<u>Key Learnings: Summary of observations of the Technical Reviewers arising out of Quality Reviews conducted during 2012-2015</u>

STANDARDS ON AUDITING

SA 200- OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

- The concerned firm/s had no mechanism for dealing with the possible breaches of independence requirements and confidentiality agreements other than with partners.
- Independence declaration from audit team members is dated as on the sign –off date of audit report.
- Audit program had initials of some team members from whom independence confirmation had not been obtained.
- An individual who was associated with the global audit firm for last several years was appointed as independent director on Board of the company audited by the Indian affiliate of the global audit firm in the year immediately following the year of his disassociation with the global audit firm.
- No detail was received from the auditors for fees, if any, received for other services.

SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS

- The engagement letter issued by the audit firm was still in the old format and not as per the format recommended by SA 210.
- The engagement letter mentioned the assignment as review of interim financial information rather than the statutory audit. The firm was appointed as statutory auditors apart from the limited review and certification under corporate governance. However, the engagement letter had no information regarding limited review and certification.
- Engagement letter did not clearly specify the management's responsibility as to the completeness and accuracy of accounts and other reports.
- Engagement letter issued by the firm was not signed by those charged with governance or as authorized by the Board of Directors. Moreover, the engagement letter was not obtained for the other services provided by the firm.
- Engagement letter issued was not covering all the aspects as mentioned in SA210- Agreeing the terms of audit engagements. Further the engagement letter was

addressed to Senior General Manager- F & A Department instead of Board of Directors and was also not acknowledged by the client.

- No separate engagement letter for e-filing of Tax Audits was held on record.
- Audit engagement letter did not contain terms of assignment and fee.
- The firm had not sent engagement letter to auditee Company in respect of Quarterly Review of Financial Statements, Corporate Governance Certificate assignment, Tax Audit and Taxation assignments.
- The firm had not documented policy with regard to obtaining necessary information before accepting the engagement, deciding whether to continue an existing engagement and when considering acceptance of new engagement with an existing client.

SA 220- QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

- There was no process of maintaining standard checklists, manuals, working papers and other methods to ensure consistency in the quality of each engagement.
- Written confirmation of compliance with its policies and procedures on independence from employees was not taken as required by SA-220.
- Since there were only two partners and both of them being part of engagement team, there has been no review of completed engagements by an independent person. No other partner other than the engagement partner was involved in the audit process.
- Para 20 of SA 220 states that the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. However, there was no evidence on record in the work papers for having conducted the review process on the matters specified in Para 20.
- The documentation to provide evidence of the operation of each element of its system of quality control not maintained as required by the SA 220 Quality control for audit of financial Statement. In other case, no document was found regarding quality control review.
- The Audit Firm did not document the policy for second partner review as required by the Para 25 of SA 220.
- The firm was not having any written policies and procedures on record as required under SA-220.

SA 230- AUDIT DOCUMENTATION

- The significant audit observations were noted by the firm, for which there were no reference of the source document. Further, the available documentation was not linked up in all cases to enable an assessment that the work was performed as planned.
- Documentation of audit plan, the nature, timing and extent of auditing procedures was unsatisfactory.
- No documentation was maintained for the work done by the team, obtaining declarations about independence, client acceptance and continuance, engagement planning memoranda, working papers, deliverables etc.
- As per SA-230 the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed. However, the firm had not obtained any audit evidences for evaluation of estimates made by the management.
- The firm needed to improve its existing engagement documentation policy. Detailed procedures need to be stipulated regarding maintenance of confidentiality, safe custody, integrity, accessibility and retrieving of engagement documentation, along with electronic documentation.
- System of documentation did not provide proper segregation and indexation making it difficult to access and retrieve audit evidences.
- There were no working papers for verification of restructured accounts.
- The working papers for verification of Significant Accounting Policies, Notes on Accounts and Disclosures were not available on record.
- The audit firm had not documented any procedures to ensure that the firm or its staff adhered to other ethical standards outlined by the ICAI.
- There were no working papers available with the firm with regard to the nature of the income and in respect of calculation of Deferred Tax Liability.
- There was no documentary evidence in the audit files on qualification in Auditor’s Report with regard to the prior approval of the Central Govt. u/s 297(1) of Companies Act, 1956 for transactions, covered by register maintained u/s 301 of Companies Act, 1956.
- The firm did not effectively design and define the procedures sufficient enough in relation to the financial statement considering the company’s size, nature and complexity and document the same.
- The documentations were prepared only for certain areas and not for all the areas of risks.

- Audit documentations were not linked up to the audit planning and procedures as required by SA 230-Audit documentation.
- No audit conclusion was drawn on the litigation sheet wherein there were cases for and against the company. There were various litigations against the company as per list available in the Audit Firm's file, however, none of this litigation appeared in the Contingent Liability of the company. (Ref to para 8-A2 of SA230).
- There was no document available in the Audit firm's file, to show the conclusion arrived by them for loans to subsidiaries were not prejudicial to the Company as required by CARO under clause 4(iii)(b), especially when there was no qualification in their final report.
- Work papers on complex accounting areas had not been dated and signed by the team / audit partner.
- No evidences were held on record to show that senior team member of audit team conducted a planning, meeting, discussion and agreed on audit approach etc.
- Certain documents/working papers were prepared and reviewed after the date of audit report, and in some cases prepared before audit report date but reviewed after audit report date.
- Adequate work-papers for documenting whether or not the factoring was with-recourse or without-recourse had not been held in audit files.
- The policies stated in the audit manual for client acceptance and continuation was not in the name of the firm. Secondly, there were no documentary evidences to prove that the firm had performed the task of the said procedures.
- Working papers had been prepared and reviewed in the month of July which was well later than the date of report in May. There was no evidence available on record that the review was carried out in a timely manner at appropriate stages.
- Auditor had not documented the procedure adopted to arrive at the conclusion that there was reasonable certainty to recognize deferred tax asset as per AS-22.
- Audit File did not contain the loan agreement or a term loan profile containing the amount of loan, rate of interest, terms of repayment, securities created and duly signed by the client, which is normally recommended.
- There was mismatch in other long term liabilities between the amounts as per CARO and Balance Sheet. However, no calculations of the amounts were held on record and accordingly, the difference had not been documented appropriately.
- In respect of walkthrough conducted for cash payments, it was mentioned in the work papers that a particular voucher was tested for the walkthrough process, however, no evidence of the record were available in the physical file. Similarly, in case of walkthrough conducted for sales, the physical copy of the document verified was not available on record (Ref para A1 of SA 230).

