APPENDICES
NOTE

♦ The appendices published hereinafter do not form part of the Statement. These are intended for the ease of reference to the readers.

♦ These appendices, among other things, also contain reproduction of texts of various sections of relevant statutes and notifications issued by the Government of India. While every effort has been made to avoid errors or omissions in reproduction, some errors are likely to creep in. It is, therefore, suggested that to avoid any doubt, the reader should cross-check all the facts, law and contents of the publication with original Government publication or notifications.

APPENDIX I

[CIRCULAR NO. 452, DATED 17.3.1986]

Subject: Section 44AB of the Income-tax Act, 1961- Clarification regarding applicability in the cases of Commission Agents, arhahtias etc. (Para 5.12).

1. Section 44AB of the Income-tax Act, 1961, as inserted by the Finance Act, 1984, casts an obligation on every person carrying on business to get his accounts audited, if his total sales, turnover or gross receipts, as the case may be, exceed Rs.40 lakhs (substituted by Rs. 1 crore by Finance Act, 2012 w.e.f. A.Y. 2013-14) in any previous year relevant to the assessment year commencing on 1.4.1985 or any subsequent assessment year.

2. The Board have received representations from various persons, trade associations, etc., to clarify whether in cases where an agent effects sales/turnover on behalf of his principal, such sales/turnover have to be treated as the sales/turnover of the agent for the purpose of Section 44AB of the Income-tax Act, 1961.

3. The matter was examined in consultation with the Ministry of Law. There are various trade practices prevalent in the country in regard to agency business and no uniform pattern is followed by the commission agents, consignment agents, brokers, kachha arhatias and paccia arhatias dealing in different commodities in different parts of the country. The primary necessity in each instance is to ascertain with precision what are the express terms of the particular contract under consideration. Each transaction, therefore, requires to be examined with reference to its terms and conditions and no hard and fast rule can be laid down as to whether an agent is acting only as an agent or also as a principal.
4. Board are advised that so far as kachha arhatias are concerned, the turnover does not include the sales effected on behalf of the principals and only the gross commission has to be considered for the purpose of Section 44AB. But the position is different with regard to pacca arhatia. A pacca arhatia is not, in the proper sense of the word, an agent or even del credre agent. The relation between him and his constituent is substantially that between the two principals. On the basis of various Court pronouncements, following principles of distinction can be laid down between a kachha arhatia and a pacca arhatia:

(1) A kachha arhatia acts only as an agent of his constituent and never acts as a principal. A pacca arhatia, on the other hand, is entitled to substitute his own goods towards the contract made for the constituent and buy the constituent's goods on his personal account and thus he acts as a principal as regards his constituent.

(2) A kachha arhatia brings a privity of contract between his constituent and the third party so that each becomes liable to the other. The pacca arhatia, on the other hand, makes himself liable upon the contract not only to the third party but also to his constituent.

(3) Though the kachha arhatia does not communicate the name of his constituent to the third party, he does communicate the name of the third party to the constituent. In other words, he is an agent for an unnamed principal. The pacca arhatia, on the other hand, does not inform his constituent as to the third party with whom he has entered into a contract on his behalf.

(4) The remuneration of kachha arhatia consists solely of commission and he is not interested in the profits and losses made by his constituent as is not the case with the pacca arhatia.

(5) The kaccha arhatia, unlike the pacca arhatia does not have any dominion over the goods.

(6) The kaccha arhatia has no personal interest of his own when he enters into a transaction and his interest is limited to the commission agent's charges and certain out of pocket expenses whereas a pacca arhatia has a personal interest of his own when he enters into a transaction.

(7) In the event of any loss, the kachha arhatia is entitled to be indemnified by his principal as is not the case with pacca arhatia.

5. The above distinction between a kachha arhatia and pacca arhatia may also be relevant for determining the applicability of Section 44AB in cases of other type of agents. In the case of agents whose position is similar to that of kachha arhatia, the turnover is only the commission and does not include the sales on behalf of the principals. In the case of agents of the type of pacca arhtia, on the other hand, the
total sales/turnover of the business should be taken into consideration for determining the applicability of the provisions of Section 44AB of the Income-tax Act.


JUDICIAL ANALYSIS

EXPLAINED IN - In Jeyar Consultant & Investment (P.) Ltd. v. Assistant Commissioner [1993] 46 ITD 71 (Mad.-Trib.), it was observed that it is ex facie clear from the CBDT Circular No. 452 of 17-3-1986 which came to be issued in relation to kacha and pacca arhatias, who are an integral part of the trading sector, that instructions issued by the Board as respects kacha and pacca arhatias could not be applied to the case of the assessee who has arranged finances for other for a fee. The assessee may choose to label the fee as brokerage or even as commission. But the fee or to use a generic expression ‘receipt’ could not be regarded as turnover proper.

RELIED ON IN - The above circular was relied on in ITO v. Shantilal Chunilal & Co. [1993] 45 ITD 581 (Pune - Trib.), with the following observations:

“. . . Further, reference was made by assessee to pages 52 to 54 which contains Board’s Circular No. 452, dated 17-3-1986 which has been issued in connection with section 44AB of the Income-tax Act, 1961. Reliance was placed on para 4 of the said circular according to which the Board were advised that so far as kachha arahatias were concerned, the turnover did not include sales effected on behalf of the principals and only gross commission has to be considered for the purpose of section 44AB. The submission of the learned counsel for the assessee was that the case of the assessee is one of kachha arahatia and not a pacca arahatia and, therefore, only gross commission has to be considered for the purpose of section 44AB of the Income-tax Act, 1961. . . The CIT (Appeals) has excluded the adat receipt as well as interest receipt from the purview of turnover for the purpose of section 44AB. Relying on the clarifications given by the Board in its Circular No. 452, dated 17-3-1986, he has categorised the assessee as kachha arahatia and he has charged expenses incurred on such business which resulted in gross profit rate of 1.09 per cent. Therefore, it is very much relevant to clinch the issue whether the assessee is a kachha arahatia or not. Going by the clarification issued by the Board in the aforesaid Circular No. 452, dated 17-3-1986 the case of the assessee fits in with the kachha arahatia vis-a-vis case of pacca arahatia. . . .” (pp. 585-586).

REFERRED TO IN - Manish Textiles v. ACIT [1991] 38 ITD 365 (Bom.).
APPENDIX II

[PARA 5.15]

F.No.149/287/2005-TPL

Distinction between shares held as stock-in-trade and shares held as investment - tests for such a distinction

1. The Income-tax Act, 1961 makes a distinction between a “capital asset” and a “trading asset”.

2. Capital asset is defined in Section 2(14) of the Act. Long-term capital assets and gains are dealt with under Section 2(29A) and Section 2(29B). Short-term capital assets and gains are dealt with under Section 2(42A) and Section 2(42B).

3. Trading asset is dealt with under Section 28 of the Act.

4. The Central Board of Direct Taxes (CBDT) through Instruction No.1827 dated August 31, 1989 had brought to the notice of the assessing officers that there is a distinction between shares held as investment (capital asset) and shares held as stock-in-trade (trading asset). In the light of a number of judicial decisions pronounced after the issue of the above instructions, it is proposed to update the above instructions for the information of assessee as well as for guidance of the assessing officers.

5. In the case of Commissioner of Income Tax (Central), Calcutta Vs Associated Industrial Development Company (P) Ltd (82 ITR 586), the Supreme Court observed that:

   "Whether a particular holding of shares is by way of investment or forms part of the stock-in-trade is a matter which is within the knowledge of the assessee who holds the shares and it should, in normal circumstances, be in a position to produce evidence from its records as to whether it has maintained any distinction between those shares which are its stock-in-trade and those which are held by way of investment."

6. In the case of Commissioner of Income Tax, Bombay Vs H. Holck Larsen (160 ITR 67), the Supreme Court observed:

   "The High Court, in our opinion, made a mistake in observing whether transactions of sale and purchase of shares were trading transactions or whether these were in the nature of investment was a question of law. This was a mixed question of law and fact."

7. The principles laid down by the Supreme Court in the above two cases afford adequate guidance to the assessing officers.

8. The Authority for Advance Rulings (AAR) (288 ITR 641), referring to the decisions of the Supreme Court in several cases, has culled out the following principles:
(i) Where a company purchases and sells shares, it must be shown that they were held as stock-in-trade and that existence of the power to purchase and sell shares in the memorandum of association is not decisive of the nature of transaction;

(ii) the substantial nature of transactions, the manner of maintaining books of accounts, the magnitude of purchases and sales and the ratio between purchases and sales and the holding would furnish a good guide to determine the nature of transactions;

(iii) ordinarily the purchase and sale of shares with the motive of earning a profit, would result in the transaction being in the nature of trade/adventure in the nature of trade; but where the object of the investment in shares of a company is to derive income by way of dividend etc. then the profits accruing by change in such investment (by sale of shares) will yield capital gain and not revenue receipt”.

9. Dealing with the above three principles, the AAR has observed in the case of Fidelity group as under:-

“We shall revert to the aforementioned principles. The first principle requires us to ascertain whether the purchase of shares by a FII in exercise of the power in the memorandum of association/trust deed was as stock-in-trade as the mere existence of the power to purchase and sell shares will not by itself be decisive of the nature of transaction. We have to verify as to how the shares were valued/held in the books of account i.e. whether they were valued as stock-in-trade at the end of the financial year for the purpose of arriving at business income or held as investment in capital assets. The second principle furnishes a guide for determining the nature of transaction by verifying whether there are substantial transactions, their magnitude, etc., maintenance of books of account and finding the ratio between purchases and sales. It will not be out of place to mention that regulation 18 of the SEBI Regulations enjoins upon every FII to keep and maintain books of account containing true and fair accounts relating to remittance of initial corpus of buying and selling and realizing capital gains on investments and accounts of remittance to India for investment in India and realizing capital gains on investment from such remittances. The third principle suggests that ordinarily purchases and sales of shares with the motive of realizing profit would lead to inference of trade/adventure in the nature of trade; where the object of the investment in shares of companies is to derive income by way of dividends etc., the transactions of purchases and sales of shares would yield capital gains and not business profits.”

10. CBDT also wishes to emphasise that it is possible for a tax payer to have two portfolios, i.e., an investment portfolio comprising of securities which are to be treated as capital assets and a trading portfolio comprising of stock-in-trade which are to be treated as trading assets. Where an assessee has two portfolios, the assessee may have income under both heads i.e., capital gains as well as business income.
11. Assessing officers are advised that the above principles should guide them in determining whether, in a given case, the shares are held by the assessee as investment (and therefore giving rise to capital gains) or as stock-in-trade (and therefore giving rise to business profits). The assessing officers are further advised that no single principle would be decisive and the total effect of all the principles should be considered to determine whether, in a given case, the shares are held by the assessee as investment or stock-in-trade.

12. These instructions shall supplement the earlier Instruction no. 1827 dated August 31, 1989.

APPENDIX III

Mandatory Communication - Relevant Extracts from the Code of Ethics (In view of the fact that with effect from 01.04.2014, the Companies Act, 1956 has been replaced with Companies Act, 2013, the “Code of Ethics” issued by ICAI is under revision. The members may refer the revised “Code of Ethics” as and when published.)


(Pages 163 to 168)

Clause (8): accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing;

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the enquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

It is important to remember that every client has an inherent right to choose his accountant; also that he may, subject to compliance with the statutory requirements in the case of limited Companies, make a change whenever he chooses, whether or not the reasons which had impelled him to do so are good and valid. The change normally occurs where there has been a change of venue of business and a local accountant is preferred or where the partner who has been dealing with the clients affairs retires or dies; or where temperaments clash or the client has some good reasons to feel dissatisfied. In such cases, the retiring auditor should
always accept the situation with good grace.

The existence of a dispute as regards the fees may be root cause of an auditor being changed. This would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered. However, in the case of an undisputed audit fees for carrying out the statutory audit under the Companies Act, 1956 or various other statutes having not been paid, the incoming auditor should not accept the appointment unless such fees are paid. In respect of other dues, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled. The professional reasons for not accepting an audit would be:

(i) Non-compliance of the provisions of Sections 224 and 225 of the Companies Act as mentioned in Clause (9);

(ii) Non-payment of undisputed audit fees by auditees other than in case of sick units for carrying out the statutory audit under the Companies Act, 1956 or various other statutes; and

(iii) Issuance of a qualified report.

In the first two cases, an auditor who accepts the audit would be guilty of professional misconduct. In this connection, attention of members is invited to the Council Guidelines No. 1-CA/(7)/02/2008 dated 08.08.08 appearing in Chapter-3 of the book and also published at page 686 of October, 2008 issue of the Journal. In the said guidelines, Council has explained that the provision for audit fee in accounts signed by both the auditee or the auditor shall be considered as “undisputed” audit fee and “sick unit” shall mean where the net worth is negative.

In the last case, however, he may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit. There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him in these circumstances. However, before accepting the audit, he should ascertain the full facts of the case. For nothing will bring the profession to disrepute so much as the knowledge amongst the public that if an auditor is found to be “inconvenient” by the client, he could readily be replaced by another who would not displease the client and this point cannot be too over-emphasised.

What should be the correct procedure to adopt when a prospective client tells you that he wants to change his auditor and wants you to take up his work? There being two persons involved, the Company and the old auditor, the former should be asked whether the retiring auditor had been informed of the intention to change. If the answer is in the affirmative, then a communication should be addressed to the retiring auditor. If, however, it is learnt that the old auditor has not been informed, and the client is not willing to make the first move, it would be
necessary to ask him the reason for the proposed change. If there is no valid reason for a change, it would be healthy practice not to accept the audit. If he decides to accept the audit he should address a communication to the retiring auditor.

As stated earlier, the object of the incoming auditor, in communicating with the retiring auditor is to ascertain from him whether there are any circumstances which warrant him not to accept the appointment. For example, whether the previous auditor has been changed on account of having qualified his report or he had expressed a wish not to continue on account of something inherently wrong with the administration of the business. The retiring auditor may even give out information regarding the condition of the accounts of the client or the reason that impelled him to qualify his report. In all these cases it would be essential for the incoming auditor to carefully consider the facts before deciding whether or not he should accept the audit, and should he do so, he must also take into account the information while discharging his duties and responsibilities.

Sometimes, the retiring auditor fails without justifiable cause except a feeling of hurt because of the change, to respond to the communication of the incoming auditor. So that it may not create a deadlock, the auditor appointed can act, after waiting for a reasonable time for a reply.

The Council has taken the view that a mere posting of a letter under certificate of posting is not sufficient to establish communication with the retiring auditor unless there is some evidence to show that the letter has in fact reached the person communicated with. A Chartered Accountant who relies solely upon a letter posted under certificate of posting therefore does so at his own risk.

The view taken by the Council has been confirmed in a decision by the Rajasthan High Court in J.S. Bhati vs. The Council of the Institute of the Chartered Accountants of India and another. (Pages 72-79 of Vol. V of Disciplinary Cases published by the Institute - Judgement delivered on 29th August, 1975). The following observations of the Court are relevant in this context:

"Mere obtaining a certificate of posting in my opinion does not fulfill the requirements of clause (8) of Schedule I as the presumption under Section 114 of the Evidence Act that the letter in due course reached the addressee cannot replace that positive degree of proof of the delivery of the letter to the addressee which the letters of the law in this case require. The expression ‘in communication with’ when read in the light of the instructions contained in the booklet ‘Code of Conduct’ cannot be interpreted in any other manner but to mean that there should be positive evidence of the fact that the communication addressed to the outgoing auditor by the incoming auditor reached his hands. Certificate of posting of a letter cannot, in the circumstances, be taken as positive evidence of its delivery to the addressee."

Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the
opinion of the Council, communication by a letter sent “Registered Acknowledgement due” or by hand against a written acknowledgement would in the normal course provide such evidence.

The Council is of the opinion that it would be a healthy practice to communicate with the member who had done the work previously in every case where a Chartered Accountant is required to give a certificate or in respect of a verification of the books of account for special purpose as well as in cases where he is appointed as a Liquidator, Trustee, or Receiver and his predecessor was a Chartered Accountant.

As a matter of professional courtesy and professional obligation it is necessary for the new auditor appointed to act jointly with the earlier auditor and to communicate with such earlier auditor.

It would also be a healthy practice if a tax auditor appointed for conducting special audit under the Income-tax Act, communicates with the member who has conducted the statutory audit.

It is desirable that a member, on receiving communication from the auditor who has been appointed in his place, should send a reply to him as soon as possible setting out in detail the reasons, which according to him had given rise to the change and other attendant circumstances but without disclosing any information as regards the affairs of the client which he is not competent to do.

The Council has taken the view that it is not obligatory for the auditor appointed to conduct a Special Audit under Section 233A of Companies Act, 1956 to communicate with the previous auditor who had conducted the regular audit for the period covered by the Special Audit.

The Council has also laid down the detailed guidelines on the subject as under:-

1. The requirement for communicating with the previous auditor being a Chartered Accountant in practice would apply to all types of audit viz., statutory audit, tax audit, internal audit, concurrent audit or any other kind of audit.

2. Various doubts have been raised by the members about the terms “audit”, “previous auditor”, “Certificate” and “report”, normally while interpreting the aforesaid Clause (8). These terms need to be clarified.

3. As per para 2 of the Institute’s publication viz. Standard on Auditing (SA) 200, Overall Objectives of the Independent Auditor and Conduct of an Audit in Accordance with Standards on Auditing an “audit” is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

4. The term “previous auditor” means the immediately preceding auditor who held same or similar assignment comprising same/similar scope of work. For example, a Chartered Accountant in practice appointed for an assignment of physical verification of inventory of raw materials, spares, stores and finished goods, before acceptance of appointment,
must communicate with the previous auditor being a Chartered Accountant in practice who was holding the appointment of physical verification of inventory of raw materials, stores, finished goods and fixed assets. The mandatory communication with the previous auditor being a Chartered Accountant is required even in a case where the previous auditor happens to be an auditor for a year other than the immediately preceding year.

5. As explained in para 2.2 of the Institute’s publication viz., ‘Guidance Note on Audit Reports and Certificates for Special Purposes’, a “certificate” is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. A “report”, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor’s opinion thereon. Thus, when a reporting auditor issues a certificate, he is responsible for the factual accuracy of what is stated therein. On the other hand, when a reporting auditor gives a report, he is responsible for ensuring that the report is based on factual data, that his opinion is in due accordance with facts, and that it is arrived at by the application of due care and skill.

6. A communication is mandatorily required for all types of audit/report where the previous auditor is a Chartered Accountant. For certification, it would be healthy practice to communicate. In case of assignments done by other professionals not being Chartered Accountants, it would also be a healthy practice to communicate.

7. Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and non-government entities, yet in the case of audit of government Companies/banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.
APPENDIX IV


GUIDELINES FOR THE MEMBERS OF ICAI

(Issued under the provisions of The Chartered Accountants Act, 1949)

Chapter I

Preliminary

1.0 Short title, commencement, etc.

(a) These Guidelines have been issued by the Council of the Institute of Chartered Accountants of India under the provisions of The Chartered Accountants Act, 1949, as amended by The Chartered Accountants (Amendment) Act 2006, in supersession of the Notifications issued by the Council under erstwhile Clause (ii) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(b) These Guidelines be called the ‘Council General Guidelines, 2008’.

1.1 Definitions.

1.1.1 For the purpose of these Guidelines:


(b) “Chartered accountant” means a person who is a member of the Institute.

(c) "Council" means the Council of the Institute constituted under section 9 of the Act.

(d) “Institute” means the Institute of Chartered Accountants of India constituted under the Act.

1.1.2 All other words and expressions used but not defined herein have the same meaning as assigned to them within the Chartered Accountants Act, 1949 and the Rules, Regulations and Guidelines made thereunder.

1.2 Applicability of the Guidelines

These guidelines shall be applicable to all the Members of the Institute whether in practice or not wherever the context so requires.
Chapter II

Conduct of a Member being an employee

2.0 A member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Chapter III

Appointment of a Member as Cost auditor

3.0 A member of the Institute shall not accept:

(i) The appointment as Cost auditor of a Company under Section 233B of the Companies Act, 1956 while he-

(a) is an auditor of the Company appointed under Section 224 of the Companies Act; or

(b) is an officer or employee of the Company; or

(c) is a partner, of any employee or officer of the Company; or

(d) is a partner or is in the employment of the Company’s auditor appointed under Section 224 of the Companies Act, 1956; or

(e) is indebted to the Company for an amount exceeding one thousand rupees, or

OR

(ii) After his appointment as Cost Auditor, he becomes subject to any of the disabilities stated in items (i) (a) to (e) above and continues to function as a cost auditor thereafter.

3.1 A member of the Institute in practice shall not accept the appointment as auditor of a Company under Section 224 of the Companies Act, 1956, while he is an employee of the cost auditor of the Company appointed under Section 233B of the Companies Act, 1956.

Chapter IV

Opinion on financial statements when there is substantial interest

4.0 A member of the Institute shall not express his opinion on financial statements of any business or enterprise in which one or more persons who are his “relatives” within the meaning of Section 6 of the Companies Act, 1956 have, either by themselves or in conjunction with such member, a substantial interest in the said business or enterprise.

Explanation: For this purpose and for the purpose of compliance of Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, the expression “substantial
interest” shall have the same meaning as is assigned thereto under Appendix (9) to the Chartered Accountants Regulations, 1988.

**Chapter V**

**Maintenance of books of accounts**

**5.0** A member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his / its professional practice, proper books of account including the following:

(i) a Cash Book;
(ii) a Ledger.

**Chapter VI**

**Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961**

**6.0** A member of the Institute in practice shall not accept, relating to an assessment year, more than the “specified number of tax audit assignments” under Section 44AB of the Income-tax Act, 1961.

Provided that in the case of a firm of Chartered Accountants in practice, the “specified number of tax audit assignments” shall be construed as the specified number of tax audit assignments for every partner of the firm.

Provided further that where any partner of the firm is also a partner of any other firm or firms of Chartered Accountants in practice, the number of tax audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the “specified number of tax audit assignments” in the aggregate.

Provided further that where any partner of a firm of Chartered Accountants in practice accepts one or more tax audit assignments in his individual capacity, the total number of such assignments which may be accepted by him shall not exceed the “specified number of tax audit assignments” in the aggregate.

Provided also that the audits conducted under Section 44AD, 44AE and 44AF of the Income-tax Act, 1961 shall not be taken into account for the purpose of reckoning the “specified number of tax audit assignments”.

**6.1 Explanation:**

For the above purpose, “the specified number of tax audit assignments” means -

(a) in the case of a Chartered Accountant in practice or a proprietary firm of Chartered Accountant, 60 tax audit assignments, relating to an assessment year, whether in respect of corporate or non-corporate assesses.
(b) in the case of firm of Chartered Accountants in practice, 60 tax audit assignments per partner in the firm, relating to an assessment year, whether in respect of corporate or non-corporate assesses.

6.1.1 In computing the “specified number of tax audit assignments” each year’s audit would be taken as a separate assignment.

6.1.2 In computing the “specified number of tax audit assignments”, the number of such assignments, which he or any partner of his firm has accepted whether singly or in combination with any other Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account.

6.1.3 The audit of the head office and branch offices of a concern shall be regarded as one tax audit assignment.

6.1.4 The audit of one or more branches of the same concern by one Chartered Accountant in practice shall be construed as only one tax audit assignment.

6.1.5 A Chartered Accountant being a part time practicing partner of a firm shall not be taken into account for the purpose of reckoning the tax audit assignments of the firm.

6.1.6 A Chartered Accountant in practice shall maintain a record of the tax audit assignments accepted by him relating to each assessment year in the format as may be prescribed by the Council.

Chapter VII
Appointment of an Auditor in case of non-payment of undisputed fees

7.0 A member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 1956 or various other statutes has not been paid:

Provided that in the case of sick unit, the above prohibition of acceptance shall not apply.

7.1 Explanation 1:
For this purpose, the provision for audit fee in accounts signed by both - the auditee and the auditor shall be considered as “undisputed” audit fee.

7.2 Explanation 2:
For this purpose, “sick unit” shall mean where the net worth is negative.
Chapter VIII
Specified number of audit assignments

8.0 A member of the Institute in practice shall not hold at any time appointment of more than the "specified number of audit assignments" of Companies under Section 224 and/or Section 228 of the Companies Act, 1956.

Provided that in the case of a firm of Chartered Accountants in practice, the "specified number of audit assignments" shall be construed as the specific number of audit assignments for every partner of the firm.

Provided further that where any partner of the firm of Chartered Accountants in practice is also a partner of any other firm or firms of Chartered Accountants in practice, the number of audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the "specified number of audit assignments" in the aggregate.

Provided further where any partner of a firm or firms of Chartered Accountants in practice accepts one or more audit of Companies in his individual capacity, or in the name of his proprietary firm, the total number of such assignments which may be accepted by all firms in relation to such Chartered Accountant and by him shall not exceed the "specified number of audit assignments" in the aggregate.

8.1 Explanation:
For the above purpose, the "specified number of audit assignments" means –

a. in the case of a Chartered Accountant in practice or a proprietary firm of Chartered Accountant, thirty audit assignments whether in respect of private Companies or other Companies.

b. in the case of Chartered Accountants in practice, thirty audit assignments per partner in the firm, whether in respect of private Companies or other Companies.

Provided that out of such "specified number of audit assignments", the number of audit assignments of public Companies each of which has a paid-up share capital of rupees twenty-five lakhs or more, shall not exceed ten.

8.2 In computing the "specified number of audit assignments"-

a. the number of audit of such Companies, which he or any partner of his firm has accepted whether singly or in combination with any other Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account.

b. the audit of the head office and branch offices of a Company by one Chartered Accountant or firm of such Chartered Accountants in practice shall be regarded as one audit assignment.
III.352 Auditing Pronouncements

c. the audit of one or more branches of the same Company by one Chartered Accountant in practice or by firm of Chartered Accountants in practice in which he is a partner shall be construed as one audit assignment only.

d. the number of partners of a firm on the date of acceptance of audit assignment shall be taken into account.

8.3 A Chartered Accountant in practice, whether in full-time or part-time employment elsewhere, shall not be counted for the purpose of determination of “specified number of audit of Companies” by firms of Chartered Accountants.

8.4 A Chartered Accountant being a part time practicing partner of a firm shall not be taken into account for the purpose of reckoning the audit assignments of the firm.

