

**Implementation Guide on
Auditor's Report under Rule 11(d)
of Companies (Audit and Auditors)
Amendment Rules, 2017 and
Amendment to Schedule III to
Companies Act, 2013**

(Pursuant to Notification No. G. S.R. 307(E) and
Notification No. G.S.R. 308(E) dated
30th March, 2017)



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

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Foreword

The Ministry of Corporate Affairs *vide* notifications dated March 30, 2017 has notified the Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to the Companies Act, 2013. Pursuant to these notifications, a new clause (d) has been inserted in Rule 11 of the Companies (Audit and Auditors) Rules, 2014 requiring auditors to report on whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company. An amendment has also been made to Schedule III to the Companies Act, 2013 to require that every company shall disclose the details of Specified Bank Notes held and transacted during the period from 8th November, 2016 to 30th December, 2016 in the specified format.

In view of above amendments, an urgent need was felt by ICAI for providing appropriate guidance to the members on this new reporting obligation casted on statutory auditors of companies so that members can discharge their statutory responsibility in an effective manner.

I am happy that the Auditing and Assurance Standards Board of ICAI has brought out this “Implementation Guide on Auditor’s Report under Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to Companies Act, 2013”, well in time, for the benefit of the members. The Implementation Guide has been written in an easy to understand language and contains detailed and focused guidance on various issues involved.

I compliment CA. Shyam Lal Agarwal, Chairman, AASB, CA. Sanjay Vasudeva, Vice-Chairman and all the members of

the Auditing and Assurance Standards Board for bringing out this Implementation Guide. I also compliment CA. Sanjay Agarwal, Chairman, Corporate Laws and Corporate Governance Committee, CA. Debashis Mitra, Vice-Chairman, CLCGC and their team for their valuable contribution, suggestions and inputs in finalising this Implementation Guide. I am sure that the members and other interested readers would find the Implementation Guide immensely useful.

April 15, 2017
New Delhi

CA. Nilesh S. Vikamsey
President, ICAI

Preface

As the members are aware that the Ministry of Corporate Affairs (MCA) vide notification dated March 30, 2017 has notified the Companies (Audit and Auditors) Amendment Rules, 2017 inserting a new clause (d) in Rule 11 of Companies (Audit and Auditors) Rules, 2014 requiring auditors to report on *whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.* Vide another notification issued by MCA on the same date, amendment has also been made to Schedule III to the Companies Act, 2013 to require that every company shall disclose the details of Specified Bank Notes held and transacted during the period from 8th November, 2016 to 30th December, 2016 in the specified format. Both these amendments are effective from the date of their publication in the Official Gazette i.e. from March 30, 2017.

As a proactive measure and as also suggested by MCA, the Auditing and Assurance Standards Board of ICAI decided to provide guidance to the members on the said new disclosure and reporting requirement at the earliest as they would soon be undertaking audits of financial statements of companies for the financial year 2016-17. It, therefore, gives me immense pleasure to place in hands of the members this "Implementation Guide on Auditor's Report under Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to Companies Act, 2013" brought out by the Auditing and Assurance Standards Board. The Implementation Guide has been written in simple and easy to understand language and contains detailed guidance on various issues involved in the added disclosure and new reporting obligation.

At this juncture, I wish to express my deep gratitude to CA. Sanjay Vasudeva, Vice Chairman, AASB, CA Harinderjit Singh, CA. Ridhima Dubey, Gurgaon and their team for sparing time, inspite of their pressing professional and personal engagements, to develop this Implementation Guide within such a short time.

I wish to express my sincere thanks to CA. Nilesh S. Vikamsey, Honourable President, ICAI and CA. Naveen ND Gupta, Honourable Vice President, ICAI for their guidance and support to the activities of the Board.

I wish to place on record the appreciation of CA. Sanjay Vasudeva, Vice Chairman and all the Members and Special Invitees to the Board for their support in finalising this Implementation Guide and to all the Council members for their continued support to the activities of the Board.

My special thanks to CA. Sanjay Agarwal, Chairman, Corporate Laws and Corporate Governance Committee, and his dedicated team for their valuable contribution without which this Implementation Guide could not have taken this shape. I also place thanks to CA. Megha Saxena, Secretary to the Board and other officers and staff of AASB for their dedication and hard work.