- The work papers relating to testing of quantitative reconciliation of production and the closing stock were not tied up with the records. There was a difference between the actual report and calculation made by audit firm.
- Product wise workings for quantitative reconciliation were not evident from the work papers.
- Work papers relating to test of details for Interest Income on bank deposits were not tied up to the statement of profit and loss. There was difference in interest income as per financial statements and as per work papers.
- There was no documentation to ascertain whether the fair value of long term unquoted investments had been reviewed or not. Further, the said area was also not covered in the audit programme/checklist of the Audit firm.
- No document was there to support the verification of share capital received by the bank from qualified institutional buyers. Further, there were no notings in the working papers that how the share capital received during the year was verified.
- An office premise was purchased and that was the only addition under the head of 'Office Premises', however no documentations were available with the firm in support of the verification of the addition made.
- Company had sold land and the same was shown under exceptional item in the statement of Profit and Loss. However, the conclusion note from the audit firm was not available in the file, treating it as an exceptional item.
- Specific documentations were not maintained to determine the reportable segments for the year.

SA 299- RESPONSIBILITY OF JOINT AUDITORS

- Joint auditors did not have any formal meeting or coordination with each other, which may result in communication gap, and thus resulting in some areas being overlooked or not visited by any of them. Para 8 of SA 299 mandates that it is specific and separate responsibility of each auditor to review the audit report allocated to him. However, the letter of allocation drawn by the audit firms, did not mention which audit firm was responsible for such review.

SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS

- Audit Plan made by the audit firm was not elaborate as it did not cover the nature, timing and extent of direction and supervision of engagement team member regarding the vouching part of the Audit engagement.
- The audit strategy and program did not include specific details about related parties and the material transactions as made known by the management and the same was not effectively communicated to the audit team members.
- The audit programs have not been filed and signed by the persons auditing and reviewing the assignment.
- Audit firm had not prepared any document to provide sufficient and appropriate record of the basis of audit report and evidence that the audit was planned and performed in accordance with auditing standards and applicable legal regulatory requirement.
- Audit strategy, audit plan and audit programme had been intermingled by the firm. However, the overall audit strategy should be documented separately in accordance with SA- 300, and the audit plan should also consider the Directions and sub- directions given by CAG u/s 619(3) of the Companies Act, 1956 to be complied with.
- In respect of Audit Planning and Risk Assessment, there was no detailed Audit Planning Memorandum; and audit procedures carried out were not complete.
- There were no evidences of any audit planning or risk assessment by audit firm.
  Improvement in Audit Programme & Procedure in light of experience gained during the course of audit was not evident and documented. The Audit Programme required improvement to enlarge the extent and scope of physical verification of security charged to minimize the perceived risk in this regard.
- The Audit programme was initialed by the engagement partner and not by the concerned team members/assistants who have carried out the verification process.
- Firm did not include all the elements of how the audit plan assessed and addressed the fraud risk in the audit of financial statements.

SA 315- IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

- The risks of material misstatements to the financial statements were not identified at the planning stage and there were not sufficient documentation in case of any rebuttals.
- No formal risk assessment had been done by the firm to provide a basis for the identification and assessment of risks of material misstatement at financial report and assessment level.

- Audit risk analysis was not comprehensive to make it to commensurate with size and nature of the business.
- The firm had not documented the audit procedures performed during the course of audit for identifying and assessing the risk of material misstatement.
- Identification/assessment of risks was not found documented in the audit file.
- Audit procedures responsive to assessed risks, were not found to be documented in the audit files and further there was no discussion paper held of possible discussions within the team regarding the susceptibility of the financial reports to material misstatements.
- The audit firm had no evidences of any audit planning or risk assessment performed by the firm.

SA 320- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

- The basis of considering the benchmarks for determining the materiality was not documented along with the revised performance materiality and the nature, timing, and extent of the further audit procedures in case where the revised materiality was lower than that initially determined by the auditor.
- There were no documents on record determining the materiality for the report and for assessing the risk of material misstatement.
- Audit firm had not determined materiality for the report as a whole and performance materiality as per the standard on auditing SA 320-Materiality in Planning and performing an Audit; but determined the materiality based on past experience and risk and control assessments.
- No evaluation had been done to determine materiality level for particular class of transactions, account balances, or disclosures.

SA 330- AUDITOR'S RESPONSES TO ASSESSED RISKS

- The risks of material misstatements identified at financial statements level were not linked to the material class of transactions, account balance and disclosures. Similarly the audit procedures planned were not linked in the planning document.
- There were no working papers with regard to designing and performing the tests of controls to obtain sufficient and appropriate audit evidence as to the operating effectiveness of relevant controls.

- Documents relating to further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risk of material misstatement at the assertion level were not documented in file.
- The documentation in regard to the understanding of control activities necessary to assess the risks of material misstatement at assertion level, and linking of such controls to the audit procedures were not clearly and comprehensively documented.
- Documentation was not maintained as required by Para 8 & 18 of SA 330 Auditor's Responses to Assessed risk.

SA 500- AUDIT EVIDENCE

- No evidences were taken by the firm to verify the ageing of the leased assets.
- There was no evidence of any work being reviewed by any partner.
- There was no evidence of having verified the reasonableness of actuarial assumptions for estimating the liability for employees benefit.
- There were no documents in the audit files to justify/ evidencing the classification of security deposits taken by the company from dealers, expected to remain with the company till the dealership was terminated.
- Some of the key audit evidence such as orders from sales tax /Income tax/Excise and other authorities resulting in material transaction were not held on record.
- The firm had no formal means for assessment of audit risks, and no further evidences were obtained to reduce the audit risk to an acceptable level.
- The firm had represented that it had performed audit procedures to test the provisioning made for doubtful debts for each of sales regions based on the budgets provided by each region; however, no evidence of the budget data was available on record.
- There was no evidence of evaluating the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures of the relevant industry and the concerned guidance notes, if any.
- In certain accounts, the persistent irregularities in the accounts of substantial amounts were adjusted at the year-end. However, evidence of source of such credits to ascertain genuineness was not available on record. Further, recovery through RTGS did not evidence the source of remittance of funds.
- There was lack of sufficient appropriate audit evidence for reversal of amount payable to a group company.

- The Company sold plots of land during the year, however, it was informed that cost of these lands had been already written off in the earlier financial years. On verification of movement of stock of development rights and the cost of development rights debited to profit & loss account, a difference was noticed for which no evidence was produced.

