



Basics of Company Audit, Documentation and Practical Aspects

ORGANISED BY
The Chamber of Tax
Consultants.

INDEX

APPOINTMENT



PRACTICAL ISSUES &
DOCUMENTATION



REPORTING

APPOINTMENT

- ▶ the first auditor of a company ... by the BOD 30 days from the date of registration ... failure of the BOD Member shall within 90 days at an extraordinary general meeting appoint such auditor To hold office till the conclusion of the first annual general meeting.
- ▶ **Every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor**
- ▶ **Hold office till its sixth annual general meeting**
- ▶ **In a manner as may be prescribed (Rule 3 Companies (Audit and Auditors) Rules, 2014)**
- ▶ appointment shall be subject to ratification in every annual general meeting till the sixth such meeting by way of passing of an ordinary resolution.

Rule 3 : Manner and Procedure of Selection and Appointment of Auditors

- ▶ Board/AC to consider qualification & experience of auditor – To be commensurate with size & requirements of co.
- ▶ Board/AC to consider completed & pending proceedings against auditor before ICAI / NFRA / Tribunal / Other Court
- ▶ the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor.


CERTIFICATE FROM AUDITOR

submit a certificate that –

- ▶ (a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;
- ▶ (b) the proposed appointment is **as per the term provided** under the Act;
- ▶ (c) the proposed appointment is **within the limits** laid down by or under the authority of the Act;
- ▶ (d) the **list of proceedings** against the auditor or audit firm or any partner of the audit firm pending with respect to **professional matters of conduct**, as disclosed in the certificate, is true and correct.

- ▶ The notice to Registrar about appointment of auditor shall be in Form ADT-1 within 15 days of the meeting in which the auditor is appointed..
- ▶ The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141:
- ▶ Section 141 : Qualification and Disqualification of auditor.

Qualifications and Disqualifications of Auditors

- A person shall be eligible for appointment as an auditor of a company only if **he is a chartered accountant . In whole time practice**
 - **Partnership Firm ... where majority of partners practicing in India are qualified ...**
 - **firm name will be appointed as auditor of a company.**
 - **Partnership includes LLP**
 - **only the partners who are chartered accountants shall be authorized to act and sign on behalf of the firm.**
- 

Disqualifications

- **body corporate other than a limited liability**
- **an officer or employee of the company;**
- **a person who is a partner, or who is in the employment, of an officer or employee of the company;**
- **a person who, or his relative or partner—**
 - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company:**

Provided that the relative may hold security or interest in the company of face value not exceeding rupees one lakh

(ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, **in excess of rupees five lakh**

(iii) has given a guarantee or provided any security **in excess of one lakh rupees**

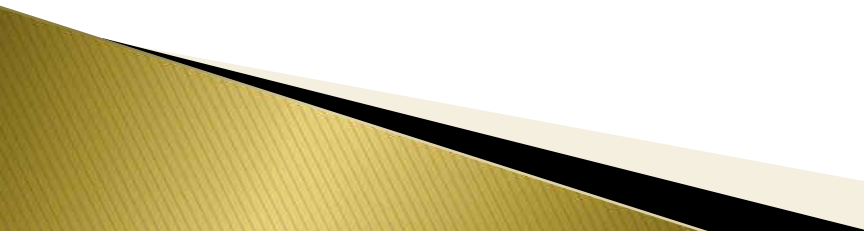
- a person or a firm who, whether directly or indirectly, has **business relationship** with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;
- a person **whose relative** is a director or is in the employment of the company as a director or key managerial personnel;

- a person who has been **convicted by a court** of an offence involving fraud and a period of **ten years** has not elapsed from the date of such conviction;
- a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.

Explanation.—For the purposes of this clause, the term "directly or indirectly" shall have the meaning assigned to it in the Explanation to section 144.]