8.5 A Chartered Accountant in practice as well as firm of Chartered Accountants in practice shall maintain a record of the audit assignments accepted by him or by the firm of Chartered Accountants, or by any of the partners of the firm in his individual name or as a partner of any other firm, as far as possible, in the following format:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Name of the Company</th>
<th>Registration Number</th>
<th>Date of Appointment</th>
<th>Date of Acceptance</th>
<th>Date on which Form 23-B filed with the Registrar of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chapter IX

Appointment as Statutory auditor

9.0 A member of the Institute in practice shall not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/ Listed Company(ies) and other Public Company(ies) having turnover of Rs. 50 crores or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company(ies) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company.

Provided that in case appointing authority(ies)/regulatory body(ies) specify(ies) more stringent condition(s)/ restriction(s), the same shall apply instead of the conditions/ restrictions specified under these Guidelines.

9.1 The above restrictions shall apply in respect of fees for other work(s) or service(s) or assignment(s) payable to the statutory auditors and their associate concern(s) put together.

9.2 For the above purpose,
(i) the term “other work(s)” or “service(s)” or “assignment(s)” shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include: -
   (a) audit under any other statute;
   (b) certification work required to be done by the statutory auditors; and
   (c) any representation before an authority;

(ii) the term “associate concern” means any corporate body or partnership firm which renders the Management Consultancy and all other professional services permitted by the Council wherein the proprietor and/or partner(s) of the statutory auditor firm and/or their “relative(s)” is/are Director/s or partner/s and/or jointly or severally hold “substantial interest” in the said corporate body or partnership;

(iii) the terms “relative” and “substantial interest” shall have the same meaning as are assigned thereto under Appendix (9) to the Chartered Accountants Regulations, 1988.

9.3 In regard to taking up other work(s) or service(s) or assignment(s) of the undertaking/company referred to above, it shall be open to such associate concern or corporate body to render such work(s) or service(s) or assignment(s) so long as aggregate remuneration for such other work(s) or service(s) or assignment(s) payable to the statutory auditor/s together with fees payable to its associate concern(s) or corporate body(ies) do/does not exceed the aggregate of fee payable for carrying out the statutory audit.

Chapter X
Appointment of an auditor when he is indebted to a concern

10.0 A member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding Rs. 10,000/-

Chapter XI
Directions in case of unjustified removal of auditors

11.0 A member of the Institute in practice shall follow the direction given, by the Council or an appropriate Committee or on behalf of any of them, to him being the incoming auditor(s) not to accept the appointment as auditor(s), in the case of unjustified removal of the earlier auditor(s).
**Chapter XII**

**Minimum Audit Fee in respect of Audit**

12.0 A member of the Institute in practice shall not, on behalf of the firm of chartered accountants in which he is a partner, accept or carry out any audit work involving receipt of audit fees (excluding reimbursement of expenses, if any) for such work of an amount less than what is specified hereunder:-

(a) consisting of 5 or more partners but less than 10 partners with at least one partner holding a certificate of practice for five years or more; or

(b) consisting of 10 or more partners with at least one partner holding a certificate of practice for five years or more.

<table>
<thead>
<tr>
<th>Practising firm having 5 or more partners but less than 10 partners</th>
<th>Practising firm having 10 or more partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) In cities with population of 3 million and above. (as per the last census)</td>
<td>Rs. 6000/-p.a.</td>
</tr>
<tr>
<td>(ii) In cities/towns having population of less than 3 million. (as per the last census)</td>
<td>Rs. 3500/-p.a.</td>
</tr>
</tbody>
</table>

Provided that such restriction shall not apply in respect of the following: -

(i) audit of accounts of charitable institutions clubs, provident funds, etc. where the appointment is honorary i.e. without any fees;

(ii) statutory audit of branches of banks including regional rural banks;

(iii) audit of newly formed concerns relating to two accounting years from the date of commencement of their operations;

(iv) certification or audit under Income-tax Act or other attestation work carried out by the Statutory Auditor; and

(v) Sales Tax Audit and VAT Audit.

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*Chapter XII – ‘Minimum Audit fee in respect of Audit’ was repealed by the Council at its 306th meeting held on 7th & 8th June, 2011.*
12.1 Explanation:

For the purpose of these Guidelines, the expression statutory auditor means and includes a chartered accountant appointed as an auditor under a Central/State or Provincial Act as well as an auditor appointed under any agreement.

The Council has clarified that for the above purpose the audit of Provident Fund Trust, Gratuity Fund etc. carried out by the statutory auditor are to be considered as separate and distinct audit so that the above restrictions are applicable to it.

Chapter XIII
Repeal and Saving

13.0 The Notifications as specified in the Schedule hereto, issued under erstwhile Clause (ii) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 by the Council from time to time shall stand repealed from the date herein.

13.1 Notwithstanding such repeal:-

(a) Anything done or any action taken or purported to have been done or taken, any enquiry or investigation commenced or show cause notice issued in respect of the said notifications shall be deemed to have been done or taken under the corresponding provisions of these guidelines.

(b) Any application made to the Council or Director (Discipline) under the said Notifications and pending before the Director (Discipline), Board of Discipline, Disciplinary Committee and the Council shall be deemed to have been made under the corresponding provisions of these Guidelines.

SCHEDULE

2. No.1- CA (37)/70, Published in Part III Section 4 of the Gazette of India dated 30th May, 1970.
3. No.1- CA (39)/70, Published in Part III Section 4 of the Gazette of India dated 24th October, 1970.
4. No.1-CA (44)/71, Published in Part III Section 4 of the Gazette of India dated 20th March, 1971.
5. No.1- CA (153)/86, Published in Part III Section 4 of the Gazette of India dated 30th August, 1986.
356 Auditing Pronouncements

7. No.1- CA (7)/9/89, Published in Part III Section 4 of the Gazette of India dated 19th August, 1989 (Since quashed by the Supreme Court vide Order dated 16th May, 2007).

APPENDIX V

Relevant extracts from the Code of Ethics, 11th Edition, January 2009 pages 239-243 (In view of the fact that with effect from 01.04.2014, the Companies Act, 1956 has been replaced with Companies Act, 2013, the “Code of Ethics” issued by ICAI is under revision. The members may refer the revised “Code of Ethics” as and when published.)

Clause (4): expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has a substantial interest;

If the opinion of auditors are to command respect and the confidence of the public, it is essential that it must be free of any interest which is likely to affect their independence. Since financial interest in the business can be a substantial interest and one of the important factors which may disturb independence, the existence of such an interest direct or indirect affects the opinion of the auditors. As per this clause, an auditor should not express his opinion on financial statements of any business or enterprise wherein he has a substantial interest. This is intended to assure the public as regards the faith and confidences that could be reposed on the independent opinion expressed by the auditors.

In this connection attention of members is also invited to Chapter IV of Council Guidelines No.
1-CA(7)/02/2008 dated 8th August, 2008. The said guidelines state that a member of the Institute shall not express his opinion on financial statements of any business or enterprise in which one or more persons, who are his "relatives" within the meaning of AS-18, have either by themselves or in conjunction with such members, a substantial interest in the said business or enterprise. For the purpose of said guideline and aforesaid clause, the expression “substantial interest” shall have meaning as is assigned thereto, under Appendix (9) of the Chartered Accountants Regulations, 1988. (see Appendix-'F').

The words “financial statements” used in this clause would cover both reports and certificates usually given after an examination of the accounts or the financial statement or any attest function under any statutory enactment or for purposes of income-tax assessments. This would not, however, apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority.

Public conscience is expected to be ahead of the law. Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardise their independence.

Member must take care to see that they do not land themselves in situations where there could be conflict of interest and duty. For example, where a Chartered Accountant is appointed the Liquidator of a Company, he should not qua a Chartered Accountant himself, audit the Statement of Accounts to be filed under Section 551(1) of the Companies Act, 1956. The audit in such circumstances should be done by a chartered Accountant other than the one who is the Liquidator of the Company.

In this connection, the Council has decided not to permit a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice. This restriction would not however apply where the certification is permitted by any law, e.g. Section 228(iv) of the Companies Act, 1956 and the Companies (Branch Audit Exemption) Rules, 1961 made thereunder. The Council has also decided that a Chartered Accountant should not by himself or in his firm name:-

(i) accept the auditorship of a college, if he is working as a part-time lecturer in the college.

(ii) accept the auditorship of a trust where his partner is either an employee or a trustee of the trust.

The Council has, in this connection, issued the following guidelines:

Attention of the members is invited to the provisions of Clause (4) of Part I of the Second
Schedule to the Chartered Accountants Act which provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has a substantial interest.

Many new areas of professional work have been added, e.g., Tax Audit, Concurrent Audit of Banks, Concurrent Audit of Borrowers of Financial institutions, Audit of non-corporate borrowers of banks and financial institutions, audit of stock exchange, brokers etc. The Council wishes to emphasize that the aforesaid requirement of Clause (4) are equally applicable while performing all types of attest functions by the members. Some of the situations which may arise in the applicability of Clause (4) are discussed below for the guidance of members:-

1. **Where the member, his firm or his partner or his relative has substantial interest in the business or enterprise.**

   The independence of mind is a fundamental concept of audit and/or expression of opinion on the financial statements in any form and, therefore, must always be maintained. Nothing can substitute for the essential and fundamental requirements of independence. Therefore, the Council’s views are clarified in the following circumstances.

   (i) **An enterprise/concern of which a member is either an owner or a partner**

   The holding of interest in the business or enterprise by a member himself whether as sole-proprietor or partner in a firm, in the opinion of the Council, would affect his independence of mind in the performance of professional duties in conducting the audit and/or expressing an opinion on financial statements of such enterprise. Therefore, a member should not audit financial statements of such business or enterprise.

   (ii) **Where the partner or relative of a member has substantial interest**

   The holding of substantial interest by the partner or relative of the member in the business or enterprise of which the audit is to be carried out and opinion is to be expressed on the financial statement, may also affect the independence of mind of the member, in the opinion of Council, in the performance of professional duties. Therefore, the member may, for the same reasons as not to compromise his independence, desist from undertaking the audit of financial statements of such business or enterprise.

2. **Where the member or his partner or relative is a director or in the employment of an officer or an employee of the Company.**

   Section 226 of the Companies Act specifically prohibits a member from auditing the accounts of a Company in which he is a director or in the employment of an officer or an employee of the Company. Although the provisions of the aforesaid section are not specifically applicable in the context of audits performed under other statutes, e.g. tax audit, yet the underlying principle of independence of mind is equally applicable in those situations also. Therefore, the Council’s views are clarified in the following situations.
(i) Where a member is a director

In cases where the member is a director of a Company the financial statements of which are to be audited and/or opinion is to be expressed, he should not undertake such job and/or express opinion on the financial statements of that Company.

(ii) Where a partner or relative of the member is a director in the Company who has a substantial interest.

In such cases for the reason as not to compromise with the independence of mind, the member may desist from undertaking the audit of financial statements and/or expression of opinion thereon. The meaning of the words "relative" and "substantial interest" shall be the same as are contained in the Resolution passed by the Council in pursuance to Regulation, 190A of Chartered Accountants Regulations, 1988 (see Appendix-‘F’).

An accountant is expected to be no less independent in the discharge of his duties as a tax consultant or as a financial adviser than as auditor. In fact, it is necessary that he should bear the same degree of integrity and independence of mind in all spheres of his work. Unless this is done, the accounts of Companies audited by Chartered Accountants or statements made by them during the course of assessment proceedings would not be relied upon as correct by the authorities.

The Council has clarified that the members are not permitted to write the books of account of their auditee clients.

A statutory auditor of a Company cannot also be its internal auditor, as it will not be possible for him to give independent and objective report issued under sub-Section 4A of Section 227 of the Companies Act read with the Companies (Auditor’s Report) Order, 2003.

A member should satisfy himself before accepting an appointment as an auditor of an entity that his appointment is in accordance with the statute governing the entity. In case the entity is constituted under a trust deed/instrument, the member should satisfy whether his appointment is valid according to the instrument constituting the entity and rules and regulations made thereunder. In case the appointment is to be authorised by the regulatory authorities such as in the case of cooperative societies, trusts etc. then the member must satisfy whether such regulatory authorities have authorised the managing committee of the society/trust for appointment of the auditors. In a case where any entity is being managed by a Managing Committee or Board of Trustees or Board of Governors by whatever name called he should ensure that his appointment is duly made by a resolution passed of such Managing Committee or Board of Trustees or Board of Governors. Even in case of partnership or sole proprietary concerns, the member must ensure that a letter of appointment/engagement is given by the firm/sole proprietor before he accepts the appointment/engagement.
### APPENDIX VI

[Para 9.26]

**FORM OF TAX AUDIT PARTICULARS TO BE FURNISHED BY MEMBERS/FIRM**

**Record of Tax Audit Assignments**

1. Name of the Member accepting the assignment
2. Membership No.
3. Financial year of audit acceptance
4. Name and Registration No. of the firm/ firms of which the member is a proprietor or partner.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of the auditee</th>
<th>Assessment year of the auditee</th>
<th>Date of appointment</th>
<th>Date of acceptance</th>
<th>Name of the firm on whose behalf the member has accepted the assignment</th>
<th>Date of communication with the previous auditor (applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
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<td>4</td>
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</tr>
</tbody>
</table>

### APPENDIX VII

[Para 9.27]

**Revised Minimum recommended scale of fees chargeable for the professional assignments done by Chartered Accountants** - An announcement hosted by Committee for Capacity Building of CA Firms and Small and Medium Practitioners-Last updated on 18th July, 2014:

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For Class A Cities</td>
</tr>
<tr>
<td>I) ADVISING ON DRAFTING OF DEEDS/AGREEMENTS</td>
<td>Revised Minimum Recommended scale of Fees</td>
</tr>
<tr>
<td>(a) i) Partnership Deed</td>
<td>Rs. 10,500/- &amp;</td>
</tr>
</tbody>
</table>
### Part III: Guidance Notes

#### III.361

<table>
<thead>
<tr>
<th>II) INCOME TAX</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Filing of Return of Income</td>
<td></td>
</tr>
<tr>
<td>I) For Individuals/ HUFs etc.</td>
<td></td>
</tr>
<tr>
<td>(a) Filing of Return of Income with Salary/Other Sources/Share of Profit</td>
<td>Rs. 6,000/- &amp; Above</td>
</tr>
<tr>
<td>(b) Filing of Return of Income with detailed Capital Gain working</td>
<td></td>
</tr>
<tr>
<td>(i) Less than 10 Transactions (For Shares &amp; Securities)</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td>(ii) More than 10 Transactions (For Shares &amp; Securities)</td>
<td>Rs. 15,000/- &amp; Above</td>
</tr>
<tr>
<td>(c) Filing of Return of Income for Capital Gain on Immovable property</td>
<td>Rs. 30,000/- &amp; Above</td>
</tr>
<tr>
<td>(d) Filing of Return of Income with Preparation of Bank Summary, Capital A/c &amp; Balance Sheet.</td>
<td>Rs. 10,500/- &amp; Above</td>
</tr>
<tr>
<td>II) (a) Partnership Firms/Sole Proprietor with Advisory Services</td>
<td>Rs. 12,000/- &amp; Above</td>
</tr>
<tr>
<td>(b) Minor’s I.T. Statement</td>
<td>Rs. 6,000/- &amp; Above</td>
</tr>
<tr>
<td>(c) Private Ltd. Company :</td>
<td></td>
</tr>
<tr>
<td>(i) Active</td>
<td>Rs. 22,500/- &amp; Above</td>
</tr>
<tr>
<td>(ii) Defunct</td>
<td>Rs. 10,500/- &amp; Above</td>
</tr>
<tr>
<td>(d) Public Ltd. Company</td>
<td></td>
</tr>
<tr>
<td>(i) Active</td>
<td>Rs. 60,000/- &amp; Above</td>
</tr>
<tr>
<td>(ii) Defunct</td>
<td>Rs. 22,500/- &amp; Above</td>
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<tr>
<td>Section</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>B.</td>
<td>Filing of Forms Etc. (Quarterly Fees)</td>
</tr>
<tr>
<td>(a)</td>
<td>Filing of TDS/TCS Return (per Form)</td>
</tr>
<tr>
<td>(i) With 5 or less Entries</td>
<td>Rs. 3,000/- &amp; Above</td>
</tr>
<tr>
<td>(ii) With more than 5 Entries</td>
<td>Rs. 7,500/- &amp; Above</td>
</tr>
<tr>
<td>(b)</td>
<td>Filing of Form No. 15-H/I/G (per Set)</td>
</tr>
<tr>
<td>(c)</td>
<td>Form No. 49-A/49-B</td>
</tr>
<tr>
<td>(d)</td>
<td>Any other Forms filed under the Income Tax Act</td>
</tr>
<tr>
<td>C.</td>
<td>Certificate</td>
</tr>
<tr>
<td></td>
<td>Obtaining Certificate from Income Tax Department</td>
</tr>
<tr>
<td>D.</td>
<td>Filing of Appeals Etc.</td>
</tr>
<tr>
<td>(a)</td>
<td>First Appeal Preparation of Statement of Facts, Grounds of Appeal, Etc.</td>
</tr>
<tr>
<td>(b)</td>
<td>Second Appeal (Tribunal)</td>
</tr>
<tr>
<td>E.</td>
<td>Assessments Etc.</td>
</tr>
<tr>
<td>(a)</td>
<td>Attending Scrutiny Assessment/Appeal</td>
</tr>
<tr>
<td>(i) Corporate</td>
<td>See Note 1</td>
</tr>
<tr>
<td>(ii) Non Corporate</td>
<td>Rs. 30,000/- &amp; Above</td>
</tr>
<tr>
<td>(b)</td>
<td>Attending before Authorities</td>
</tr>
<tr>
<td>(c)</td>
<td>Attending for Rectifications/Refunds/Appeal effects Etc.</td>
</tr>
<tr>
<td>(d)</td>
<td>Income Tax Survey</td>
</tr>
</tbody>
</table>
### Part-III: Guidance Notes

#### (e) T.D.S. Survey
- Rs. 45,000/- & Above
- Rs. 30,000/- & Above

#### (f) Income Tax Search and Seizure
- See Note 1
- See Note 1

#### (g) Any other Consultancy
- See Note 1
- See Note 1

<table>
<thead>
<tr>
<th>III) CHARITABLE TRUST</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td>(i) Registration Under Local Act</td>
<td>Rs. 22,500/- &amp; Above</td>
</tr>
<tr>
<td>(ii) Societies Registration Act</td>
<td>Rs. 30,000/- &amp; Above</td>
</tr>
<tr>
<td>(b) Registration Under Income Tax Act</td>
<td>Rs. 22,500/- &amp; Above</td>
</tr>
<tr>
<td>(c) Exemption Certificate U/s 80G of Income Tax Act</td>
<td>Rs. 18,000/- &amp; Above</td>
</tr>
<tr>
<td>(d) Filing Objection Memo/other Replies</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td>(e) Filing of Change Report</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td>(f) Filing of Annual Budget</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td>(g) Attending before Charity Commissioner including for Attending Objections</td>
<td>Rs. 7,500/- &amp; Above per visit</td>
</tr>
<tr>
<td>(h) (i) F.C.R.A. Registration</td>
<td>Rs. 30,000/- &amp; Above</td>
</tr>
<tr>
<td>(ii) F.C.R.A. Certification</td>
<td>Rs. 7,500/- &amp; Above</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV) COMPANY LAW AND LLP WORK</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Filing Application for Name Approval</td>
<td>Rs. 6,000/- &amp; Above</td>
</tr>
<tr>
<td>(b) Incorporation of a Private Limited Company/LLP</td>
<td>Rs. 30,000/- &amp; Above</td>
</tr>
<tr>
<td>(c) Incorporation of a Public Limited Company</td>
<td>Rs. 60,000/- &amp; Above</td>
</tr>
<tr>
<td>(d) (i) Company's/LLP ROC Work, Preparation of Minutes, Statutory Register &amp; Other Secretarial Work</td>
<td>See Note 1</td>
</tr>
<tr>
<td>(ii) Certification (Per Certificate)</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td>(e) Filing Annual Return Etc.</td>
<td>Rs. 9,000/- &amp; Above</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(f)</td>
<td>Filing Other Forms Like: F-32, 18, 2 etc.</td>
</tr>
<tr>
<td>(g)</td>
<td>Increase in Authorised Capital</td>
</tr>
<tr>
<td>(h)</td>
<td>DPIN/DIN per Application</td>
</tr>
<tr>
<td>(i)</td>
<td>Company Law Consultancy including Petition drafting</td>
</tr>
<tr>
<td>(j)</td>
<td>Company Law representation including LLP before RD and CLB</td>
</tr>
<tr>
<td>(k)</td>
<td>ROC Representation</td>
</tr>
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</table>

**V) V.A.T./PROFESSIONAL TAX**

**A. Registration Work**

<table>
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<tr>
<th></th>
<th></th>
<th>Above per Form</th>
<th>Above per Form</th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Registration Under V.A.T. &amp; C.S.T. Corporate Non Corporate</td>
<td>See Note 1</td>
<td>See Note 1</td>
</tr>
<tr>
<td>(b)</td>
<td>Professional Tax Registration (PTR)</td>
<td>Rs. 6,000/- &amp; Above</td>
<td>Rs. 4,000/- &amp; Above</td>
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<td>(c)</td>
<td>Professional Tax Enrollment (per Application)</td>
<td>Rs. 3,000/- &amp; Above</td>
<td>Rs. 2,000/- &amp; Above</td>
</tr>
</tbody>
</table>

**B. Filing of Return (V.A.T.)**

<table>
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<tr>
<th></th>
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<th>Above per Form</th>
<th>Above per Form</th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Monthly Challans with Annual Return</td>
<td>Rs. 3,000 + (Per Month)</td>
<td>Rs. 2,000/- + (Per Month)</td>
</tr>
<tr>
<td>(b)</td>
<td>Quarterly Challans with Annual Return</td>
<td>Rs. 4,500 + (Per Quarter)</td>
<td>Rs. 3,000/- + (Per Quarter)</td>
</tr>
<tr>
<td>(c)</td>
<td>Six Monthly Challans with Annual Return</td>
<td>Rs. 6,000 + (Per 6 Months)</td>
<td>Rs. 4,000/- + (Per 6 Months)</td>
</tr>
<tr>
<td>(d)</td>
<td>Yearly Composition Return</td>
<td>Rs. 9,000/- &amp; Above</td>
<td>Rs. 6,000/- &amp; Above</td>
</tr>
</tbody>
</table>

**C. Assessments/Appeals**

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<th>Above per Form</th>
<th>Above per Form</th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Attending V.A.T./Commercial</td>
<td>Rs. 15,000/-</td>
<td>Rs. 10,000/-</td>
</tr>
<tr>
<td>Tax Assessments</td>
<td>7,500/- (Per Visit)</td>
<td>5,000/- (Per Visit)</td>
<td></td>
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<td>-----------------</td>
<td>-------------------</td>
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<td></td>
</tr>
<tr>
<td>(b) Attending V.A.T./Commercial Tax Appeals</td>
<td>Rs. 15,000/- + 9,000/- (Per Visit)</td>
<td>Rs. 10,000/- + 6,000/- (Per Visit)</td>
<td></td>
</tr>
</tbody>
</table>

D. Filing of Appeal/Appeals Drafting

(a) First Appeal (AC/DC) | Rs. 15,000/- & Above | Rs. 10,000/- & Above |
(b) Second Appeal | Rs. 22,500/- & Above | Rs. 15,000/- & Above |

E. Miscellaneous Work

(a) Professional Tax Returns & Assessment | Rs. 7,500/- & Above | Rs. 5,000/- & Above |
(b) Obtaining C/F/H Forms under V.A.T./Commercial Tax | (Per Application) | (Per Application) |
(i) First Time | Rs. 6,000/- & Above | Rs. 4,000/- & Above |
(ii) Renewal | Rs. 3,000/- & Above | Rs. 2,000/- & Above |

VI) AUDIT AND OTHER ASSIGNMENTS

Rate per day would depend on the complexity of the work and the number of days spent by each person

(i) Principal | Rs. 15,000/- & Above per day | Rs. 10,000/- & Above per day |
(ii) Qualified Assistants | Rs. 7,500/- & Above per day | Rs. 5,000/- & Above per day |
(iii) Semi Qualified Assistants | Rs. 3,000/- & Above per day | Rs. 2,000/- & Above per day |
(iv) Other Assistants | Rs. 1,500/- & Above per day | Rs. 1,000/- & Above per day |

Subject to minimum indicative Fees as under:
### III.366 Auditing Pronouncements

| (i) Tax Audit | Rs. 37,500/- & Above | Rs. 25,000/- & Above |
| (ii) Company Audit |  |  |
| (a) Small Pvt. Ltd. Co. (Turnover up to Rs. 2 Crore) | Rs. 45,000/- & Above | Rs. 30,000/- & Above |
| (b) Medium Size Pvt. Ltd. Co./Public Ltd. Co. | Rs. 75,000/- & Above | Rs. 50,000/- & Above |
| (c) Large Size Pvt. Ltd. Co./Public Ltd. Co. | See Note 1 | See Note 1 |
| (iii) V.A.T. Audit | Rs. 22,500/- & Above | Rs. 15,000/- & Above |
| (iv) Review of TDS Compliance | Rs. 22,500/- & Above | Rs. 15,000/- & Above |
| (v) Transfer Pricing Audit | See Note 1 | See Note 1 |

### VII) INVESTIGATION, MANAGEMENT SERVICES OR SPECIAL ASSIGNMENTS

Rate per day would depend on the complexity of the work and the number of days spent by each person.

| (a) Principal | Rs. 30,000/- & Above + per day charge | Rs. 20,000/- & Above + per day charge |
| (b) Qualified Assistant | Rs. 15,000/- & Above + per day charge | Rs. 10,000/- & Above + per day charge |
| (c) Semi Qualified Assistant | Rs. 7,500/- & Above + per day charge | Rs. 5,000/- & Above + per day charge |

### VIII) CERTIFICATION WORK

<p>| (a) Issuing Certificates under the Income Tax Act i.e. U/s 80IA/80IB/10 A/10B &amp; other Certificates | See Note 1 | See Note 1 |
| (b) Other Certificates |  |  |
| For LIC/Passport/Credit Card/Etc. | Rs. 7,500/- &amp; Above | Rs. 5,000/- &amp; Above |
| (c) Other Attestation (True Copy) | Rs. 1,500/- per | Rs. 1,000/- per |</p>
<table>
<thead>
<tr>
<th>Part-III: Guidance Notes   III.36</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net worth Certificate for person going abroad</strong></td>
</tr>
<tr>
<td>Rs. 1,500/- &amp; Above</td>
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<table>
<thead>
<tr>
<th>IX) WEALTH TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Per statement</td>
</tr>
<tr>
<td>(b) Statement &amp; Filing Return</td>
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<table>
<thead>
<tr>
<th>X) CONSULTATION &amp; ARBITRATION</th>
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<tbody>
<tr>
<td>Rate per hour would depend on the complexity of the work and the number of hours agent by each person.</td>
</tr>
<tr>
<td>(a) Principal</td>
</tr>
<tr>
<td>(b) Qualified Assistant</td>
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<tr>
<td>(c) Semi Qualified Assistant</td>
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<thead>
<tr>
<th>XI) NBFC/RBI MATTERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) NBFC Registration with RBI</td>
</tr>
<tr>
<td>(b) Other Returns</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>XII) SERVICE TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Registration</td>
</tr>
<tr>
<td>(b) Registration with Consultation</td>
</tr>
<tr>
<td>(c) Tax Advisory &amp; Consultation i.e. about value, taxability, classification etc.</td>
</tr>
<tr>
<td>(d) Monthly Challan with Half Yearly Return</td>
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</table>
III.368 Auditing Pronouncements

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<tbody>
<tr>
<td>(e)</td>
<td>Quarterly Challan with Half Yearly Return</td>
<td>Rs. 15,000/- &amp; Above + (Rs. 4,500/- Per Quarter)</td>
</tr>
<tr>
<td>(f)</td>
<td>Adjudication</td>
<td>Rs. 45,000/- &amp; Above</td>
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<tr>
<td>(g)</td>
<td>Appeal &amp; show cause notice drafting/ reply</td>
<td>Rs. 30,000/- &amp; Above</td>
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<thead>
<tr>
<th></th>
<th>FEMMA MATTERS</th>
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<tbody>
<tr>
<td>1</td>
<td>Filing Declaration with RBI in relation to transaction by NRIs/OCBs</td>
</tr>
<tr>
<td>2</td>
<td>Obtaining Prior Permissions from RBI for Transaction with NRIs/OCBs</td>
</tr>
<tr>
<td>3</td>
<td>Technical Collaboration: Advising, obtaining RBI permission, drafting and preparing technical collaboration agreement and incidental matters</td>
</tr>
<tr>
<td>4</td>
<td>Foreign Collaboration: Advising, obtaining RBI permission, drafting and preparing technical collaboration agreement and incidental matters (incl. Shareholders Agreement)</td>
</tr>
<tr>
<td>5</td>
<td>Advising on non Resident Taxation Matters including Double Tax Avoidance Agreements including FEMA</td>
</tr>
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<tr>
<th></th>
<th>PROJECT FINANCING</th>
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</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Preparation of CMA Data</td>
</tr>
<tr>
<td>(b)</td>
<td>Services relating to Financial sector</td>
</tr>
</tbody>
</table>

Notes:
1) Fees to be charged depending on the complexity and the time spent on the particular assignment.
Part-III: Guidance Notes

2) The above recommended minimum scale of fees is as recommended by the Committee for Capacity Building of CA Firms & Small and Medium Practitioners (CCBCAF&SMP) of ICAI and duly considered by the council.