SA 505- EXTERNAL CONFIRMATIONS

- Procedure and manner of obtaining external confirmations, its correctness, maintenance of adequate records, control over confirmations, and obtaining direct confirmation from the external parties was not there.
- Confirmations were not sent under the control of the firm as it is a mandatory audit procedure.
- Log were not maintained of what confirmations have been sent, received, not received, undelivered, or unreconciled as in few cases it was observed that no documentary evidences were available for the list of cases selected for external confirmation and evidence of sending letters to any of parties.
- External confirmations were not obtained for trade receivables and payables. Alternate procedures were duly applied but the sample selected for conducting alternate procedures was too small.
- External confirmations received from bank branches could not be verified in respect of bank balance as there were no documentations evidencing the same in audit file.
- The external confirmation response was not directly received by the audit firm as required by Para 7 of SA 505 External confirmation.
- No independent balance confirmations from debtors had been circulated/obtained by the firm.
- The firm had not obtained external confirmation of account payable balances.
- Analysis of confirmation of balance received/alternate audit procedure adopted etc. was not documented.
- Legal confirmations from Solicitors & Lawyers of the Company were not obtained by the firm.
- In respect of related party balances, no confirmations had been obtained.
- Whether, audit firm had invited the external confirmation as a substantive audit procedure or not could not be verified in the absence of any documentation thereof in the audit file. Further the balances held with various banks under current accounts/FDRs were relied upon by the Audit firm, based on the bank confirmation provided by the Company. However, documentation in its support was not found in file (Ref SA 500, 501 & SA 505).

SA 520- ANALYTICAL PROCEDURES

- No workings/ evidences in the audit working files for the analytical procedures carried out under SA-520.
- The firm did not clearly document application of analytical procedures.

SA 530- AUDIT SAMPLING

- The sample selected by the audit firm was not adequate to mitigate the risks of material misstatement.
- Documentation was not done related to audit sampling as required by SA 530-Audit sampling.
- Basis of audit sampling had not been documented and explained and thus SA 530 requirements had not been complied with.
- Documentation was not maintained in relation to selection of audit samples (Ref Para 8 of SA 530 Audit sampling).
- The sample selection was on the basis of professional judgement taking into account selecting specific items and audit sampling, thus, the system of selection needed to be documented comprehensively.
- While conducting the test of controls / test of details for the journal entries, most of the entries on the dates beginning at each of the months had been selected for verification, the sample did not cover the other dates as well.

SA 540 "AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES AND RELATED DISCLOSURES"

- Documentation was not available as required by Para 6 of SA 540 Auditing accounting estimates, including fair value Accounting estimates and Related Disclosures.

SA 550- RELATED PARTIES

- The firm had not documented the audit procedures as per SA-330 and SA 550 during the course of audit.
- Firm had not obtained the signed copy of the list of related parties.

- Related party transactions being substantial to the entity's operation, however, no separate sampling procedure had been obtained to select such transactions especially in the case of audit of purchase transactions.
- There were no working papers for verification of figures disclosed in Related Party Disclosures.

SA 580- WRITTEN REPRESENTATIONS

- The Management representation letter obtained by the firm did not mention about the management's responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- Management representation letter received by the firm in connection with the statutory audit was dated post the date of issuance of the audit report.
- An assurance from the management that compliance with DPE and Administrative Ministry's Guidelines has been made was not mentioned in the written representation.
- Management's responsibility for the Financial Statement describing the responsibility of management, omitted the responsibility of management for preparation of the cash flows of the company.
- The audit firm had received the written representation which was signed by company secretary and not by CFO or CEO, however as required by Para 8 of SA 580 Witten Representation, the auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.
- The written representation was obtained much before the date of adoption of financial statements.
- Management representation letter contained a statement that, "the Current Investments were appearing in the financial statements and the same had been valued at lower of cost and fair value". However, the company had no current investment as per the financial statements at the year end.
- The fact of providing all relevant information and access as agreed in the terms of audit engagement and recording and reflecting all transactions was not incorporated in the representation letter.

SA 600 –USING THE WORK OF ANOTHER AUDITOR

- The firm relied upon the report of another firm of chartered accountants for hedge effectiveness testing and valuation. However, as per SA 600 it was not evaluated as whether they are experts in the field. Further, reports were not signed and kept as part of documentation and the fact that reliance was placed upon the report was also not disclosed.

SA 610 – USING THE WORK OF INTERNAL AUDITORS

- The audit firm had not obtained or documented internal audit reports for most of the internal audits conducted during the year.
- The documentation of the firm relating to notes on the review of internal auditor's observations/reports needed to be improved.
- No documents had been held on record to demonstrate the evaluation by the audit firm with regard to relying on the work of internal auditor.
- There was no documentation on record for evaluation of scope of internal audit and their independence. Further, there was no document as to how the points raised by the internal auditors in internal audit report were evaluated (SA-610).

SA 620-USING THE WORK OF AN AUDITOR'S EXPERT

- No evidence of verification of reasonableness of actuarial assumptions of discount rate, future salary increase, expected rate of return on plan assets etc. were maintained by the firm.
- Details of any tie-up with outside expert or consultant required in respect of audit assignment specific were not on record.
- Signed copy of report from actuary was not available as part of documentation.
- Audit checking notes for discount rate and other assumptions of actuary were not clear.
- The IT security control /audit was not done by the firm or by an external expert.

SA 700- FORMING AN OPINION AND REPORTING ON FINANCIAL STATATEMENTS

- The auditor while signing the Balance Sheet, Statement of Profit & Loss and Cash Flow statement did not mention his membership number and firm's FRN.
- The auditor's report of a listed Bank had been addressed to the President of India instead of to the Members.
- The requirement of SA 700 was not complied with in respect of one of the branch.
- Long format audit report did not comply with the provisions of SA-700; it did not bear the date, place and signature of the auditor.
- The auditor has to mandatorily report the compliance of all the applicable Accounting Standards in its report. However, the audit firm had not reported it in its report.

- According to SA 700, an audit report should be appropriately addressed as required by the circumstances of the engagement. However, the firm had not mentioned the addressee, to whom it was addressed in its report.
- The Independent Auditor's Report was issued in old format i.e. not as per SA-700(Revised) as applicable to the financial year 2012-13.
- In the heading of auditor report for consolidated financial statement of the company the word "Independent" was not used. It should have been "Independent Auditor's report".
- Annexure to audit report did not comprise comments on internal control system with respect to purchase of inventories, fixed assets, and for the sale of goods and services.
- The firm had not reported in its auditor's report that whether any fraud on company or by the company had been noticed or reported during the period of audit or not.

SA 706 EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

- There had been a continuous diminution in the value of the investments, which according to the company was temporary in nature. However, there were not sufficient documents to prove that diminution was temporary and no provision was made, moreover the matter was not emphasized in Auditor's Report as required by SA 706.

SA 710 COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

- In notes to financial statements, corresponding figures were not mentioned as required by the SA 710 (revised) Comparative Information.
- Previous year data was not given in relation to proportion of ownership.
- Previous year figures had not been disclosed in the notes of share capital.

SA 720- AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

- No working papers were available for having verified the information contained in management report, financial summaries with the Audit Report.
- There was difference in the amount shown in the notes to CFS on employee obligations for Provision for Gratuity Benefit Plan and that reported in management discussion & analysis section.

