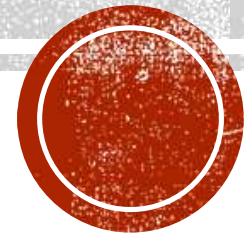


*Important Checkpoints for
Statutory Audit under the
Companies Act 2013*



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QUICK OVERVIEW

The Need: Why is Statutory Audit FY 2021-22 different? What necessitates the topic today?

Revised Schedule III

CARO 2020

Companies (Audit and Auditors) Rules 2014

Key Checkpoints



KEY CHECKPOINT 1: ROUNDING OFF

General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a Company

Important Standards on Auditing to be kept in mind while auditing this aspect of the Financial Statements:

SA 200: Definition of True and Fair View

SA 450: Definition of Misstatement: Four aspects: Amount, Classification, Presentation and Disclosure

SA 580: Management Representation

SA 705: Concept of Materiality

SA 706: Emphasis of Matter Paragraph

Key things to be kept in mind:

Whether Rounding off appropriate?

Whether adequate disclosure made in notes to accounts



KEY CHECKPOINT 2 : PROPERTY, PLANT & EQUIPMENT

Application of AS-10: Property Plant and Equipment while auditing Property Plant and Equipment in Financial Statements. PPE Register to be thoroughly checked

Application of AS-26/Ind AS 38: Intangible Assets as separate disclosure now needs to be made for Intangible Assets and as an auditor it is important to audit whether intangible assets have been properly recognised and recorded as per the applicable AS. The auditor may have to consider the applicable documentation requirements of intangible assets as laid down in, inter alia, Copyright Act, 1957, Patents Act, 1970, Trade Marks Act, 1999, Designs Act, 2000, Information Technology Act, 2000 and so on.

Thorough checking of Title Deeds of all the immovable properties of the Company. Investigation into existence of Dispute. Relationship of Title Deed Holder.: ***Section 187 of the Companies Act 2013 requires to maintain the Register of Investments by the Company but not held in its own name in Format MBP-3 in which entries are to be made chronologically. Auditor to check whether register maintained and whether the entries in properties not held in the name of the Company made in such register or not.***

It may 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 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.



KEY CHECKPOINT 2 : PROPERTY, PLANT & EQUIPMENT

Any revaluation of assets being done during the year: Revaluation of Assets to be checked, compliance with **Para 53 of AS -10**. Also whether Report of Registered Valuer, as defined under **Section 247 of the Companies Act** has been obtained. As part of audit documentation under **SA 230, "Audit Documentation"**, the auditor may also retain a copy of the valuation report carried out by such registered value. The auditor shall consider the principles enunciated in **SA 500, "Audit Evidence"**, with regard to using the work done by a management's expert.

Reporting for revaluation will be as per Revaluation Model as stated in AS 10(Revised), "Property, Plant and Equipment" and Ind AS 16, "Property, Plant and Equipment". Further if a single item of PPE is revalued, then the entire class of PPE to which that item belongs should be revalued.

Investigation into receipt of any notice under the Prohibition of Benami Transactions Act. The auditor shall ensure compliance with the requirements of **SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements"** and the requirements relating to litigation and claims given in **SA 501, "Audit Evidence Specific Considerations for Selected Items"**. It may be noted that reporting under this clause is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated with the company being treated as a benamidar. The reporting is not applicable where the notice is received by the company as a beneficial owner



KEY CHECKPOINT 3: INVENTORY

Need to establish if the coverage and procedure for physical verification by the management is appropriate

SA 501 “Audit Evidence – Specific Considerations for Selected Items” requires that the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by: (a) Attendance at physical inventory counting, unless impracticable to:

Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting; ii. Observe the performance of management’s count procedures; iii. Inspect the inventory; and iv. Perform test counts; and (b) Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results.

SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive

Appendix IV of Guidance Note on Audit of Inventories states Management Representation that can be obtained for inventory.



KEY CHECKPOINT 3: INVENTORY (CONTD.)