Auditor not to Render Certain Services

Not to render service Directly or Indirectly to the company or its holding company or subsidiary company, namely:

- a) accounting and book keeping services;
 - b) internal audit;
 - c) design and implementation of any financial information system;
 - d) actuarial services;
 - e) investment advisory services;
 - f) investment banking services;
 - g) rendering of outsourced financial services;
 - h) management services; and
 - i) any other kind of services as may be prescribed
- 

AUDITOR OF CAN NOT BE MORE THAN 20 COMPANIES

NOT TO INCLUDE

- ▶ one person companies,
- ▶ dormant companies,
- ▶ small companies and
- ▶ private companies having paid-up share capital less than 100 crore rupee"–

Notification Dated 5th June, 2015

Explanation.—For the purposes of this sub-section, the term “directly or indirectly” shall include rendering of services by the auditor,—

- (i) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;
- (ii) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

VACAT THE OFFICE :

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

ROTATION OF AUDITOR

LISTED COMPANY OR

UNLISTED PUBLIC COMPANY

PRIVATE COMPANY

Paid up
capital
=> 10
Crore

Public
Borrowing
From FIS,
Banks, Public
Deposit =>
50 Crore

Paid up
capital
=> 50
Crore

Public
Borrowing
From FIS,
Banks, Public
Deposit =>
50 Crore

shall appoint or re-appoint—

- a) an **individual** as auditor for more than **one term of five** consecutive years;
and
- b) an **audit firm** as auditor for more than **two terms of five** consecutive years:

AUDITING STANDARD

- ▶ Auditor to comply with auditing standards
- ▶ NFRA to notify auditing standards. Till NFRA does – as by ICAI
- ▶ Total 38 SAS

SA NO.	NAME
100-199	Introductory Matter
200-299	General Principal Responsibilities
300-499	Risk Assessment and Response to Assessed Risks
500-599	Audit Evidence
600-699	Using Work of Others
700-799	Audit Conclusions and Reporting
800-899	Specialized Areas

SA 230, Audit Documentation

▶ Objective

- Sufficient **appropriate basis** for auditor's report
- Evidence that **audit planned and performed** in accordance with SAs

▶ Benefits, e.g.,

- Facilitates **supervision and review**, evaluation of evidence obtained and conclusions reached, internal and external inspections, etc.

Benchmark

- ▶ Sufficient to enable an experienced auditor, having **no previous connection with the audit**, to understand
 - Nature, timing, and extent of the audit procedures
 - Results of audit procedures , and the audit evidence obtained
 - Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions

Proportionate Documentation in an SME Context

- ▶ Appropriate documentation need not be burdensome
- ▶ Application designed to be proportionate, efficient, and effective
 - For SMEs, likely simple in form and relatively brief
 - SAs explicitly encourage exercise of professional judgment in determining form and extent of documentation that make most sense

- ▶ Focus is on meaningful documentation
 - “... it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. ...”
 - “it is unnecessary for the auditor to document separately ... compliance with matters for which compliance is demonstrated by documents included within the audit file....”

Additional features of SA 230

- ▶ Documentation of items/matters tested, who performed the audit work, reviewer, and dates
- ▶ Documentation of discussions of significant matters with management, those charged with governance, and others
- ▶ Documentation of departure from a relevant requirement
 - How alternative procedures achieve aim of the requirement and reasons for departure

PRACTICAL ISSUES & DOCUMENTATION



ISSUE 1 : IMPORT PURCHASE & INVENTORY

- ▶ ABC Pvt Ltd is trading and dealing in Aluminum slabs, Flooring, sealing etc.

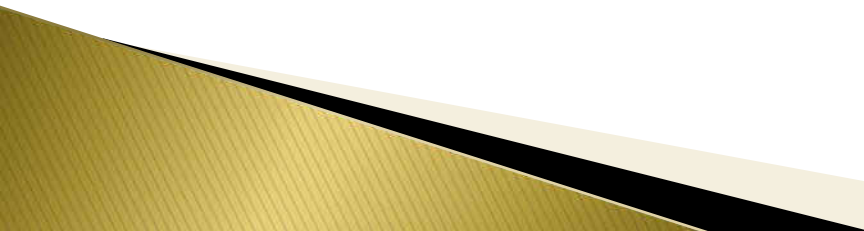
- a) The goods have been imported. Company shows SAD paid on import as assets in books as refund receivable since all have been sold in India.
 - what all documents you will check for import purchase & Inventory
 - How will you value the stock in hand . What all expenses will be added to cost of inventory.

- b) Stock of company also includes the purchases made one year before. However the stock is still valued at cost and not written off in books as non moving item. What as an auditor you will report in said case ?
- c) What will be effect on Valuation , if the claim lodged for SAD refund have been rejected by the department.
- d) If goods have been imported on CIF basis , is in transit as on 31st March 2018, will u be record the said purchases in books and show the same as Goods in transit under head Inventory ?