SQC 1- STANDARD ON QUALITY CONTROL

- The checklist for auditing & assurance standards, guidance notes etc. was not prepared to ensure compliance with all standards while performing attestation engagements.
- The documentations for communication of policies and procedures by the audit firm to its personnel as well as communication of the identity and role of engagement partner to key members of client's management and those charged with governance were not maintained.
- Documented policy or other evidences of procedures for rotation were not available.
- Audit firms had not properly framed its quality control policies and procedures, as it did not ensure that the firm or its staff were free from any self interest which might be regarded as being incompatible with integrity and objectivity.
- No policies and procedures were designed to provide reasonable assurance that the firm had sufficient personnel with capabilities, competence and commitment to ethical principles necessary to perform its engagement.
- Firm did not have an established policy in relation to client acceptance including background checks of key management, performing conflict checks and formalizing documentation for the same in compliance with requirement of SQC-1.
- Quality control review Partner and Partner-in-charge were the same which is not in line with SQC-1.
- No carry forward working papers were prepared by the firm containing the summary of major observations and related documents to be used in subsequent audits.
- The policies and procedures relating to conflict checking system were not documented.
- There was no systematic manner of implementation of certain aspects of the policy in terms of competencies, career developments, evaluation etc.
- Compliance procedures of firm's code of ethics did not address the firm's policies and procedures regarding ethics and independence and its importance was not conveyed to the staff by way of regular trainings and in staff meetings.
- Audit firm did not have any established recruitment policy.
- There were no policies and procedures established to provide it with reasonable assurance that the policies relating to quality control were relevant, adequate and there were periodic inspection of selection of completed engagements.
- As per Para 23 of SQC-1 the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel. However, it was noticed that declarations were only in relation to details of investment made.

- Firm needed to strengthen the mechanism to promote a quality oriented internal culture including frequent actions and messages from all levels of firm's management relating to quality.
- Annual independence declarations and declarations for insider trading for all clients did not include detailed list of securities, moreover, in respect of dependents/ relatives, declarations were not consistent. Further, in terms of conserving price sensitive information, declarations were taken on yearly basis.
- There were no specific documentation in the audit working papers with regard to the process on consultation and differences of opinion as required by the firm's SOC-1 policy.
- The Quality control policy of the audit firm did not cover all the elements of standards of quality control- SQC 1.
- More frequent programmes and seminars needed to be conducted to appraise the partners and staff about latest changes in law, regulation and accounting and other standards.
- There was no policy document in respect of issues detailing the implementation processes and documentation thereof. Moreover, the policies and its implementation with reference to safeguards in respect of the senior personnel on assurance engagements over a long period of time were not documented.
- The firm lacked in defining and designing detailed policies & procedures for systematically implementing policies related to competence, career development, evaluation etc as per SQC -1
- The firm had not effectively designed and documented policies and procedures in respect of completion of assembly of final engagement files, confidentiality, safe custody, integrity, accessibility and retrievability, retention and ownership of engagement documentation. Further, engagement planning memoranda, working paper, deliverables, evaluation process, controls, etc. were not in tune with the requirement of SQC-1.
- Formal documentation of procedures for rotation of audit engagement partner was not maintained as required by the Para 27 of SQC-1.
- Documentation for communication of policies and procedure by the firm to its personnel was not maintained as required by the Para 106 of SQC-1.
- Audits were conducted only by Articled Assistants who had a maximum tenor of 3 years with the firm. Engagement partner was also not rotated (Ref Para 27 of SQC-1).
- Checklists for Standards on Auditing, Guidance Notes etc. were not prepared.

- The audit firm's system of quality control had not been designed to meet the requirements of quality control standards for attestation services and did not provide a reasonable assurance of complying with technical standards in all material aspects.
- The audit firm had not provided the policy on quality control, if any, implemented within the firm regarding the responsibilities for its system of quality control for audits and review of historical financial information, and or other assurance and related services engagements (Ref SQC-1).
- The quality review programme/checklist containing the details of team involved, test performed, extent of verification etc. were not found.
- There were no policies and procedures designed to provide with reasonable assurance that the audit firm, its personnel and, where applicable, others subject to independence requirements (including the experts contracted by the firm and network firm personnel) maintained independence where required by relevant ethical requirements. (Para 18 to 27 SQC-1).
- Annual declarations for independence from all the personnel at firm level were not obtained as suggested by SQC-1.
- Clearance by engagement partner & professional practice director was given on a later date, however, the Audit Acceptance Letter had been sent much earlier.

ACCOUNTING STANDARDS

- Point of recognition of revenue in case of commission income was not disclosed in significant accounting policies.
- Accounting policies related to revenue recognition of services rendered, interest, and dividend had not been disclosed in the significant accounting policies.
- Copy of actuary's Certificate was not available in the files to validate the provision made in the accounts as disclosed in the Significant Accounting Policies as required by Para 8(i) of Statement of Significant Accounting Policies.
- Company had not disclosed accounting policies in respect of cash & cash equivalents, revenue recognition in respect of interest on fixed deposits and dividend.
- Accounting policy in respect of capital subsidy in reserve was not disclosed.
- No disclosures were made in significant accounting policies in respect of employee VRS on actuarial valuation basis.
- The accounting policy for recognition of intangible assets was not disclosed separately, though it was significant in respect of the company.
- AS-1, disclosure of accounting policies, states the disclosure of significant accounting policies followed by the company. However, the company had not disclosed separately in its notes or accounting policies, the indirect method used for presenting its cash flow statement.
- The accounting policy disclosure as per AS-1 was incomplete, as it did not indicate the event and point of recognition of revenue in respect of goods dealt with by the enterprise, nor did the policy of revenue recognition (AS-9) reflect the recognition of revenue in respect of the subsidy paid by the government as part of sales revenue.
- Company had taken the foreign currency loan for acquisition of fixed assets. The policy on exchange difference on loan contracted for acquiring fixed assets was not stated.
- Policy for valuation of inventory of raw material was not disclosed by the company.
- The valuation of inventory had not been done as per the adopted accounting policy of the company. Thus, the auditor should have qualified the audit report or requested to change the accounting policy followed, but no measures were taken.
- Stores and spares were valued at cost. However, it should be lower of cost or NRV. It was not stated that cost of material was net of taxes /duties for which input credit was available.
- The Auditors had not reported whether Cash Flow Statement was in compliance with the Accounting Standards or not.
- The company had written back on account of provision for doubtful debts and advances. It was not adjusted from profits to arrive at the Operating profit before working capital changes, while preparing cash flow statement under indirect method. Thus, violating the provisions of AS-3.