Other Issues

Reconciliation of Stock and Book Debt Statements with books of accounts

Authenticity of Stock and Book Debt Statements to be established

Processes in accordance with SA 505 : External Confirmations

Agreement with books of accounts to be established



KEY CHECKPOINT 4: LOANS AND ADVANCES GIVEN

- Bifurcation of entities to whom loans advanced into

JVs, Subsidiaries and Associates: ***Refer Section 2(87) of the Companies Act 2013***

Other Entities

Promoters : ***Refer Section 2(69) of the Companies Act 2013***

KMPs: ***Refer Section 2(51) of the Companies Act 2013***

Related Parties: ***Refer Section 2(76) of the Companies Act 2013***

- Terms and Conditions of Loans and Advances to be looked into including repayment terms.
Register in Form MBP-2 Maintained under Section 186(9) and Rule 12 of the Companies (Meetings of Board and its Powers) Rules 2014 to contain all details

- Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties: Loan documents to be thoroughly scrutinised.

- Whether loans or investments made into Intermediaries

- Whether ***Provisions of Sections 185 and 186*** have been complied with



KEY CHECKPOINTS: LOANS AND ADVANCES TAKEN

- Charge Creation for Securities given against loans: Register of Charges maintained under **Section 85 of the Companies Act 2013** to be checked. The same should corroborate with register maintained in respect of the Company by the Registrar of Companies in accordance with **Section 81** of the Companies Act 2013
- Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender: Thorough checking of loan documents necessitated.
- Application of Loans: Short Term vs Long Term, Diversion of Funds.
- Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures
- Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies,
- Whether loans or investments received as Intermediaries



KEY CHECKPOINTS: DEPOSITS

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.



KEY CHECKPOINTS: COST RECORDS

The auditor should obtain a written representation from the management stating (a) whether cost records are required to be maintained for any product(s) or services of the company under section 148 of the Act, and the Companies (Cost Records and Audit) Rules, 2014; and (b) whether cost accounts and records are being made and maintained regularly. The auditor should ascertain whether maintenance of cost records has been specified for the company by the Central Government or not. It is possible that maintenance of cost records has been specified for only some of the products/ activities of the company. In such a case, the auditor should limit his procedures to only such products/ activities. If maintenance of cost records has been specified, the auditor should obtain a list of books/records made and maintained in this regard.



KEY CHECKPOINTS: PREFERENTIAL ALLOTMENT

Check whether all requirements under Section 42 and Section 62 of the Companies Act 2013 have been complied with.

Paragraph 2(i) of the Form PAS-4, Private Placement Offer cum application Letter⁴, requires the company to provide particulars in respect of the purposes and objects of the offer. Accordingly, the auditor should compare such information provided by the company in Form PAS-4 with the actual utilization of the monies as per the books of account of the company, in order to ascertain whether the funds raised by way of private placement have been used for the purpose for which they were raised.

Sub-clause (i) of clause (d) of sub-rule 2 of Rule 13 of the Companies (Share Capital and Debentures) Rules, 2014, requires the company to disclose the objects of the issue in the explanatory statement to be annexed to the notice of the general meeting pursuant to section 102 of the Act. Accordingly, the auditor should compare the objects of the issue noted in the explanatory statement annexed to the notice of the general meeting with the actual utilization of the monies as per the books of account of the company



KEY CHECKPOINTS: FRAUDS

CARO 2020 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

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

Two types of intentional misstatements are relevant to the auditor's consideration of fraud - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

The auditor should obtain written representations from management with relation to frauds



KEY CHECKPOINTS: FRAUDS

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. The establishment of whistle blower mechanism is not mandatory for all companies and therefore the auditor should consider the requirements prescribed in the Act and in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) in this regard. Section 177(9) of the Act requires the following class of companies to establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances: Every listed company. Companies which accept deposits from the public. Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees



KEY CHECKPOINTS: INTERNAL AUDIT

The statutory auditor should discuss and agree with the management that the internal audit is completed as per the plan and the periodic reports of the internal auditors are made available sufficiently in advance for statutory auditor to review and assess the impact of the internal audit observation

The statutory auditor should also assess the impact of the control deficiencies, if any pointed by the internal auditors, while framing his report on the internal financial controls over financial reporting (IFCoFR) under clause (i) of subsection 3 of section 143 of the Companies Act, 2013 (“the Act”)

As guided by SA 610(Revised), the statutory auditor may also consider whether to reassess the nature, timing and extent of his audit procedures based on the observations of the internal audit, to enable him to obtain sufficient appropriate audit evidence in forming his opinion