3) The aforesaid table states recommendatory minimum scale of fees works out by taking into account average time required to complete such assignments. However, members are free to charge varying rates depending upon the nature and complexity of assignment and time involved in completing the same.

4) Office time spent in travelling & out-of-pocket expenses would be chargeable. The Committee issues for general information the above recommended scale of fees which it considers reasonable under present conditions. It will be appreciated that the actual fees charged in individual cases will be matter of agreement between the member and the client.

5) Service Tax should be collected separately wherever applicable.

6) The Committee also recommends that the bill for each service should be raised separately and immediately after the services are rendered.

7) "Class A Cities here includes Delhi, Mumbai, Calcutta, Chennai, Pune, Hyderabad, Bangalore and Ahmedabad.
Class B Cities includes all other cities not included in "Class A"."

8) The amount charged will be based on the location of the service provider.

Please note the above mentioned rates are as per the data available on ICAI website at below link:

http://www.icai.org/new_post.html?post_id=7252

APPENDIX VIII
[PARA 10.3 & 10.8]

I. Harmonised Criteria for Classification of Entities

1) Criteria for classification of non-corporate entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

**Level II Entities (SMEs)**

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds 1 crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

**Level III Entities (SMEs)**

Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

**Additional requirements**

(1) An SME which does not disclose certain information pursuant to the exemptions or relaxations given to it should disclose (by way of a note to its financial statements) the fact that it is an SME and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III, as the case may be.

(2) Where an entity, being covered in Level II or Level III, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III, as the case may be. The fact that the entity was covered in Level II or Level III, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities should be disclosed in the notes to the financial statements.
(3) Where an entity has been covered in Level I and subsequently, ceases to be so covered, the entity will not qualify for exemption/relaxation available to Level II entities, until the entity ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

(4) If an entity covered in Level II or Level III opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it should disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to that Level of entities, it should disclose that information in compliance with the relevant Accounting Standard.

(6) An entity covered in Level II or Level III may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure should not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, Employee Benefits, exemptions/relaxations are available to Level II and Level III entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these sub-classifications.

(2) Criteria for classification of companies under the Companies (Accounting Standards) Rules, 2006

Small and Medium-Sized Company (SMC) as defined in Clause 2(f) of the Companies (Accounting Standards) Rules, 2006:

(f) “Small and Medium Sized Company” (SMC) means, a company-

(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

**Explanation:** For the purposes of clause (f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

**Non-SMCs**

Companies not falling within the definition of SMC are considered as Non-SMCs.

**Instructions**

**A. General Instructions**

1. SMCs shall follow the following instructions while complying with Accounting Standards under these Rules:-

   1.1 The SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an SMC and has complied with the Accounting Standards insofar as they are applicable to an SMC on the following lines:

   “The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”

   1.2 Where a company, being an SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it had availed of the exemptions or relaxations available to SMCs shall be disclosed in the notes to the financial statements.

   1.3 If an SMC opts not to avail of the exemptions or relaxations available to an SMC in respect of any but not all of the Accounting Standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxation.

   1.4 If an SMC desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standard.

   1.5 The SMC may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:
Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

B. *Other Instructions*

Rule 5 of the Companies (Accounting Standards) Rules, 2006, provides as below:

"5. An existing company, which was previously not a Small and Medium Sized Company (SMC) and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of Accounting Standards available to an SMC until the company remains an SMC for two consecutive accounting periods."

II  Applicability of Accounting Standards to Companies

(I) **Accounting Standards applicable to all companies in their entirety for accounting periods commencing on or after 7th December, 2006**

- AS 1  Disclosures of Accounting Policies
- AS 2  Valuation of Inventories
- AS 4  Contingencies and Events Occurring After the Balance Sheet Date
- AS 5  Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- AS 6  Depreciation Accounting
- AS 7  Construction Contracts (revised 2002)
- AS 9  Revenue Recognition
- AS 10  Accounting for Fixed Assets
- AS 12  Accounting for Government Grants
- AS 13  Accounting for Investments
- AS 14  Accounting for Amalgamations
- AS 16  Borrowing Costs
- AS 18  Related Party Disclosures
- AS 22  Accounting for Taxes on Income
- AS 24  Discontinuing Operations
- AS 26  Intangible Assets

(II) **Exemptions or Relaxations for SMCs as defined in the Notification**

(A) *Accounting Standards not applicable to SMCs in their entirety:*
AS 3  Cash Flow Statements.

AS 17  Segment Reporting

(B) **Accounting Standards not applicable to SMCs since the relevant Regulations require compliance with them only by certain Non-SMCs**:  
(i) AS 21, Consolidated Financial Statements
(ii) AS 23, Accounting for Investments in Associates in Consolidated Financial Statements
(iii) AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements)

(C) **Accounting Standards in respect of which relaxations from certain requirements have been given to SMCs**:

(i) Accounting Standard (AS)15, Employee Benefits (revised 2005)
   (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
   (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
   (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such companies should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such companies should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

---

3 AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by a company if the company, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.
(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such companies should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(ii) AS 19, Leases
Paragraphs 22 (c), (e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to SMCs.

(iii) AS 20, Earnings Per Share
Disclosure of diluted earnings per share (both including and excluding extraordinary items) is exempted for SMCs.

(iv) AS 28, Impairment of Assets
SMCs are allowed to measure the ‘value in use’ on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if an SMC chooses to measure the ‘value in use’ by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an SMC. Further, such an SMC need not disclose the information required by paragraph 121(g) of the Standard.

(v) AS 29, Provisions, Contingent Liabilities and Contingent Assets
Paragraphs 66 and 67 relating to disclosures are not applicable to SMCs.

(D) AS 25, Interim Financial Reporting, does not require a company to present interim financial report. It is applicable only if a company is required or elects to prepare and present an interim financial report. Only certain Non-SMCs are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Non-SMCs for preparation of interim financial results.

III. Applicability of Accounting Standards to Non-corporate Entities (As on 1.4.2008)

(I) Accounting Standards applicable to all Non-corporate Entities in their entirety (Level I, Level II and Level III)

AS 1 Disclosures of Accounting Policies
AS 2 Valuation of Inventories
AS 4 Contingencies and Events Occurring After the Balance Sheet Date
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 6 Depreciation Accounting
AS 7 Construction Contracts (revised 2002)
AS 9 Revenue Recognition
AS 10 Accounting for Fixed Assets
AS 12 Accounting for Government Grants
AS 13 Accounting for Investments
AS 14 Accounting for Amalgamations
AS 16 Borrowing Costs
AS 22 Accounting for Taxes on Income
AS 26 Intangible Assets

(II) Exemptions or Relaxations for Non-corporate Entities falling in Level II and Level III (SMEs)

(A) Accounting Standards not applicable to Non-corporate Entities falling in Level II in their entirety:
   AS 3 Cash Flow Statements
   AS 17 Segment Reporting

(B) Accounting Standards not applicable to Non-corporate Entities falling in Level III in their entirety:
   AS 3 Cash Flow Statements
   AS 17 Segment Reporting
   AS 18 Related Party Disclosures
   AS 24 Discontinuing Operations
(C) **Accounting Standards not applicable to all Non-corporate Entities since the relevant Regulators require compliance with them only by certain Level I entities:**

- (i) AS 21, Consolidated Financial Statements
- (ii) AS 23, Accounting for Investments in Associates in Consolidated Financial Statements
- (iii) AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements)

(D) **Accounting Standards in respect of which relaxations from certain requirements have been given to Non-corporate Entities falling in Level II and Level III (SMEs):**

- (i) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(1) Level II and Level III Non-corporate entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:

- (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

- (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

- (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such entities should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

---

4 AS 21, AS 23 and AS 27 (to the extent these standards relate to preparation of consolidated financial statements) are required to be complied with by a non-corporate entity if the non-corporate entity, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.
(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such entities should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(2) Level II and Level III Non-corporate entities whose average number of persons employed during the year is less than 50 are exempted from the applicability of the following paragraphs:

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(ii) AS 19, Leases

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to non-corporate entities falling in Level II.

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III entities.

(iii) AS 20, Earnings Per Share
Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed by non-corporate entities falling in Level II and Level III and information required by paragraph 48(ii) of AS 20 is not required to be disclosed by Level III entities if this standard is applicable to these entities.

(iv) AS 28, Impairment of Assets

Non-corporate entities falling in Level II and Level III are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if a non-corporate entity falling in Level II or Level III chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(v) AS 29, Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 66 and 67 relating to disclosures are not applicable to non-corporate entities falling in Level II and Level III.

(E) AS 25, Interim Financial Reporting, does not require a non-corporate entity to present interim financial report. It is applicable only if a non-corporate entity is required or elects to prepare and present an interim financial report. Only certain Level I non-corporate entities are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Level I non-corporate entities for preparation of interim financial results.

APPENDIX IX

[Para 11.11]

APPLICABILITY OF SA 700, FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS, TO FORMATS OF AUDITOR'S REPORTS PRESCRIBED UNDER VARIOUS LAWS AND/ OR REGULATIONS (22.08.2013)

1. The Council of ICAI, at its 326th meeting held from 27th to 29th July 2013 considered the issue relating to application of Standard on Auditing (SA) 700, Forming An Opinion And Reporting on Financial Statements to such cases where the format of the auditor's report is prescribed under the relevant law or the regulation thereunder and are per se not in line with the requirements of SA 700. The Council noted that in many cases such prescribed auditor's
III.380 Auditing Pronouncements

report were required to be filed online in a preset form and, hence, it was not possible for the auditors to make necessary changes in these reports to bring them in line with the SA 700. Similarly, many a times, even where the auditor's report were to be submitted in a physical form and not filed online, the concerned regulatory/ government agencies may not accept such audit reports which contained any changes made by the auditors to the prescribed formats to bring them in line with SA 700.

2. In view of the above, the Council decided that while the matter was being taken up by the Institute with the relevant regulatory authorities/ Government agencies, etc., to change the prescribed formats for bringing the same in line with the requirements of SA 700, the members may, in the situations described in paragraph 1 above, submit the auditor's report in the format/s prescribed under the relevant law or regulation until announcement of necessary change is made by the appropriate authority. In such cases the members would not be viewed as having not complied with the provisions of SA 700.

3. In this context, it may also be noted that paragraph A55 of the SA 200, Overall Objectives of the Independent Auditor and the Conduct of An Audit in Accordance With Standards on Auditing clearly states as follows:

"A55. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the SAs. The SAs do not override laws and regulations that govern an audit of financial statements................."

4. Further, paragraph 43 of SA 700 requires that if the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor shall refer to Standards on Auditing only if the auditor's report includes, at minimum, each of the elements as prescribed in the said paragraph.

5. On a perusal of a cross section of the formats of the auditor's report prescribed under various laws, specially, the Income-tax Act, 1961 and the Value Added Tax Acts of various States, it is clear that these prescribed formats do not contain all the elements of the auditor's report as required in paragraph 43 of SA 700. In the background of the difficulties mentioned in paragraph 1 above, it may also not be possible for the auditors to suitably modify the prescribed format. Accordingly, it would not per se be possible for the auditors to state in their audit reports that the audit has been carried out in accordance with the Standards on Auditing. However, the auditors would be required to carry out the audits in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.

The same can also be downloaded from the link below:

http://www.icai.org/new_post.html?post_id=9835
Circular No.561, dated 22nd May, 1990

Subject: Tax audit under section 44AB of the Income-tax Act, 1961, in the case of companies having accounting year other than financial year - Regarding

1. The Board have received representations regarding difficulties faced in complying with the provisions of section 44AB of the Income-tax Act, 1961, in the case of companies which follow an accounting period other than financial year.

2. Section 3 of the Income-tax Act, *inter alia*, provides that with effect from 1st April, 1989, “previous year” for the purposes of that Act means financial year immediately preceding the assessment year. In spite of the introduction of a uniform previous year for purposes of income-tax, some companies may adopt an accounting period other than the financial year, say the calendar year, under the Companies Act for other purposes.

3. In such cases, a question has arisen as to whether, under section 44AB of the Income-tax Act, the tax auditor can audit and certify the accounts for the period for which accounts have been maintained under the Companies Act (i.e., in this case the calendar year) or whether the tax auditor will have to certify the accounts for the relevant financial year which is the uniform accounting year for tax purposes.

4. The Board have considered the matter and are of opinion that as the income of the previous year is chargeable to tax and, for the purposes of Income-tax Act, the previous year is the financial year, the tax auditor would have to carry out the audit under section 44AB in respect of the period covered by the previous year, i.e., the relevant financial year. The proviso to the aforesaid section 44AB, therefore, covers only the cases where the accounts are audited under any other law in respect of the financial year. Where the accounting year is different from the financial year, the proviso to section 44AB will not apply. Consequently, the tax auditors would have to carry out the tax audit in respect of the period covered by the relevant financial year and submit his report in Form 3CB as required in rule 6G(1)(b) of the Income-tax Rules.

Sd/-
Nishi Nair
Under Secretary to the Government of India.

[F.No.205/4/90-ITA-II]
Circular No.739 dated 25-3-1996

Whether for assessment years subsequent to assessment year 1996-97, no deduction under section 40(b)(v) will be admissible unless partnership deed either specifies amount of remuneration payable to each individual working partner or lays down manner of quantifying such remuneration

1. The Board have received representations seeking clarification regarding disallowance of remuneration paid to the working partners as provided under section 40(b)(v) of the Income-tax Act. In particular, the representations have referred to two types of clauses which are generally incorporated in the partnership deeds.

These are:

(i) The partners have agreed that the remuneration to a working partner will be the amount of remuneration allowable under the provisions of section 40(b)(v) of the Income-tax Act; and

(ii) The amount of remuneration to working partner will be as may be mutually agreed upon between partners at the end of the year.

It has been represented that the Assessing Officers are not allowing deduction on the basis of these and similar clauses in the course of scrutiny assessments for the reason that they neither specify the amount of remuneration to each individual nor lay down the manner of quantifying such remuneration.

2. The Board have considered the representations. Since the amended provisions of section 40(b) have been introduced only with effect from the assessment year 1993-94 and these may not have been understood correctly, the Board are of the view that a liberal approach may be taken for the initial years. It has been decided that for the assessment years 1993-94 to 1996-97 deduction for remuneration to a working partner may be allowed on the basis of the clauses of the type mentioned at 1(i) above.

3. In cases where neither the amount has been quantified nor even the limit of total remuneration has been specified but the same has been left to be determined by the partners at the end of the accounting period, in such cases payment of remuneration to partners cannot be allowed as deduction in the computation of firm's income.

4. It is clarified that for the assessment years subsequent to the assessment year 1996-97, no deduction under section 40(b)(v) will be admissible unless the partnership deed either
specifies the amount of remuneration payable to each individual working partner or lays down the manner of quantifying such remuneration.

APPENDIX XII

[Para 39.11]

THE RELEVANT EXTRACTS OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

"Appointed day" means the day following immediately after the expiry of the period of fifteen days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier.

"Day of acceptance" means the day of actual delivery of the goods or the rendering of service or where any objection is made in writing by the buyer regarding the acceptance of goods or services within 15 days from the day of delivery of goods or rendering of services, the day on which the objection is removed by the supplier.

"Day of deemed acceptance" means, where no objection is made in writing by the buyer regarding acceptance of goods or services within fifteen days from the day of deliver of the goods or rendering of services, the day of the actual delivery of goods or the rendering of services.

"Buyer" means who so ever buys any goods or receives any services from the supplier for a consideration.

"Supplier" means a micro or small enterprise, which has filed a memorandum with the authority referred to in section 7(1)(a).

"Micro Enterprise" means:

(a) In case of enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries(Development and Regulation) Act, 1951 an enterprise, where the investment in plant and machinery does not exceed twenty five lakh rupees;

(b) In case of enterprises engaged in providing or rendering services, an enterprise, where the investment in equipment does not exceed ten lakh rupees.

"Small enterprise" means:

(a) In case of enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 an enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees;
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(b) In case of enterprises engaged in providing or rendering services, an enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

"Medium enterprise" means

(a) In case of enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries(Development and Regulation) Act, 1951 an enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(b) In case of enterprises engaged in providing or rendering services, an enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Appendix XIII

[Para 40.1]

Chart of persons specified in Section 40A(2)(b)- (Refer Paragraph 40.1)

<table>
<thead>
<tr>
<th>Part-I</th>
<th>Individual</th>
<th>Firm</th>
<th>Association of persons</th>
<th>HUF</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>His relatives</td>
<td>Its partners</td>
<td>Its members</td>
<td>Its members</td>
<td>Its directors</td>
</tr>
<tr>
<td></td>
<td>Their relatives</td>
<td>Their relatives</td>
<td>Their relatives</td>
<td>Their relatives</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part-II</th>
<th>Where person having substantial interest in the business or profession of the assessee is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>Association of persons</td>
</tr>
<tr>
<td>His relatives</td>
<td>Its members</td>
</tr>
<tr>
<td>Their relatives</td>
<td>Their relatives</td>
</tr>
</tbody>
</table>

Note: Where one or more of the persons falling in any of the above categories (i.e. individual
and his relatives, firm, its partners and their relatives, etc.) have substantial interest in the business or profession carried on by any person – that person is also covered under section 40A(2)(b).

### PART III

<table>
<thead>
<tr>
<th>Director</th>
<th>Partner</th>
<th>Member of AOP</th>
<th>Member of HUF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies in which he is a Director</td>
<td>Firms in which he is a partner</td>
<td>AOP of which he is a member</td>
<td></td>
</tr>
<tr>
<td>All other Directors of such Companies</td>
<td>All other partners of such firms</td>
<td>All other members of such AOP</td>
<td>All other members of such HUF</td>
</tr>
<tr>
<td>Their relatives</td>
<td>Their relatives</td>
<td>Their relatives</td>
<td>Their relatives</td>
</tr>
</tbody>
</table>

**Notes:**

1. Relative is defined in section 2(41) as in relation to an individual including husband, wife, brother, sister or any lineal ascendant or descendent of that individual.
2. "Person having a substantial interest" is explained in section 40A as under:
   i. In the case of company - the person concerned is, at any time, during the previous year the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) carrying not less than 20% of the voting power.
   ii. In other cases - such person is at any time during the previous year, beneficially entitled to not less than 20% of the profits of such business or profession.

**APPENDIX XIV**

**[Para 48.1]**

Circular No. 208, dated 15th November, 1976
F.No. 208/7/76-ITA-II

Section 69D of the Income-tax Act, 1961 - Clarification Regarding

Whether payment on or after April 1, 1977 of amount borrowed on hundi is to comply with the section regardless of whether hundi was executed prior to the said date or on or after that date.
1. The Taxation Laws (Amendment) Act, 1975, has added a new section 69D in Income-
tax Act, 1961, with effect from 1st April, 1977, which provides that if any amount is borrowed
from any person on a hundi or any amount due on it is repaid to any person, otherwise than
through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall
be assessed as the income of the tax-payer borrowing or repaying the said amount, for the
previous year in which the amount is borrowed or repaid. This will also apply to the amount of
interest paid on the amount borrowed on hundies. This provision is applicable only in respect
of hundies and does not cover other types of loans, such as, repayment of loan by employees
to employers, repayment of loan to banks, co-operative societies etc.

2. The term "hundi" has not been defined in the Income-tax Act, 1961. In common
commercial parlance, it denotes an indigenous instrument in vernacular language which can
be used by the holder thereof to collect money due thereon without using the medium of
currency. It may also be regarded as an indigenous form of a bill of exchange expressed in
vernacular language which has been in use in the mercantile community in India for the
purpose of collecting dues. There are numerous varieties of hundies, for example Darshani
Hundi, Muddati Hundi, Shaha Jogi Hundi, Jokhmi Hundi, Nam Jog Hundi, Dhani Jog Hundi,
Jawabi Hundi and Zickri chit. The characteristics of hundies differ according to the varieties of
the same. The following characteristics are found in most of the hundies:

1. A hundi is payable to a specified person or order or negotiable without endorsement by
the payee.
2. A holder is entitled to sue on a hundi without an endorsement in his favour.
3. A hundi accepted by the drawee could be negotiated without endorsement.
4. If a hundi is lost, the owner could claim a duplicate or triplicate from the drawer and
present it to the drawee for payment. Interest can be charged where usage is
established.

3. This provision will come into force with effect from 1st April, 1977. Accordingly, any
payment on or after 1st April, 1977, in respect of an amount borrowed on a hundi will have to
comply with the requirements of this provision regardless of whether the hundi was executed
prior to the said date or on or after that date.

Circular No. 221, dated 6-6-1977
[F. No. 208/25/76-IT(A-II)],

Whether provisions of the section are applicable to darshani hundi transactions
1. Reference is invited to Board’s Circular No. 208 [F. No. 208/776-IT(A-II)], dated 15-11-
1976 [printed at Sl. No. 478 ] in which the provisions of section 69D were explained.
2. A “hundi” in common commercial parlance denotes an indigenous form of bill of
exchange, by and large in vernacular language, which is being used by the mercantile
community in India. The hundis can be broadly classified as (i) darshani hundis (sight or demand hundis), and (ii) muddati hundis (usance hundis payable after a stipulated period of time mentioned therein). Darshani hundis are of different varieties, viz, (i) shahjog hundis, (ii) dhanijog hundis, (iii) namjog hundis, (iv) dekharanjarjog hundis, (v) farmanijog hundis, and (vi) jokhmi hundis.

3. It has been represented to the Board that a darshani hundi created solely for the purpose of remittances of funds or financing inland trade or for operating accounts through indigenous banking channels does not involve borrowal of amounts and as such does not fall within the scope of section 69D. There are more than two parties in a darshani hundi. Normally four parties are involved in the case of a darshani hundi, viz, (i) the rakhya (the holder or purchaser), (ii) the drawer (an indigenous banker or a vyapari), (iii) the drawee (normally an indigenous banker but can also be a vyapari), and (iv) the payee. If the payee is also the rakhya, the parties will be three. Darshani hundi is payable at sight, i.e., immediately on presentation. A muddati (usance) hundi generally involving two parties, is payable after a stipulated period of time mentioned in the hundi.

4. The matter has been considered by the Board. We have been advised that the provisions of section 69D are not applicable to darshani hundi transactions mentioned hereinafter:

1. (a) A, who is the rakhya obtains on payment from B, the drawer, a hundi drawn on C, the drawee, in favour of D, the payee.
   
   (b) A, the rakhya having a running account or an overdraft account with B, obtains from him a hundi drawn on C, the drawee, in favour of D, the payee.
   
2. (a) A, a purchaser of goods from B, draws a hundi on C, the drawee, in favour of B or a third party D for the purpose of payment of the price of goods purchased or for settling the account.
   
   (b) For such purposes B can also draw a hundi on A either in his own favour or in favour of a third party D.

3. A has an account with an indigenous banker C, who has granted a credit facility to A and handed over a hundi book to him. A draws amounts through such hundis payable either to self, or bearer or third party. Such an arrangement arises out of the credit facility already granted and, therefore, no debtor creditor relationship has arisen between the parties because of the drawal of a hundi.