- Company had shown as inflow on account of "proceeds from sale of current investments" under the cash flow from investing activities head. However no calculation for the said figure was available in the working papers of the Auditors.
- As required by Para 25 of AS 3 effect of changes in exchange rates of cash and cash equivalents were not disclosed.
- It was observed that company had not disclosed the effects of change in exchange rates on cash and cash equivalent held in foreign currency that should be reported as a separate part of reconciliation of the changes in cash & cash equivalents during the period.
- In Cash Flow Statement, interest from Inter-corporate deposit had been included in the income from the operation instead of disclosing the same as income from investing and financing activity. Similarly profit and loss on sale of fixed assets was shown in operating income instead of disclosing as income from investing activity, and purchase of fixed assets was shown net of sales proceeds.
- The method adopted for preparation of Cash Flow Statement was not disclosed by the entity.
- Company had not disclosed the components of cash and cash equivalents and had not presented the reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet.
- The cash flow statement of the audited entity disclosed the aggregate value of investments made and loans & advances to subsidiary companies. However, cash flow from operating activities and financing activities was different. Even after considering the proceeds of sale of investments, there was a decrease in cash and cash equivalents which reflects that the short term funds had been utilized for investing in long term assets like investment in subsidiary companies and advancement of loans and advances. Further, it was presented that long term loans obtained from banks had been advanced to the subsidiary companies for purchase of lands. However, one of the condition mentioned in sample sanction letters produced was that the "proceeds of loans should not be utilized for procurement of land".
- The requirement of AS 5 was not met by the company, as it did not make adequate provision for loss, even though no interest was serviced on loans for several years. Thus, the auditor should have issued a qualification that the profits and assets were overstated.
- The proceeds received on termination of licenses were not disclosed as an extraordinary item. There was no documentation in place to conclude why the same had not been disclosed as extraordinary item.

- Excess/ short depreciation as a result of non segregation of furniture and fixture, and office equipments was not quantified by the management, as depreciation is charged at different rates on Furniture and Office Equipments under Companies Act.
- Sales were shown at net of excise duty in the Statement of Profit and Loss instead of the gross value; however, excise duty should be shown as a deduction in the Statement of Profit and Loss.
- Disclosure with respect of interest received and interest paid were net off which was in contravention to AS-9 Revenue Recognition.
- Accounting policy stated that dividends on equity shares had been recognized on receipt basis. However, para 13 of AS 9 requires dividends on equity shares to be recognized when owner's right to receive is established.
- Cost of fixed assets was net of taxes/duties which were eligible for credit. It was not stated in policy to fixed assets.
- Land was wrongly capitalized as part of plant & machinery in earlier years rectified during the year under audit but the impact of depreciation on reversal was not evident from the working papers.
- Note on fixed assets did not disclose preceding previous year figures of Gross block, Depreciation and net block.
- No permanent diminution had been provided for in respect of investments made even though there was substantial reduction in the net worth of the companies in which investments were made.
- Company had not disclosed un-hedged foreign currency transactions in the Financial Statement.
- Conversion of items of Income & Expenditure of non integral entities at the year-end rates was not in accordance with the requirement of AS-11 as well as the accounting policy.
- Company's long term investment in the subsidiary company, recorded at cost showed negative net worth for more than 12 years, indicating a decline in value of investment that was not temporary. Thus, the cost of investments should have been written off and the auditor should have qualified that the profits and assets were overstated.
- Note on Current Investment did not disclose breakup of investment in various mutual funds both in units and values, whether these were quoted or unquoted and method of valuation and its market value. Bifurcation of investments purchased, traded during the year along with units were also not stated in the Financial Statements.
- The company had disclosed the movement in the liability for gratuity and compensated absences where the present value of defined benefit obligation, current service cost, etc. was mentioned. However, the movement of various cost components did not tally

with the certificate obtained from an independent actuary on the valuation of the obligations.

- Actuarial Valuation report was not obtained in case of Gratuity Liability at the year end and hence disclosures as mentioned in AS 15 were not made in the financial statement.
- Disclosure required under Para-120(n) had not been given in the financial statements. Further, there was a variation in the opening balance of the present value of obligation of gratuity the reason for which was not explained.
- An amount had been wrongly classified as provision for 'Leave Encashment'. Further the provision for gratuity was understated.
- Company had not disclosed the disclosures in respect of Leave encashment as required under AS-15.
- The employee benefits were not in accordance with AS-15 Employee Benefits as it comprised only gratuity.
- Interest expense should include Exchange difference on foreign currency borrowing in accordance with para 4(e) of AS 16. This amount was not quantified and reclassified under interest. Instead it was included under Exchange Gain/Loss(net).
- Type of products and services in each business segment was not mentioned as required by AS 17 Segment reporting.
- Net revenue as well as net profit (results) from interest income was more than 10% of the total net profit, however, the same was not considered as a separate segment as per the requirements of AS 17.
- Secondary segment information was not disclosed.
- The Sales Promotion expenses paid amounting to service charges were not disclosed as related party expense as per AS-18 'Related Party Disclosures'.
- Company had made investment in an associate company. However, the said transaction was not disclosed in the related party transactions as per AS 18. Further the interest accrued on the share application money receivable from the said company was also not disclosed.
- Company had not disclosed the nature of a transaction related to its subsidiary.
- Related party disclosure was not made in respect of debit balance against subsidiary of the Company.
- Company had not made complete disclosure of nature of transaction with related parties. There were outstanding receivable/payable balances as at the year-end. The opening balances with these parties were nil. Thus, the company had transactions with such entities during the year. However, no disclosure had been made for such transactions under "Nature of transaction with related Parties".
- Nature of transaction with the related parties had not been disclosed by the company as per Para 23 of AS 18 "Related Party Transactions". Further, the company had disclosed

the year-end balances with related parties but had not disclosed all transactions contributing towards such balances.

- As required by AS 18, material balances (over 10% of total) with related parties should be disclosed separately. However, it had been disclosed by the company in aggregate in the standalone financial statements.
- In the Related Party disclosures relating to Purchase of Fixed Assets, a sum was shown to be relating to one subsidiary; however, the fixed assets were purchased from another subsidiary.
- EPS was not shown on the face of Statement of Profit and Loss as required by AS 20-Earnings Per Share.
- In relation to Employee stock option plan, instances of non compliances with respect to the disclosure requirements of Para 48 to 51 of the Guidance Note on "Accounting for Employee Share based Payment" was observed.
- Disclosure required by the Guidance Note on Employee Share based Payments was not made in the Financial Statements.
- There was non-compliance of AS-21 with regard to reporting of consolidated financial statements in the annual report of a subsidiary of the company under audit. Further, the name of the subsidiary company was not disclosed in note disclosing related party name and transactions with them as per requirements of AS-18.
- In CFS, the auditors' remuneration of the subsidiaries had been clubbed under "Professional fee" in order to restrict the consolidated figure of audit fee to the auditors of the Holding Company only. However, the audit fee of the CFS should be the aggregate of the audit fee of the Holding Company and all the subsidiaries grouped under the CFS. (Ref para 13 of AS 21).
- The Company included land as an item considered for WDV of assets from the books of accounts and computed deferred tax, whereas the land does not suffer depreciation and thus has no timing difference, hence it should not be considered for deferred tax computation.
- Incomplete disclosure had been made in respect of Deferred tax assets and deferred tax liabilities as required by para 31 of AS 22.
- The company had netted off DTL from DTA, management had not disclosed it separately looking at the materiality.
- Intangible assets were included under the head 'Other Fixed Assets' however, these assets were taken on lease and intangible assets should be shown separately for proper classification and disclosure. Further, the fixed assets were not classified in Balance Sheet viz. premises and other fixed assets as required by the Banking Regulation Act. Moreover, the gross carrying amount and accumulated amortization (aggregated with

accumulated impairment losses) at the beginning and end of the period was not disclosed with each class of intangible assets as per AS-26 'Intangible Assets'.