I am confident that the Implementation Guide would be well received by the members and other interested readers.

April 15, 2017
Jaipur

CA. Shyam Lal Agarwal
Chairman
Auditing and Assurance Standards Board

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Introduction

The Ministry of Corporate Affairs (Ministry) *vide* its notifications dated 30th March, 2017 has amended Schedule III to the Companies Act 2013 (the 'Act') and Companies (Audit and Auditors) Rule 2014.

The **amendment to Schedule III** (Division I and Division II) requires every company to disclose the details of Specified Bank Notes (SBN) held and transacted during the period from 8 November 2016 to 30 December 2016 in the specified format. This amendment is effective from the date of its publication in the Official Gazette i.e. 30th March 2017. As mentioned in the notification, 'Specified Bank Notes' shall have the same meaning provided in the notification of the Government of India, in the Ministry of Finance, Department of Economic Affairs number S.O. 3407(E), dated the 8th November, 2016. The said notification, defines the term as "*bank notes of denominations of the existing series of the value of five hundred rupees and one thousand rupees*".

In addition to amendment to Schedule III, Ministry has amended Rule 11 of the Companies (Audit and Auditors) Rule 2014 *vide* the **Companies (Audit and Auditors) Amendment Rules, 2017 by inserting clause (d)** which require auditors to report on *whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November 2016 to 30th December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company*. These rules are effective from the date of its publication in the Official Gazette.

In the above backdrop, this Implementation Guide has been developed to provide guidance in respect of additional disclosure in Schedule III, as amended and reporting obligation of the statutory auditors pursuant to insertion of

Rule 11(d) in Companies (Audit and Auditors) Rules 2014 ['Rule 11(d)'].

Frequently Asked Questions (FAQs)

1. For which accounting periods does the Amendment to Schedule III apply and whether disclosure given in the financial statements should also mention denominations along with the value?

The notification to amend Schedule III is issued under the powers conferred by Section 467(1) of the Act. Section 467(2) states that any alteration notified under Section 467(1) is effective from the date of the notification, unless the notification directs otherwise. This notification clearly states that it comes into effect from the date of its publication in the Official Gazette. Consequently, the disclosures are applicable to financial statements which are issued after March 30, 2017 and which include the period from 8th November 2016 to 30th December 2016.

Notification as mentioned above, seeks disclosure of closing cash in hand as on 08.11.2016 and as on 30.12.2016 with other detail, which should be mentioned in terms of INR, thus there is no specific requirement to mention the denomination also in which closing cash balance during the specified period was held.

2. What is the effective date for auditor's reporting under the new clause in Rule 11?

As mentioned in the notification, the Companies (Audit and Auditors) Amendment Rules, 2017 is effective from the date of its publication in the Official Gazette i.e. 30th March 2017 and thus audit reports issued on the financial statements as mentioned in reply to FAQ 1 above, should include a comment against clause (d) of Rule 11 as referred above.

3. What could be the audit procedures that the auditors need to perform for the purpose of reporting against Rule 11(d)?

For the illustrative list of procedures to be followed by the auditor, based on his professional judgement, please refer the section “Illustrative list of audit procedures” given hereinafter in this Guide.

4. What should be the manner of reporting against Rule 11(d) for companies to which Schedule III requirements are not applicable?

For companies which are not required to present their financial statements as per Schedule III (Reference may be made to Proviso (2) of sub-section (1) of Section 129 of Companies Act, 2013 in this regard). Refer Scenario 2, given herein below in this Guide, for the purpose of reporting against Rule 11(d).

5. Whether there could be a scenario for modifying the main audit report along with reporting against Rule 11(d)?

Where instance of non-compliance with relevant notifications are noted by the auditor and where in the auditor’s professional judgement it is concluded that the non-compliance is of such nature that it has an impact on the true and fair view of the financial statements, the auditor should consider modifying his report in accordance with SA 705, ‘Modifications to the Opinion in the Independent Auditor’s Report’.

Note: It should also be noted that above guidance is equally applicable in respect of disclosure and reporting on the consolidated financial statements.