5. Normally, borrowal on hundi arises when a person gets money by execution of a hundi but in the instances cited above the hundi is given in the nature of a security and there is no borrowal on such hundis. Thus in cases of transactions referred to at (1), (2) and (3) of para 4, section 69D is not applicable. The settlement of account between any of the parties to such a darshani hundi can, thus, be otherwise than through an account payee cheque within the meaning of section 69D.
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6. This circular covers darshani hundi transactions of the types referred to at (1), (2) and (3) of para 4 above. However, it could not be said that there could be no borrowal on darshani hundi. The transactions not of the type referred to above, on darshani hundis have to be examined with reference to the facts and circumstances of such cases so as to determine whether or not there is a borrowal on such hundis.

APPENDIX XV
[Para 13.9 & 71.3]

RECOMMENDED FORM OF FINANCIAL STATEMENTS
FOR NON-CORPORATE ENTITIES
FORM OF BALANCE SHEET
(FOR NON CORPORATION MANUFACTURING ENTITIES)

NAME OF ENTITY

BALANCE SHEET AS AT

<table>
<thead>
<tr>
<th>Figures for Previous year</th>
<th>Capital and Liabilities</th>
<th>Figures for Current year</th>
<th>Properties and Assets</th>
<th>Figures for Current year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. CAPITAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In case of partnership, these particulars to be given separately for each partner and if possible the fixed capital accounts may be segregated from the current accounts) as at the beginning of the year.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add/Deduct Net Profit/Net Loss during the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other items (give details)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>II. RESERVES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Give details under each</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**I. FIXED ASSETS**

1. Under each head the original cost, the additions thereto, the deductions therefrom during the year and the total depreciation written off or provided upto the end of the year to be stated.

2. Where the assets have been revalued, the revalued figures to be shown. Each balance sheet for the first five years subsequent to the date of revaluation to state the amount of revaluation.
Part-III: Guidance Notes

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head)

1. Capital reserves (if any)
2. Other Reserves (including restrained profits to the extent not already added to the capital, give details)
3. Sinking Funds (if any)

III. LOANS AND BORROWINGS

1. Interest accrued and due on each category to be shown separately.
2. In the case of secured loans the nature of security to be specified.
3. Amounts due for repayments within one year from the balance sheet date to be shown separately.
4. Loan from partners, relatives of the proprietors or partners to be shown separately,

A. CURRENT LIABILITIES

1. Sundry creditors for goods supplied
2. Sundry creditors (Others)
3. Advances / Progress Payments from customers /deposits from dealers, selling agents etc.
4. Interest and other charges accrued but not due for payment.

3. Distinguishing as far as possible between expenditure upon:
   a) Goodwill
   b) Land
   c) Buildings
   d) Leaseholds
   e) Railway sidings
   f) Plant and Machinery
   g) Furniture & Fittings
   h) Development of property
   i) Patents, Trademarks and designs
   j) Livestock
   k) Vehicles etc.

1. Cost
2. Less: depreciation

II. ADVANCES AND DEPOSITS ON CAPITAL ACCOUNT

III. INVESTMENTS

(attach details of investment showing in each case nature of investment and mode of valuation e.g. cost or market value)

1. Investment in shares, debentures or bonds

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5. Bills Payable
6. Statutory liabilities
   (Overdue amounts to be shown separately)
7. Other current liabilities and provisions (Major items to be shown separately).

B. PROVISIONS:
1. For taxation
   Less advance tax paid
2. For Provident Fund
3. For Contingencies
4. Other provisions.
   (A foot note to the balance sheet may be added to show separately)
   1. Claims against the entity not acknowledged as debts.
   2. Uncalled liability on shares partly paid
   3. Estimated amount of contracts remaining to be executed to capital account and not provided for
   4. Contingent liability for bills discounted.
   5. Other money for which the entity is contingently liable (give details)
   6. Aggregate amount of arrears of depreciation, if any.

(Note: Investments in concern wherein proprietor, partner or their relative are interested to be shown separately)

2. Immovable properties
3. Investments in the capital of partnership firms
4. Other investments.

IV. LOANS
1. The nature of security (if any) and amount of each type of loan to be specified.
2. Amounts due within one year to be shown separately.
3. Loans to proprietors, partners or associated concern (to be shown separately)
4. Loans considered bad or doubtful to be shown separately.
   Less: provision for bad and Doubtful loans.

V. CURRENT ASSETS
A-INVENTORIES
   (The mode of valuation to be shown separately)
1. Raw materials (including stores and other items used in the process of manufacture)
2. Work in process.
3. Finished goods.
4. Consumable stores and spare parts.
5. Loose Tools.
6. Others

B. RECEIVABLES
1. Debts due and outstanding for a period exceeding six months (to be shown separately).
2. Instalments of deferred receivables due within one year to be shown separately.
3. Debts considered bad or doubtful to be shown separately.
4. Amount due from proprietors, partners or associated concerns to be shown separately.
   i) On account of sales on deferred payments basis.
   ii) On account of exports
   iii) Others
iv) Total receivables
v) Less: provision for bad and doubtful debts.

C. BILLS OF EXCHANGE
(Same information to be given as for 'Receivables')

D. ADVANCE ON CURRENT ACCOUNT
(Same information to be given as for loans).
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1. Advance to suppliers of merchandise supplies and sundries etc. and stores /spares/consumables.
2. Advance payment of taxes (in excess of tax payable)
3. Pre-paid expenses.
4. Others

E. CASH AND BANK BALANCES
1. Fixed deposit account
2. Current and savings account
3. Cash on hand

VI. MISCELLANEOUS EXPENDITURE
To the extent not written off or adjusted (specify the nature and amount of each item).

VII. ACCUMULATED Losses: if any
i) before depreciation
ii) depreciation.

TOTAL RUPEES

Notes on Balance Sheet
1. In case of partnership firms, state whether it is registered with registrar of firms, registration number, date of registration and the State in which it is registered.
2. Unless otherwise indicated, the terms used herein have the same meaning as they have in Schedule VI to the Companies Act, 1956.
### PRO FORMA OF PROFIT AND LOSS ACCOUNT
**FOR A NON-CORPORATE MANUFACTURING ENTITY**

Name of the entity _________________________________

Profit and Loss Account for the year ending ______________________ (000's omitted)

<table>
<thead>
<tr>
<th></th>
<th>Previous Year (actuals)</th>
<th>This Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Income from services may be shown separately)</td>
<td></td>
</tr>
<tr>
<td>2. Less: Excise Duty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Net Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Item No.1 minus Item No.2)</td>
<td></td>
</tr>
<tr>
<td>5. Cost of Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Rawmaterial consumption. Add: Purchases Less: Closing Stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Stores and spare consumption (c) Salaries and wages (d) Other manufacturing expenses, excluding depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total Add: Opening stocks-in-process Deduct: Closing stock-in-process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of production Gross profit/loss (Item No.3 minus Item No.4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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6. Sales and administrative expenses  
7. Interest and other overheads  
8. Other income/expenses Net (+)  
9. Profit /loss before depreciation and tax  
   (Item No.5 minus item No.(6 + 7))  
10. Depreciation  
11. Profit after depreciation  
12. Taxation  
13. Profit after tax  

**Note:**  
1. Any item of expenditure which forms a significant proportion, say 5% or more of the total sales or has special significance otherwise, should be shown separately under appropriate heads for example (i) salary (ii) commission (iii) perquisites and money value thereof.  
2. If audited accounts for the previous year are not available, the fact should be stated.

---

**APPENDIX XVI**

*PARA 13.9 & 71.3*

**RECOMMENDED FORM OF FINANCIAL STATEMENTS**  
**FOR NON-CORPORATE TRADING ENTITIES**

**NAME OF ENTITY**

**BALANCE SHEET AS AT**

<table>
<thead>
<tr>
<th>Figures for Previous year</th>
<th>Capital and Liabilities</th>
<th>Figures for Current year</th>
<th>Properties and Assets</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**I. CAPITAL**

(In case of partnership, these particulars to be given separately for each partner and if possible the fixed)

**I. FIXED ASSETS**

1. Under each head the original cost, the additions thereto, the deductions therefrom

---

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capital accounts may be segregated from the current accounts) as at the beginning of the year.

Add/Deduct Net Profit/Net Loss during the year
Interest on capital
Drawings
Any other items (give details)

II. RESERVES
(Give details under each head)
1. Capital reserves (if any)
2. Other Reserves (including restrained profits to the extent not already added to the capital, give details)
3. Sinking Funds (if any)

III. LOANS AND BORROWINGS
1. Interest accrued and due on each category to be shown separately.
2. In the case of secured loans the nature of security to be specified.
3. Amounts due for repayments within one year from the balance sheet date to be shown separately.
4. Loan from partners, relatives of the proprietors or partners to be shown separately, during the year and the total depreciation written off or provided up to the end of the year to be stated.
2. Where the assets have been revalued, the revalued figures to be shown. Each balance sheet for the first five years subsequent to the date of revaluation to state the amount of revaluation.

3. Distinguishing as far as possible between expenditure upon:
   a) Goodwill
   b) Land
   c) Buildings
   d) Leaseholds
   e) Railway sidings
   f) Plant and Machinery
   g) Furniture & Fittings
   h) Development of property
   i) Patents, Trademarks and designs
   j) Livestock
   k) Vehicles etc.
1. Cost
2. Less: depreciation
III. ADVANCES AND DEPOSITS ON CAPITAL ACCOUNT

III. INVESTMENTS
(attach details of investment showing in each case nature of investment and mode of valuation e.g. cost or market value)

1. Investment in shares, debentures or bonds
   (Note: Investments in concern wherein proprietor, partner or their relative are interested to be shown separately)
2. Immovable properties
3. Investments in the capital of partnership firms
4. Other investments.

IV. LOANS
1. The nature, security (if any) and amount of each type of loan to be specified.
2. Amounts due within one year to be shown separately.
3. Loans to proprietors, partners or associated concern (to be shown separately)
4. Loans considered bad or doubtful to be stated
Part-III: Guidance Notes

III.397

B. PROVISIONS:
1. For taxation
   Less advance tax paid
2. For Provident Fund
3. For Contingencies
4. Other provisions.
   (A foot note to the balance sheet may be added to show separately)
1. Claims against the entity not acknowledged as debts.
2. Uncalled liability on shares partly paid
3. Estimated amount of contracts remaining to be executed to capital account and not provided for
4. Contingent liability for bills discounted.
5. Other money for which the entity is contingently liable (give details)
6. Aggregate amount of arrears of depreciation, if any.

Less: provision for bad and Doubtful loans.

V. CURRENT ASSETS
A. INVENTORIES
   (The mode of valuation to be shown separately)
1. Stock in Trade
2. Supplies and sundries
   (If the trading organization is also involved in any processing activity ties other categories of inventories, e.g., raw material, and work-in-progress, should be separately disclosed.)

B. RECEIVABLES
1. Debts due and outstanding for a period exceeding six months (to be shown separately).
2. Instalments of deferred receivables due within one year to be shown separately.
3. Debts considered bad
or doubtful to be shown separately.

4. Amount due from proprietors, partners or associated concerns to be shown separately.
   i) On account of sales on deferred payments basis.
   ii) On account of exports
   iii) Others
   iv) Total receivables
   v) Less: provision for bad and doubtful debts.

C. BILLS OF EXCHANGE
(Same information to be given as for 'Receivables')

D. ADVANCE ON CURRENT ACCOUNT
(Same information to be given as for loans).
1. rawmaterials and stores/spares/consumable.
2. Advance payment of taxes (in excess of tax payable)
3. Pre-paid expenses.
4. Others

E. CASH AND BANK BALANCES
1. Fixed deposit account
2. Current and savings account
3. Cash on hand
VI. MISCELLANEOUS EXPENDITURE
To the extent not written off or adjusted (specify the nature and amount of each item).

VII. ACCUMULATED LOSSES
Losses: if any
i) before depreciation
ii) depreciation
TOTAL RUPEES

Notes on Balance Sheet
1. In case of partnership firms, state whether it is registered with registrar of firms, registration number, date of registration and the State in which it is registered.
2. Unless otherwise indicated, the terms used herein have the same meaning as they have in Schedule VI to the Companies Act, 1956.

PROFORMA OF PROFIT AND LOSS ACCOUNT
FOR A TRADING ENTITY
Name of the entity _________________________________
Profit and Loss Account for the year ending __________________________

<table>
<thead>
<tr>
<th></th>
<th>Last Year</th>
<th>This Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
</tbody>
</table>

1. Sales (Net of Sales Tax)
   (Income from services may be shown separately)
2. Cost of goods sold
   a) Opening Stock
      Add: Purchases (Less returns)
Less: Closing Stock
b) Other direct expenses (if any)

3. Gross Profit (1 - 2)
4. Sales and administrative expenses
5. Other income/expenses* Net
6. Interest
7. Profit before depreciation and tax
   [Item 3 minus item (4 + 5 + 6)]
8. Depreciation
9. Taxation (for example for registered firms)**
10. Profit after depreciation & taxation
    item 7 minus item (8 + 9)

Note:
* Any item of expenditure which forms a significant proportion, say 5% or more of the total sales or has special significance otherwise, should be shown separately under appropriate heads for example (i) salary (ii) commission (iii) perquisites and money value thereof.

** Registered firms are subject to tax, before the profit is apportioned amongst partners.

APPENDIX XVII

FORM NO.3CA
[See rule 6G(1)(a)]
Audit report under section 44AB of the Income-tax Act, 1961, in a case where the accounts of the business or profession of a person have been audited under any other law

*I / we report that the statutory audit of M/s. ______________________ (Name and address of the assessee with Permanent Account Number) was conducted by *me / us / M/s. ______________________ in pursuance of the provisions of the ______________________ Act, and*I/we annex hereto a copy of *my / our / their audit report dated ______________________ along with a copy of each of :-

(a) the audited *profit and loss account / income and expenditure account for the period beginning from ----------------------to ending on -----------------------------.
(b) the audited balance sheet as at, ______; and
(c) documents declared by the said Act to be part of, or annexed to, the *profit and loss account / income and expenditure account and balance sheet.

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In *my / our opinion and to the best of *my / our information and according to examination of books of account including other relevant documents and explanations given to *me / us, the particulars given in the said Form No.3 CD are true and correct subject to the following observations/qualifications, if any:
   a. 
   b. 
   c. 

   ........................................................................................................

   **(Signature and stamp/Seal of the signatory)

Place : _____________ Name of the signatory ................................
Date : _____________ Full address ..............................................

Notes:
1. * Delete whichever is not applicable
2. **This report has to be signed by a person eligible to sign the report as per the provisions of section 44AB of the Income Tax Act, 1961.
3. Where any of the requirements in this Form is answered in the negative or with qualification, give reasons therefore.
4. The person who signs this audit report shall indicate reference of his membership number / certificate of practice / authority under which he is entitled to sign this report.

FORM NO.3CB
[See rule 6G(1)(b)]
Audit report under section 44AB of the Income-tax Act, 1961, in the case of a person referred to in clause (b) of sub-rule (1) of rule 6G

1. *I / we have examined the balance sheet as on, _____, and the *profit and loss account / income and expenditure account for the period beginning from ---------------------- to ending on -- ------------, attached herewith, of ______________________________( Name ),

__________________(Address), ______________(Permanent Account Number).
2. *I / we certify that the balance sheet and the *profit and loss / income and expenditure account are in agreement with the books of account maintained at the head office at ______________ and ** ___________ branches.

3.(a) *I / we report the following observations / comments / discrepancies / inconsistencies; if any:

(b) Subject to above, -

(A) *I / we have obtained all the information and explanations which, to the best of *my / our knowledge and belief, were necessary for the purpose of the audit.

(B) In *my / our opinion, proper books of account have been kept by the head office and branches of the assessee so far as appears from*my / our examination of the books.

(C) In *my / our opinion and to the best of *my / our information and according to the explanations given to *me / us, the said accounts, read with notes thereon, if any, give a true and fair view :-

(i) in the case of the balance sheet, of the state of the affairs of the assessee as at 31st March, ;and

(ii) in the case of the *profit and loss account / income and expenditure account of the *profit / loss or *surplus / deficit of the assessee for the year ended on that date.

4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.

5. In *my/our opinion and to the best of *my / our information and according to explanations given to *me / us, the particulars given in the said Form No.3 CD are true and correct subject to following observations/qualifications, if any:

a.

b.

c.

..............................................................

***(Signature and stamp/seal of the signatory)

Place : ____________     Name of the signatory .........................

Date : ____________     Full address ...........................................

Notes :

1. *Delete whichever is not applicable.

2. **Mention the total number of branches.
3. ***This report has to be signed by person eligible to sign the report as per the provisions of section 44AB of the Income Tax Act, 1961.

4. The person, who signs this audit report, shall indicate reference of his membership number / certificate of practice number / authority under which he is entitled to sign this report.

FORM NO.3CD
[See rule 6G(2)]

Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961

PART – A

1. Name of the assesse : _______________________
2. Address : _______________________
3. Permanent Account Number : _______________________
4. Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, customs duty, etc. If yes, please furnish the registration number or any other identification number allotted for the same : _______________________
5. Status : _______________________
6. Previous year : from ________ to ________
7. Assessment year : _______________________
8. Indicate the relevant clause of section 44AB under which the audit has been Conducted : _______________________

PART - B

9. (a) If firm or association of persons, indicate names of partners/members and their profit sharing ratios.
   (b) If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change

10. (a) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)
(b) If there is any change in the nature of business or profession, the particulars of such change.

11. (a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.
(b) List of books of account maintained and the address at which the books of accounts are kept.
(If the books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)
(c) List of books of account and nature of relevant documents examined.

12. Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section.)

13. (a) Method of accounting employed in the previous year
(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.
(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Particulars</th>
<th>Increase in profit (Rs.)</th>
<th>Decrease in profit (Rs.)</th>
</tr>
</thead>
</table>

(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss.

14. (a) Method of valuation of closing stock employed in the previous year.
(b) In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Particulars</th>
<th>Increase in profit (Rs.)</th>
<th>Decrease in profit (Rs.)</th>
</tr>
</thead>
</table>

15. Give the following particulars of the capital asset converted into stock-in-trade:
(a) Description of capital asset;
(b) Date of acquisition;
(c) Cost of acquisition;
(d) Amount at which the asset is converted into stock-in-trade.

16. Amounts not credited to the profit and loss account, being, -

(a) the items falling within the scope of section 28;

(b) the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax where such credits, drawbacks or refunds are admitted as due by the authorities concerned;

(c) escalation claims accepted during the previous year;

(d) any other item of income;

(e) capital receipt, if any.

17. Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

<table>
<thead>
<tr>
<th>Details of property</th>
<th>Consideration received or accrued</th>
<th>Value adopted or assessed or assessable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Particulars of depreciation allowable as per the Income Tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form :-

(a) Description of asset/block of assets.

(b) Rate of depreciation.

(c) Actual cost of written down value, as the case may be.

(d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –

   (i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,

   (ii) change in rate of exchange of currency, and

   (iii) subsidy or grant or reimbursement, by whatever name called.

(e) Depreciation allowable.

(f) Written down value at the end of the year
19. Amounts admissible under sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Amount debited to profit and loss account</th>
<th>Amounts admissible as per the provisions of the Income Tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules, 1962 or any other guidelines, circular, etc., issued in this behalf.</th>
</tr>
</thead>
<tbody>
<tr>
<td>32AC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33AB</td>
<td></td>
<td></td>
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<tr>
<td>33ABA</td>
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<td>35(1)(i)</td>
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<td>35(1)(ii)</td>
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<td>35(1)(iii)</td>
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<td>35(1)(iv)</td>
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<td>35ABB</td>
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<tr>
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</tr>
<tr>
<td>35E</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20.(a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)]
(b) Details of contributions received from employees for various funds as referred to in section 36(1)(va):

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Nature of fund</th>
<th>Sum received from employees</th>
<th>Due date for payment</th>
<th>The actual amount paid</th>
<th>The actual date of payment to the concerned authorities</th>
</tr>
</thead>
</table>

21.(a) Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc

<table>
<thead>
<tr>
<th>Nature</th>
<th>Serial number</th>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertisement expenditure in any souvenir, brochure, tract, pamphlet or the like published by a political party</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred at clubs being entrance fees and subscriptions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred at clubs being cost for club services and facilities used.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure by way of penalty or fine for violation of any law for the time being force</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Expenditure by way of any other penalty or fine not covered above

Expenditure incurred for any purpose which is an offence or which is prohibited by law

(b) Amounts inadmissible under section 40(a):-

(i) as payment to non-resident referred to in sub-clause (i)

(A) Details of payment on which tax is not deducted:
   (I) date of payment
   (II) amount of payment
   (III) nature of payment
   (IV) name and address of the payee

(B) Details of payment on which tax has been deducted but has not been paid during the previous year or in the subsequent year before the expiry of time prescribed under section 200(1)
   (I) date of payment
   (II) amount of payment
   (III) nature of payment
   (IV) name and address of the payee
   (V) amount of tax deducted

(ii) as payment referred to in sub-clause (ia)

(A) Details of payment on which tax is not deducted:
   (I) date of payment
   (II) amount of payment
   (III) nature of payment
   (IV) name and address of the payee

(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub- section (1) of section 139.
   (I) date of payment
(II) amount of payment
(III) nature of payment
(IV) name and address of the payer
(V) amount of tax deducted
(VI) amount out of (V) deposited, if any

(iii) under sub-clause (ic) [Wherever applicable]
(iv) under sub-clause (iia)
(v) under sub-clause (iib)
(vi) under sub-clause (iii)
   (A) date of payment
   (B) amount of payment
   (C) name and address of the payee

(vii) under sub-clause (iv)
(viii) under sub-clause (v)

(c) Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof;

(d) Disallowance/deemed income under section 40A(3):

(A) On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details:

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Date of payment</th>
<th>Nature of payment</th>
<th>Amount</th>
<th>Name and Permanent Account Number of the payee, if available</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(B) On the basis of the examination of books of account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A):

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Date of payment</th>
<th>Nature of payment</th>
<th>Amount</th>
<th>Name and Permanent Account Number of the payee, if available</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(e) provision for payment of gratuity not allowable under section 40A(7);
(f) any sum paid by the assessee as an employer not allowable under section 40A(9);
(g) particulars of any liability of a contingent nature;
(h) amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income;
(i) amount inadmissible under the proviso to section 36(1)(iii).


23. Particulars of payments made to persons specified under section 40A(2)(b).

24. Amounts deemed to be profits and gains under section 32AC or 33AB or 33ABA or 33AC.

25. Any amount of profit chargeable to tax under section 41 and computation thereof.

26. In respect of any sum referred to in clause (a),(b), (c), (d), (e) or (f) of section 43B, the liability for which:

   (A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was
      (a) paid during the previous year;
      (b) not paid during the previous year;

   (B) was incurred in the previous year and was
      (a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);
      (b) not paid on or before the aforesaid date.

   (State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)

27.(a) Amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts.

   (b) Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

28. Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same.
29. Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2)(viib), if yes, please furnish the details of the same.

30. Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]

31.*(a) Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year :-
   (i)  name, address and Permanent Account Number (if available with the assessee) of the lender or depositor;
   (ii) amount of loan or deposit taken or accepted;
   (iii) whether the loan or deposit was squared up during the previous year;
   (iv) maximum amount outstanding in the account at any time during the previous year;
   (v)  whether the loan or deposit was taken or accepted otherwise than by an account payee cheque or an account payee bank draft.

*(These particulars needs not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.)*

(b)  Particulars of each repayment of loan or deposit in an amount exceeding the limit specified in section 269T made during the previous year:-
   (i)  name, address and Permanent Account Number (if available with the assessee) of the payee;
   (ii) amount of the repayment;
   (iii) maximum amount outstanding in the account at any time during the previous year;
   (iv) whether the repayment was made otherwise than by account payee cheque or account payee bank draft.

(c) Whether the taking or accepting loan or deposit, or repayment of the same were made by account payee cheque drawn on a bank or account payee bank draft based on the examination of books of account and other relevant documents

(The particulars (i) to (iv) at (b) and comment at (c) above need not be given in the case of a repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act)

32.(a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available :
III.412 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Serial Number</th>
<th>Assessment Year</th>
<th>Nature of loss / allowance (in rupees)</th>
<th>Amount as returned (in rupees)</th>
<th>Amounts as assessed (give reference to relevant order)</th>
<th>Remarks</th>
</tr>
</thead>
</table>

(b) Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79.

(c) Whether the assessee has incurred any speculation loss referred to in section 73 during the previous year. If yes, please furnish the details of the same.

(d) Whether the assessee has incurred any loss referred to in section 73A in respect of any specified business during the previous year, if yes, please furnish details of the same.

(e) In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73, if yes, please furnish the details of speculation loss if any incurred during the previous year.

33. Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III (Section 10A, Section 10AA).

<table>
<thead>
<tr>
<th>Section under which deduction is claimed</th>
<th>Amounts admissible as per the provision of the Income Tax Act, 1961 and fulfils the conditions, if any, specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules, 1962 or any other guidelines, circular, etc, issued in this behalf.</th>
</tr>
</thead>
</table>

34.(a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, if yes please furnish:

<table>
<thead>
<tr>
<th>Tax deduction and collection Account Number (TAN)</th>
<th>Section</th>
<th>Nature of payment</th>
<th>Total amount of payment or receipt of the nature specified in column (3)</th>
<th>Total amount on which tax was required to be deducted or collected out of</th>
<th>Amount of tax deducted or collected out of (6)</th>
<th>Total amount on which tax was deducted or collected at specified rate out of (5)</th>
<th>Amount of tax deducted or collected out of (7)</th>
<th>Total amount on which tax was deducted or collected at less than specified rate out of (6)</th>
<th>Amount of tax deducted or collected out of (8)</th>
<th>Amount of tax deducted or collected not deposited to the credit of the Central Government out of (6) and (8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
<td>(8)</td>
<td>(9)</td>
<td>(10)</td>
<td></td>
</tr>
</tbody>
</table>
(b) whether the assessee has furnished the statement of tax deducted or tax collected within the prescribed time. If not, please furnish the details:

<table>
<thead>
<tr>
<th>Tax deduction and collection Account Number (TAN)</th>
<th>Type of Form</th>
<th>Due date for furnishing</th>
<th>Date of furnishing, if furnished</th>
<th>Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported</th>
</tr>
</thead>
</table>

(c) whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If yes, please furnish:

<table>
<thead>
<tr>
<th>Tax deduction and collection Account Number (TAN)</th>
<th>Amount of interest under section 201(1A)/206C(7) is payable</th>
<th>Amount paid out of column (2) along with date of payment.</th>
</tr>
</thead>
</table>

35. (a) In the case of a trading concern, give quantitative details of principal items of goods traded:

(i) Opening Stock;
(ii) purchases during the previous year;
(iii) sales during the previous year;
(iv) closing stock;
(v) shortage/excess, if any

(b) In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products:

A. Raw Materials:

(i) opening stock;
(ii) purchases during the previous year;
(iii) consumption during the previous year;
(iv) sales during the previous year;
(v) closing stock;
(vi) yield of finished products;
(vii) percentage of yield;
(viii) shortage/excess, if any.
B. Finished products/by-products:
   (i) opening stock;
   (ii) purchases during the previous year;
   (iii) quantity manufactured during the previous year;
   (iv) sales during the previous year;
   (v) closing stock;
   (vi) shortage/excess, if any.