- Company had made an addition during the year in Intangible Assets which being amount transferred from capital work in Progress. The amount being expenditure incurred during various previous years which according to the management have no further economic benefits, even then it has been capitalized to Software head and also depreciated this amount on an accelerated basis (i.e. 100% written off during the year). The Accounting policy of the Company given under the Notes to Accounts states that "Cost of software is amortized over a period of 6 years, being the estimated useful life as per the management estimates." However, the Company had provided the amortization in the very first year without any disclosure.
- In respect of two standstill projects undertaken by the company due to Court orders, the carrying value was material however; no impairment testing was done as per AS 28 (Impairment of Assets) and AS 29 (Provisions, Contingent Liabilities, and Contingent Assets).
- Service tax demand was not shown as contingent liability.
- No disclosure was made in contingent liability for the interest portion of the disputed demands.
- Contingent liability in respect of the amount discounted through Bank was not disclosed. (AS 29).
- No disclosure was made in contingent liability for consequential demands under service tax on the basis of demands raised by the department for earlier years.
- No disclosure had been made as per AS 29, Provision, Contingent liabilities and Contingent Assets for the factoring arrangements entered into by the Company.
- Disputed demands in respect of Sales tax and excise duty were not disclosed under "Contingent Liability". (AS-29).
- The company in its Director's report had mentioned demands of excise duty and demands of luxury tax were pending decision before various Courts and Appellate Authorities. However, the company has not treated it as contingent liabilities.
- The operating profit was shown under total consolidated profit by the company, and no segment wise break up was given for this profit, thus, not distinguishing between the amount received as dividends from subsidiaries and that from mining activities.
- Disclosure prescribed under AS 32 for financial instruments & Derivatives had not been made in the financial statement.

REVISED SCHEDULE VI OF THE COMPANIES ACT, 1956

- The requirements of Revised Schedule VI with regard to other commitments were not disclosed.
- The company had not complied with the Guidance Note on Revised Schedule VI, which provides that the caption 'cash and cash equivalents' should be changed to 'cash and bank balances'. Also, the net (gain)/ loss on foreign currency transactions except where there are borrowing costs involved, should be shown under other expenses instead of finance cost.
- The company has not shown sales under broad heads in its financial statements.
- The company disclosed capital advances under short term loans and advances, instead of long term loans and advances. Moreover, it has not specified the nature of other loans and advances.
- The borrowings from related parties repayable on demand had been disclosed as long term borrowings instead of unsecured short term borrowings, since, as per Revised Schedule VI, long term borrowings are those which contractually are repayable after one year as on balance sheet date.
- The quoted investments were treated as unquoted investments and no distinction had been made under unquoted investments for Current and Non Current Investments.
- The entity had wrongly classified and disclosed short term loans from Banks as Trade Acceptances in contravention of disclosure requirements of Revised Schedule VI. Nature of security and terms of repayment were also not stated in respect of Bank loan.
- The amounts set aside to provisions made for meeting specific liabilities should be separately disclosed as a charge to the Statement of Profit and loss. The entity had debited miscellaneous expenses including Bad Debts written off and credited other income on account of provision for doubtful debts and advances no longer required.
- The payment made by the entity to 'Employee State Insurance Fund' had been included in the welfare expenses instead of being disclosed separately as "contribution to provident and other funds" as per Revised Schedule VI.
- The disclosure under the head 'Trade Payable' in relation to amount due to Micro & Small enterprises had not been made, and the note given was insufficient to comply with the provisions.
- The company treated provision of Gratuity as long term provision instead of short term, though it was being payable by the company to the trust within next financial year.
- The entity had not disclosed other manufacturing expenses under appropriate head which resulted in understatement of consumption of raw material and packing material.
- Consolidation of Non Current Assets into Current Assets in Consolidated Financial statements. An amount was classified as short term security deposits in consolidated

financial statements of the company but in the signed balance sheet of one of its subsidiary, security deposit had been classified as Non Current Assets.

- Format used for presentation of B/S and P&L was not as per Revised Schedule VI.
- While disclosing short term borrowings, the financial statements prepared by the company did not incorporate the phrase "Loan repayable on demand" as warranted by 'General instructions for preparation of Balance Sheet'.
- According to the Revised Schedule VI, bonds/ debentures shall be stated in descending order of maturity, or conversion starting from the farthest date, however, the auditee had disclosed series of bonds in ascending order.
- As per the Revised Schedule VI, corresponding amounts (comparatives) for the immediately preceding reporting period shall be given for all the items shown in the financial statements including notes. However, the notes to the consolidated accounts; significant accounting policies, did not disclose the percentage of ownership of preceding year.
- As per Revised Schedule VI the aggregate value of quoted current investments and their market value has to be disclosed. However, the company had not disclosed the market value of quoted investments.
- The entity classified MAT Credit entitlement and Advance Tax/ TDS receivable as Short term loans and advances but as per the Guidance Note on the Revised Schedule VI, they should be classified as long term loans and advances.
- The entity has classified Margin Money/ Security under the head "Cash & Bank Balances". However, Margin Money/ Security with the banks were non-current in nature and should have been classified as "other Non-Current Assets instead of "Other Bank Balances" as per the Revised Schedule VI to the Companies Act, 1956.
- The company had converted stock in trade to capital work in progress, however, there was no evidence of verification of minutes of the Board resolution having being verified by the firm for the decision to convert the stock.
- Term Loan repayable within a year did not constitute Term Loan alone. The balance pertained to Deferred Sales Tax Liability, but was not shown separately.
- Investments in subsidiaries in fully paid equity instruments and other investments were not classified as held for trade or non trade investments.
- Para 8.7.2.3 of Guidance Note on Revised Schedule VI was not complied with, as it recommends to disclose the amount of provision netted off for each long term investment.
- Investments in mutual funds were not disclosed as quoted or unquoted in accordance with the Revised Schedule VI.

