The auditor should also consider if there are any adverse findings noticed by him while reporting under clause 3(ii)(b) which requires the auditor to provide details if the quarterly returns or statements filed by the company with banks or financial institutions for sanctioned

working capital limits are not in agreement with the books of account of the company.

- Where the auditor notices that any fraud by the company or on the company has been noticed or reported during the year, the auditor, apart from reporting the existence of fraud, is also required to report, the nature of fraud and amount involved. For reporting under this clause, the auditor may consider the following:
    - This clause requires that all frauds noticed or reported during the year shall be reported indicating the nature and amount involved.
    - While reporting under this clause with regard to the nature and the amount involved of the frauds noticed or reported, the auditor may also consider the principles of materiality outlined in Standards on Auditing.

Observation 4

Non-compliance of Clause 3(iv) of CARO, 2016 in respect of not reporting for guarantees, and security whether provisions of Section 185 and 186 of Companies Act, 2013 have been complied with and, if not, the details thereof.

Note:

This observation is based on CARO 2016. The corresponding clause of CARO 2020 is given below.

Clause 3(iv): In respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof.

What is the issue?

What is the reporting requirement under clause 3(iv) of CARO 2020?

AASB Suggested Guidance

As per clause 3(iv) of CARO 2020, auditor is required to report:

In respect of loans, investments, guarantees, and security, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

A. Compliance of Section 185 of the Companies Act 2013: Loan to directors, etc.

Relevant Provisions

- Under this clause, the auditor is required to report on the compliance of section 185 of the Act. Reference may be made to section 185 of the Act.

Audit Procedures and Reporting

- For this purpose, the auditor should carry out the following procedures:
    - Obtain from the management the details of the directors or any person in whom any of the director of the company is interested. The auditor may also check the details of the persons covered under this clause from the Form MBP-1 and from the register maintained under section 189 of the Act.
    - Obtain and check the details of the transactions carried out with such persons, including of any guarantee given and security provided.
    - Further examine the details to find out whether any of the transaction is attracting the provisions of section 185 of the Act.

- In case of transactions that are covered under the exceptions as provided under section 185 of the Act the auditor should obtain the necessary evidence in support of such exception.

- Section 185 of the Act prohibits advance of any loan to directors etc., directly or indirectly. What is an indirect loan is not defined in section 185 or elsewhere in the Act. Indirect loan is interpreted in case of Dr. Fredie Ardeshir Mehta v. Union of India [1991] 70 Comp. Cas. 210 (Bom.) to mean a loan to a director through the agency of one or more intermediaries. For example, if company A borrows from company B and lends the same to company C and loan from B to C is covered by section 185 of the Act. In this case, section 185 of the Act shall also be applicable in case of lending from company A to C because it would be construed as an indirect loan from company B to C.
- The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of:
  - the directors; and
  - any person in whom any of the director of the company is interested (specify the relationship with the director concerned).
- It may be noted that the provisions of section 185 of the Act shall not apply to a government company in case such company obtains approval of the Ministry or Department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before making any loan or giving any guarantee or providing any security under the section. [vide Notification No. GSR 463(E) dated 5th June 2015]
- It may also be noted that the provisions of Section 185 shall not apply to a private company:
  - in whose share capital no other body corporate has invested any money;
  - if the borrowings of such a company from banks and financial institutions or any body corporate is less than twice of its paid up share capital or fifty crores, whichever is lower; and
  - such a company has no default in repayment of such borrowings subsisting at the time of making such transaction. [vide Notification No. GSR 464(E) dated 5th June 2015]

B. Compliance of Section 186 of the Companies Act 2013: Loan and Investment by Company

Relevant Provisions

- Under this clause, the auditor is required to report on the compliance of section 186 of the Act. Section 186 of the Act governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person or other body corporate and acquiring securities of any other body corporate by a company. The section also prohibits a company from making investments through more than two layers of investment companies. Reference may be made to section 186 and relevant extract of Rules 11, 12 & 13 of the Companies (Meeting of Board and its Powers) Rules, 2014.

Audit Procedures and Reporting

- The duty of the auditor under this clause is to determine whether the loans and investments made, guarantees given, security provided or acquisition of securities of

any other body corporate by the company comply with the requirements of the provisions of section 186 of the Act.

For this purpose, the auditor should carry out the following procedures:

- Obtain the details of, loans given to any person or other body corporate, guarantee given or security provided in connection with a loan to any other body corporate or person and securities acquired of any other body corporate by way of subscription, purchase or otherwise, made during the year as well as the outstanding balances as at the beginning and end of the year.
- Check whether, at any point of time during the year in case of aforesaid transactions, the company has exceeded the limit of sixty per cent of its paid-up share capital, free reserves and securities premium account or one hundred per cent of its free reserves as defined in section 2(43) of the Act and securities premium account, whichever is more.

  If it exceeds the limits specified above, check whether prior approval by means of a special resolution passed at a general meeting has been obtained.
- Check whether the company has made investments through more than two layers of investment companies.
- Check whether the company has disclosed the full particulars of the loan given, investment made or guarantee given or security provided in the financial statements including the purpose for which the same is proposed to be utilized by the recipient.
- Check whether the company has passed the board resolution as, prescribed, and obtained the prior approval from the public financial institution concerned where any term loan is subsisting.
- Check whether the loan has been given to company registered under section 12 of the Securities and Exchange Board of India Act, 1992, if so, whether the inter-corporate loans or deposits taken by such company are within the limits prescribed, if so, obtain the certificate of statutory auditors of that company from the management to ensure the compliance.
- Check whether rate of interest is not lower than the prevailing yield of one year, three year, five year or ten year government security closest to the tenor of the loan granted.
- Check if the company is in default in the repayment of any deposits accepted or in payment of interest thereon, then the company is not allowed to give any loan or guarantee or provide any security or make an acquisition till such default is subsisting.
- Check whether the company has maintained a register (as per Form MBP-2) in the manner as prescribed and also check the compliances of other provisions and relevant rules.