36. In the case of a domestic company, details of tax on distributed profits under section 115-O in the following form:-
   (a) total amount of distributed profits;
   (b) amount of reduction as referred to in section 115-O(1A)(i);
   (c) amount of reduction as referred to in section 115-O(1A)(ii);
   (d) total tax paid thereon;
   (e) dates of payment with amounts.

37. Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.

38. Whether any audit was conducted under the Central Excise Act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.

39. Whether any audit was conducted under section 72A of the Finance Act, 1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.

40. Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Particulars</th>
<th>Previous year</th>
<th>Preceding previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Total turnover of the assessee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Gross profit/turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Net profit/turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Stock-in-trade/turnover</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. **Material consumed/finished goods produced**

(The details required to be furnished for principal items of goods traded or manufactured or services rendered)

41. Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income Tax Act, 1961 and Wealth tax Act, 1957 alongwith details of relevant proceedings.

..................................................................................

*(Signature and stamp/Seal of the signatory)*

Place:______________  Name of the signatory …………………

Date:______________  Full address……………………………

**Notes:**

1. *This Form has to be signed by the person competent to sign Form No. 3CA or Form No. 3CB, as the case may be.*
## Comparative Statement of Old and New Form No. 3CA

<table>
<thead>
<tr>
<th>Old Form No. 3CA</th>
<th>New Form No. 3CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FORM NO. 3CA</td>
<td>FORM NO. 3CA</td>
</tr>
<tr>
<td>[See rule 6G(1)(a)]</td>
<td>[See rule 6G(1)(a)]</td>
</tr>
</tbody>
</table>

Audit report under section 44AB of the Income-tax Act, 1961, in a case where the accounts of the business or profession of a person have been audited under any other law

* I/We report that the statutory audit of .... [mention name and address of the assessee with permanent account number] was conducted by * me/us/M/s. .... in pursuance of the provisions of the....Act, and *I/we annex hereto a copy of * my/our/their audit report dated ....along with a copy each of –

(a) the audited * profit and loss account/income and expenditure account for the year ended on 31st March,....;
### Old Form No. 3CA

| (b) the audited balance sheet as at 31st March, ; and | (b) the audited balance sheet as at, ; and |
| (c) documents declared by the said Act to be part of, or annexed to, the profit and loss account/income and expenditure account and balance sheet. | (c) documents declared by the said Act to be part of, or annexed to, the profit and loss account / income and expenditure account and balance sheet. |

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In my/our opinion and to the best of my/our information and according to examination of books of account including other relevant documents and explanations given to me/us, the particulars given in the said Form No. 3CD and the Annexure thereto are true and correct.

**Signed**

Place.... Name :....
Date.... Address....

**Notes:**

### New Form No. 3CA

| (b) the audited balance sheet as at, ; and |
| (c) documents declared by the said Act to be part of, or annexed to, the profit and loss account / income and expenditure account and balance sheet. |

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In my / our opinion and to the best of my / our information and according to examination of books of account including other relevant documents and explanations given to me / us, the particulars given in the said Form No. 3CD are true and correct subject to the following observations/qualifications, if any:

- a.
- b.
- c.

**(Signature and stamp/Seal of the signatory)**

Place.... Name of the Signatory:....
Date.... Full Address....

**Notes:**
### III.418 Auditing Pronouncements

#### Old Form No. 3CA

<table>
<thead>
<tr>
<th>1. *Delete whichever is not applicable.</th>
<th>1. * Delete whichever is not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. **This report has to be signed by-</td>
<td></td>
</tr>
<tr>
<td>(i) a chartered accountant within the meaning of the Chartered Accountants Act, 1949 (38 of 1949); or</td>
<td></td>
</tr>
<tr>
<td>(ii) any person who, in relation to any State, is, by virtue of the provisions of sub-section (2) of section 226 of the Companies Act, 1956 (1 of 1956), entitled to be appointed to act as an auditor of companies registered in that State; or</td>
<td></td>
</tr>
<tr>
<td>(iii) any person who is, by virtue of any other law, entitled to audit the accounts of the assessee for the relevant previous year.</td>
<td></td>
</tr>
<tr>
<td>3. Where any of the requirements in this Form is answered in the negative or with qualification, give reasons therefor.</td>
<td></td>
</tr>
<tr>
<td>4. The person, who signs this audit report, shall indicate reference of his membership number/certificate of practice number/authority under which he is entitled to sign this report.</td>
<td></td>
</tr>
</tbody>
</table>

#### New Form No. 3CA

| 2. **This report has to be signed by a person eligible to sign the report as per the provisions of section 44AB of the Income Tax Act, 1961. |
| 3. Where any of the requirements in this Form is answered in the negative or with qualification, give reasons therefor. |
| 4. The person, who signs this audit report, shall indicate reference of his membership number/certificate of practice number/authority under which he is entitled to sign this report. |
### Comparative Statement of Old and New Form No. 3CB

<table>
<thead>
<tr>
<th>Old Form No. 3CB</th>
<th>New Form No. 3CB</th>
</tr>
</thead>
<tbody>
<tr>
<td>FORM NO. 3CB</td>
<td>FORM NO. 3CB</td>
</tr>
<tr>
<td>[See rule 6G(1)(b)]</td>
<td>[See rule 6G(1)(b)]</td>
</tr>
<tr>
<td>Audit report under section 44AB of the Income-tax Act 1961, in the case of a person referred to in clause (b) of sub-rule (1) of rule 6G</td>
<td>Audit report under section 44AB of the Income-tax Act 1961, in the case of a person referred to in clause (b) of sub-rule (1) of rule 6G</td>
</tr>
<tr>
<td>*I / We have examined the Balance Sheet as at 31st March..., and the *Profit and Loss Account / Income and Expenditure Account for the year ended on that date, attached herewith, of ...... [Mention Name and Address of the Assessee with permanent Account Number]</td>
<td>1. *I / we have examined the balance sheet as on, ...., and the *profit and loss account / income and expenditure account for the period beginning from .... to ending on......, attached herewith, of .... (Name), .... (Address), .... (Permanent Account Number).</td>
</tr>
<tr>
<td>2. *I / we certify that the balance sheet and the *profit and loss / income and expenditure account are in agreement with the books of account maintained at the head office at .... and **.... branches.</td>
<td>2. *I / we certify that the balance sheet and the *profit and loss / income and expenditure account are in agreement with the books of account maintained at the head office at .... and **.... branches.</td>
</tr>
<tr>
<td>3.(a) *I / we report the following observations / comments / discrepancies / inconsistencies; if any:</td>
<td>3.(a) *I / we report the following observations / comments / discrepancies / inconsistencies; if any:</td>
</tr>
<tr>
<td>(b) Subject to above, -</td>
<td>(b) Subject to above, -</td>
</tr>
</tbody>
</table>
### Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CB</th>
<th>New Form No. 3CB</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) *I / we have obtained all the information and explanations which, to the best of *my / our knowledge and belief, were necessary for the purposes of the audit.</td>
<td>(A) *I / we have obtained all the information and explanations which, to the best of *my / our knowledge and belief, were necessary for the purpose of the audit.</td>
</tr>
<tr>
<td>(B) In *my / our opinion, proper books of account have been kept by the head office and branches of the assessee so far as appears from *my / our examination of the books.</td>
<td>(B) In *my / our opinion, proper books of account have been kept by the head office and branches of the assessee so far as appears from *my / our examination of the books.</td>
</tr>
<tr>
<td>(C) In *my / our opinion and to the best of *my / our information and according to the explanations given to *me / us, the said accounts, read with notes thereon, if any, give a true and fair view:</td>
<td></td>
</tr>
<tr>
<td>(i) in the case of the balance sheet, of the state of the affairs of the assessee as at 31&lt;sup&gt;st&lt;/sup&gt; March, ....; and</td>
<td></td>
</tr>
<tr>
<td>(ii) in the case of the *profit and loss account / income and expenditure account of the *profit / loss or *surplus / deficit of the assessee for the year ended on that date.</td>
<td>(C) In *my / our opinion and to the best of *my / our information and according to the explanations given to *me / us, the said accounts, read with notes thereon, if any, give a true and fair view:</td>
</tr>
<tr>
<td>(i) in the case of the balance sheet, of the state of the affairs of the assessee as at 31&lt;sup&gt;st&lt;/sup&gt; March, .. ; and</td>
<td></td>
</tr>
<tr>
<td>(ii) in the case of the *profit and loss account / income and expenditure account of the *profit / loss or *surplus / deficit of the assessee for the year ended on that date.</td>
<td>4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.</td>
</tr>
<tr>
<td>4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.</td>
<td>4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.</td>
</tr>
</tbody>
</table>
5. In *my/our opinion and to the best of *my / our information and according to explanations given to *me / us, the particulars given in the said Form No.3 CD and the Annexures thereto are true and correct.

5. In *my/our opinion and to the best of *my / our information and according to explanations given to *me / us, the particulars given in the said Form No.3 CD are true and correct subject to following observations/qualifications, if any:
   a.
   b.
   c.

*** Signed

*** (Signature and stamp/Seal of the signatory)

Place.... Name :....
Date.... Address....

Notes:
1. *Delete whichever is not applicable.
2. **Mention the total number of branches.
3. ***This report has to be signed by-
   (i) a chartered accountant within the meaning of the Chartered Accountants Act, 1949 (38 of 1949); or
   (ii) any person who, in relation to any State, is, by virtue of the provisions of sub-section (2) of section 226 of the

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III.422 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CB</th>
<th>New Form No. 3CB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Act, 1956 (1 of 1956), entitled to be appointed to act as an auditor of companies registered in that State;</td>
<td></td>
</tr>
<tr>
<td>4. The person, who signs this audit report, shall indicate reference of his membership number / certificate of practice number / authority under which he is entitled to sign this report.</td>
<td>4. The person, who signs this audit report, shall indicate reference of his membership number / certificate of practice number / authority under which he is entitled to sign this report.</td>
</tr>
</tbody>
</table>

**Comparative Statement of Old and New Form No. 3CD**

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Name of the Assessee</td>
<td>1. Name of the Assessee</td>
</tr>
<tr>
<td>2. Address</td>
<td>2. Address</td>
</tr>
<tr>
<td>3. Permanent Account Number</td>
<td>3. Permanent Account Number (PAN)</td>
</tr>
<tr>
<td>4. Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, customs duty, etc. if yes, please furnish the registration number or any other identification number allotted for the same</td>
<td></td>
</tr>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
</tr>
<tr>
<td>-------------------------------------------------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>4. Status</td>
<td>5. Status</td>
</tr>
<tr>
<td>5. Previous year ended: 31st March _____________</td>
<td>6. Previous year from……………..to ……………</td>
</tr>
<tr>
<td>6. Assessment year</td>
<td>7. Assessment year</td>
</tr>
<tr>
<td></td>
<td>8. <em>Indicate the relevant clause of section 44AB under which the audit has been conducted</em></td>
</tr>
<tr>
<td>Part – B</td>
<td>Part – B</td>
</tr>
<tr>
<td>7. (a) If Firm or Association of Persons, indicate names of Partners/Members and their, Profit Sharing Ratios.</td>
<td>9. (a) If firm or association of persons, indicate names of partners/members and their profit sharing ratios.</td>
</tr>
<tr>
<td>(b) If there is any change in the Partners or Members or in their Profit Sharing Ratio since the last date of the preceding year, the particulars of such change.</td>
<td>(b) If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change.</td>
</tr>
<tr>
<td>8. (a) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession).</td>
<td>10. (a) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)</td>
</tr>
<tr>
<td>(b) If there is any change in the nature of business or profession, the particulars of such change.</td>
<td>(b) If there is any change in the nature of business or profession, the particulars of such change.</td>
</tr>
</tbody>
</table>
### Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>9. (a)</strong> Whether Books of Account are prescribed under Section 44AA, if yes, list of books so prescribed.</td>
<td><strong>11. (a)</strong> Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.</td>
</tr>
<tr>
<td>(b) Books of account maintained. (In case Books of Account are maintained in a computer system, mention the books of account generated by such computer system)</td>
<td>(b) List of books of account maintained and the address at which the books of accounts are kept. (In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)</td>
</tr>
<tr>
<td>(c) List of books of account examined.</td>
<td>(c) List of books of account and nature of relevant documents examined.</td>
</tr>
<tr>
<td><strong>10.</strong> Whether the Profit and Loss Account includes any Profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB or any other relevant section).</td>
<td><strong>12.</strong> Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section.)</td>
</tr>
<tr>
<td><strong>11. (a)</strong> Method of accounting employed in the previous year.</td>
<td><strong>13. (a)</strong> Method of accounting employed in the previous year</td>
</tr>
<tr>
<td>(b) Whether there has been any change in the method of accounting employed vis-à-vis the method employed in the immediately preceding previous year.</td>
<td>(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year</td>
</tr>
<tr>
<td>(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.</td>
<td>(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.</td>
</tr>
</tbody>
</table>
### Part-III: Guidance Notes

#### III.425

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or Loss.</td>
<td></td>
</tr>
<tr>
<td>(d) Details of deviation, if any, in the method of accounting employed in the previous year from Accounting Standards prescribed under Section 145 and the effect thereof on the Profit or Loss.</td>
<td>(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss.</td>
</tr>
<tr>
<td>12. (a) Method of Valuation of Closing Stock employed in the previous year.</td>
<td>14. (a) Method of valuation of closing stock employed in the previous year.</td>
</tr>
<tr>
<td>(b) Details of deviation, if any, from the method of valuation prescribed under Section 145A, and the effect thereof on the Profit or Loss.</td>
<td>(b) In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:</td>
</tr>
<tr>
<td>(A) Give the following particulars of the Capital Asset converted into Stock in Trade:– (a) Description of Capital Asset (b) Date of Acquisition (c) Cost of Acquisition (d) Amount at which the Asset is converted into Stock in Trade.</td>
<td>15. Give the following particulars of the capital asset converted into stock-in-trade: - (a) Description of capital asset; (b) Date of acquisition; (c) Cost of acquisition; (d) Amount at which the asset is converted into stock-in-trade</td>
</tr>
<tr>
<td>13. Amounts not credited to the Profit and Loss</td>
<td>16. Amounts not credited to the profit and loss account, being, -</td>
</tr>
</tbody>
</table>
III.426 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account, being –</td>
<td></td>
</tr>
<tr>
<td>(a) the items falling within the scope of Section 28;</td>
<td>(a) the items falling within the scope of section 28;</td>
</tr>
<tr>
<td>(b) the pro forma credits, drawbacks, refund of duty of customs or excise or service tax, or refunds of sales tax or value added tax where such credits, drawbacks or refunds are admitted as due by the authorities concerned</td>
<td>(b) the pro forma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax where such credits, drawbacks or refunds are admitted as due by the authorities concerned;</td>
</tr>
<tr>
<td>(c) Escalation Claims accepted during the previous year;</td>
<td>(c) escalation claims accepted during the previous year;</td>
</tr>
<tr>
<td>(d) any other item of income;</td>
<td>(d) any other item of income;</td>
</tr>
<tr>
<td>(e) capital receipt, if any.</td>
<td>(e) capital receipt, if any.</td>
</tr>
</tbody>
</table>

17. Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Particulars</th>
<th>Increase in profit (Rs.)</th>
<th>Decrease in profit (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Particulars of depreciation allowable as per the Income–Tax Act, 1961 in respect of each asset or

18. Particulars of depreciation allowable as per the Income Tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following
<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>block of assets, as the case may be, in the following form :—</td>
<td>form :-</td>
</tr>
<tr>
<td>(a) Description of asset/block of assets.</td>
<td>(a) Description of asset/block of assets.</td>
</tr>
<tr>
<td>(b) Rate of depreciation.</td>
<td>(b) Rate of depreciation.</td>
</tr>
<tr>
<td>(c) Actual Cost or Written Down Value, as the case may be.</td>
<td>(c) Actual cost of written down value, as the case may be.</td>
</tr>
<tr>
<td>(d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –</td>
<td>(d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –</td>
</tr>
<tr>
<td>(i) Modified Value Added Tax Credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March 1994,</td>
<td>i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,</td>
</tr>
<tr>
<td>(ii) Change in Rate of Exchange of Currency, and</td>
<td>ii) change in rate of exchange of currency, and</td>
</tr>
<tr>
<td>(iii) Subsidy or Grant or Reimbursement, by whatever name called.</td>
<td>iii) subsidy or grant or reimbursement, by whatever name called.</td>
</tr>
<tr>
<td>(e) Depreciation allowable.</td>
<td>(e) Depreciation allowable.</td>
</tr>
<tr>
<td>(f) Written down value at the end of the year.</td>
<td>(f) Written down value at the end of the year</td>
</tr>
</tbody>
</table>

15. Amounts admissible under Sections-
(a) 33AB
### Old Form No. 3CD

<table>
<thead>
<tr>
<th>(b)</th>
<th>33ABA</th>
<th>(c)</th>
<th>33AC (wherever applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d)</td>
<td>35</td>
<td>(e)</td>
<td>35ABB</td>
</tr>
<tr>
<td>(f)</td>
<td>35AC</td>
<td>(g)</td>
<td>35CCA</td>
</tr>
<tr>
<td>(h)</td>
<td>35CCB</td>
<td>(i)</td>
<td>35D</td>
</tr>
<tr>
<td>(j)</td>
<td>35DD</td>
<td>(k)</td>
<td>35DDA</td>
</tr>
<tr>
<td>(l)</td>
<td>35E:-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) debited to the Profit and Loss Account (showing the amount debited and deduction allowable under each section separately);
(b) not debited to the Profit and Loss Account

### New From No. 3CD

<table>
<thead>
<tr>
<th></th>
<th>profit and loss account</th>
<th>provisions of the Income Tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income-tax Act, 1961 or Income-tax Rules, 1962 or any other guidelines, circular, etc., issued in this behalf.</th>
</tr>
</thead>
<tbody>
<tr>
<td>32AC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33AB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33ABA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(1)(i)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(1)(ii)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(1)(iiia)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(1)(iii)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(1)(iv)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(2AA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35(2AB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35ABB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35AC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35AD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35CCA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35CCB</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Part-III: Guidance Notes

16. (a) Any sum paid to an Employee as Bonus or Commission for services rendered, where such sum was otherwise payable to him as Profits or Dividend. [Section 36(1)(ii)]

(b) Any sum received from Employees towards Contributions to any Provident Fund or Superannuation Fund or any other fund mentioned in Section 2(24)(x); and due date for payment and the actual date of payment to the concerned authorities under Section 36(1)(va).

17. Amounts debited to the Profit and Loss Account,

Old Form No. 3CD

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Nature of fund</th>
<th>Sum received from employees</th>
<th>Due date for payment</th>
<th>The actual amount paid</th>
<th>The actual date of payment to the concerned authorities</th>
</tr>
</thead>
</table>

New From No. 3CD

35CCC
35CCD
35D
35DD
35DDA
35E

20. (a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)]

(b) Details of contributions received from employees for various funds as referred to in section 36(1)(va):

21. (a) Please furnish the details of amounts debited to the profit and loss
being :
(a) expenditure of capital nature;
(b) expenditure of personal nature;
(c) expenditure on advertisement in any souvenir, brochure, tract, pamphlet or the like, published by a political party;
(d) expenditure incurred at clubs, —
   (i) as entrance fees and subscriptions;
   (ii) as cost for club services and facilities used;
(e) (i) expenditure by way of penalty or fine for violation of any law for the time being in force;
   (ii) any other penalty or fine;
   (iii) expenditure incurred for any purpose which is an offence or which is prohibited by law;

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Nature</th>
<th>Serial number</th>
<th>Particulars</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertisement expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred at clubs being entrance fees and subscriptions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred at</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

account, being in the nature of capital, personal, advertisement expenditure etc.
### Part-III: Guidance Notes

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>clubs being cost for club services and facilities used.</td>
<td></td>
</tr>
<tr>
<td>Expenditure by way of penalty or fine for violation of any law for the time being in force</td>
<td></td>
</tr>
<tr>
<td>Expenditure by way of any other penalty or fine not covered above</td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred for any purpose which is an offence or which is prohibited by law</td>
<td></td>
</tr>
</tbody>
</table>

(f) amounts inadmissible under Section 40(a);

(b) Amounts inadmissible under section 40(a):-

(i) as payment to non-resident referred to in sub-clause (i)

(A) Details of payment on which tax is not deducted:

(I) date of payment

(II) amount of payment

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### Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
</table>
|                  | (III) nature of payment  
|                  | (IV) name and address of the payee  
| (B) Details of payment on which tax has been deducted but has not been paid during the previous year or in the subsequent year before the expiry of time prescribed under section 200(1)  
| (I) date of payment  
| (II) amount of payment  
| (III) nature of payment  
| (IV) name and address of the payee  
| (V) amount of tax deducted  
| (ii) as payment referred to in sub-clause (ia)  
| (A) Details of payment on which tax is not deducted:  
| (I) date of payment  
| (II) amount of payment  
| (III) nature of payment  
| (IV) name and address of the payee  
<p>| (B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub- section (1) of section |</p>
<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>139.</td>
<td></td>
</tr>
<tr>
<td>(I) date of payment</td>
<td></td>
</tr>
<tr>
<td>(II) amount of payment</td>
<td></td>
</tr>
<tr>
<td>(III) nature of payment</td>
<td></td>
</tr>
<tr>
<td>(IV) name and address of the payer</td>
<td></td>
</tr>
<tr>
<td>(V) amount of tax deducted</td>
<td></td>
</tr>
<tr>
<td>(VI) amount out of (V) deposited, if any</td>
<td></td>
</tr>
<tr>
<td>(iii) under sub-clause (ic) [Wherever applicable]</td>
<td></td>
</tr>
<tr>
<td>(iv) under sub-clause (iia)</td>
<td></td>
</tr>
<tr>
<td>(v) under sub-clause (iib)</td>
<td></td>
</tr>
<tr>
<td>(vi) under sub-clause (iii)</td>
<td></td>
</tr>
<tr>
<td>(A) date of payment</td>
<td></td>
</tr>
<tr>
<td>(B) amount of payment</td>
<td></td>
</tr>
<tr>
<td>(C) name and address of the payee</td>
<td></td>
</tr>
<tr>
<td>(vii) under sub-clause (iv)</td>
<td></td>
</tr>
<tr>
<td>(viii) under sub-clause (v)</td>
<td></td>
</tr>
<tr>
<td>(g) Interest, Salary, Bonus, Commission or Remuneration inadmissible under Section</td>
<td>(c) Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and</td>
</tr>
</tbody>
</table>
### Old Form No. 3CD

<table>
<thead>
<tr>
<th>40(b)/40(ba) and computation thereof;</th>
</tr>
</thead>
</table>

(h) (A) Whether a Certificate has been obtained from the Assessee regarding payments relating to any expenditure covered under Section 40A(3) that the payments were made by Account Payee Cheques drawn on a Bank or Account Payee Bank Draft, as the case may be, [Yes/No]

(B) amount inadmissible under Section 40A(3), read with Rule 6 DD [with break–up of inadmissible amounts];

### New From No. 3CD

(d) **Disallowance/deemed income under section 40A(3):**

(A) On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details:

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Date of payment</th>
<th>Nature of payment</th>
<th>Amount</th>
<th>Name and Permanent Account Number of the payee, if available</th>
</tr>
</thead>
</table>

(B) On the basis of the examination of books of account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A):

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Date of payment</th>
<th>Nature of payment</th>
<th>Amount</th>
<th>Name and Permanent Account Number of the payee, if available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) provision for payment of gratuity not allowable under Section 40A(7);</td>
<td>(e) provision for payment of gratuity not allowable under section 40A(7);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(j) any sum paid by the Assessee as an employer not allowable under section 40A(9);</td>
<td>(f) any sum paid by the assessee as an employer not allowable under section 40A(9);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(k) particulars of any liability of a contingent nature.</td>
<td>(g) particulars of any liability of a contingent nature;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(l) amount of deduction inadmissible in terms of section 14 A in respect of the expenditure incurred in relation to income which does not form part of the total income;</td>
<td>(h) amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(m) amount inadmissible under the proviso to section 36(1)(iii)</td>
<td>(l) amount inadmissible under the proviso to section 36(1)(iii).</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17A. Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.