Illustrative list of Audit Procedures

[Please note that these procedures are not substitute for ensuring compliance with Standards on Auditing and relevant Guidance Notes]

- Obtain closing cash balance certificate with denominations from the Management as at 8th November 2016 and as at 30th December 2016 in respect of Specified bank notes (SBNs) and other denomination notes.
- Obtain an understanding of the controls and procedures implemented by the company during the period 9th November 2016 to as at 30th December 2016 to ensure that there were no payments and receipts made in SBN other than those permitted by regulators from time to time. Whether the controls (if implemented by the company) were reasonable to prevent and detect any non-permitted transactions.
- Confirm the balances as certified by the Management from the books of accounts as at those dates.
- In case the auditor had conducted physical cash counts on 8th November 2016 and 30th December 2016 or a closer date before or after that date (for example 31st December 2016), he should consider performing roll-forward or roll-back procedures to confirm the balance as certified by the Management has been arrived at correctly.
- Obtain a listing from the Management as to how the SBNs available with the company as at closing on 8th November 2016 were dealt with, example.
 - (i) Used for payment for permitted transactions in accordance with the issued notifications* from time to time.

- (ii) Deposited in bank accounts (with dates and amount, with denominations), as evident from bank deposit slips/bank statements.
 - (iii) Used for Payment for non-permitted transactions *[Where cases of non-permitted transactions were noted, the auditor should report the same against Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 - Refer reporting scenario 6].*
 - (iv) SBNs as available with the company as at closing hours of 30th December, 2016.
- Obtain a listing from the Management if there were any receipts of the SBNs during the period from 9th November 2016 to 30th December 2016, including the nature of transaction and amount with denominations. Further examine with the relevant notification that they were eligible to accept SBNs.
 - Obtain a reconciliation of the cash balance from the Management. As explained in FAQ 1, the figures required to be disclosed in Schedule III in INR, but for auditors working and reconciliation, obtain the figures with denomination in the illustrative format as given below):

	SBNs		Other denomination notes		Total	
	Denomi-nation	Amount	Denomi-nation	Amount	Denomi-nation	Amount
Closing Balance as at 8 th November 2016						
Transactions between 9 th November 2016 and 30 th December 2016						

Add: Withdrawal from bank accounts			
Add: Receipts for permitted transactions			
Add : Receipts for non-permitted transactions (if any) <i>[Refer reporting scenario 6]</i>			
Less : Paid for permitted transactions			
Less : Paid for non-permitted transactions (if any) <i>[Refer reporting scenario 6]</i>			
Less: Deposited in bank accounts			
Closing balance as at 30 th December 2016			

- For the details of payments given by the company, verify the following with reference to relevant notifications issued from time to time:
 - (i) Payments for permitted transactions: Verify cash payment vouchers and whether the purpose for which payments were made are covered under permitted/ non-permitted transactions.
 - (ii) Deposited in bank accounts (with dates and amount, with denominations): verify deposit slips or deposit form which would contain details of denominations and would also be acknowledged by the Bank.
- Obtain bank statement regarding deposits made with the Banks.
- Where the entity is covered under the permitted list to receive payments in SBN (e.g. hospital, toll-collection companies, petrol pumps, air ticket etc.) as per the notifications issued from time to time, obtain details of receipts made by the company and deposits made with the Bank. Also verify the same from the books of accounts of the company, bank deposit slips and bank statements.
- Obtain management representation regarding the following:
 - (i) Completeness of the disclosure made in the notes to the financial statements.
 - (ii) Manner of dealing in the SBNs during 9th November 2016 to 30th December 2016, deposited in bank, payment against permitted transactions etc.
 - (iii) Permitted receipts and permitted payments made by the company as per the Government notifications issued from time to time.

Note: Permitted receipts and permitted payments are not specifically defined in the notification. However, these would include transactions of receipt and payment of Specified Bank Notes as permitted by Reserve Bank of India from time to time. These would include payment for the medical treatment (hospitalisation in Government hospitals, medicine etc. as per the relevant notifications), purchase at consumer cooperative stores operated under authorisation of Central or State Government, purchase of bus tickets at government bus stands, train tickets at railway station, air tickets at airport, toll charges at National Highway, utility bills, purchase of LPG/gas cylinders, school fees, payment towards any fees, charges, taxes or penalties, payable to the Central or State Government including Municipal and Local Bodies and fuel purchase etc.