- It may be noted that the aforesaid section is not applicable in respect of any loan made, any guarantee given or any security provided or any investment made by banking company or an insurance company or a housing finance company in the ordinary course of its business, or a company established with the object of and engaged in the business of financing industrial enterprises, or of providing infrastructural facilities, However the restriction with regard to the investment through more than two layers of

investment companies would be applicable for such companies also. The auditor may ensure compliance accordingly.

- It may also be noted that the provisions of section 186 of the Act shall not apply to a government company engaged in defence production and a government company, other than a listed company, in case such company obtains approval of the Ministry or department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before making any loan or giving any guarantee or providing any security or making any investment under the section. [vide Notification No. GSR 463(E) dated 5th June 2015]

Observation 5

Under para 4, clause 15: guarantee given on behalf of related party by the company, supporting documents not found regarding why it is not prejudicial to the interest of the company.

Or

For loans granted, as per the CARO report [refer point 3b, 3c and 3d]:

The interest-free loans do not stipulate any terms and conditions of payment and in our opinion are prima facie not prejudicial to the interest of the company. In view of the above, the question of regularity of payment of principal and interest does not arise.

Loans granted by the Company are interest free - thus it needs to be understood the basis for considering such loans granted as - 'not prejudicial to interest of company'. The amounts of loans granted are of Rs. 979.48 Lakhs. Thus, the auditor is required to report that reasonable steps have been taken by the company for recovery/payment of the principal and interest or not.

The firm has not appropriately reported as per the requirements of para 3.d of clause 4 of the CARO.

Note:

This observation is based on CARO 2003/CARO 2016. The corresponding clauses of CARO 2020 are given below.

Clause 3(iii)(b): Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest.

Clause 3(iii)(c)**:** In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular.

Clause 3(iii)(d)**:** If the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest.

What is the issue?

What are the reporting requirements under clauses 3(iii)(b), (c) and (d) of CARO 2020?

AASB Suggested Guidance

As per clause 3(iii)(b) of CARO 2020, auditor is required to report:

Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in nature of loans and guarantees provided are not prejudicial to the company's interest.

As per clause 3(iii)(c) of CARO 2020, auditor is required to report:

In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular.

As per clause 3(iii)(d) of CARO 2020, auditor is required to report:

If the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Clause 3(iii)(b)

Relevant Provisions

- This clause covers determination of terms and conditions at the time of the grant of the loans and advances in nature of loans. It also requires determination of terms and conditions on which the company has made an investment, provided a guarantee or given a security.

Audit Procedures and Reporting

- Under this clause the auditor's duty is to determine whether, in his opinion, the terms and conditions of the investments, guarantee, security, loans/advances in nature of loans granted during the year are prejudicial to the interest of the company. Since this clause is applicable to all companies i.e. including companies like NBFCs whose principal business is to grant loan, it would be imperative for auditors of such companies to consider the additional guidance issued by the Auditing and Assurance Standard Board of ICAI in this regard (for example Technical Guide on Audit of NBFCs).

- In case of loans/advances in nature of loans, the "terms and conditions" would primarily include rate of interest, security, terms and period of repayment and restrictive covenants, nature of entity i.e., whether given to a start-up or an entity having established track record etc. In determining whether the terms of the loans are prejudicial to the company's interest, the auditor would have to give due consideration to the other factors connected with the loan, including company's ability to lend, terms of lending, borrower's financial standing, credit rating, if available, the nature of the security, rate of interest, and so on. In respect of advances in nature of loans, the auditor might find it difficult to ascertain the "terms and conditions" since such loans are camouflaged as advances. Accordingly, as part of audit procedures, the auditor should obtain the listing of all advances and compare them with the underlying contractual agreements (for example purchase order) to ascertain the excess of an amount granted/excess of credit period extended.

- Similarly, in respect of investments made, to assess whether same are prejudicial to the company's interest, the auditor would have to give due consideration to the factors connected with such an investment, including company's ability to make such investment, financial standing of the investee company, sources of fund, valuation of the proposed investment, covenant's attached and so on. To explain with an example, it is not uncommon for a holding company to support the financial position of its loss-making subsidiary by infusing equity and in such a situation it would not be construed as prejudicial to the interest of the holding company.