18. Particulars of payments made to persons specified under Section 40A(2)(b).

23. Particulars of payments made to persons specified under section 40A(2)(b).

19. Amounts deemed to be Profits and Gains under Section 33AB or 33ABA or 33AC.

24. Amounts deemed to be profits and gains under section 32AC or 33AB or 33ABA or 33AC.
### III.436 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>20. Any amount of Profit chargeable to tax under Section 41 and computation thereof.</td>
<td>25. Any amount of profit chargeable to tax under section 41 and computation thereof.</td>
</tr>
<tr>
<td>21.*(i) In respect of any sum referred to in clauses (a), (b), (c), (d), (e) or (f) of section 43B, the liability for which:–</td>
<td>26. In respect of any sum referred to in clause (a), (b), (c), (d), (e) or (f) of section 43B, the liability for which:–</td>
</tr>
<tr>
<td>(A) pre–existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was –</td>
<td>(A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was –</td>
</tr>
<tr>
<td>(a) paid during the previous year;</td>
<td>(a) paid during the previous year;</td>
</tr>
<tr>
<td>(b) not paid during the previous year;</td>
<td>(b) not paid during the previous year;</td>
</tr>
<tr>
<td>(B) was incurred in the previous year and was</td>
<td>(B) was incurred in the previous year and was</td>
</tr>
<tr>
<td>(a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);</td>
<td>(a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);</td>
</tr>
<tr>
<td>(b) not paid on or before the aforesaid date.</td>
<td>(b) not paid on or before the aforesaid date.</td>
</tr>
<tr>
<td>(ii) [***]</td>
<td>(State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)</td>
</tr>
<tr>
<td>* State whether Sales Tax, Customs Duty, Excise Duty or any other Indirect Tax, Cess, Import, etc. is passed through the Profit and Loss Account.</td>
<td></td>
</tr>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>22. (a) Amount of Modified Value Added Tax credits availed of or utilised during</td>
<td>27. (a) Amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts.</td>
</tr>
<tr>
<td>the previous year and its treatment in the Profit and Loss Account and treatment</td>
<td>(b) Particulars of income or expenditure of prior period credited or debited to the Profit and Loss Account.</td>
</tr>
<tr>
<td>of outstanding Modified Value Added Tax credits in the accounts.</td>
<td></td>
</tr>
<tr>
<td>(b) Particulars of income or expenditure of prior period credited or debited to</td>
<td></td>
</tr>
<tr>
<td>the Profit and Loss Account.</td>
<td></td>
</tr>
<tr>
<td>27. (a) Amount of Central Value Added Tax credits availed of or utilised during</td>
<td>28. Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same.</td>
</tr>
<tr>
<td>the previous year and its treatment in the profit and loss account and treatment</td>
<td></td>
</tr>
<tr>
<td>of outstanding Central Value Added Tax credits in the accounts.</td>
<td></td>
</tr>
<tr>
<td>(b) Particulars of income or expenditure of prior period credited or debited to</td>
<td></td>
</tr>
<tr>
<td>the profit and loss account.</td>
<td></td>
</tr>
<tr>
<td>28. Whether during the previous year the assessee received any consideration for</td>
<td>29. Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2)(viib), if yes, please furnish the details of the same.</td>
</tr>
<tr>
<td>issue of shares which exceeds the fair market value of the shares as referred to</td>
<td></td>
</tr>
<tr>
<td>in section 56(2)(viib), if yes, please furnish the details of the same.</td>
<td></td>
</tr>
<tr>
<td>23. Details of any amount borrowed on Hundi or any amount due thereon (including</td>
<td>30. Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]</td>
</tr>
<tr>
<td>interest on the amount borrowed) repaid, otherwise than through an Account Payee</td>
<td></td>
</tr>
<tr>
<td>Cheque. [Section 69D]</td>
<td></td>
</tr>
<tr>
<td>31. * (a) Particulars of each loan or deposit in an amount exceeding the limit</td>
<td>31. * (a) Particulars of each loan or deposit in an amount exceeding the limit</td>
</tr>
<tr>
<td>specified in Section 269SS</td>
<td></td>
</tr>
</tbody>
</table>
Old Form No. 3CD

- taken or accepted during the previous year:
  1. Name, Address and Permanent Account Number (if available with the Assessee) of the Lender or Depositor;
  2. Amount of Loan or Deposit taken or accepted;
  3. Whether the Loan or Deposit was squared up during the previous year;
  4. Maximum Amount outstanding in the account at any time during the previous year;
  5. Whether the Loan or Deposit was taken or accepted otherwise than by an Account Payee Cheque or an Account Payee Bank Draft.

* (These particulars need not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.)

(b) Particulars of each repayment of Loan or Deposit in an amount exceeding the limit specified in section 269T made during the previous year:
  1. Name, Address and Permanent Account Number (if available with the Assessee) of the payee;
  2. Amount of the repayment;

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- specified in section 269SS taken or accepted during the previous year:
  1. name, address and permanent account number (if available with the assessee) of the lender or depositor;
  2. amount of loan or deposit taken or accepted;
  3. whether the loan or deposit was squared up during the previous year;
  4. maximum amount outstanding in the account at any time during the previous year;
  5. whether the loan or deposit was taken or accepted otherwise than by an account payee cheque or an account payee bank draft.

* (These particulars need not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.)

(b) Particulars of each repayment of loan or deposit in an amount exceeding the limit specified in section 269T made during the previous year:
  1. name, address and Permanent Account Number (if available with the assessee) of the payee;
  2. amount of the repayment;
  3. maximum amount outstanding in the account at any time during the previous year;
  4. whether the repayment was made otherwise than by account payee...
### Old Form No. 3CD

(iii) Maximum Amount outstanding in the account at any time during the previous year;
(iv) Whether the repayment was made otherwise than by Account Payee Cheque or Account Payee Bank Draft.
(c) Whether a Certificate has been obtained from the assessee regarding taking or accepting Loan or Deposit, or repayment of the same through an Account Payee Cheque or an Account Payee Bank Draft. [Yes/No]

The particulars (i) to (iv) at (b) and the Certificate at (c) above need not be given in the case of a repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act.

### New From No. 3CD

<table>
<thead>
<tr>
<th>S. No</th>
<th>Serial Number</th>
<th>Assessmnt Year</th>
<th>Nature of loss / allowanc</th>
<th>Amount as assessed</th>
<th>Amount as returned</th>
<th>Amounts as assessed</th>
<th>Remarks</th>
</tr>
</thead>
</table>

(c) Whether the taking or accepting loan or deposit, or repayment of the same were made by account payee cheque drawn on a bank or account payee bank draft based on the examination of books of account and other relevant documents

(The particulars (i) to (iv) at (b) and comment at (c) above need not be given in the case of a repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act)

25. (a) Details of Brought Forward Loss or Depreciation Allowance, in the following manner, to the extent available:

32.(a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available:
### III.440 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>year</td>
<td>allowance (in rupees)</td>
</tr>
<tr>
<td>(b) Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the Previous Year cannot be allowed to be carried forward in terms of Section 79.</td>
<td>(b) Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79.</td>
</tr>
<tr>
<td>(c) Whether the assessee has incurred any speculation loss referred to in section 73 during the previous year, If yes, please furnish the details of the same.</td>
<td></td>
</tr>
<tr>
<td>(d) Whether the assessee has incurred any loss referred to in section 73A in respect of any specified business during the previous year, if yes, please furnish details of the same.</td>
<td></td>
</tr>
<tr>
<td>(e) In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73, if yes, please furnish the details of speculation loss if any incurred during the previous year.</td>
<td></td>
</tr>
<tr>
<td>26. Section-wise details of deductions, if any.</td>
<td>33. Section-wise details of deductions, if any, admissible under Chapter VIA</td>
</tr>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
</tr>
<tr>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>admissible under Chapter VIA.</td>
<td>or Chapter III (Section 10A, Section 10AA).</td>
</tr>
<tr>
<td>Section under which deduction is claimed</td>
<td>Amounts admissible as per the provision of the Income Tax Act, 1961 and fulfils the conditions, if any, specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules, 1962 or any other guidelines, circular, etc, issued in this behalf.</td>
</tr>
</tbody>
</table>

27. (a) Whether the Assessee has complied with the provisions of Chapter XVII-B regarding deduction of tax at source and regarding the payment thereof to the credit of the Central Government, [Yes/No] 
(b) If the provisions of Chapter XVII-B have not been complied with, please give the following details * , namely:-
(i) Tax Deductible and not deducted at all
(ii) Shortfall on account of lesser deduction than required to be deducted.
(iii) Tax Deducted late
(iv) Tax Deducted but not paid to the credit of the Central Government

34. (a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, if yes please furnish:

| Tax deduction and collection Account Number (TAN) | Secti on | Natur e of payment | Total amoun t of paym ent or recei pt of the natur e speci fied | Total amoun t on which tax was requir ed to be dedu ced or collec ted | Total amoun t on which tax was dedu cted or collec ted at speci | Amo unt of tax dedu cted or collec ted out of (6) | Total amoun t on which tax was dedu cted or collec ted at less | Amo unt of tax dedu cted or collec ted not depo sit ed to the |
|--------------------------------------------------|----------|-------------------|-------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
### III.442 Auditing Pronouncements

<table>
<thead>
<tr>
<th><strong>Old Form No. 3CD</strong></th>
<th><strong>New From No. 3CD</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Please give the details of cases covered in (i) to (iv) above.</em></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
</tr>
</thead>
</table>

(b) whether the assessee has furnished the statement of tax deducted or tax collected within the prescribed time. If not, please furnish the details:

<table>
<thead>
<tr>
<th>Tax deduction and collection Account Number (TAN)</th>
<th>Type of Form</th>
<th>Due date for furnishing</th>
<th>Date of furnishing, if furnished</th>
<th>Whether the statement of tax deducted or collected contains information about all transactions which are</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
<td>required to be reported</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

(c) whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If yes, please furnish:

<table>
<thead>
<tr>
<th>Tax deduction and collection Account Number (TAN)</th>
<th>Amount of interest under section 201(1A)/206C(7) is payable</th>
<th>Amount paid out of column (2) along with date of payment.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

28. (a) In the case of a Trading Concern, give quantitative details of principal items of goods traded:
   (i) Opening Stock;
   (ii) Purchases during the previous year;
   (iii) Sales during the previous year
   (iv) Closing Stock;
   (v) Shortage/excess, if any

(b) In the case of a Manufacturing Concern, give quantitative details of the principal items of Raw Materials, Finished Products and By–Products:
   A. Raw Materials:

35. (a) In the case of a trading concern, give quantitative details of principal items of goods traded:
   (i) Opening Stock;
   (ii) Purchases during the previous year;
   (iii) Sales during the previous year
   (iv) Closing Stock;
   (v) Shortage/excess, if any

(b) In the case of a Manufacturing Concern, give quantitative details of the principal items of Raw Materials, Finished Products and By–Products:
   A. Raw Materials:
III.444 Auditing Pronouncements

<table>
<thead>
<tr>
<th>Old Form No. 3CD</th>
<th>New From No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Opening Stock;</td>
<td>(i) Opening Stock;</td>
</tr>
<tr>
<td>(ii) Purchases during the previous year;</td>
<td>(ii) Purchases during the previous year;</td>
</tr>
<tr>
<td>(iii) Consumption during the previous year;</td>
<td>(iii) Consumption during the previous year;</td>
</tr>
<tr>
<td>(iv) Sales during the previous year;</td>
<td>(iv) Sales during the previous year;</td>
</tr>
<tr>
<td>(v) Closing stock;</td>
<td>(v) Closing stock;</td>
</tr>
<tr>
<td>(vi) *Yield of Finished Products;</td>
<td>(vi) Yield of Finished Products;</td>
</tr>
<tr>
<td>(vii) *Percentage of yield;</td>
<td>(vii) Percentage of yield;</td>
</tr>
<tr>
<td>(viii) *Shortage/excess, if any.</td>
<td>(viii) Shortage/excess, if any.</td>
</tr>
</tbody>
</table>

B. Finished products/by-products:
(i) Opening Stock;
(ii) Purchases during the previous year;
(iii) Quantity manufactured during the previous year;
(iv) Sales during the previous year;
(v) Closing stock;
(vi) Shortage/excess, if any.

*Information may be given to the extent available.

29. In the case of a Domestic Company, details of Tax on Distributed Profits under Section 115O in the following form –
(a) Total Amount of distributed profits;

36. In the case of a domestic company, details of tax on distributed profits under section 115-O in the following form:-
(a) total amount of distributed profits;
(b) amount of reduction as referred to in section 115-O(1A)(i);
### Old Form No. 3CD

<table>
<thead>
<tr>
<th>Description</th>
<th>New Form No. 3CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Total Tax paid thereon;</td>
<td>(c) amount of reduction as referred to in section 115-O(1A)(ii);</td>
</tr>
<tr>
<td>(c) Dates of Payment with amounts.</td>
<td>(d) total tax paid thereon;</td>
</tr>
<tr>
<td></td>
<td>(e) dates of payment with amounts.</td>
</tr>
<tr>
<td><strong>30. Whether any Cost Audit was carried out, if yes, enclose a copy of the report of such audit [See section 139(9)].</strong></td>
<td>37. Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.</td>
</tr>
<tr>
<td><strong>31. Whether any audit was conducted under the Central Excise Act, 1944, if yes, enclose a copy of the report of such audit.</strong></td>
<td>38. Whether any audit was conducted under the Central Excise Act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported /identified by the auditor.</td>
</tr>
<tr>
<td><strong>32. Accounting ratios with calculations as follows:</strong></td>
<td>39. Whether any audit was conducted under section 72A of the Finance Act, 1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.</td>
</tr>
<tr>
<td>(a) Gross Profit/Turnover;</td>
<td>40. Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:</td>
</tr>
<tr>
<td>(b) Net Profit/Turnover;</td>
<td></td>
</tr>
<tr>
<td>(c) Stock-in-Trade/Turnover;</td>
<td></td>
</tr>
<tr>
<td>(d) Material Consumed / Finished Goods produced.</td>
<td></td>
</tr>
</tbody>
</table>

### New Form No. 3CD

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Particulars</th>
<th>Previous year</th>
<th>Preceding previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Total turnover of the assessee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Gross profit/turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old Form No. 3CD</td>
<td>New From No. 3CD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Net profit/turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Stock-in-trade/turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Material consumed/finished goods produced</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(The details required to be furnished for principal items of goods traded or manufactured or services rendered)

41. Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income Tax Act, 1961 and Wealth tax Act, 1957 along with details of relevant proceedings.

*Signed

Place: ______________
Name: ______________
Date: ______________

*(Signature and stamp/Seal of the signatory)

*Signed

Place: ______________
Name of the signatory: ______________
Date: ______________
Full address: ______________

Notes:
1. The Annexure to this Form must be filled up failing

Notes:
1. *This Form has to be signed by the person competent to sign Form
Old Form No. 3CD | New From No. 3CD
--- | ---
which the Form will be considered as incomplete. | No. 3CA or Form No. 3CB, as the case may be.
2. This Form and the Annexure have to be signed by the person competent to sign Form No.3CA or Form No.3CB, as the case may be.
GUIDANCE NOTE ON REPORTS OR CERTIFICATES FOR SPECIAL PURPOSES (REVISED 2016)

Introduction

1. The purpose of this Guidance Note is to provide guidance on engagements which require a ‘professional accountant in public practice’ (hitherto known as “practitioner”)\(^1\) to issue reports other than those which are issued in audits or reviews of historical financial information\(^2\). The reports which are issued pursuant to audits or reviews of historical financial information are dealt with in Standards on Auditing (SAs) and Standards on Review Engagements (SREs), respectively, issued by the Institute of Chartered Accountants of India (ICAI).

2. In some cases, Government and other authorities under various statutes or notifications require reports or certificates from practitioners in support of statements or other information provided by an entity. Such reports or certificates can also be required to be issued to fulfill a contractual reporting obligation or may be required by the management or those charged with governance of an entity for its own special purposes.

3. Sometimes, the applicable law and regulation or a contractual arrangement that an entity might have entered into, prescribe the wording of report or certificates. The wording often requires the use of word or phrase like “certify” or “true and correct” to indicate absolute level of assurance expected to be provided by the practitioner on the subject matter. Absolute assurance indicates that a practitioner has performed procedures as considered appropriate to reduce the engagement risk\(^3\) to zero.

4. A practitioner is expected to provide either a reasonable assurance (about whether the subject matter of examination is materially misstated) or a limited assurance (stating that nothing has come to the practitioner’s attention that causes the practitioner to believe that the subject matter is materially misstated). A practitioner is not expected to reduce the engagement risk to zero. This is because there are inherent limitations attached to the procedures which a practitioner may perform in relation to issuance of a report or certificate, as the case may be. The inherent limitations arise from:

- the nature of financial reporting;

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\(^1\) The term “Professional accountant in public practice” has the same meaning as given in the Framework for Assurance Engagements, issued by the Institute of Chartered Accountants of India in 2007.

\(^2\) For meaning of the term “Historical Financial Information”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^3\) For meaning of the term “Engagement Risk”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
(b) the use of selective testing;
(c) the inherent limitations of internal controls;
(d) the fact that much of the evidence\(^4\) available to the practitioner is persuasive rather than conclusive;
(e) the nature of procedures to be performed in a specific situation;
(f) the use of professional judgment\(^5\) in gathering and evaluating evidence and forming conclusions based on that evidence;
(g) in some cases, the characteristics of the underlying subject matter\(^6\) when evaluated or measured against the criteria\(^7\); and
(h) the need for the engagement to be conducted within a reasonable period of time and at a reasonable cost.

5. In view of the above, depending upon the nature, timing and extent of procedures that can be performed based upon the facts and circumstances of the case, a report or certificate issued by a practitioner can provide either reasonable or limited level of assurance. Therefore, whenever a practitioner is required to give a “certificate” or a “report” for special purpose, the practitioner needs to undertake a careful evaluation of the scope of the engagement, i.e., whether the practitioner would be able to provide reasonable assurance or limited assurance on the subject matter.

6. The word ‘certificate’ as described in the laws and regulations or even in the contracts that an entity might have entered into can normally be associated with reasonable assurance. However, depending upon the circumstances and based upon the nature, timing and extent of the procedures which a practitioner can perform, the practitioner can conclude that a reasonable assurance cannot be expressed on the subject matter of the “certificate” and only limited assurance conclusion can be given. The practitioner’s procedures in case where reasonable assurance is to be expressed would be substantially different (and more extensive) from circumstances where limited assurance is to be expressed. The Guidance Note, at relevant places, lists the different procedures to be performed in a reasonable assurance engagement vis-a-vis a limited assurance engagement. Accordingly, for the purpose of this Guidance Note, the terms, “report” / “certificate” indicates an “assurance report” issued in compliance with this Guidance Note.

7. Assurance engagements include both assertion based engagements\(^8\), in which a party

\(^4\) For meaning of the term “Evidence”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
\(^5\) For meaning of the term “Professional Judgment”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
\(^6\) For meaning of the term “Underlying Subject Matter”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
\(^7\) For meaning of the term “Criteria”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
\(^8\) For meaning of the term “Assertion based Engagements”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
other than the practitioner measures or evaluates the underlying subject matter against the criteria, and direct reporting engagements\(^9\), in which the practitioner measures or evaluates the underlying subject matter against the criteria. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users\(^10\) confidence about the subject matter information\(^11\) to a degree that is clearly more than inconsequential.

8. The Guidance Note should be read in the context of the Framework for Assurance Engagements, issued by the Institute of Chartered Accountants of India (ICAI). Appendix 1 to the Guidance Note contains a glossary of certain important terms used in the Guidance Note and is an integral part of the Guidance Note. Further, for the purposes of this Guidance Note, reference to “appropriate party(ies)” should be read hereafter as “the responsible party\(^12\), the measurer\(^13\) or the evaluator\(^14\), or the engaging party\(^15\), as appropriate.”

**Scope**

9. This Guidance Note covers assurance engagements\(^16\) other than audits or reviews of historical financial information, as described in the Framework for Assurance Engagements (Assurance Framework) issued by the ICAI. This Guidance Note does not apply to assurance engagements for which subject specific Standards on Assurance Engagements have been issued by the ICAI.

10. Not all engagements performed by the practitioners are assurance engagements. Some frequently performed engagements that are not assurance engagements, and therefore not covered by the Guidance Note, include:

(a) Engagements covered by Standards on Related Services (SRS), such as agreed-upon procedures and compilation engagements;

(b) The preparation of tax returns where no assurance opinion/conclusion is expressed; and

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\(^9\) For meaning of the term “Direct Reporting Engagements”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^10\) For meaning of the term “Intended Users”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^11\) For meaning of the term “Subject Matter Information”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^12\) For meaning of the term “Responsible Party”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^13\) For meaning of the term “Measurer”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^14\) For meaning of the term “Evaluator”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^15\) For meaning of the term “Engaging Party”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^16\) For meaning of the term “Assurance Engagements”, refer the Glossary of Terms given in the Appendix 1 to this Guidance Note.
11. This Guidance Note can also be applied on the reports or certificates related to historical non-financial information that a practitioner may be called upon to issue from time to time. ICAI, from time to time, issues specific Guidance Notes to provide guidance on certain assurance engagements. While complying with the requirements of those specific Guidance Notes, a practitioner may also draw guidance from the principles enunciated in this Guidance Note.

Objectives

12. In conducting an assurance engagement, the objectives of the practitioner are:

(a) To obtain either reasonable assurance\(^{17}\) or limited assurance\(^{18}\), as appropriate, about whether the subject matter information is free from material misstatement\(^{19}\);

(b) To express an opinion (in a reasonable assurance engagement)/a conclusion (in a limited assurance engagement) regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report. The report also describes the basis for the conclusion;

(c) Where the subject matter information is made up of a number of aspects, separate opinion/conclusion may be provided on each aspect. All such separate opinions/conclusions do not need to relate to the same level of assurance. Rather, each opinion/conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this Guidance Note to the opinion/conclusion in the assurance report include each opinion/conclusion when separate opinions/conclusions are provided;

(d) To communicate further as required by this Guidance Note.

13. In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified opinion/conclusion in the practitioner’s assurance report is insufficient in the circumstances for the purposes of reporting to the intended users, this Guidance Note requires that the practitioner disclaim an opinion / a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

14. The roles played by the responsible party, the measurer or evaluator, and the engaging party can vary. The management and governance structures vary by jurisdiction and by entity,

\(^{17}\) For meaning of the term “Reasonable Assurance Engagement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{18}\) For meaning of the term “Limited Assurance Engagement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{19}\) For meaning of the term “Misstatement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for the Guidance Note to specify for all engagements, the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the appropriate party(ies) is(are) only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate, will require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for, and knowledge of, the matters concerned.

**Conduct of an Assurance Engagement in Accordance with Guidance Note**

15. The Guidance Note aims to bring out the procedural differences between a limited assurance engagement *vis a vis* a reasonable assurance engagement. In this Guidance Note, guidance that applies to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, these may nonetheless be appropriate in some limited assurance engagements.

**Inability to Achieve an Objective**

16. If any of the objectives enumerated in this Guidance Note (refer paragraphs 12 to 14) cannot be achieved, the practitioner should evaluate whether this requires the practitioner to modify the practitioner’s opinion/conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). In case the practitioner is unable to achieve an objective, it represents a significant matter requiring documentation in accordance with paragraph 92 of this Guidance Note.

**Ethical and Quality Control Requirements**

17. A practitioner who performs assurance engagements covered under this Guidance Note is governed by the same ethical and quality control requirements as are described in paragraphs 4 and 5 of the Framework for Assurance Engagements.

**Engagement Acceptance and Continuance**

18. The practitioner needs to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed, and should determine that conclusions reached in this regard are appropriate.

19. The practitioner should accept or continue an assurance engagement only when:

(a) The practitioner has no reason to believe that relevant ethical requirements, including
independence, will not be satisfied;

(b) The practitioner is satisfied that those persons who are to perform the engagement collectively (the engagement team)\(^{20}\) have the appropriate competence and capabilities; and

(c) The basis upon which the engagement is to be performed has been agreed, through:

   i. Establishing that the preconditions for an assurance engagement are present (see also paragraphs 21-22); and

   ii. Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner’s reporting responsibilities.

20. If the practitioner obtains information that would have caused the practitioner to decline the engagement had that information been available earlier, the practitioner should take necessary action promptly. In case of a firm\(^{21}\), the practitioner (i.e., the engagement partner\(^{22}\)\(^{23}\)) should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

### Preconditions for the Assurance Engagement

21. In order to establish whether the preconditions for an assurance engagement are present, the practitioner should, on the basis of a preliminary knowledge of the engagement circumstances\(^{24}\) and discussion with the appropriate party(ies), determine whether:

   (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and

   (b) The engagement exhibits all of the following characteristics:

      (i) The underlying subject matter is appropriate;

      (ii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that these exhibit the following characteristics as described in paragraph 35 of the Framework for Assurance Engagements:

\(^{20}\) For meaning of the term “Engagement Team”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{21}\) For meaning of the term “Firm”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{22}\) For meaning of the term “Engagement Partner”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{23}\) In the context of a firm, the term practitioner would imply reference to the engagement partner.

\(^{24}\) For meaning of the term “Engagement Circumstances”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
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a. Relevance.
b. Completeness.
c. Reliability.
d. Neutrality.
e. Understandability.

(iii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users.25

(iv) The practitioner expects to be able to obtain the evidence needed to support the member’s conclusion;

(v) The practitioner’s opinion/conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and

(vi) A rational purpose including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.

22. If the preconditions for an assurance engagement are not present, the practitioner should discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner would be well advised not to accept the engagement as an assurance engagement, unless required by law or regulation to do so.

Limitation on Scope Prior to Acceptance of the Engagement

23. If the engaging party imposes a limitation on the scope of the practitioner’s work in the terms of a proposed assurance engagement, such that the practitioner believes the limitation will result in the practitioner disclaiming an opinion / a conclusion on the subject matter information, the practitioner should not accept such an engagement as an assurance engagement, unless required by law or regulation to do so.

Agreeing on the Terms of the Engagement

24. The practitioner should agree the terms of the engagement with the engaging party. The agreed terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation. It is in the interests of both, the engaging party and the practitioner, that the practitioner communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The terms of engagement, at a minimum, should include the following:

(a) the objective and scope of engagement;

(b) the responsibilities of the practitioner;
(c) the responsibilities of engaging party;
(d) the responsibilities of the responsible party (if different from the engaging party);
(e) identification of the suitable criteria to be used;
(f) identification of the subject matter including reference to the law or regulation or the contracts;
(g) Unrestricted access to whatever records, documentation and other information requested in connection with the engagement;
(h) The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;
(i) reference to the expected form and content of report to be issued by the practitioner; and
(j) a statement that there may be circumstances in which a report may differ from its expected form and content.

25. The agreed terms of engagement can also include other general terms of engagement so long as those terms are not inconsistent with the applicable laws and regulations.

26. The form and content of the written agreement or contract will vary with the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party acknowledges and understands its responsibilities under such law or regulation. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access appropriate party(ies)’s records and other information, and responsibilities, such as requiring the practitioner to report directly to an authority, the legislature or the public, in case appropriate party(ies) attempt to limit the scope of the engagement.

27. On recurring engagements, the practitioner should assess whether the circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement.

Acceptance of a Change in the Terms of the Engagement

28. The practitioner should not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the practitioner should not disregard evidence that was obtained prior to the change. A change in circumstances that affects the intended users’ requirements, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement. An inability to obtain sufficient appropriate evidence to form a
reasonable assurance opinion/conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement.

**Assurance Report Prescribed by Law or Regulation**

29. In some cases, law or regulation prescribes the layout or wording of the assurance report. In these circumstances, the practitioner would need to evaluate:

(a) Whether intended users might misunderstand the assurance conclusion; and

(b) If so, whether additional explanation in the assurance report can mitigate possible misunderstanding.

30. If the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, as the law or regulation does not allow the practitioner to provide such additional explanation in the assurance report to mitigate the risk of users misunderstanding of the assurance conclusion, the practitioner should not accept the engagement, unless required by law or regulation to do so.