- Profit on sale of mutual funds instead of being shown as 'Other income' was shown on netting basis under the expenditure head of 'Finance & Treasury Charges' resulting in its understatement and generating an impression of higher operating income.
- One misstatement was not corrected by the management i.e. Interest expense not payable for pension fund whereby the profit was understated and liability was overstated.
- In respect of revaluation reserve appearing in the balance sheet, the company had no details regarding year/date of revaluation made, items revalued, and whether those assets have been disposed off/scrapped.
- Long term loans & advance, security deposit included amount from related parties. This was not separately disclosed as per Revised Schedule VI.
- There was no explanatory note as to how the following amounts were identified and measured:
    - Reserves and surplus- Hedging reserve
    - Other Non-current Assets- derivative Assets
- Payment made to statutory auditor with respect to IPO related work was not disclosed at all in the financial statement as required in payments to the auditor [Clause (j) of Note 5 (i) of Revised Schedule VI to the Companies Act, 1956].
- The disclosure and presentation of long term borrowings were not done as per the requirement of Revised Schedule VI. As required the borrowing should be further sub – classified as secured and unsecured.
- Leasehold land for factory had been erroneously classified as factory freehold land.
- Items shown under the head "other" in long term loan and advances included a sum given to Director and Chairman of the Company. Disclosure requirements of Revised Schedule VI have not been complied with. Further a sum of advance given to suppliers/creditors for expenses had been wrongly classified as Long term advances.
- The presentation under 'Note of inventories' in the financial statement was not in compliance with the requirements of Revised Schedule VI of the Companies Act, 1956. It was not possible to determine break-up of the "stock –in-transit" relating to raw material, work-in-progress, finished good and stores and spares.
- The presentation of deposits with more than twelve months maturity was not in conformity with the requirement of the Revised Schedule VI as the bifurcation between current and non-current portion of the deposits was not made. Non-current portion should have been classified as "other non-current assets" along with a separate disclosure.
- Advance to Excise/Custom and other departments had not been classified as "short term loans and advances" and not "other current assets".

- Break-up of sales and excise duty was not disclosed as per the requirement of Revised schedule VI /AS 9. Further, included in sales were freight outward (CST & VAT) and insurance.
- No disclosure had been made giving a breakup of the amount paid to auditors as per the provisions of Revised Schedule VI.
- Bad debts included written off amount of Inter-corporate deposit. As the Inter-corporate deposit are not “Trade Receivables”, thus the presentation was inaccurate and not in compliance with the requirement of Revised Schedule VI.
- The rate of interest on the long term and short term borrowings had not been disclosed.
- Company had not shown the comparative figures with respect to the additions and disposals/adjustments made during the year under the Tangible Assets. (Refer Revised Schedule VI under General instructions head in point No. 5)
- There was wrong classification of Long Term Assets in Short Term assets in the Consolidated Financial Statements.
- The expenditure capitalized was not disclosed.
- Company had not disclosed the details of applicable rate of interest on the term loans in Note.
- The Company had not de-recognized the financial asset (debtors) and had not recognized a financial liability (amount received from banks at the time of factoring) in case of assignment of debtors without insurance backing.
- No disclosure had been made/note given in financial statements with regard to the debtors assigned to bank (without insurance backing).
- Company disclosed in note “Trade payables and other current liabilities”, as “other Payable”. However, as per Para 8.6.3 of the Guidance Note on Revised Schedule VI, a Company is required to specify the nature of “Other Payables”.
- Bifurcation between current and non-current portion of leave encashment provision was not made and total provision was shown under short term provisions only. Gratuity provision was not shown separately but was shown under ‘other current liabilities’.
- Share capital in financial statement for previous year figure was not correctly brought out.
- Terms and right attached to shares were not disclosed either on the face of the financial statement or in the notes to accounts.
- The notes on classification of Assets & liabilities refer to Company’s normal operating cycle. But operating cycle was not defined.
- Company had taken the foreign currency loan for acquisition of fixed assets. However, the policy on exchange difference on loan contracted for acquiring fixed assets was not stated.

- Marketing division had accounted for accrual of Commission. There was nothing on record to compare the treatment of such accrual in previous year.
- Nature of Other Advance Payments and Other Receivables was not disclosed, neither were they disclosed item wise as per the Guidance Note on Revised Schedule VI.
- Company had investment in the Equity shares of Associate Companies and the same had not been separately disclosed as per Revised Schedule VI, further it has also not been disclosed whether the investments were partly paid or fully paid.
- The company added capital advances of WIP in the capital WIP and did not show it under the head capital advances.
- Notes in the consolidated financial statement did not disclose the terms of borrowing with respect to its repayment, interest, and securities.
- Other operating revenue included rent and hire charges, interest income, dividend income etc., which should be classified as other income instead of other operating revenue.
- Other current liabilities included excise duty & service tax payable, however, it was observed that previous year outstanding was after netting off Advance payments whereas current year figure was without netting off advance tax.
- There was a mismatch of classification which on the one hand had been disclosed as advance towards Share Capital under "Other Current liability" by the subsidiary, and on the other hand had been disclosed under "Long Term Loans and Advances" by the Holding Company.
- Bifurcation of sundry debtors as more than six months and less than six months was not disclosed in the financial statements.
- Printed financial statements of the company were not signed by the Chief financial officer of the company.
- There were variations in the printed financial statements and the signed copy of the financial statements of the company.
- Deferred Tax Asset was clubbed under Non-Current Asset instead of being separately disclosed on the face of the balance sheet in the annual report.
- The terms & conditions mentioned by the Company in relation to preference shares were those prevalent at the time of issue of these preference shares. There had been a major change in the terms of redemptions of preference shares and the revised terms and conditions for the redemption of preference shares were not disclosed.
- As per Management Representation Letter, roll-over of the inter-corporate deposits had been done based on mutual discussion, and in respect of few cases management had initiated legal proceedings. However, no independent balance confirmations had been obtained and held on record by the auditors for inter-company deposit. (Refer explanations of Guidance Note on Revised Schedule VI).

- Reconciliation of number of shares, other details of equity shares for period of 5 years, immediately preceding the year-end with respect to shares allotted for other than cash, shares allotted as fully paid up, bonus shares, aggregate numbers of shares bought back and shares reserved for issue under option were not disclosed.
- Note in standalone financial statement of non-current investment did not disclose the details of investments in various subsidiaries. Further, whether these were held for trade or non-trade and were they quoted and unquoted was not classified.
- Note on Long term loans & advances did not disclose whether these were secured and classified whether considered good or doubtful.
- Other Current Assets were not classified into secured/unsecured and good/ doubtful.
- MAT Credit available to the company as per income tax return was inconsistent with that shown in the financial statements.
- Certain provisions were not classified under the head Other Long terms Liabilities rather as trade payable in accordance with Revised schedule VI.
- The short term loans had been understated in the financial statements, as the company repaid it through cheque as at the end of the financial year with due date falling subsequent to the end of the financial year however, there was not enough balance in the Bank account as on the balance sheet date and the amount was lying under bank reconciliation.
- Company had shown an amount as received from one of the related company towards loans and advances given to related parties; however, this amount was actually received on a date falling subsequent to the end of the financial year and was lying in bank reconciliation as at the year-end.
- Lien on the deposit was not disclosed.