** List of relevant notifications*

Demonetisation notification

<http://finmin.nic.in/172522.pdf>

RBI Instruction to Banks - Withdrawal of Legal Tender Character of existing ₹ 500/- and ₹ 1000/- Bank Notes

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10684&Mode=0>

All You wanted to know from RBI about Withdrawal of Legal Tender Status of ₹ 500 and ₹ 1000 Notes

https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3270

Reporting Scenarios

Please note that scenarios listed below are for illustrative purposes only and auditors are expected to exercise their professional judgement and make necessary changes while commenting against Rule 11(d)

Scenario 1: Where the company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes and auditor is able to report on the same

The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Based on audit procedures and relying on the management representation we report that the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*];

Scenario 2: Where the clause is not applicable to the company

The Company did not have any holdings or dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 – Refer Note [*] **OR**

The disclosure requirement as envisaged in Notification G.S.R 308(E) dated 30th March 2017 is not applicable to the Company - Refer Note [*];

Scenario 3: Where the company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes, however, the auditor is not able to verify the same due to non-availability of sufficient and appropriate audit evidence resulting into scope limitation

The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in

Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. However, we are unable to obtain sufficient and appropriate audit evidence to report on whether the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*];

Scenario 4: Where the company has not provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes

The Company has not provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016.

Scenario 5: Where the company has not provided certain requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes

The Company has not provided certain requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Consequently we are unable to obtain sufficient and appropriate audit evidence to report whether the disclosures to the extent stated in the notes are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*]

Scenario 6: Where the company has provided requisite disclosures in the financial statements as to holding as well as dealings in Specified Bank Notes but have transacted in non- permitted receipt/payments

The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. However, as stated in notes [*] to the financial statements amounts aggregating to Rs. []

as represented to us by the Management have been utilized for other than permitted transactions/received amount aggregating Rs. [] from transactions which are not permitted;

NOTES:

1. *For scenarios 3, 4 and 5, auditor should also consider to include a comment in the report against clause (a) of section 143(3) of the Companies Act 2013.*
2. *Also there could be a situation where the auditor is required to report on multiple matters relating to SBNs under Rule 11(d) and in such cases auditors are expected to make appropriate changes to the above suggested reporting scenarios.*

Written Representation

This is a suggested language for management representation and thus auditor should consider modifying the same as may be considered relevant by him depending upon facts and circumstances.

We have appropriately disclosed {Refer Note []}, the details of Specified Bank Notes (SBN) held and transacted during the period from 8th November, 2016 to 30th December, 2016 pursuant to the requirement of Notification G.S.R 308(E) dated 30th March 2017. Further we confirm that we have complied will all relevant guidelines/notifications issued by Reserve Bank of India from time to time in respect of holding and dealing with Specified Bank Notes, and that the company had proper controls, system and procedures in place for such compliances.

APPENDIX 1

**TEXT OF NOTIFICATIONS NO. G.S.R. 307(E)
AND G.S.R. 308(E)**

MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 30th March, 2017

G.S.R. 307(E).—In exercise of powers conferred by section 143 read with sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Audit and Auditors) Rules, 2014, namely:—

1. (1) These rules may be called the Companies (Audit and Auditors) Amendment Rules, 2017.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Companies (Audit and Auditors) Rules, 2014, in rule 11, after clause (c), the following clause shall be inserted, namely:—

“(d) whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.”

[F. No. 1/33/2013-CL-V-(Vol.I)]

AMARDEEP SINGH BHATIA, Jt. Secy.

Note : The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), *vide* number G.S.R. 246(E), dated the 31st March, 2014, subsequently amended *vide* G.S.R. 722(E), dated the 14th October, 2014 and *vide* G.S.R. 972(E), dated the 14th December, 2015.

MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 30th March, 2017

G.S.R. 308(E).—In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following further amendments to Schedule III of the said Act with effect from the date of publication of this notification in the Official Gazette, namely:-

2. In the Companies Act, 2013 (hereinafter referred to as the principal Act), in Schedule III, in Division I, in Part I under the heading “General instructions for preparation of Balance Sheet” in paragraph 6, after clause ‘W’, the following clause shall be inserted namely:-

“X. Every company shall disclose the details of Specified Bank Notes (SBN) held and transacted during the period from 8th November, 2016 to 30th December, 2016 as provided in the Table below:-

	SBNs	Other denomination notes	Total
Closing cash in hand as on 08.11. 2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12. 2016			

Explanation: For the purposes of this clause, the term ‘Specified Bank Notes’ shall have the same meaning provided in the notification of the Government of India, in the Ministry of Finance, Department of Economic Affairs number S.O. 3407(E), dated the 8th November, 2016.”.

