COMPANIES (AUDITOR'S REPORT) ORDER, 2015

Presented By

CA Shriniwas Y. Joshi

Gazette Notification Dtd.10th April 2015

- Order under section 143(11) of the Companies Act, 2013
  - Central Government to Direct matters to be included in Auditor's Report
  - In supersession of the Companies (Auditor's Report) Order, 2003
  - After consultation with the ICAI

Applicability

- To every company including a Foreign Company under section 2(42) –

  Company Incorporated outside India, having place of business and conducting activity in India.
- Come into force on date of publication of official Gazette – 10th April, 2015

Exception to Applicability

- A Banking Company u/s 5(c) of the Banking Regulation Act, 1949
- An Insurance Company u/s 4 of Insurance Act, 1938
- Company Licensed to operate u/s 8 of the Companies Act, 2013

Exception to Applicability

- One Person Company u/s 2(62) of the Companies Act, 2013
- Small Company u/s 2(85) of the Companies Act, 2013 [Other than Public Company, and having paid up capital upto Rs.50 lakhs and turnover upto Rs.2 Crore] except holding or subsidiary company, company registered u/s 8 and company or body corporate governed by any special Act.

Exception to Applicability

- Private Limited Company
  - paid up capital and reserves not more than Rs.50 lakhs; and
  - Loan outstanding not exceeding Rs.25 lakhs from any Bank or Financial Institution; and
  - Turnover not exceeding Rs.5 crore

Coverage

- Every report made for Financial Year commencing on or after 1st April, 2014
- Matters specified in para 3 and 4 of the Order to be covered.

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Board Report contain responsibility statement on Internal Financial Controls
  - Directors Report to state that company has adequate system and procedures to comply with applicable laws and regulations, and such system was operating effectively
  - Internal Audit mandatory for certain class of companies [Section 138 and The Companies (Accounts) Rules, 2014 – Rule 13]

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Auditor required to comply with standards on Auditing
  - Auditor's Report to state that he has taken into account the Provisions of the Act
  - Auditor's Report required on adequacy and operating effectiveness of Internal Financial Controls over financial reporting

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Auditor's Report include a statement whether the company has disclosed the impact of pending litigations on its Financial position in its financial statements
  - Auditor require to report fraud on the company by its officers and employees to the Central Government
  - Schedule III required significant additional information on financial transaction
  - Cash flow statement compulsory.

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Section 143(3)(i) requires Auditor to report on the operating effectiveness of internal financial controls which include –

    "Policies and procedures adopted by the Company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information."

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Section 143(3)(b) requires auditor to state that the company has maintained proper books of account which includes –

    Fixed Assets Register

    Stock Register

  - Standards on Auditing required to be followed u/s 143(10) require auditor to address existence of fixed assets and inventory

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- Why order was not necessary
  - Standard on Auditing SA 500 & 501 on audit evidence require auditor to establish reasonableness and adequacy of procedure for physical verification of inventory.
  - Standard on Auditing SA 450 on evaluation of misstatements identified during the audit require auditor to deal with material discrepancies noted during audit

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting to be done**
  - Questions which are same as in Companies (Auditor's Report) Order, 2015
    - Fixed Assets Records and physical verification
    - Inventory – Physical verification and maintenance of record
    - Loans granted
    - Internal Control System
    - Acceptance of Deposits

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting to be done**
  - Questions which are same as in Companies (Auditor's Report) Order, 2015
    - Costs Records
    - Depositing Statutory dues (addition of VAT)
    - Amount transfer to Investor Education and Protection Fund
    - Accumulated losses more than 50% of net worth
    - Default in repayment of dues to Financial Institutions, Banks or Debenture Holders

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting to be done**
  - Questions which are same as in Companies (Auditor's Report) Order, 2015
    - Guarantee for loans taken by others
    - Term loan applied for the purposes for which taken
    - Frauds on or by the Company
  - Reasons to be given for unfavourable or unqualified answers
  - Reasons for not expressing opinion on any question

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting is not to be done**
  - Disposal of substantial part of fixed assets (covered in SA 570 – Going Concern)
  - Reporting on Loans taken by the company from related parties - Covered in –
    - Schedule III – Long Term Borrowings – Clause C and Short Term Borrowings – Clause F
    - SA 550 Related Parties Transaction at Arm's Length
    - SA 250 Considerations of Laws & Regulations in Audit of Financial Statements
    - SA 705 Modifications to the Opinion
    - Sec.204 – Secretarial Audit Report

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting is not to be done**
  - Contracts or Arrangements with related parties including reasonableness of prices – Covered in –
    - SA 250 Consideration of Laws and Regulations
    - SA 705 Modification to the Opinion
    - SA 550 Related Parties
  - Internal Audit System – (Covered in – Section 138 of Companies Act, 2013)
  - Documentation for granting loan and advances on basis of security by way of pledge of shares, debentures and other securities (Covered in Sec. 143(1)(a) regarding security of the loan and prejudicial terms.

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting is not to be done**
  - Compliance with Nidhi Chit-Fund Regulations (Covered in – Nidhi Rules, 2014)
  - Maintenance of Records relating to dealing or trading in Shares, securities, debentures and other Investments (Covered in – SA 500 Audit Evidence – Physical Verification, SA 450 Evaluation of Misstatements)
  - Fund raised for Short Term basis used for Long Term Investment (Covered in – SA 570 – Going Concern and Cash Flow Statement)

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting is not to be done**
  - Preferential Allotment to related parties (Covered in – SA 550 – Related Parties)
  - Security and Charges created in respect of debentures (Covered in – Schedule III – General Instructions – Clause C – Long Term Borrowing – Point II for secured and unsecured Advance and Nature of Security)

COMPANIES (AUDITOR'S REPORT) ORDER, 2015

- **Matters on which reporting is not to be done**

  - End use of money raised by public issue

    (Covered in – Schedule III – General Instructions – Clause 5 – Issue of Securities made for specific purpose and its utilisation, also utilisation certificate required for public issue under listing agreement)

THANK YOU