- With regard to guarantees/security, the auditor should review the process for issuance of guarantee(s) to establish the reasonableness thereof in the light of previous experience and knowledge of the current year's activities. In determining whether the guarantee is prejudicial to the interest of the company, the auditor would have to give due consideration to a number of factors connected with the guarantee, including the financial standing of the party on whose behalf the company has given the guarantee, party's ability to borrow, the nature of the security offered by the party, the availability of alternative sources of finance and the urgency of the borrowing, if available, for which the company has given guarantee and so on. The auditor should obtain this information from the management.
- Checking compliance with applicable law would also assist the auditor to identify whether terms and conditions are prejudicial to the interest of the company. For example, section 186 of the Act states that no investment shall be made, or loan or guarantee or security given by the company unless the resolution sanctioning it is passed at a meeting of the Board with the consent of all directors present at the meeting. Similarly, in respect of loans, compliance conditions as per this section include obtaining prior approval of financial institutions, ensuring rate of interest is not lower than the prevailing yield of one year, three year, five year or ten year government security closest to the tenor of the loan etc. Reporting under this clause may warrant a cross referencing with reporting under clause 3(iv).
- Further, the auditor may also come across a situation where the company has a policy of providing loans at concessional rates of interest to its employees and such a loan has been given to a relative of the director who is also an employee of the company. In such a case also, the auditor would be required to examine and comment whether loan is prejudicial to the interests of the company. It may, however, be noted that normally such terms as per the policy followed by the company cannot be said to be prejudicial to the interest of the company if other employees of the company also receive the loan on the same terms.
- It should be noted that reporting requirement under this clause is applicable to all companies including those which are engaged in the financing business and thus sector specific legal requirements would need to be considered by the auditor. For example, in case of NBFC's, guidelines issued by the Reserve Bank of India would need to be considered by the auditor.
- It may be mentioned that clause (a) of sub-section (1) of section 143 of the Act also requires the auditor to inquire 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.

Clause 3(iii)(c)

Relevant Provisions

- This clause requires the auditor to report upon the stipulation of schedule of repayment of principal and payment of interest and on regularity of repayments of principal amount of loans/advances in nature of loans and receipts of interest thereon.

Audit Procedures and Reporting

- The auditor has to examine from the loan agreements / mutually agreed letter of arrangement, as the case may be, whether the schedule of repayment of principal and payment of interest has been stipulated at the time of sanction of loan.

- The auditor has to examine whether the repayment of principal and receipt of interest are regular. The word 'regular' should be taken to mean that the principal and interest should normally be received whenever they fall due, respectively.
- In case where the auditee company is NBFC, the auditor, for reporting under this clause, would also need to refer various directions for NBFC issued by Reserve Bank of India.
- If there is no such agreement / arrangement or the agreement / arrangement does not contain the schedule of repayment of principal and payment of interest, the auditor shall report that there is no stipulation of schedule of repayment of principal and payment of interest and may report that he is unable to make specific comment on the regularity of repayment of principal & payment of interest, in such cases. Advances in nature of loans which do not contain the schedule of repayment and payment of interest are required to be reported under this clause.
- In case where the schedule of repayment of principal and payment of interest is stipulated but repayment of principal or payment of interest is not regular then the auditor may report the fact and may give number of cases and remarks, if any.

Clause 3(iii)(d)

Relevant Provisions

- This clause requires the auditor to state the total amount overdue for more than ninety days and whether reasonable steps have been taken by the company for recovery of the principal and interest. An amount is considered to be overdue when the payment has not been received on the due date as per the lending arrangement. In such cases, the auditor has to examine the steps, if any, taken for recovery of this amount. It may be noted that the scope of the auditor's inquiry under this clause covers all loans/advances in nature of loans given by the company to any party.

Audit Procedures and Reporting

- Under this clause, the auditor is required to disclose total amount overdue for more than ninety days. The auditor should examine the agreement or other documents containing the schedule of repayment of the loans/advances in nature of loans granted to all parties. The auditor should then verify whether the repayments as per the books of account are in accordance with the schedule of repayment of the loans/advances in nature of loans as per agreement or arrangement. This examination would enable the auditor to determine the total amount overdue (principal and interest) for more than ninety days from all parties as at balance sheet date. The auditor should disclose the aggregate of the total amount of overdue for more than ninety days in respect of loans/advances in nature of loans granted to all parties.
- While examining whether reasonable steps have been taken by the company for recovery of principal and interest, the auditor would have to consider the facts and circumstances of each case, including the amounts involved. It is not necessary that steps to be taken must necessarily be legal steps. Depending upon the circumstances, the degree of delay in

recovery and other similar factors, issue of reminders or sending of an advocate's or solicitor's notice, obtaining enhanced security, may amount to "reasonable steps" even though no legal action is taken. The auditor is not, therefore, required to comment on the mere absence of legal steps if he is otherwise satisfied that reasonable steps have been taken by the company. The auditor should obtain sufficient appropriate audit evidence to support the fact that reasonable steps have been taken for recovery of the principal and interest of loans/advances in nature of loans granted by the company. In addition to procedures like making correspondence with defaulting parties, the auditor should ask the management to give in writing, the steps which have been taken by the management. The auditor should arrive at his opinion only after consideration of the management's representations and other relevant evidence.

Observation 6

As per the Companies (Auditor's Report) Order, 2003 of the Company:

The Company has maintained unit wise fixed assets registers and/ or compiled item wise list showing particulars of all its fixed assets. The aggregate value shown by these records agrees with the gross value of fixed assets as per the books of account of the company.

The above disclosure does not mention 'quantitative details and situation of fixed assets'. Thus, the disclosure does not appear to be appropriate and adequate.

Note:

This observation is based on CARO 2003. The corresponding clause of CARO 2020 is given below.

Clause 3(i)(a)(A): Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment.

What is the issue?

What is the reporting requirement under clause 3(i)(a)(A) of CARO 2020 relating to quantitative details and situation of Property, Plant and Equipment?