3. In the principal Act, in Schedule III, in Division II, in Part I under the heading “General instructions for preparation of Balance Sheet” in paragraph 6, after clause ‘J’, the following clause shall be inserted namely:-

“K. Every company shall disclose the details of Specified Bank Notes (SBN) held and transacted during the period 08/11/2016 to 30/12/2016 as provided in the Table below:-

	SBNs	Other denomination notes	Total
Closing cash in hand as on 08.11. 2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12. 2016			

Explanation : For the purposes of this clause, the term ‘Specified Bank Notes’ shall have the same meaning provided in the notification of the Government of India, in the Ministry of Finance, Department of Economic Affairs number S.O. 3407(E), dated the 8th November, 2016.”

[F. No. 17/62/2015-CL-V (Vol.I)]

AMARDEEP S. BHATIA, Jt. Secy.

Note: Schedule III of the Companies Act, 2013 came into force with effect from the 1st April, 2014 *vide* Notification S.O. 902(E), dated 26.3.2014, subsequently amended *vide* G.S.R. 679(E), dated 04.09.2015 and *vide* G.S.R. 404(E), dated 06.04.2016.

APPENDIX 2

TEXT OF SECTIONS 129 AND 143 OF THE COMPANIES ACT, 2013

Text of Section 129 – Financial Statement

129. (1) The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:

Provided that the items contained in such financial statements shall be in accordance with the accounting standards:

Provided further that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company:

Provided also that the financial statements shall not be treated as not disclosing a true and fair view of the state of affairs of the company, merely by reason of the fact that they do not disclose—

- (a) in the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938, or the Insurance Regulatory and Development Authority Act, 1999;
- (b) in the case of a banking company, any matters which are not required to be disclosed by the Banking Regulation Act, 1949;
- (c) in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 2003;

(d) in the case of a company governed by any other law for the time being in force, any matters which are not required to be disclosed by that law.

(2) At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

(3) Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.

Explanation.—For the purposes of this sub-section, the word “subsidiary” shall include associate company and joint venture.

(4) The provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis*, apply to the consolidated financial statements referred to in sub-section 3).

(5) Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

(6) The Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of this section or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

(7) If a company contravenes the provisions of this section, the managing director, the whole-time director in charge of finance, the Chief Financial Officer or any other person charged by the Board with the duty of complying with the requirements of this section and in the absence of any of the officers mentioned above, all the directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Explanation.—For the purposes of this section, except where the context otherwise requires, any reference to the financial statement shall include any notes annexed to or forming part of such financial statement, giving information required to be given and allowed to be given in the form of such notes under this Act.

Text of Section 143- Powers and duties of auditors and auditing standards

143. (1) Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor and amongst other matters inquire into the following matters, namely:—

(a) whether loans and advances made by the company on the basis of security have been properly secured and

whether the terms on which they have been made are prejudicial to the interests of the company or its members;

- (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- (c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- (d) whether loans and advances made by the company have been shown as deposits;
- (e) whether personal expenses have been charged to revenue account;
- (f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

Provided that the auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.

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

best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.

- (3) The auditor's report shall also state—
- (a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
 - (b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
 - (c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
 - (d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
 - (e) whether, in his opinion, the financial statements comply with the accounting standards;
 - (f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
 - (g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;

- (h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- (i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
- (j) such other matters as may be prescribed.

(4) Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.

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

(6) The Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report under sub-section (5) have a right to,—

- (a) conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such

form, as the Comptroller and Auditor-General of India may direct; and

(b) comment upon or supplement such audit report:

Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub section (1) of section 136 and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

(7) Without prejudice to the provisions of this Chapter, the Comptroller and Auditor- General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

(8) Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:

Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to

the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

(9) Every auditor shall comply with the auditing standards.

(10) The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

(11) The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

(12) Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed:

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed:

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

(13) No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.

(14) The provisions of this section shall *mutatis mutandis* apply to—

(a) the cost accountant in practice conducting cost audit under section 148; or

(b) the company secretary in practice conducting secretarial audit under section 204.

(15) If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.