INVENTORIES

- ▶ To Be classified in to
 - Raw Materials
 - Work-in-progress
 - Finished goods
 - Stock-in-trade (trading goods)
 - Stores and spares
 - Loose tools
 - Others (specifying nature)
- ▶ Goods in transit for Each head to be separately given.

INVENTORIES

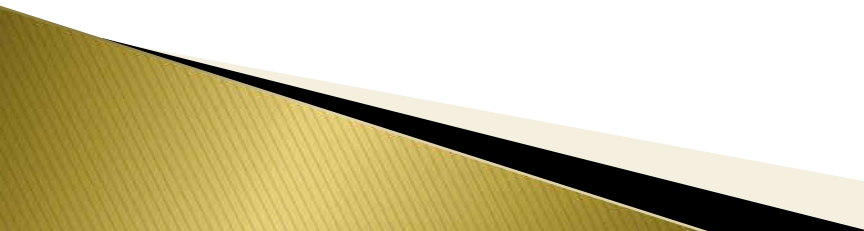
- ▶ Physical verification done ? Material Discrepancies properly dealt with
 - ▶ Any Inventory lying with 3rd Party
 - ▶ Goods in transit subsequently received... can be verified with Transport receipt, inward entry etc.
 - ▶ Valuation of Stock... whether all direct cost added to cost of stock.
 - ▶ Provision for Slow Moving / damaged / obsolete stock.
- 

CARO –INVENTORY

- ▶ whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account.

ISSUE 2 : FIXED ASSETS AND DEPRECIATION

- ▶ PQR Pvt Ltd is business of providing Beauty parlor services across India. Company is having 54 branches. All Branches are taken on lease agreement with 5 years fixed period and next 5 years can be extendable with the option of Lessee (i.e. company)
- ▶ Being a parlor service provider company incurred material expenses on Interior of salon. Such as Electrical installation , Furniture and Fixtures.
- ▶ The Expenditure incurred on Furniture and fixture is Capitalised as Fixed Assets and Depreciated over the useful life of the assets as prescribed under companies act .

- a) whether the treatment provided by company , by capitalizing the fixed assets is correct ?
 - b) Whether the depreciation should be provided for 10 years being lease period or as per useful life of the assets.
 - c) Whether your answer will change in case of the premises are owned by Director of Company and provided on rent to company with same terms?
 - d) What all other aspects you will check for Fixed assets.
- 


Fixed Assets

- ▶ To be classified as
 - Tangible
 - Intangible
 - Capital Work in Progress
 - Intangible Assets under Development
- ▶ Proper Classification of Revenue and Capital Expenditure... Repair, Replacement and New Assets
- ▶ Details of New Fixed Assets purchased
- ▶ Obtain Copy of Invoice

Fixed Assets

- ▶ Whether Installation , transport and all other directly related to purchase of Fixed Asset is Capitalised ?
- ▶ Title Deed of Fixed Assets in case of Immovable property
- ▶ Ownership in any other case
- ▶ Physical verification by Management, whether any material discrepancies noticed.
- ▶ Fixed Assets register to be verified.
- ▶ Whether Board approval been obtained for major purchases.

Fixed Assets

- ▶ Have the accounting policies for capitalising fixed assets been applied consistently from year to year?
 - ▶ Are the bases and rates of depreciation the same as last year? If not state the differences and indicate their financial effect, if not already shown in the Accounts.
 - ▶ Are the depreciation rates appropriate, having regard to the estimated useful lives of the assets?
 - ▶ Have useful lives been reviewed for reasonableness in the light of current conditions?
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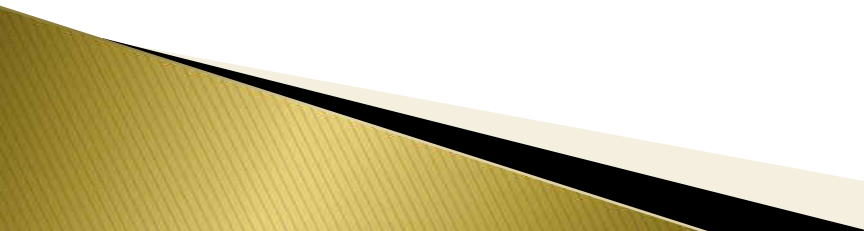
Fixed Assets

- ▶ Has the company obtained adequate insurance cover for all fixed assets?
- ▶ Have you scrutinized repair accounts to ensure no items of capital nature are included therein?
- ▶ Where fixed asset has been acquired from outside India and the rate of exchange changes after acquisition, the increase/decrease in the liability of the company for repayment of the whole or part of the money borrowed in any foreign currency for acquisition is adjusted in the cost of the asset (refer AS 11).