31. In case the practitioner is required to issue an assurance report under the applicable laws or regulations, the practitioner should discuss the matter with the engaging party. The practitioner should provide a draft of the assurance report to be issued that duly incorporates the essential elements thereof as prescribed in paragraph 80 of the Guidance Note to the layout or the wordings so prescribed. Both, the practitioner and the engaging party, should agree on the resulting modifications to the layout or wording prescribed under the laws or regulations. The agreement on layout or wording of the assurance report should be duly documented in the engagement letter. The practitioner should then accept and perform the engagement and issue the final assurance report duly incorporating therein the essential elements prescribed in the Guidance Note. If the engaging party does not agree to this approach, the practitioner should consider whether it would be appropriate to accept the engagement.

32. It may also happen that the concerned authorities reject the aforesaid assurance report issued by the practitioner on account of the modifications made to the prescribed layout or wording. In such circumstances, the practitioner should obtain the evidence of rejection of the assurance report by the concerned authorities and make it a part of the engagement documentation. The practitioner, in such a case, may issue the assurance report in the format prescribed under the law or regulation since the practitioner would have complied with the requirements of this Guidance Note while issuing the certificate in the first instance. The practitioner can also consider enclosing a statement containing essential elements of an assurance report as prescribed in paragraph 80 of this Guidance Note to the format prescribed under the law or regulation. The enclosure should also state the fact that a report issued earlier in accordance with this Guidance Note had been rejected by the concerned authorities.
32A. It is recognised that rejections of assurance reports or certificates issued might have also occurred in the past or there could be a situation where the concerned regulator has expressly indicated that any modification to the layout or the wording of the format is not acceptable and if time period available to follow the process in paragraphs 31 and 32 is not sufficient, the practitioner may issue the assurance report in the format prescribed under the law or regulation. If the practitioner has complied with all the requirements of this Guidance Note, the practitioner should also enclose a statement containing essential elements of an assurance report as prescribed in paragraph 80 of this Guidance Note, to the format prescribed under the law or regulation by giving suitable reference of the statement in the format. (e.g. “in terms of our statement of even date” or “to be read with the enclosed statement of even date” etc.)

33. Similarly, the practitioner may conclude, that even where permitted by the law/regulation or it is otherwise accepted by the concerned regulatory bodies to provide additional information/explanation in the assurance report, doing the same will not mitigate the risk of users’ misunderstanding of the assurance conclusion expressed. In such circumstance, the practitioner should mention the circumstances not allowing the practitioner to bring down the risk of users’ misunderstanding in the report being issued by the practitioner. The practitioner should also include such matters in the scope of work documented in the engagement letter.

Professional Skepticism\textsuperscript{26}, Professional Judgment, and Assurance Skills and Techniques

34. The practitioner would need to plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that may cause the subject matter information to be materiality misstated.

35. The practitioner needs to exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures.

36. The practitioner should also apply assurance skills and techniques\textsuperscript{27} as part of an iterative, systematic engagement process.

Planning

37. The practitioner should plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the engagement.

38. The practitioner should determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 21(b)(ii).

\textsuperscript{26} For meaning of the term “Professional Skepticism”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\textsuperscript{27} For meaning of the term “Assurance Skills and Techniques”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
39. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner should discuss the matter with the appropriate party(ies), and determine:

(a) Whether the matter can be resolved to the practitioner's satisfaction;
(b) Whether it is appropriate to continue with the engagement; and
(c) Whether and, if so, how to communicate the matter in the assurance report.

40. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the practitioner would need to consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner should express a qualified or adverse opinion/conclusion, or disclaimer of opinion/conclusion, as appropriate in the circumstances.

**Materiality**

41. The practitioner would consider materiality when:

(a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and

(b) Evaluating whether the subject matter information is free from material misstatement.

42. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

43. The applicable criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although applicable criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs 42-50. If the applicable criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.

44. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner’s consideration of materiality is a matter of professional judgment, and is affected by the practitioner’s perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

(a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study
the subject matter information with reasonable diligence;

(b) Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;

(c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and

(d) Make reasonable decisions on the basis of the subject matter information taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

45. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner’s professional judgment.

46. Qualitative factors may include such things as:

(a) The number of persons or entities affected by the subject matter.

(b) The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.

(c) The wording chosen with respect to subject matter information that is expressed in narrative form.

(d) The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.

(e) The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.

(f) Whether a misstatement affects compliance with law or regulation.

(g) In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.

(h) Whether a misstatement is the result of an intentional act or is unintentional.

(i) Whether a misstatement is significant having regard to the practitioner’s understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.

(j) Whether a misstatement relates to the relationship between the responsible party, the
measurer or evaluator, or the engaging party or their relationship with other parties.

(k) When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.

(l) When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.

(m) When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.

47. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:

(a) Expressed numerically; or

(b) Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).

48. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of uncorrected and undetected individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

49. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all, aspects of the information communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.

50. Concluding on the materiality of the misstatements identified as a result of the procedures performed requires professional judgment. For example, in a compliance engagement, the entity may have complied with nine provisions of the relevant law or regulation, but did not comply with one provision. Professional judgment is needed to conclude whether the entity complied with the relevant law or regulation as a whole. For example, the practitioner may consider the significance of the provision with which the entity did not comply, as well as the relationship of that provision to the remaining provisions of the relevant law or regulation.
Understanding the Underlying Subject Matter and Other Engagement Circumstances

51. The practitioner should make inquiries of the appropriate party(ies) regarding:

(a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information;

(b) Whether the responsible party has an internal audit function\(^28\) and, if so, make further inquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and

(c) Whether the responsible party has used any experts in the preparation of the subject matter information.

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<thead>
<tr>
<th>Limited Assurance</th>
<th>Reasonable Assurance</th>
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<tr>
<td>52L. The practitioner should obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</td>
<td>52R. The practitioner should obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</td>
</tr>
<tr>
<td>(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and</td>
<td>(a) Enable the practitioner to identify and assess the risks of material misstatement(^29) in the subject matter information; and</td>
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<tr>
<td>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 52L(a) and to obtain limited assurance to support the practitioner’s conclusion.</td>
<td>(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s opinion.</td>
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53L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 52L, the practitioner should consider the process used to prepare the subject matter information.

53R. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 52R, the practitioner should obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls relevant to the

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\(^{28}\) For meaning of the term "Internal Audit Function", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\(^{29}\) For meaning of the term "Risk of Material Misstatement", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
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engagement and determining whether they have been implemented by performing procedures in addition to the inquiry of the personnel responsible for the subject matter information.

Obtaining Evidence

Risk Consideration and Responses to Risks

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<tr>
<th>Limited Assurance</th>
<th>Reasonable Assurance</th>
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<tr>
<td>54L. Based on the practitioner’s understanding (see paragraph 52L), the practitioner should:</td>
<td>54R. Based on the practitioner’s understanding (see paragraph 52R) the practitioner should:</td>
</tr>
<tr>
<td>(a) Identify areas where a material misstatement of the subject matter information is likely to arise;</td>
<td>(a) Identify and assess the risks of material misstatement in the subject matter information; and</td>
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<tr>
<td>(b) Design and perform procedures to address the areas identified in paragraph 54L(a) and to obtain limited assurance to support the practitioner’s conclusion.</td>
<td>(b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s opinion. In addition to any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner’s procedures would include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:</td>
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<td></td>
<td>(i) The practitioner’s assessment of the risks of material misstatement includes an expectation that controls are operating effectively, or</td>
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<td></td>
<td>(ii) Procedures other than testing of controls cannot alone provide sufficient appropriate evidence.</td>
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Determining Whether Additional Procedures are necessary in a Limited Assurance Engagement

Revision of Risk Assessment in a Reasonable Assurance Engagement

55L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe

55R. The practitioner’s assessment of the risks of material misstatement in the subject
that the subject matter information may be materially misstated, the practitioner should design and perform additional procedures to obtain further evidence until the practitioner is able to:

(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or

(b) Determine that the matter(s) causes the subject matter information to be materially misstated.

<table>
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<tr>
<th>that the subject matter information may be materially misstated, the practitioner should design and perform additional procedures to obtain further evidence until the practitioner is able to:</th>
<th>matter information may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence which is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of material misstatement, the practitioner should revise the assessment and modify the planned procedures accordingly.</th>
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<td>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</td>
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<tr>
<td>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</td>
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56. When designing and performing procedures, the practitioner would also need to consider the relevance and reliability of the information to be used as evidence. If:

(a) Evidence obtained from one source is inconsistent with that obtained from another; or

(b) The practitioner has doubts about the reliability of information to be used as an evidence, the practitioner should determine what changes or additions to the procedures are necessary to resolve the matter, and should consider the effect of the matter, if any, on other aspects of the engagement.

57. The practitioner should accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial and determine the effect of the misstatement on the assurance report.

**Work Performed by a Practitioner’s Expert**

58. When the work of a practitioner’s expert is to be used, the practitioner should also:

(a) Evaluate whether the practitioner’s expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes. In the case of a practitioner’s external expert, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to that expert’s objectivity;

(b) Obtain a sufficient understanding of the field of expertise of the practitioner’s expert;

(c) Agree with the practitioner’s expert on the nature, scope and objectives of that expert’s work; and

(d) Evaluate the adequacy of the practitioner’s expert’s work for the practitioner’s purposes.

**Work Performed by Another Practitioner, a Responsible Party’s or Measurer’s or Evaluator’s Expert, or an Internal Auditor**

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30 For meaning of the term “Practitioner’s Expert”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
59. When the work of another practitioner is to be used, the practitioner should evaluate whether that work is adequate for the practitioner’s purposes.

60. If information to be used as evidence has been prepared using the work of a responsible party’s or a measurer’s or evaluator’s expert, the practitioner should, to the extent necessary having regard to the significance of that expert’s work for the practitioner’s purposes:

(a) Evaluate the competence, capabilities and objectivity of that expert;

(b) Obtain an understanding of the work of that expert; and

(c) Evaluate the appropriateness of that expert’s work as evidence.

61. If the practitioner plans to use the work of the internal audit function, the practitioner should evaluate the following:

(a) The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors;

(b) The level of competence of the internal audit function;

(c) Whether the internal audit function applies a systematic and disciplined approach, including quality control; and

(d) Whether the work of the internal audit function is adequate for the purposes of the engagement.

**Written Representations**

62. The practitioner should request from the appropriate party(ies) a written representation:

(a) That it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement.

(b) Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.

63. If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the practitioner should request such other written representations.

64. When written representations relate to matters that are material to the subject matter information, the practitioner should:

(a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
(b) Consider whether those making the representations can be expected to be well-informed on the particular matters.

65. The date of the written representations should be as near as practicable to, but not after, the date of the assurance report.

**Requested Written Representations Not Provided or Not Reliable**

66. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner should:

(a) Discuss the matter with the appropriate party(ies);

(b) Re-evaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

**Subsequent Events**

67. When relevant to the engagement, the practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and should respond appropriately to the facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner’s conclusion. However, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report.

**Other Information**

68. When documents containing the subject matter information and the assurance report thereon include other information, the practitioner should read that other information to identify material inconsistencies, if any, with the subject matter information or the assurance report and, if on reading that other information, the practitioner:

(a) Identifies a material inconsistency between that other information and the subject matter information or the assurance report; or

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31 For meaning of the term “Other Information”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.
(b) Becomes aware of a material misstatement of fact\textsuperscript{32} in that other information that is unrelated to matters appearing in the subject matter information or the assurance report,

The practitioner should discuss the matter with the appropriate party(ies) and take further action as appropriate.

**Description of Applicable Criteria**

69. The practitioner would need to evaluate whether the subject matter information adequately refers to or describes the applicable criteria. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.

70. A description that the subject matter information is prepared in accordance with particular applicable criteria is appropriate only if the subject matter information complies with all relevant requirements of those applicable criteria that are effective. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the subject matter information.

**Forming the Assurance Opinion/Conclusion**

71. The practitioner should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner should consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the practitioner should consider the implications for the practitioner’s opinion/conclusion in paragraph 72\textsuperscript{33}.

72. The practitioner should form an opinion/a conclusion about whether the subject matter information is free of material misstatement. In forming that opinion/conclusion, the practitioner should consider the practitioner’s conclusion in paragraph 71 regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate.

73. Evidence is necessary to support the practitioner’s opinion/conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources,

\textsuperscript{32}For meaning of the term “Misstatement of Fact”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

\textsuperscript{33}Refer Para 41- 45 of the Framework for Assurance Engagements.
such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or the quality control procedures for client acceptance and continuance. Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the practitioner, and therefore, also constitutes evidence. Most of the practitioner’s work in forming the assurance opinion/conclusion consists of obtaining and evaluating evidence.

74. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner should express a qualified opinion/conclusion or disclaim an opinion/conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

Preparing the Assurance Report

75. The assurance report should be in writing and should contain a clear expression of the practitioner’s opinion/conclusion about the subject matter information. Where the subject matter information is made up of a number of aspects, separate opinions/conclusions may be provided on each aspect. All such separate opinions/conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this Guidance Note to the opinion/conclusion in the assurance report include each opinion/conclusion when separate opinions/conclusions are provided.

76. The practitioner’s opinion/conclusion should be clearly separated from information or explanations that are not intended to affect the practitioner’s opinion/conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used should make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner’s opinion/conclusion.

77. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner shall not report orally without providing a written assurance report.

78. This Guidance Note does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other
mechanisms to enhance the clarity and readability of the assurance report.

79. The practitioner may choose a “short form” or “long form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and explanations that are not intended to affect the practitioner’s conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 76, additional information is clearly separated from the practitioner’s conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion.

Assurance Report Content

80. In order to assert compliance with this Guidance Note, among other things, the assurance report should include at a minimum the following basic elements:

(a) A title that clearly indicates the report is an independent assurance report. An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner. In case, the applicable law or regulation or the contractual arrangement entered by the entity specifies a title or phrases to identify the assurance report, the practitioner may use the title or phrases so prescribed.

(b) An addressee. An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users.

(c) An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter. When the practitioner’s conclusion is phrased in terms of a statement made by the appropriate party, that statement should accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users. Identification and description of the subject matter information and, when appropriate, the underlying subject matter may include, for example:

- The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
- Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.
• An explanation of those characteristics of the underlying subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter against the applicable criteria, or the persuasiveness of available evidence. For example:
  o The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
  o Changes in the underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

(d) Identification of the applicable criteria. The assurance report identifies the applicable criteria against which the underlying subject matter was measured or evaluated so that the intended users can understand the basis for the practitioner's opinion/conclusion. The assurance report may include the applicable criteria, or refer to them if they are included in the subject matter information or if they are otherwise available from a readily accessible source. It may be relevant in the circumstances, to disclose:

  • The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable).
  
  • Measurement or evaluation methods used when the applicable criteria allows for choice between a number of methods.
  
  • Any significant interpretations made in applying the applicable criteria in the engagement circumstances.
  
  • Whether there have been any changes in the measurement or evaluation methods used.

(e) Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria. While in some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the
degree of compliance with policies or procedures may deteriorate.

(f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. In some cases the applicable criteria used to measure or evaluate the underlying subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that therefore, the subject matter information may not be suitable for another purpose.

In addition to the alert as required in the preceding paragraph, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

(g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities. Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, that the measurer or evaluator is responsible for the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the Practitioner's role is to independently express an opinion/conclusion about the subject matter information.

(h) A statement that the engagement was performed in accordance with this Guidance Note.

(i) A statement that the firm, of which the practitioner is a partner has applied SQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

(j) A statement that the practitioner complies with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India. The following is an illustration of a statement in the assurance report regarding compliance with ethical requirements:

“We conducted our engagement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. That Guidance Note requires that we comply with the ethical requirements of the
Code of Ethics issued by the Institute of Chartered Accountants of India."

(k) An informative summary of the work performed as the basis for the practitioner’s opinion/conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner’s opinion/conclusion. In a limited assurance engagement, the summary of the work performed should state that:

(i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and

(ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner’s opinion/conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

(l) The practitioner’s opinion/conclusion:

(i) When appropriate, the opinion/conclusion should inform the intended users of the context in which the practitioner’s opinion/conclusion is to be read.

It may be appropriate to inform the intended users of the context in which the practitioner’s opinion/conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The practitioner’s opinion/conclusion may, for example, include wording such as: “This opinion/conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report.”

(ii) In a reasonable assurance engagement, the opinion is expressed in a positive form. Examples of opinion expressed in a form appropriate for a reasonable assurance engagement include:

• When expressed in terms of the underlying subject matter and the applicable criteria, “In our opinion, the entity has complied, in all material respects, with XYZ law”;

• When expressed in terms of the subject matter information and the applicable criteria, “In our opinion, the Statement of Net Worth is
properly prepared, in all material respects, based on XYZ criteria”; or

- When expressed in terms of a statement made by the appropriate party, “In our opinion, the [appropriate party’s] statement that the entity has complied with XYZ law is, in all material respects, fairly stated,” or “In our opinion, the [appropriate party’s] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated”.

(iii) In a limited assurance engagement, the conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe that the subject matter information is materially misstated. Examples of conclusions expressed in a form appropriate for a limited assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that [the entity] has not complied, in all material respects, with XYZ law.”

- When expressed in terms of the subject matter information and the applicable criteria, “Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria.”; or

- When expressed in terms of a statement made by the appropriate party, “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party’s] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated.”

(iv) The opinion/conclusion in (ii) or (iii) should be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and need to be phrased in terms of:

a. The underlying subject matter and the applicable criteria;

b. The subject matter information and the applicable criteria; or

c. A statement made by the appropriate party.

Forms of expression which may be useful for underlying subject matters include,
for example, one, or a combination of, the following:

- For compliance engagements—“in compliance with” or “in accordance with.”

- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—“properly prepared.”

- For engagement when the principles of fair presentation are embodied in the applicable criteria—“fairly stated.”

(v) When the practitioner expresses a modified opinion/conclusion, the assurance report should contain:

a. A section that provides a description of the matter(s) giving rise to the modification; and
b. A section that contains the practitioner’s modified opinion/conclusion

(m) The practitioner’s signature. The assurance report is signed by the practitioner in his personal name. Where a Firm is appointed to carry out the engagement, the report is signed in the personal name of the practitioner and in the name of the audit firm. The partner/proprietor signing the assurance report also needs to mention the membership number assigned by the ICAI. They also include the registration number of the Firm, wherever applicable, as allotted by ICAI, in the assurance reports signed by them.

(n) The date of the assurance report. The assurance report should be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner’s opinion/conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information.

(o) The place of signature.

Reference to the Practitioner’s Expert in the Assurance Report

81. If the practitioner refers to the work of a practitioner’s expert in the assurance report, the wording of that report should not imply that the practitioner’s responsibility for the opinion/conclusion expressed in that report is reduced because of the involvement of that expert.

Assurance Report Prescribed by Law or Regulation

82. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report should refer to this Guidance Note, only if the assurance report includes, at a minimum, each of the elements identified in paragraph 80.
Unmodified and Modified Opinions/Conclusions

83. The practitioner should express an unmodified opinion/conclusion when the practitioner concludes:

(a) In the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria; or

(b) In the case of a limited assurance engagement, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.

84. If the practitioner considers it necessary to:

(a) Draw intended users’ attention to a matter presented or disclosed in the subject matter information that, in the practitioner’s judgment, is of such importance that it is fundamental to intended users’ understanding of the subject matter information (an Emphasis of Matter paragraph); or

(b) Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the practitioner’s judgment, is relevant to intended users’ understanding of the engagement, the practitioner’s responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by law or regulation, the practitioner may do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner’s opinion/conclusion is not modified in respect of the matter/s. In the case of an Emphasis of Matter paragraph, such a paragraph should refer only to the information presented or disclosed in the subject matter information.

85. The practitioner would need to express a modified opinion/conclusion in the following circumstances:

(a) When, in the practitioner’s professional judgment, a scope limitation exists and the effect of the matter could be material. In such cases, the practitioner should express a qualified opinion/conclusion or a disclaimer of opinion/conclusion.

(b) When, in the practitioner’s professional judgment, the subject matter information is materially misstated. In such cases, the practitioner should express a qualified opinion/conclusion or adverse opinion/conclusion.

Examples of qualified and adverse opinions/conclusions and a disclaimer of opinions/conclusion are:
• Qualified conclusion (an example for limited assurance engagements with a material misstatement) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [appropriate party’s] statement does not present fairly, in all material respects, the entity’s compliance with XYZ law.”

• Adverse opinion (an example for a material and pervasive misstatement for both reasonable assurance and limited assurance engagements) – “Because of the significance of the matter described in the Basis for Adverse Opinion/Conclusion section of our report, the [appropriate party’s] statement does not present fairly the entity’s compliance with XYZ law.”

• Disclaimer of conclusion (an example for a material and pervasive limitation of scope for both reasonable assurance and limited assurance engagements) – “Because of the significance of the matter described in the Basis for Disclaimer of Opinion/Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form an opinion/ conclusion on the [appropriate party’s] statement. Accordingly, we do not express an opinion/ conclusion on that statement.”

86. The practitioner should express a qualified opinion/conclusion when, in the practitioner’s professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse opinion/conclusion or a disclaimer of opinion/conclusion. A qualified opinion/conclusion should be expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates.

87. The term ‘pervasive’ describes the effects on the subject matter information of misstatements or the possible effects on the subject matter information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter information are those that, in the practitioner’s professional judgment:

(a) Are not confined to specific aspects of the subject matter information;

(b) If so confined, represent or could represent a substantial proportion of the subject matter information; or

(c) In relation to disclosures, are fundamental to the intended users’ understanding of the subject matter information.

(d) The nature of the matter, and the practitioner’s judgment about the pervasiveness of the effects or possible effects on the subject matter information, affects the type of conclusion to be expressed.

88. If the practitioner expresses a modified opinion/conclusion because of a scope limitation
but is also aware of a matter(s) that causes the subject matter information to be materially misstated, the practitioner should include in the assurance report a clear description of both the scope limitation and the matter(s) that causes the subject matter information to be materially misstated.

89. When the statement made by the appropriate party has identified and properly described that the subject matter information is materially misstated, the practitioner should either:

(a) Express a qualified opinion/conclusion or adverse opinion/conclusion phrased in terms of the underlying subject matter and the applicable criteria; or

(b) If specifically required by the terms of the engagement to phrase the opinion/conclusion in terms of a statement made by the appropriate party, express an unqualified opinion/conclusion but include an Emphasis of Matter paragraph in the assurance report, referring to the statement made by the appropriate party that identifies and properly describes that the subject matter information is materially misstated. In some cases, the measurer or evaluator may identify and properly describe that the subject matter information is materially misstated. For example, in a compliance engagement the measurer or evaluator may correctly describe the instances of non-compliance. In such circumstances, paragraph 88 requires the practitioner to draw the intended users' attention to the description of the material misstatement, by either expressing a qualified or adverse opinion/conclusion or by expressing an unqualified opinion/conclusion but emphasizing the matter by specifically referring to it in the assurance report.

90. Appendix 2 to the Guidance Note contains illustrative formats of Reports/Certificates.

Other Communication Responsibilities

91. The practitioner should consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others.

Documentation

92. The practitioner should prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:

(a) The nature, timing and extent of the procedures performed to comply with the Guidance Note and applicable legal and regulatory requirements;

(b) The results of the procedures performed, and the evidence obtained; and

(c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
93. If the practitioner identifies information that is inconsistent with the practitioner’s final opinion/conclusion regarding a significant matter, the practitioner should document how the practitioner addressed the inconsistency.

94. The practitioner should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. SQC 1 requires establishment of policies and procedures for the timely completion of the assembly of engagement files. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

95. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new opinion/conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant practitioners of the engagement team before the date of the assurance report.

96. After the assembly of the final engagement file has been completed, the practitioner should not delete or discard engagement documentation of any nature before the end of its retention period. The retention period for assurance engagements ordinarily is no shorter than seven years from the date of assurance report.34

97. If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the practitioner should, regardless of the nature of the amendments or additions, document:

a) The specific reasons for making the amendments or additions; and
b) When, and by whom, they were made and reviewed.

APPENDIX 1

34 Refer Para 83 of SQC 1
Glossary of Terms Used in the Guidance Note

For purposes of this Guidance Note, the following terms have the meanings attributed below.

1. **Assurance engagement**—An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express an opinion/conclusion, designed to enhance the degree of confidence of the intended users, other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions:

   - Either a reasonable assurance engagement or a limited assurance engagement:
     - **Reasonable assurance engagement**—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement, as the basis for the practitioner’s opinion. The practitioner’s opinion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter against the criteria.
     - **Limited assurance engagement**—An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has(have) come to the practitioner’s attention to cause the practitioner to believe that the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful.

   - Either assertion based engagement or a direct reporting engagement:
     - **Assertion based engagement**—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner’s conclusion addresses whether the subject matter information is free from material misstatement. The practitioner’s conclusion may be phrased in terms of:
       (i) The underlying subject matter and the applicable criteria;
       (ii) The subject matter information and the applicable criteria; or
(iii) A statement made by the appropriate party.

- Direct reporting engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

2. Assurance skills and techniques—Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. Assurance skill and techniques include:

- Application of professional skepticism and professional judgment;
- Planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;
- Applying procedures as appropriate to the engagement (which may include inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures); and
- Systematic documentation practices and assurance report-writing skills.

3. Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Suitable criteria include, when relevant, criteria for presentation and disclosure.
4. Engagement circumstances — The broad context defining the particular engagement, which includes the terms of the engagement; whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

5. Engagement partner — The partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

6. Engagement risk — The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

7. Engaging party — The party(ies) that engages the practitioner to perform the assurance engagement. The engaging party may be under different circumstances, management or those charged with governance of the responsible party, a legislature, the intended users, the measurer or evaluator, or a different third party.

8. Engagement team — All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

9. Evidence — Information used by the practitioner in arriving at the practitioner's conclusion. Evidence includes both, information contained in relevant information systems, if any, and other information.

10. Firm — A sole practitioner/proprietor, partnership or any such entity of professional accountants, as may be permitted by law.

11. Historical financial information — Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

12. Internal audit function — A function of an entity that performs assurance and consulting activities, designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

13. Intended users — The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report.

35 Refer to Para 47-48 and Para 51 of the Framework for Assurance Engagements.
In some cases there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly, where a large number of people have access to it. In such cases, particularly where possible, users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

Intended users or their representatives may be directly involved with the practitioner and the responsible party (and the engaging party, if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon procedures agreed with the engaging party and any appropriate third parties, rather than a conclusion):

(a) The practitioner is responsible for determining the nature, timing and extent of procedures; and

(b) The practitioner may need to perform additional procedures, if information comes to the practitioner’s attention that differs significantly from that on which the determination of planned procedures was based.