AASB Suggested Guidance

As per clause 3(i)(a)(A) of CARO 2020, auditor is required to report:

Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Relevant Provisions

- This clause requires the auditor to comment as to whether the company is maintaining proper records showing full particulars, including quantitative details and situation of property, plant and equipment. The accounting aspects of property, plant and equipment are dealt with in AS 10 (Revised), “Property, Plant and Equipment” and Ind AS 16, “Property, Plant and Equipment”.

  The Order does not define as to what constitutes ‘proper records’. In general, however, the records relating to property, plant and equipment (PPE) should contain, *inter alia*, the following details:

  - sufficient description of the PPE to make identification possible;
  - classification, that is, the head under which it is shown in the accounts, e.g., plant and machinery, office equipment, etc;
  - situation;

- quantity, i.e., number of units;
- original cost;
- year of purchase;
- date of available for use;
- useful life;
- residual value;
- component-wise breakup; (wherever applicable)
- adjustment for revaluation or for any increase or decrease in cost;
- date of revaluation, if any;
- rate(s)/basis of depreciation;
- depreciation for the current year;
- accumulated depreciation;
- particulars regarding impairment;
- particulars regarding sale, discarding, demolition, destruction, etc.

- The records should contain the abovementioned particulars in respect of all items of PPE, self-financed or right to use assets (under Ind AS 116) acquired through finance lease. These records should also contain particulars in respect of those items of PPE that have been fully depreciated or have been retired from active use and held for disposal. The records should also contain necessary particulars in respect of items of PPE that have been fully impaired during the period covered by the audit report.

  Thus, what constitutes proper records is a matter of professional judgement made by the auditor after considering the facts and circumstances of each case.

- It is necessary that the aggregate original cost, depreciation to date, and impairment loss, if any, as per these records under individual heads should reconcile with the figures shown in the books of account.

- It is not possible to specify any single form in which the records should be maintained. This would depend upon the mode of account keeping (manual or computerised), the number of operating locations, the systems of control, etc. It may be noted that with the widespread use of the information technology, many companies maintain electronic records. In fact, section 2(12) of the Act, defines the terms "book and paper" and "book or paper" as including "books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form". Rule 3 of the Companies (Accounts) Rules, 2014 dealing with the "manner of books of account to be kept in electronic mode" states as under:

  "(1) The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India so as to be usable for subsequent reference.

  Provided that for the financial year commencing on or after the 1st day of April, 2023, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording

audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

(2) The books of account and other relevant books and papers referred to in sub-rule (1) shall be retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.

(3) The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.

(4) The information in the electronic record of the document shall be capable of being displayed in a legible form.

(5) There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law."

The Rule further explains that the term "electronic mode" includes "electronic form" as defined in section 2(1)(r) of the Information Technology Act, 2000 and also includes an electronic record as defined in section 2(1)(t) of the Information Technology Act, 2000 (as amended by the Amendment Act of 2008). Accordingly, where any law requires that any information or matter should be in the typewritten or printed form, then such requirement shall be deemed to be satisfied if it is in an electronic form. However, it will have to be ensured that the information contained in the electronic records remains accessible and unaltered and its origin, destination, date, etc. can be identified.

Audit Procedures and Reporting

- The auditor may accept PPE register in electronic form if the following two conditions are satisfied:
    - The controls and security measures in the company are such that once finalised, the PPE register cannot be altered without proper authorisation and audit trail.[1]
    - The PPE register is in such a form that it can be retrieved in a legible form. In other words, the emphasis is on whether it can be read on the screen or a hard copy can be taken. If this is so, one can contend that it is capable of being retrieved in a legible form.

  In case the above two conditions or either of the two conditions are not satisfied, the auditor should obtain a duly authenticated printout of the PPE register. In case the auditor decides to rely on electronically maintained PPE register, he should maintain adequate documentation evidencing the evaluation of controls that seek to ensure the completeness, accuracy and security of the PPE register.

[1] In this context, attention of the members is also drawn to SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" and the "Guidance Note on Audit of Internal Financial Controls Over Financial Reporting", issued by ICAI.

- The purpose of showing the situation of PPE is to make verification possible. There may, however, be certain classes of PPE whose situation keeps changing, for example, construction equipment which has to be moved to sites. In such circumstances, it should be sufficient if record of movement/custody of the equipment is maintained.
- Where assets like furniture, etc. are located in the residential premises of members of the staff, the PPE register should indicate the name & designation of the person who has custody of the asset for the time being.
- While, generally, the quantity, value and situation have to be recorded item-wise, assets of small individual value, e.g., chairs, tables, etc. may be conveniently grouped for purposes of entry in the PPE register. Similarly, for assets having same useful life, it may not be necessary to indicate the accumulated depreciation for each item; instead, depreciation for the group as a whole may be shown.
- Quantitative details in respect of PPE may be maintained on the following lines:
    - Land can be identified by survey numbers and by deeds of conveyance.
    - Leaseholds can be identified by individual leases.
    - Buildings may, initially, be classified into factory buildings, office buildings, township buildings, service buildings (like water works), etc. These may then be further sub-divided. Factory buildings may be further classified into individual buildings which house a manufacturing unit or a plant or sub-plant. Service buildings may be similarly classified according to nature of service and location. Township buildings can be further classified into individual units or into groups of units taking into consideration the type of construction, the location and the year of construction. For example, if a company's township has four categories of quarters, e.g., A, B, C and D, the PPE register may not record each individual quarter but may have a single entry for all 'A' type quarters constructed in a particular year and located in a particular area and show only the number of quarters covered by the entry.
    - Railway sidings can be identified by length and location.
    - Plant and machinery may be sub-divided into immovable and movable. For movable machinery, a separate record may be kept for each individual item. Movable machinery would include, for this purpose, items of plant which are for the moment fixed to the shop-floor but which can be moved, e.g., machine tools. In respect of immovable plant and machinery, a sub-division can be made according to the process, a plant for each separate process being considered as a separate identifiable unit. A further sub-division may be useful when within a process, there are plants which are capable of working independently of each other. The degree to which a sub-division of immovable plant and machinery should be made depends upon the circumstances of each case bearing in mind the objectives of sub-division, namely, the determination of individual cost and the facility for physical verification and componentisation[2].
    - Furniture and fittings and assets like office appliances, air-conditioners, water coolers, etc., consist of individual items which can be easily identified. Some difficulty may, however, be faced with regard to the large number of items and their relative mobility.