Fixed Assets

- ▶ ADVANCE GIVEN TO SUPPLIER FOR PURCHASE OF FIXED ASSETS
- ▶ WHERE TO CLASSIFY
- ▶ CAPITAL WORK IN PROGRESS OR CAPITAL ADVANCE UNDER LONG TERM LOAN AND ADVANCES ?????

CARO – FIXED ASSETS

- ▶ whether the company is maintaining proper records showing full particulars, situation of fixed assets
 - ▶ whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;
 - ▶ whether the title deeds of immovable properties are held in the name of the company.
- 

ISSUE 3 : SHARE CAPITAL

- ▶ XYZ Pvt Ltd issued share capital to the existing shareholders in same proportion to their existing shareholding pattern.
 - a) What all documents you will obtain to check correctness of further issue of shares.
 - b) Also whether company is required to obtain valuation certificate for issuing shares.
 - c) Whether company can issue shares at face value.
- 

SHARE CAPITAL

- ▶ authorized share capital vis a vis memorandum and Articles of association or amending documents
- ▶ Verify with Annual Return
- ▶ Company Maste Data on www.mca.gov.in

FRESH ISSUE

- ▶ Check Minutes of **Board Meeting and Members meting** authorising fresh issue
- ▶ If issued to shareholders **other than exising shareholder**, whether procedure for **Private Placement followed**.
- ▶ Whether shares have been issued for consideration other than cash If yes has the consideration been correctly described in the accounts .
- ▶ Necessary forms uploaded with ROC

ISSUE 4 : BORROWING

- ▶ Dhriya Pvt Ltd have borrowed following loan
 - Secured Loan against Property of Director and Book debts for working capital requirements
 - Secured loan for purchase of Plant and Machinery
 - Unsecured loan from directors
- ▶ In above case what all audit check you will follow and what all documents you will obtained.
- ▶ Whether loan borrowed with only personal Guarantee of Directors can be classified as secured ?

BORROWING

▶ Documentation required

- Bank Loan Sanction letter
- Relevant form filed with ROC for Charge created if any
- Loan repayment schedule
- Loan closure letter
- Board resolution u/s 180(c) of Companies Act 2013

Section 180 : Restriction on Power of Board

The Board of Directors of a company shall exercise the following powers only with the consent of the company by a [special resolution](#), namely:—

- ▶ to borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its ³[paid-up share capital, free reserves and securities premium], apart from temporary loans obtained from the company's bankers in the ordinary course of business:

Explanation.—For the purposes of this clause, the expression “temporary loans” means loans repayable on demand or within six months from the date of the loan such as short-term, cash credit arrangements, the discounting of bills and the issue of other short-term loans of a seasonal character, but does not include loans raised for the purpose of financial expenditure of a capital nature;

- ▶ In case of private company – Section 180 shall not apply – [Notification dated 5th june, 2015.](#)

BORROWING

▶ Checklist

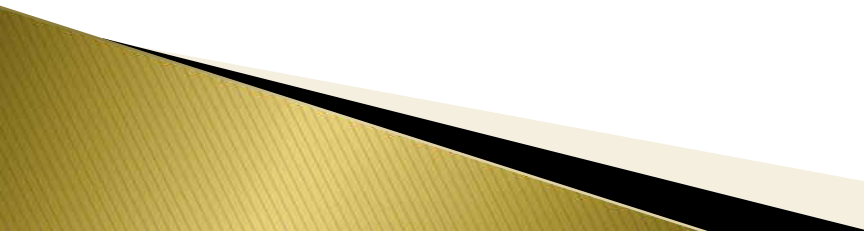
- Purpose of Loan.
- Ultimate use of Loan.
- Details of security provided.
- Period & Terms of repayments
- If personal guarantee of Directors given , proper disclosure in notes to account is given.
- If taken for less than 1 year whether loan properly disclosed as short term borrowing
- Whether any borrowing treated as deposit?