RELEVANT LAWS AND REGULATIONS

- There was difference in number of subsidiaries as per various records showing deficiency in reporting requirement as per Section 212 of Companies Act, 1956.
- In a couple of accounts, classification of advances had not been made strictly as per the prudential norms prescribed by the RBI.
- An asset had been created as an asset by the company on account of inventory valuation timing difference as per Sec 145A of Income Tax Act. The Deferred Tax Liability was created on difference in excise and sales tax amount in the opening and closing stock valuation, and the amount calculated for difference had been offered as Income. However, when valuation of both opening and closing stock has been done in accordance with Sec 145A & AS 2, then no income should have been offered on account of difference in valuation and there should be no timing difference.
- As per constitution certificate, 6 partners out of 20 partners were partners in a network firm and no details had been provided in respect of audit assignments taken by network firms so it was unable to arrive at specified number of audit assignments of companies which the audit firm could take as per Section 224 of the Companies Act, 1956.
- In case of loans and advances granted to subsidiaries and other related parties, Company had charged interest at the rate which was much lower than their regular commercial borrowing rate from Banks.
- Auditors' observation that no loans were granted to the parties covered in the register maintained u/s 301 of companies Act, 1956 was not correct, since loans were granted to a wholly owned subsidiary which was covered u/s 301.
- In respect of physical verification of inventories, final inventory sheets were available but physical verification instructions were not kept with CARO check list.
- Company had entered into transaction with Private Ltd companies in which directors were interested. The transactions with these companies were based on long term contracts entered into when they were Public Ltd companies. These transactions were not considered for CARO reporting. However no legal opinion was kept with CARO check list.
- The amount paid under protest was not reported as per Para 64(h) of Statement of the Companies (Auditor's Report) Order, 2003.
- The company had invested bought and sold Mutual fund securities out of Term Loans drawn but not immediately utilized. But clause (xiv) of CARO was reported as not applicable.
- Directors & their relatives were having possession of gold and diamonds jewellery given to them on consignment sales basis. However, it was observed that the prior approval of Central Government was not obtained as required by Section 297 of the Companies Act,

1956. It was further noticed that audit evidence did not disclose whether transactions were entered into register maintained under section 301 of Companies Act 1956 or not.

- There was a contradiction between the CARO report and supplementary Report u/s 619(3)(a) of Companies Act, 1956, regarding the physical verification of Fixed Assets. CARO report stated "we are informed that during the period the fixed assets were physically verified by the management and no material discrepancies were noticed between the books records and physical existence of assets". However the Supplementary Report stated "The physical verification of fixed assets has not been carried out. The company had no specific policy on physical verification of Fixed Assets".
- Short term funds had been used for long term purpose. However, no audit comment had been included by the audit firm in this regard either in CARO or in main report.
- Firm had reported under clause xxi of the CARO, two instances of fraud; (a) misappropriation of inventory by transporter and contractors amounting, and (b) one instance of wrongful claim of expenditure by an employee. On review of the work papers relating to SA 240 relating to fraud considerations, these instances had not been mentioned during the inquiries made with the management. There was no other evidence of any further audit procedures being adopted (in the form of increased test of details/ substantive procedures) to confirm that the extent of misappropriation of inventory or the wrongful claim of expenditure was only as reported.
- Firm had not reported the disputed dues related to income tax in the CARO.
- There was divergence between the Memorandum of Association, Articles of Association, and Financial Statements. Further, the rights, preferences, and restrictions attached to each class of shares including restrictions on the distribution of dividends and the repayment of the capital were not disclosed.
- The Certificate issued by the Audit Firm (3CEB), the loans given to the Associate had been shown net of repayments, instead of displaying the entire loans given to them as international transaction for the year. (Ref sec 92C of Income tax Act read with rule 10D (d) of Income tax Rules).
- The audit firm mentioned that the method used for determining Arms Length price as "other specified method". But the details of such method including the workings for determining the ALP was not available in the file. (Ref sec 92D of Income tax Act read with rule 10D (i) of Income tax Rules)
- Audit firm had paid the managerial remuneration in excess of prescribed limit under Sections 198 and 309 of the Companies Act, 1956 whereas the approval of Central Government was pending as well as the Auditor's Report did not indicate the excess remuneration was paid.

- The liability on account of FBT recovery was also outstanding for a period exceeding six months. However, the same was not considered as such for the purpose of reporting under CARO being below the threshold limit.
- The wording used by the Auditor under CARO report of the Company did not mention about quantitative details and situation of fixed assets.
- Loans were granted interest free and the auditor did not report whether reasonable steps were taken by the company for recovery/payment of the principal and interest or not.
- Auditor had not reported whether prices for which no comparable quotations were available were reasonable having regard to the prevailing market prices at the relevant time or not. (Ref CARO 2003 requirements: Transaction with 301 parties)
- The disclosure made by the firm in CARO was not appropriate as the requirements of Paragraph 4(vi) of the Order are applicable to deposits taken by the company even if the same have not been taken in current year but in prior years.
- The disclosure did not mention about defaults in repayment to dues to financial institution or debenture holders as required by CARO clause 4(xi). The interest to debenture holders was due as at the year-end, but not paid and the same was not reported as a default in repayment of dues to debenture holders.
- Firm had adopted a checklist for CARO Compliance, to be completed by the audit team. The checklist compliance was not signed and dated. Supporting documentation was not kept with check list.
- Transactions entered into by the auditee company with parties listed in Sec 301 register comparative prices were not kept with the check list to come to a conclusion that prices were reasonable.
- Procedures/Instructions for physical verification of fixed assets were not kept in file and were not recorded adequately.
- A firm was found to have not issued certificate for disqualification of directors u/s 274 (1) (g) of Companies Act, 1956 to show whether any director of the company was disqualified for appointment as a director or not;
- Para 50 (d) of Statement on CARO states that the auditor should obtain a list of companies, firms or other parties covered in the register maintained u/s 301 of the Companies Act from the management. However, the audit procedures did not reveal the procedures carried out to obtain such list.
- An account was classified as standard asset despite continuous irregularities in the account which later on made NPA following the end of the financial year.
- Company had shown indirect tax credit availed under VAT as Other Operating Revenue in statement of profit and loss, and included the amount of VAT in the cost of material,

which was not in accordance with the Guidance Note on VAT as well as Guidance Note on Revised Schedule VI of the Companies Act, 1956.

- There was a contradiction between the Notes to financial statements and supplementary report u/s 619 (3)(a) of the Companies Act, 1956, regarding the balance confirmation of sundry debtors, creditors, loans and advances and deposits.