[2] Attention of the readers is invited to the requirements of Schedule II to the Companies Act, 2013 in respect of componentisation.

In such cases, a distinction by value may be necessary, individual identification being made for high-value items and by groups for other items.

- Development of property is an asset head which can be easily sub-divided according to the buildings or plant for which the development work is undertaken.
- Vehicles can be identified by reference to the registration books.

- In cases where the details regarding allocation of cost over identified units of assets are not available, it would have to be made by an analysis of the purchases and the disposals of the preceding years. Among the difficulties which may be faced could be: (i) records for some of the years may not be available; (ii) the description in the records may not be complete; (iii) details of disposals may not have been properly recorded; (iv) subsequent additions to an existing asset may have been shown as a separate asset; (v) a single figure of cost may be assigned to a number of assets which have to be separately identified; (vi) assets purchased for one department may have been moved to other departments, and so on. The management, in consultation with the auditor, should make the best effort possible under the circumstances to identify the cost of each asset. In doing so, reasonable assumptions or approximations may be made, where necessary. For example, when details of disposals are not available, it may be assumed that the asset sold is the asset which was acquired earliest in point of time. Similarly, when the individual cost of a large number of small items is not available, one can estimate the cost of each item and pro-rate the total cost in the proportion of the estimated cost of the item to the aggregate estimated cost.
- It may be useful if initial identification of assets is done by persons who are familiar with them, e.g., the maintenance staff. At the point of identification, a code number may be affixed on the asset which would give sufficient details for future identification.
- The initial identification of assets will often reveal a number of discrepancies between the assets as verified and the details compiled from the records. This may be on account of the features already considered in paragraph above. This may also be due to the fact that assets might have been scrapped in earlier years but proper documentation may not have been made or that assets may have been broken up into smaller units or amalgamated into larger units or otherwise modified without changing the asset records. The degree of further inquiry necessary to reconcile these discrepancies would depend upon the nature of the asset, its cost, the age of the asset, the extent of accounting or other records available and other relevant factors. However, the concept of materiality should be borne in mind in making these further inquiries, greater attention being devoted to assets which are of large value or of relatively recent purchase. Any adjustments that finally have to be made should be properly documented. The auditor should request the appropriate level of management to carry out necessary adjustments.
- Where PPE register is not maintained by the company, it is a serious documentation and control lacuna. This should be mentioned by the auditor while reporting under this clause.

Observation 7

The disclosure made by the auditor states: During the year, the company has not accepted any deposits from the public. Accordingly, paragraph 4(vi) of the Order is not applicable.

The disclosure requirements of paragraph 4(vi) of the Order are applicable to deposits taken by the Company - even if the same has not been taken in the current year but in prior years. Thus, the disclosure made by the firm in the CARO is not appropriate.

Note:

This observation is based on CARO 2003. The corresponding clause of CARO 2020 is given below.

Clause 3(v): In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions 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.

What is the issue?

Whether the reporting requirement under clause 3(v) of CARO 2020 pertain to deposits accepted during the year or the deposits accepted in earlier years are also covered?

AASB Suggested Guidance

As per clause 3(v) of CARO 2020, auditor is required to report:

In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions 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.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Relevant Provisions

- This clause requires the auditor to report on compliance with the requirements of sections 73 to 76 of the Act or any other relevant provisions of the Act and the rules made thereunder and the directives of the Reserve Bank of India for acceptance of public deposits. This clause also requires the auditor to report on compliance with the order, if any, passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.