KEY CHECKPOINTS: NON CASH TRANSACTIONS

Obtain Management Representation Letter

Corroborate MRL with the following records

Persons connected with Director	Acquisition by/ From Company
Form No. MBP 1, <i>Notice of Interest by Director</i> , filed pursuant to the Companies (Meetings of Board and Its Powers) Rules, 2014 [Ref: Section 184(1) and Rule 9(1)]	Form No. MBP 2, <i>Register of Loans, Guarantee, Security and Acquisition Made by the company</i> , filed pursuant to the Companies (Meetings of Board and Its Powers) Rules, 2014 [Ref: Section 186(9) and Rule 12(1)]
	Form No. MBP 4, <i>Register of Contracts with Related Party and Contracts and Bodies etc in which Directors are Interested</i> , filed pursuant to the Companies (Meetings of



KEY CHECKPOINTS: NON CASH TRANSACTIONS

	Board and Its Powers) Rules, 2014 [Ref: Section 189(1) and Rule 16(1)]
	Movements in the Property, Plant and Equipment Register
	Minutes book of the General Meeting and Meetings of Board of Directors
	Reports available in the public domain, which are to be substantiated from the company.
	Report on Annual General Meeting pursuant to Companies (Management and Administration) Rules, 2014 in Form No. MGT 15 [Ref: Section 121(1) and Rule 31(2)]



KEY CHECKPOINTS: NON CASH TRANSACTIONS

The auditor should check compliance with section 192(2) of the Act and verify the notice of the general meeting that it includes particulars of arrangement along with the value of the assets involved in such arrangements. The said value should be calculated by the register valuer in compliance of Companies (Registered Valuers and Valuation) Rules, 2017



KEY CHECKPOINTS: RESIGNATION OF AUDITOR

Incoming auditor should obtain a copy of letter of resignation stating the reasons as submitted to the management and copy of Form ADT 3 as submitted to ROC. In case of listed companies, incoming auditor should also obtain copy of Annexure A from the listed company. The incoming auditor should also carry out the following additional audit procedures:

- reading minutes of Board meetings.
- inquiring from the management and reading the communication to audit committee e.g. audit committee presentation to determine if there is any matter communicated to those charged with governance.
- exercise his professional judgement while evaluating the reasons for resignation.

Further, the incoming auditor should also consider the audit evidence obtained during the audit while performing audit procedures under SA 500, Audit Evidence. For example, if the incoming auditor obtains additional audit evidence which relates to reasons for resignation of the outgoing auditor, the incoming auditor should consider such evidence obtained while issuing an audit opinion on the financial statements of the current year.



KEY CHECKPOINTS:GOING CONCERN

The auditor needs to comment on the basis of:

- (i) The financial ratios;
- (ii) ageing and expected dates of realization of financial assets and payment of financial liabilities;
- (iii) Other information accompanying the financial statements, for example - the director's report, management discussion and analysis forming part of the annual report of the company;
- (iv) Auditor's knowledge of the plans of the Board of Directors and management plans. The parameters prescribed in this clause appear to be inclusive, and the auditor needs to perform audit procedures based on these parameters

The auditor has to make the assessment as on the date of audit report and should perform necessary procedures as required by SA 560.

The auditor should read the section of director's report, management discussion and analysis forming part of the annual report of the company, which is required while reporting in accordance with SA 720(Revised), "The Auditor's Responsibilities Relating to Other Information" in case those are made available to the auditor by the date of audit report



KEY CHECKPOINTS: CORPORATE SOCIAL RESPONSIBILITY

The auditor needs to evaluate the applicability of section 135 to the company. (e) The auditor needs to obtain:

Board approval of Corporate Social Responsibility Policy as recommended by Corporate Social Responsibility Committee. (ii) Agenda and minutes of meetings of Corporate Social Responsibility Committee. (iii) The workings of the amount required to be spent under section 135 of the Act detailing the calculations of the average net profits as calculated in accordance with the provisions of section 198 of the Act and evaluate if the total amount required to be spent by the company has been appropriately determined at two percent of such average net profits.

The auditor is required to obtain confirmation from the management and review whether the Corporate Social Responsibility activities undertaken by the company are in accordance with the Schedule VII to the Act

On the basis of verification of the amounts, the auditor should further verify that any unspent amount, in respect of other than ongoing projects, has been transferred to a Fund specified in Schedule VII to the Act within a period of six months of the expiry of the financial year. The auditor should obtain supporting documents such as receipts, payment challans, bank statements to obtain evidence that the amounts have been appropriately transferred to a fund specified in Schedule VII to the Act.



Thank You