ISSUE 5 : REVENUE RECONGNITION

- ▶ Dipen Broking Pvt Ltd is in business of Share Broking earning brokerage income on share trading as main source of inome.
- ▶ Company is recording brokerage earned on shared traded on 30th March 2018 on 2nd April 2018.
 - a) Whether company is recognizing revenue correctly as per AS-9.
 - b) What all documentation you will obtain for checking brokerage income?

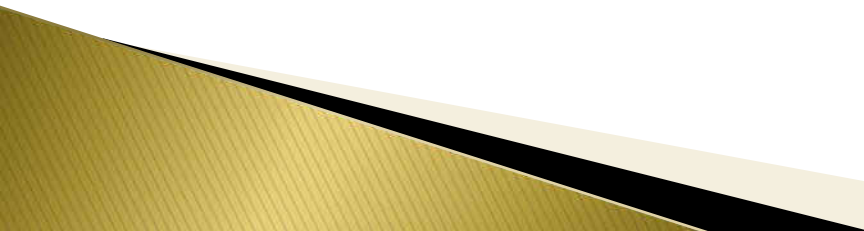
ISSUE 6 : EMPLOYEE BENEFIT EXPENSES

- ▶ PQR Pvt Ltd is business of providing Beauty parlor services across India. Company is having 54 branches. In total they have 1300 employees. Company is paying fixed pay plus incentive base on service provided for each employee providing salon services on floor.
 - a) What will be the sample checking you will select for checking accuracy of Payroll expenses
 - b) What all documents you will Check and maintain to check accuracy of Employee benefit expenses.

- ▶ Check Expenses Cost center wise. i.e. for each salon separately .
 - ▶ Check on an average number of employee required for each salon , based on past data.
 - ▶ Offer letter to be checked
 - ▶ Company Employee Payroll Policy to be checked
 - ▶ Turnover for each salon to be checked and how it is allocated to per employee is required to be checked. For calculating Employee Incentive.
- 

ISSUE 7 : STATUTORY DUES

- ▶ Mamta Architectural Pvt Ltd have neither paid nor deducted from Employee Salary following statutory dues
 - Profession Tax
 - Provident fund
 - ESIC
- ▶ The company is liable to reporting required under CARO.

- a) As a auditor of the company will you report under CARO for above default ?
 - b) If yes how will you quantify the default.
 - c) Whether your answer will change if company have deducted all dues from salary but not paid to the respected statute ?
- 

STATUTORY DUES

- ▶ What are the applicable statutory dues , e.g. GST, PF, ESIC, MLWF etc
- ▶ Using the Work of an Expert (SA 620) ... for calculating liability
- ▶ Check with return filed for respective dues ... TDS return, GST Return....
- ▶ If not matching... reconciliation to be obtained.
- ▶ Delayed in payment of dues...
- ▶ All liability provided for ???

CARO – STATUTORY DUES

- ▶ whether the company is regular in depositing undisputed statutory dues including 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;
- ▶ where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax 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).

FEW IMPORTANT NOTES TO ACCOUNTS



NOTES TO ACCOUNTS

- ▶ Contingent Liabilities / Commitments (to the extent not provided for)
- ▶ Broad Heads – RM , Income, Purchases
- ▶ Value of imports made during the year on CIF basis:–
 - Raw Materials
 - Components (intermediaries & components) &
 - Spare Parts (for capital equipment)
 - Capital Goods

NOTES TO ACCOUNTS

- ▶ Exp. in foreign currency (accrual basis) on:
 - Royalty
 - Know-how
 - Professional & consultation fee
 - Interest
 - Others
- ▶ Foreign Exchange Earnings (Accrual basis):
 - Export of goods (calculated on F.O.B. basis)
 - Royalty, know how, professional and consultation fees
 - Interest and dividends
 - Other income (indicating the nature thereof)

REPORTING



AUDIT REPORT

- ▶ Report U/s 143(1)... 6 items... only to be reported if not complied with
- ▶ 143 (3).. Compulsory comment on all 9 points from (a) to (i) for all companies except for reporting requirements on internal financial control.
- ▶ 143(11) –CARO– Only for those it is applicable



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