Audit Procedures and Reporting

- The auditor should plan to test for compliance with the provisions of sections 73 to 76 of the Act and the rules made thereunder, i.e., the Companies (Acceptance of Deposits) Rules, 2014. For such purpose, the auditor should also obtain an understanding of the requirements of sections 73 to 76 of the Act and the aforesaid rules.
- The auditor should examine compliance by the company with regard to all the matters specified in the aforesaid sections and the aforesaid rules and not merely to the limits of the deposits. Where the number of deposits is very large, it is obviously not feasible for the auditor to satisfy himself that every single deposit complies with the rules. He should, therefore, examine the system by which deposits are accepted and records are maintained and make a reasonable test check to ensure the correctness of the system. The auditor may also make a "checklist" to ensure that all the requirements of the rules regarding the records to be maintained, returns to be filed, etc., are complied with.
- In order to examine instances where an amount could be deemed to be deposits, the auditor should obtain the list of amounts received in the course of, or for the purposes of, the business of the company (for instances advances, security deposits) and assess them against the requirements of sub-clause (xii) of Rule 2(1)(c) of the Companies (Acceptance of Deposits) Rules, 2014, to determine whether such amounts have assumed the nature of deposits. Where available, the auditor should also examine the Form DPT-3 filed by the company.
- The auditor should examine the efficacy of the internal controls instituted by the company so that the deposits accepted by the company remain within the limits. It may be difficult for the auditor to ascertain that the deposits accepted by the company are within the limits on each day of the accounting year. He would, therefore, be justified in making a reasonable test check to ensure that the company has not accepted deposits during the year in excess of the limits.
- Apart from the audit procedures mentioned above, the auditor should also enquire from the management about the possible instances of non-compliance with sections 73 to 76 or any other relevant provisions of the Act and the relevant rules. The auditor should also enquire from the management about any order passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal for contravention of these sections or any other relevant provision(s) of the Act and the relevant rules. The auditor should obtain a management representation to the effect whether:
    - the company has complied with the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 (as the case may be) of the Act and the relevant rules; and
    - an order has been passed by any of the relevant authorities mentioned in this clause, and if so, the company has complied with the requirements of the order.
- In case where the auditor is of the view that any kind of contravention of sections 73 to 76 or any other relevant provisions of the Act or relevant rules or directives from Reserve Bank of India, if any, has taken place, the auditor should state in his report that the provisions of that section(s) and/or relevant rules or RBI directives, as the case may be, have not been complied with. The auditor should also report the nature of contraventions.

- In respect of non-banking financial companies and housing finance companies (to which the provisions of sections 73 to 76 of the Act and the rules issued thereunder are not applicable), i.e., where such companies are registered with the Reserve Bank of India (RBI) or National Housing Bank (NHB), as deposit taking companies and have accepted or have been holding public deposits during the year - such companies shall be governed by the acceptance of public deposit norms, issued by the respective regulatory bodies. The auditor should specify that sections 73 to 76 of the Act and rules issued thereunder are not applicable to such company.
- The auditor, under this clause, is required to verify whether the company has complied with the order passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal. Where any of such authorities has passed an order, the auditor should examine the steps taken by the company to comply with the said order. If the company has not complied with the order, the same is to be reported stating therein the nature of contravention and the fact that the company has not complied with the order passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.

Observation 8

Considering that the Company is listed at BSE, the requirements of clause 4.vii. of the Companies (Auditor's Report) Order, 2003 are applicable.

Thus, a statutory auditor is required to report whether or not the company has an internal audit system commensurate with its size and nature of its business. It was observed that the CARO report of the Company does not contain any mention of clause 4.vii.

Note:

This observation is based on CARO 2003. The corresponding clause of CARO 2020 is given below.

Clause 3(xiv)(a): Whether the company has an internal audit system commensurate with the size and nature of its business.

What is the issue?

What are the reporting requirements under clause 3(xiv)(a) of CARO 2020?

AASB Suggested Guidance

As per clause 3(xiv)(a) of CARO 2020, auditor is required to report:

Whether the company has an internal audit system commensurate with the size and nature of its business.

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Relevant Provisions

- This clause requires the auditor to comment whether the company has an internal audit system commensurate with the size and nature of its business.
- In accordance with section 138 of the Act, which mandates internal audit system, this clause has a mandatory application for the listed companies irrespective of the size of paid-up share capital, turnover, borrowings or deposits. It may be noted that the Order does not specify the date with reference to which the listing status of the company should be determined. In this regard, it is clarified that if the company is listed on a recognised stock exchange as on the date of the balance sheet, it should be considered as listed for the purpose of this clause. In respect of unlisted companies, section 138 prescribes the limits for having internal audit system as follows:
    - in case of private limited companies if the turnover is greater than or equal to rupees two hundred crores during the previous financial year or outstanding loans/ borrowings from banks/public financial institutions are greater than or equal to one hundred crore rupees at any time during the previous financial year.
    - in case of unlisted public limited companies if the paid up share capital is greater than or equal to rupees fifty crores during the previous financial year or the turnover is

greater than or equal to rupees two hundred crores during previous financial year or outstanding loans/ borrowings from banks/public financial institutions are greater than or equal to one hundred crore rupees at any time during the previous financial year or outstanding deposits are greater than or equal to twenty five crore rupees at any time during the previous financial year.

As per section 138 of the Act read with Rule 13 of the Companies (Accounts) Rules, 2014, internal auditor may be either an individual or a partnership firm or a body corporate. The qualification of internal auditor, shall be chartered accountant or a cost accountant, (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. Internal auditor may or may not be an employee of the company.

The audit committee of the company or the Board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

- Definition of Internal audit function: As per SA 610(Revised), Using the Work of Internal Auditors, the term internal audit function is defined as follows:

  "A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes".

- Generally internal audit function includes the following activities with regard to the entity:
  - Evaluation of internal controls.
  - Examination of financial and operational information.
  - Review of operating activities.
  - Review of compliance with laws and regulations.
  - Evaluation of risk management and governance practices.
- A company may either have its own internal audit department or entrust the work of internal audit to an external agency, which shall include a firm of chartered accountants, cost accountants or such other professionals as may be decided by the Board of directors of the company. In the case of a group of companies, it is also quite common to have a central internal audit department. The arrangement which is more suitable will depend upon the circumstances of each company but generally, where a company is small, it may find it expensive to have its own internal audit department staffed by personnel having the requisite qualifications.

Audit Procedures and Reporting

- The auditor needs to examine whether the internal audit system is commensurate with the size of the company and the nature of its business. In this regard, the auditor should evaluate the following:
  - The size of the internal audit department: In considering the adequacy of internal audit system, it is necessary to consider the nature of the business of the company, the number of operating locations, the extent to which internal controls are decentralised, the effectiveness of other forms of internal control, etc.

- Qualifications of the persons who undertake the internal audit work: Internal auditing, as its name implies, is an aspect of audit and, therefore, it is reasonable to expect that the internal audit department should normally be headed by a qualified professional and that, depending upon the size of the internal audit department, it employs other qualified persons. In deciding the adequacy of the internal audit department, it is, therefore, necessary that there is adequate number of qualified personnel. In cases where external agencies are appointed, the auditor would need to evaluate their competency, objectivity and the independence. The auditor may do this by assessing the qualifications, experience and the professional standing.
- Reporting responsibility of the internal auditor: In general, the higher the level to which the internal auditor reports, the greater would be the independence of the internal auditor. It is expected that the internal auditor would report to those charged with governance. Under Companies Act, 2013, the internal auditor reports to the Board / Audit Committee as per section 138.

  In case of listed companies, compliance of provisions of SEBI LODR Regulations with regard to review of internal audit function by audit committee and the presence of head of internal audit in the audit committee meeting shall also be verified.

  The auditor should also cross check the entrusted function of audit committee with regard to appointment, removal and terms of remuneration of the chief internal auditor.

  Also, requirements of SEBI LODR Regulations as to establishing a direct communication link with the internal auditor by the audit committee and providing him necessary independence and reviewing the effectiveness of the internal controls by the audit committee shall also be verified by the auditor.
- The audit committee of the company or the Board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit. It is also a good practice that statutory auditors are also involved by the internal auditor/ those charged with governance in determining the scope of work and periodicity of reporting.
- Technical assistance to the internal auditor: In number of companies, where the operations are highly technical in nature, an internal auditor cannot function effectively unless he has adequate technical assistance. This can be provided either by having full-time technically qualified persons in the internal audit department or by such persons being deputed to the internal audit department for specific assignments. Similar considerations would apply where a large part of the transactions are computerised. In such cases, the internal auditor should have the assistance of persons who are able to audit computer systems.
- It is important that the auditor should satisfy himself that the internal audit system exists and also that it is functioning effectively. The auditor can do so by examining the reports submitted by the internal auditor.
- It is not sufficient that the internal audit system should merely point out errors in operation or deficiencies in the internal control system. It is equally necessary that there is an adequate follow-up system to ensure that the deficiencies pointed out are corrected and remedial action taken on the deficiencies reported upon.

- The auditor should examine the minutes of the meetings of the Board of Directors and audit committee, if any. These minutes would provide the auditor useful evidence regarding the efficiency and efficacy of the internal audit system.
- Internal audit is one of the key elements of organizational governance and provides independent assurance to the Board / Audit Committee on the functioning of the financial and operational controls put in place and operated by the management. It is equally important to note that the internal audit system is a part of the overall internal control system. Therefore, the scope of the internal audit and the extent of its coverage will, to some extent, depend upon the existence or otherwise of other forms of internal control. This is also a factor to be considered when evaluating the adequacy of the internal audit system.
- In respect of companies which are excluded from the ambit of internal audit under section 138 of the Act, (with regard to mandatory applicability of internal audit system), the auditor would still be well-advised to make inquiries regarding the existence of internal audit system and to report the fact under this clause.
- The auditor should include in the audit documentation as to how assessment of internal audit system was made and conclusions reached thereon.
- If the auditor determines that the internal audit system is not commensurate with the size and nature of business of a company that is required to have internal audit, then the auditor should communicate with the Audit Committee/Board and seek their inputs as part of “Communication to Those Charged with Governance” as required under Standards on Auditing and shall accordingly report the fact under this clause.

Observation 9

The disclosure made by the auditor states:

The company has not defaulted in repayment of dues to banks.

The disclosure does not mention defaults in repayment of dues to financial institution or debenture holders. The interest to debenture holders was due as of 31st March 2013, but not paid and thus the same should have been reported as a 'default in repayment of dues to debenture holders'.

Or

No audit evidence or working paper in audit file to warrant the opinion given under clause 8 of Annexure A to the Audit Report.

Note:

This observation is based on CARO 2003/CARO 2016. The corresponding clause of CARO 2020 is given below.

Clause 3(ix)(a): Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	*lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

What is the issue?

What are the reporting requirements under clause 3(ix)(a) of CARO 2020?

AASB Suggested Guidance

As per clause 3(ix)(a) of CARO 2020, auditor is required to report:

Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:

Nature of borrowing including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	*lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

Please refer Guidance Note on CARO 2020 for details.

Technical Literature

Relevant Provisions

- Under this clause, the auditor is required to report whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender. If the answer is in the affirmative, the auditor is also required to report on such defaults in the format prescribed. It is clarified that the borrowings do not include public deposits as the reporting on public deposits is covered by clause 3(v) of the Order. It is clarified that for the purpose of reporting under this clause, preference share capital should not be considered as borrowings.

Audit Procedures and Reporting

- The auditor should obtain the schedule of repayments to all lenders from the management of the company. The schedule should indicate the amount and the due dates of the payments (including interest) that the company is required to make to such lenders.
- The auditor should examine the agreement or other documents (for example debenture trust deed) containing the terms and conditions of the loans and borrowings of the company taken from all lenders. This examination would enable the auditor in verifying the amount and due dates of the payments mentioned in schedule of repayments provided by the management of the company. The auditor should then verify whether the repayments as per the books of account are in accordance with the terms and conditions of the relevant agreement.
- The auditor should verify the amounts and dates of payment with the underlying bank statements and/ or any advice received from the lenders. Such verification may be done on test check basis considering the materiality in accordance with the Standards on Auditing.
- The auditor should obtain the confirmation of the concerned lender as to the status of the loan account including the overdue position as at the balance sheet date.
- It may happen that the company might have submitted application for reschedulement/ restructuring proposals to the lenders, which may be in different stages of processing. Submission of application for reschedulement/ restructuring does not mean that no default

has occurred. Accordingly, in such situations also the auditor should report the period of default and the amount of default. However, if the application for reschedulement of loan has been approved by the concerned bank or financial institution during the year covered by the auditor's report, the auditor should state in his audit report the fact of reschedulement of loan. It is clarified, that where reschedulement of loan has been approved subsequent to the balance sheet date, the auditor should report the defaults during the year. However, he may mention this fact in the remarks column.

- The auditor may come across a situation where the company has adequate balance in its current account on the due date of repayment of loan or payment of interest, but such date is either a public holiday or a bank holiday. In such cases, the payment is normally debited by banks/ financial institutions/ lenders on the next working day. It is clarified that in such cases, the auditor should not consider the same as default.
- The auditor may come across a situation where there may be disputes between the company and the lender on certain issues relating to repayments. In such situations, the auditor should consider the prevailing terms and conditions only. However, he may give a brief nature of the dispute while reporting under this clause.
- There may be a situation, where loans/borrowings and/ or interest are repayable on demand and no repayment terms have been specified in the agreement. In such situations, the auditor should obtain a management representation letter confirming that such loans/ borrowings and/ or interest have not been demanded for repayment. The auditor should mention the same in the audit report. A suggested reporting is:

  Loans amounting to Rs. X are repayable on demand and terms and conditions for payment of interest thereon have not been stipulated. According to the information and explanations given to us, such loans and interest thereon have not been demanded for repayment during the relevant financial year.
- Under this clause, the auditor is required to give lender wise details in case of banks, financial institutions and Government only and not in respect of other lenders. In respect of other lenders, the auditor should report under this clause in the format prescribed.

Chapter 2

Observations related to Internal Financial Controls

Observation 1

Reporting on internal financial controls over financial reporting under clause (i) of Section 143(3) of the Companies Act 2013

The auditor does not have sufficient & necessary audit evidence/documentation for forming an opinion on Internal Financial Controls over Financial reporting.

What is the issue?

What is the requirement for documentation of the audit evidence on forming an opinion on Internal Financial Controls over Financial Reporting?

AASB Suggested Guidance

Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the 2013 Act" or "the Act") requires the auditors' report to state whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

Based on the requirement of para 165 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting, the auditor should document the work performed on internal financial controls over financial reporting such that it provides:

(a) A sufficient and appropriate record of the basis for the auditor's report; and

(b) Evidence that the audit was planned and performed in accordance with this guidance, applicable Standards on Auditing, and applicable legal and regulatory requirements.

In this regard, the auditor should comply with the requirements of SA 230 "Audit Documentation" to the extent applicable.

Technical Literature

Para 36 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting

Applicability of standards on auditing for the audit of internal financial controls over financial reporting

Paragraph A1 of SA 200, inter alia, states "In some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions."

Accordingly, the Standards on Auditing do not fully address the auditing requirements for reporting on the system of internal financial controls over financial reporting. However, relevant portions of the Standards on Auditing need to be considered by the auditor when performing an audit of internal financial controls over financial reporting. For example, the auditor should consider the requirements of SA 230, "Audit Documentation" when documenting the work performed on internal financial controls; the auditor should consider and apply the requirements of SA 315 when understanding internal controls, etc.

Para 165 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting

Audit Documentation

The auditor should document the work performed on internal financial controls over financial reporting such that it provides:

(a) A sufficient and appropriate record of the basis for the auditor's report; and

(b) Evidence that the audit was planned and performed in accordance with this guidance, applicable Standards on Auditing and applicable legal and regulatory requirements.

In this regard, the auditor should comply with the requirements of SA 230 "Audit Documentation" to the extent applicable.

What is the issue?

What is the responsibility of joint auditors while reporting on Internal Financial Controls over Financial Reporting?

AASB Suggested Guidance

A joint auditor who has, to the extent of division of work agreed with other joint auditors, accepted the responsibility of performing work on Internal Financial Controls over Financial Reporting should follow the requirements of para 165 on 'Audit Documentation' of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting.

Further, all the joint auditors should comply with the requirements of Para 3 of SA 299 "Responsibility of Joint Auditors"[3] which requires that the division of work among joint auditors as well as the areas of work to be covered by all of them, should be adequately documented and preferably communicated to the entity.

Technical Literature

Para 166 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting

Considerations for Joint Audits and Branch Audits

Where applicable, the auditor should comply with the requirements of SA 299, "Responsibility of Joint Auditors" to the extent applicable when performing an audit of internal financial control

[3] Subsequent to issuance of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting, SA 299 has been replaced by SA 299(Revised), "Joint Audit of Financial Statements". Accordingly, reference may be made to SA 299(Revised).

over financial reporting. The following may be considered in case of both joint audits and branch audits, as applicable:

(a) Division of work

(b) Coordination

(c) Relationship among joint auditor/branch auditor

(d) Reporting responsibilities