In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 80 requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report.

14. Measurer or evaluator — The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses expertise in the underlying subject matter. In many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party. The measurer or evaluator is responsible for having a reasonable basis for the subject matter information. What constitutes a reasonable basis will depend on the nature of the underlying subject matter and other engagement circumstances. In some cases, a formal process with extensive internal controls may be needed to provide the measurer or evaluator with a reasonable basis that the subject matter information is free from material misstatement. The fact that the practitioner will report on the subject matter information is not a substitute for the measurer or evaluator’s own processes to have a reasonable basis for the subject matter information.

15. Misstatement — A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include
16. Misstatement of fact (with respect to other information)—Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information.

17. Other information — Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon.

18. Practitioner’s expert — An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm), or a practitioner’s external expert.

19. Professional judgment — The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

20. Professional skepticism — An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

21. Responsible party — The party(ies) responsible for the underlying subject matter. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. In many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party.

22. Risk of material misstatement — The risk that the subject matter information is materially misstated prior to the engagement.

23. Subject matter information — The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter. In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, “ABC’s governance structure conformed with XYZ criteria during the period…”

24. Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.
APPENDIX 2

Illustrative Formats of Reports/Certificates

Note: The illustrative formats of assurance reports or certificates for special purposes given in Appendix 2 should be tailored by the practitioner to meet the specific circumstances and requirements of the engagement.

Illustration 1: Practitioner’s Report for Turnover/Net Worth/Net Profit/Working Capital/similar engagement pursuant to a Tender requirement

The Board of Directors
[Name of the Company]
[Company Address]

Independent Practitioner’s Report on the Statement of [Annual Turnover for financial years ended........and............ (specify periods); Current Assets; Current Liabilities; Computation of Working Capital and Computation of Net worth as at................. (specify date)]

1. This Report is issued in accordance with the terms of our engagement letter/agreement dated ................. [specify date].

2. The accompanying Statement of Annual Turnover for financial years ended ..........and............... (specify period) and the Statement of Current Assets; Current Liabilities; Working Capital and Net Worth as at ................. (specify date) (hereinafter referred together as the “Statement”) contains the details as required pursuant to compliance with the terms and conditions contained in ................. [refer to the clause] of the Tender document issued by ......................... [refer to the authority] dated ................................ (specify date) with reference [specify the contract reference if available] (hereinafter referred to as the “Tender Document”), which we have initialled for identification purposes only.

Management’s Responsibility for the Statement

3. The preparation of the Statement is the responsibility of the Management of ........................................ [Name of the Company] (hereinafter the “Company”) including the preparation and maintenance of all accounting and other relevant supporting records and documents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying
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an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Tender Document and provides all relevant information to ...................... [Name of the authority].

Practitioner’s Responsibility

5. Pursuant to the requirements of the Tender Document, it is our responsibility to provide a reasonable assurance whether:

   i) the amounts in the Statement of Annual Turnover for the year ended ................................ (specify period) have been accurately extracted from the audited financial statements;

   ii) the amounts in the Statement in respect of current assets and current liabilities that form part of the working capital computation have been accurately extracted from the audited financial statements for the year ended ......................... (specify the period) and the computation of working capital is arithmetically correct;

   iii) the amounts in the Statement that form part of the Net Worth computation have been accurately extracted from the audited financial statements for the year ended; and [month][date][year] and the computation of net worth is arithmetically correct; and

   iv) the computation of net worth and working capital is in accordance with the method of computation set out in the clause [ ] of the Tender Document.

6. The audited financial statements referred to in paragraph 5 above, have been audited by us, on which we issued an unmodified audit opinion vide our report(s) dated ................................. (specify dates) respectively. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Opinion

9. Based on our examination, as above, we are of the opinion that:

   i) the amounts in the Statement in respect of Annual Turnover, Current assets and Current liabilities have been accurately extracted from the audited financial statements for the years ended [date] and [date];

   ii) the amounts that form part of the working capital and net worth computation have been accurately extracted from the audited financial statements for the years ended [specify date] and [specify date]; and that the computation of working capital and net worth in the Statement is mathematically accurate and is in accordance with the method of computation set out in the clause [ ] of the Tender Document.

Restriction on Use

10. The certificate is addressed to and provided to the Board of Directors of the Company solely for the purpose to enable comply with requirement of Tender Document and to submit the accompanying Statement to [specify the authority], and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this certificate is shown or into whose hands it may come without our prior consent in writing.

    For XYZ and Co.
    Chartered Accountants
    Firm’s Registration Number
    Signature
    (Name of the Member Signing the Assurance Report)
    (Designation36)
    Membership Number

Place of Signature
Date

36 Partner or Proprietor, as the case may be.
Illustration 2: Auditor’s Annual Activity Certificate for Indian Branch Office/Liaison Office of Foreign Companies

The Authorised Representatives,
[Name of the Branch Office/Liaison Office]
[Address]

Independent Auditor’s Annual Activity Certificate for Indian Branch of [Name of the Foreign Company]

1. This Certificate is issued in accordance with the terms of our agreement dated [date].

2. [Name of the Indian Branch /Liaison Office], (the “Indian Branch”/“Liaison Office/s”) with PAN No. [Insert PAN Number of the Branch /Liaison Office/s] of [Name of the Foreign Company] (UIN [Insert UIN]) was established to undertake certain activities specifically permitted by the Reserve Bank of India (the “RBI”) vide its approval letter/s No/s. [*] (the “letter/s”).

Authorised Representatives’ Responsibility

3. The Authorised Representatives of the Branch Office/Liaison Office are responsible for ensuring that the Indian Branch/ Liaison Office complies with the requirement of approval letter and for providing all relevant information to the RBI.

Auditor’s Responsibility

4. Pursuant to the requirements of the RBI Master Circular No. 7 dated July 02, 2012 (the “Circular”), our responsibility is to express reasonable assurance in the form of an opinion based on our audit and examination of books and records as to whether the Indian Branch/ Liaison Office/s has/ have undertaken only those activities that have been specifically permitted by the RBI and has/ have complied with the specified terms and conditions.

5. We audited the financial statements of [Name of the Indian Branch /Liaison Office] as of and for the financial year ended 31 March XXXX, on which we issued an unmodified audit opinion vide our reports dated ……………………………. (specify date). Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

6. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
7. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Opinion

8. Based on our audit of financial statements for the year ended 31 March 20XX and the information and explanations given to us, we are of the opinion that the [Name of the Branch /Liaison Office/s] has/ have\(^{37}\) undertaken only those activities during the period from [month] [date], [year] to [month] [date] that have been specifically permitted by the Reserve Bank of India, vide its approval letter/s\(^{38}\) No/s\(^{39}\) [ ] dated [month][date], [year] and has/have\(^{40}\) complied with the terms and conditions specified in the above mentioned letter/s.

Restriction on Use

9. This certificate has been prepared at the request of the [Name of the Branch Office/Liaison Office] solely with reference to the Circular, as amended from time to time. It should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care or for any other purpose or to any other party to whom it is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.
Chartered Accountants
Firm’s Registration Number

Signature
(Name of the Member Signing the Assurance Report)
(Designation\(^{41}\))
Membership Number

Place of Signature
Date

\(^{37}\) As Applicable
\(^{38}\) As Applicable
\(^{39}\) As Applicable
\(^{40}\) As Applicable
\(^{41}\) Partner or Proprietor, as the case may be.
Illustration 3: Auditor’s Report on the Manner of Utilization of Funds required under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

The Board of Directors
[Name of the Company]
[Company Address]

Independent Auditor’s Report on the manner of utilization of the funds including for purposes other than those stated in the offer document

1. This report is issued in accordance with the terms of our agreement dated [●].

2. The accompanying Statement contains details of manner of the utilization of funds including funds utilized for purposes other than those stated in the offer document for the Rights Issue (the “Statement”), as required by the Clause 32(5) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, by the [Name of the Company] (the “Company”), which we have initialled for identification purposes only. The Funds were raised by the Company pursuant to the rights issue of [*] equity shares of face value of Rs. [*] each, at a premium of Rs. [*] each, aggregating to Rs. [*].

Managements’ Responsibility for the Statement

3. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Equity Listing Agreement and for providing all relevant information to the Securities and Exchange Board of India.

Auditor’s Responsibility

5. Pursuant to the requirements of the Equity Listing Agreement, it is our responsibility to obtain reasonable assurance and form an opinion as to whether the Statement is in agreement with the [audited financial statements for the year ended [and books and records] of the Company].

6. The financial statements referred to in paragraph 5 above, have been audited by us on which we issued an unmodified audit opinion vide our reports dated [month][date][year]. Our audits of

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42 Strike off, if not applicable
43 If the audited financial statements of the entity are not available, it may not be possible for the practitioner to provide reasonable assurance on the utilization of funds by the entity. However, in case the practitioner is required to issue a report, the practitioner should consider providing a limited assurance report. Reference should be made to paragraph 80 of this Guidance Note, which specifies the requirements to be complied with by the while preparing an assurance report that expresses a limited assurance.
these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Opinion

9. Based on our examination as above, and the information and explanations given to us, in our opinion, the Statement is in agreement with the audited financial statements for the year ended of the Company and fairly presents, in all material respects, the manner of the utilization of funds including funds utilized for purposes other than those stated in the offer document.

Restriction on Use

10. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of enabling it to comply with its obligations under the Equity Listing Agreement to submit the accompanying Statement to the Audit Committee accompanied by a report thereon from the statutory auditors and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.
Chartered Accountants
Firm’s Registration Number

Signature
(Name of the Member Signing the Assurance Report)
(Designation
Membership Number

Place of Signature
Date

44 Partner or Proprietor, as the case may be.
Illustration 4: Practitioner’s Report on Statement of Fixed Assets for the Last Two Years in Respect of One of the Project of an Entity

The Board of Directors
[Name of the Company]
[Company Address]

Independent Practitioner’s Report on Statement of Fixed Assets

1. This report is issued in accordance with the terms of our agreement dated [date].

2. The accompanying Schedule of Fixed Assets as at [date] and [date] has been prepared by M/s xxx (the “Company”) in respect of its project at [ABC] (the “Statement”), pursuant to the requirement of ‘Annexure B’ of the application filed by the Company with the ………………………………………… (specify the name of the relevant authority) for availing Fixed Capital Investment Subsidy relating to the new plant commissioned at xxx. We have initialled the Statement for identification purposes only.

Management’s Responsibility

3. The accompanying Statement, including the creation and maintenance of all accounting and other records supporting its contents, is solely the responsibility of the Management of the Company. The Company’s Management is responsible for the designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Company’s Management is also responsible for ensuring that the Company complies with the requirements of the Scheme and for providing all relevant information to the …………………………… (name of the authority).

Practitioner’s Responsibility

5. It is our responsibility to report on the Statement based on our examination of the matters in the Statement with reference to the books of account and other records of the Company for the years ended [dates], which have been subjected to audit pursuant to the requirements of the Companies Act, 2013.

6. The financial statements for the financial years ended [dates], have been audited by us on which we issued an unmodified audit opinion vide our reports dated [month][date][year]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material
misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Opinion

9. Based on our examination, as above, and the information and explanations given to us, we report that the Statement is in agreement with the books of account and other records of the Company as produced to us for our examination.

Restriction on Use

10. This report has been issued at the request of the Board of Directors of the Company, for submission to _________________ (name of the authority) pursuant to the requirements of the Scheme. Our report should not be used for any other purpose or by any person other than the addressees of this report. Accordingly, we do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

For XYZ and Co.
Chartered Accountants
Firm’s Registration Number

Signature
(Name of the Member Signing the Assurance Report)
(Designation45)
Membership Number

Place of Signature
Date

45 Partner or Proprietor, as the case may be.
GUIDANCE NOTE ON REPORTING UNDER SECTION 143(3)(f) AND (h) OF THE COMPANIES

Introduction
1. Section 143 of the Companies Act, 2013 (hereinafter referred to as the "Act") deals with the powers and duties of the auditors of companies. Section 143(1) of the Act requires the auditor to make certain specific enquiries during the course of the audit. Section 143(2) of the Act requires the auditor to, *inter alia*, give his report to the members of company on the accounts examined by him, and on every financial statement which are laid before the company in a general meeting. Sub-section (3) of section 143 of the Act also lays down certain matters required to be reported upon by the auditor in his report. Sub-section (3) of section 143 of Act provides as follows:

"(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.¹

Scope of the Guidance Note

2. This Guidance Note is intended to assist the auditors in discharging their duties in respect of clauses (f) and (h) of sub-section (3) of section 143 of the Act. Clause (f) of the said sub-section creates a requirement for the auditor to consider observations or comments of the auditor on financial transactions or matters which have an adverse effect on the functioning of the company. Such observations or comments would ordinarily lead to the modification of or an emphasis of matter in the auditor’s report on financial statements. It may be noted that the matters that lead to modification in the auditor’s report on financial statements are matters that give rise to a qualified opinion, adverse opinion or a disclaimer of opinion². Further, matters that lead to an emphasis of matter paragraphs are matters appropriately presented or disclosed in the financial statements that, in the auditor’s judgement, are of such importance that they are fundamental to the users’ understanding of the financial statements³. If the matter leading to the modification of the auditor’s opinion or an emphasis of matter in the auditor’s report on financial statements is likely to have an adverse effect on the functioning of the company, the auditor is required to report such matter. Under clause (h) of sub-section (3) of section 143 of the Act, the auditor is required to state whether any matter leading to a qualification, reservation or adverse remark, that is, effectively the modification of the auditor’s report on financial statements, relates to the maintenance of accounts and other matters connected therewith.

Reporting under Section 143(3)(f) of the Act

3. The relevant extracts of section 143(3)(f) of the Act are reproduced below:

“(3). The auditor’s report shall also state –
………………………………………………
(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;”

4. Clause (f) requires the auditor to report “the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company”. An auditor’s report may contain matters leading to modifications to the auditor’s opinion or emphasis of matter in the auditor’s report on the financial statements.

¹ Refer Rule 11 of Companies (Audit and Auditors) Rules, 2014.
² Reference may be made to Standard on Auditing (SA) 705, “Modifications to the Opinion in the Independent Auditor's Report.”
³ Reference may be made to paragraphs 6 and 7 of Standard on Auditing (SA) 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report.”
Such matters may be related to issues which may have an adverse effect on the functioning of the company. The words “observations” or “comments” as appearing in clause (f) of section 143(3) are construed to have the same meaning as referring to “emphasis of matter paragraphs, situations leading to modification in the auditor’s report. Accordingly, the auditor should have made an “observation” or “comment” in the auditor’s report in order to determine the need to report under clause (f) of section 143(3).

Therefore, only such “observations” or “comments” of the auditors on financial transactions or matters that have been made by the auditor in the auditor’s report which have an adverse effect on the functioning of the company are required to be reported under this clause. For the sake of clarity, it may be noted that neither the auditor’s observations nor the comments made by him have any adverse effect on the functioning of a company. These observations or comments made by the auditor might contain matters which might have an adverse effect on the functioning of a company.

5. The Act does not specify the meaning of the phrase ‘adverse effect on the functioning of the company’. The expression should not be interpreted to mean that any event affecting the functioning of the company, observed by the auditor, should be reported upon even though it does not affect the financial statements, e.g., revocation of a license to manufacture one out of the many products during the year to which the financial statements relate, where such product that does not have any material contribution to the revenues of the company, etc. Such an interpretation would not only be beyond the scope of the audit of financial statements of the company but would also not be in accordance with the objective and concept of audit stipulated under the Act. A more logical and harmonious interpretation is that this reporting requirement does not intend to change the basic objective and the concept of audit of financial statements of a company, which is to examine the financial statements with a view to express an opinion thereon.

6. The scope of the audit and auditor’s role remains as contemplated under the Standards on Auditing (SAs) and other relevant pronouncements issued by the Institute of Chartered Accountants of India as well as laid down in the Act, i.e., to lend credibility to the financial statements by reporting whether they reflect a true and fair view. SA 200, Objective of the Independent Auditor and the Conduct of an Audit in Accordance with Standards of Auditing, specifies that the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form the opinion of the true and fair view of the financial position and operating result of an enterprise. The auditor’s opinion, therefore, does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. SAs require auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high
level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. At this juncture, it may also be noted that SA 200 also clearly states that the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

7. There is no change in the objective and scope of an audit of financial statements because of inclusion of clause (f) in sub-section (3) of section 143 of the Act. The auditor expresses his opinion on the true and fair view presented by the financial statements through his report which may be modified in certain circumstances. However, the auditor would now have to evaluate the subject matters leading to modification of the audit report or emphasis of matter in the auditor’s report to make judgement as to which of them has an adverse effect on the functioning of the company within the overall context of audit of financial statements of the company. Only such matters which, in the opinion of the auditor, have an adverse effect on the functioning of the company should be reported under this clause. Conversely, such qualifications or adverse opinions or disclaimer of opinion or emphasis of matters of the auditor, which do not deal with matters that have adverse effect on the functioning of the company, need not be reported under this clause.

8. As far as inquiries under section 143(1) are concerned, the auditor is not required to report on these matters unless he has any comments to make on any of the items referred to therein. If the auditor has any comments or observations on any of the matters stated in section 143(1), the auditor should consider such comments or observations when reporting under this clause if they contain matters that may have any adverse effect on the functioning of the company.

9. Auditor’s will need to apply professional judgement in considering matters of emphasis that may have an adverse effect on the functioning of the company. Ordinarily matters that are pervasive in nature such as going concern or matters that will significantly impact the operations of the company due to its size and nature will need to be reported under clause (f) of sub-section (3) of section 143 of the Act. Examples of emphasis of matter which may have an adverse effect on the functioning of the company include situations where:

- the going concern assumption is appropriate but there are several factors leading to a material uncertainty that may cast a significant doubt about the Company’s ability to continue as a going concern; or
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- a material uncertainty regarding the outcome of a litigation wherein an unfavourable decision could result in a significant outflow of resources for the company, etc.

Examples of emphasis of matter which may not have an adverse effect on the functioning of the company include a situation where there is an emphasis of matter:

- on managerial remuneration which is subject to the approval of the Central Government;
- relating to accrual of a contractually receivable claim based on management estimate where the ultimate realisation could be different from the amount accrued;
- on frauds that have been dealt with in the financial statements of the company and would not have any continuing effect on the financial statements.

10. Another issue which arises is whether any observations or comments made by the auditor under clause (i) of section 143(3) in respect of the company’s internal financial controls over financial reporting, which may have any adverse effect on the functioning of the company, should also be reported in terms of this clause. In this regard, it is noted that reporting under section 143(3)(i) is part of the auditor’s report though it may be reported in an annexure to the auditor’s report. Accordingly, if any observations or comments made by the auditor on the adequacy or operating effectiveness of internal financial controls over financial reporting contain such matters, which, in his opinion, may have any adverse effect on the functioning of the company, should also be reported under clause (f) of section 143(3) even if such observation did not result in a modification to the audit opinion on the financial statements of the company. An example in this regard may be where an auditor reports that the company did not have an appropriate internal control system for inventory with regard to receipts, issue for production and physical verification.

Reporting under Section 143(3)(h) of the Act

11. The relevant extracts of section 143(3)(h) of the Act are reproduced below:

“(3). The auditor’s report shall also state –

......................................................

(h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;"

12. Clause (h) requires the auditor to report “any qualification, reservation or adverse remark” relating to the maintenance of accounts and other matters connected therewith. An auditor’s report may contain matters leading to modifications in the auditor’s report on financial statements. The matters that cause such modification may have a consequential effects or possible effects on the books of account maintained by the company and other matters connected therewith.

13. Section 128 of the Act, inter alia, states that every company shall prepare and keep its
books of account and other relevant books and papers and financial statements that give a true and fair view of the state of affairs of the company. Section 129(1) of the Act, *inter alia*, states that the financial statements shall comply with the accounting standards notified under section 133 of the Act. Section 2(13) of the Act defines “books of account” to include records maintained in respect of—

(i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

(ii) all sales and purchases of goods and services by the company;

(iii) the assets and liabilities of the company; and

(iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Clause (b) of section 143(3) requires the auditor to, *inter alia*, state 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.

14. Matters to be reported under clause (h) of section 143(3) needs to be evaluated based on the financial statements prepared under the Act. This is also consistent with the other reporting responsibilities of the auditor on books of account and compliance with notified/specified accounting standards that are reported by him under section 143(3). Accordingly, reporting under this clause is determined based on the financial statements prepared i.e., as at the balance sheet date.

15. The words “qualification”, “adverse remark” and “reservation” used in clause (h) of section 143(3) should be considered to be similar to the terms “qualified opinion”, “adverse opinion” and “disclaimer of opinion”, respectively, referred to in SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”.

16. Accordingly, the auditor would need to report under clause (h) of section 143(3) any matter that causes a qualification, adverse remark or disclaimer of opinion on the financial statements since such matters will or possibly will have an effect on the books of account maintained by the company.

17. Further, reporting under clause (h) of section 143(3) will be required if the auditor makes any observation under clause (b) of section 143(3) relating to whether proper books of account as required by law have been kept by the company. For example, the auditor may have made an observation on maintenance of cost records under clause (b) of section 143(3) and this may not have had an effect on the financial statements of the company or the auditor’s opinion on the financial statements.

18. As a corollary, reporting under clause (h) of section 143(3) will not be required if there are no modifications, i.e., no qualified, adverse or disclaimer of opinion, and there are no such observations under clause (b) of section 143(3) regarding books of account kept by the company.
19. Since clause (h) of section 143(3) requires the auditor to report under this clause only if the auditor has “any qualification, reservation or adverse remark”, it is appropriate to conclude that a matter reported under emphasis of matter paragraph in the audit report need not be considered for reporting under this clause as an emphasis of matter is not in the nature of a qualification, reservation (disclaimer) or adverse remark.

20. Any material weakness in internal financial controls that is reported by the auditor under clause (i) of section 143(3) may not have an impact on the maintenance of books of account if such material weakness did not result in a modification to the opinion on the financial statements of the company. However, if the material weakness in internal financial controls resulted in a modification to the audit opinion on the financial statements, then such modification may be covered for reporting under clause (h) of section 143(3) as stated in paragraph 17 above.

21. The Appendix to this Guidance Note contains illustrations on matters that may give rise to reporting under section 143(3)(f) and/or section 143(3)(h) of the Companies Act, 2013.
APPENDIX

Illustrative Matters Forming Basis For Modified Opinion Or Emphasis Of Matter Paragraph in the Auditor’s Report and Requiring Reporting Under Section 143(3)(f) and/or Section 143(3)(h) of the Companies Act, 2013

[ILLUSTRATION 1]

Basis for Qualified Opinion

The Company’s inventories are carried in the Balance Sheet at Rs. XXX (As at 31st March 20YY: Rs. YYY). The Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard - 2 “Valuation of Inventories”. The Company’s records indicate that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (As at 31st March 20YY: Rs. YYY) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX (Previous year ended 31st March, 20YY: Rs. YYY), and income tax, profit for the year and shareholders’ funds would have been reduced by Rs. X, Rs. XX and Rs. XXX, respectively (Previous year ended 31st March, 20YY: Rs. Y, Rs. YY and Rs. YYY, respectively). This matter was also qualified in our report/ the report of the predecessor auditors on the financial statements for the year ended 31st March 20YY.4

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

..........................

Report on Other Legal and Regulatory Requirements

As required by Section 143 (3) of the Act, we report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

4 Where applicable and only in such case, disclosure of previous year figures is required - Attention of the readers is drawn to the provisions of Standard on Auditing (SA) 710, Comparative Information—Corresponding Figures And Comparative Financial Statements.
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(f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

....................................................

....................................................

(h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.*

ILLUSTRATION 2*

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to the following matters in the Notes to the financial statements:

a) Note X to the financial statements which, describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company.

b) Note Y in the financial statements which indicates that the Company has accumulated losses and its net worth has been fully / substantially eroded, the Company has incurred a net loss/net cash loss during the current and previous year(s) and, the Company’s current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in Note Y, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. However, the financial statements of the Company have been prepared on a going concern basis for the reasons stated in the said Note.

Our opinion is not modified in respect of these matters.

............... Report on Other Legal and Regulatory Requirements

As required by Section 143 (3) of the Act, we report that:

............... (f) The going concern matter described in sub-paragraph (b) under the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

* In this case there is nothing reportable under sec 143(3)(h).
ILLUSTRATION 3

Basis for Qualified Opinion

ABC Company Limited's investment in XYZ Company, a foreign associate whose net worth has been fully/substantially eroded, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects5 of the matter described in the Basis for Qualified Opinion paragraph, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31st March 20XX, and its profit/loss and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, we report that:

........................................

....................................................................................

........................................

(f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

........................................

(h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.

ILLUSTRATION 4

Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on March 31, 20XX. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

5 Note the use of words “possible effects” as the auditor was unable to obtain sufficient appropriate audit evidence.
Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not give the information required by the Companies Act, 2013 in the manner so required and also do not give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31st March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, we report that:

(f) The matter described in the Basis for Adverse Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

(h) The adverse remarks relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Adverse Opinion paragraph above.

ILLUSTRATION 5

Basis for Disclaimer of Opinion

We were appointed as auditors of the Company after March 31, 20X1 and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at Rs. XXX and Rs. XXX, respectively.

In addition, the introduction of a new computerised accounts receivable system in September 20X0 resulted in numerous errors in accounts receivable. As of the date of our audit report, Management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs. XXX as at March 31, 20X1.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable in the Balance Sheet, and the corresponding elements making up the Statement of Profit and Loss and Cash Flow Statement.

Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.
Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, we report that:

........................................

(f) The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

........................................

(h) The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion paragraph above.
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Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)

Introduction

1. The Council of the Institute of Chartered Accountants of India had issued Accounting Standard (AS) 21 ‘Consolidated Financial Statements’ which was subsequently notified as a part of the Companies (Accounting Standards) Rules, 2006 by the Ministry of Corporate Affairs and subsequently amended vide the Companies (Accounting Standards) Amendment Rules, 2016. Also Indian Accounting Standard (Ind AS) 110, ‘Consolidated Financial Statements’ has been issued as a part of the Companies (Indian Accounting Standards) Rules, 2015 by the Ministry of Corporate Affairs. AS 21 and Ind AS 110 lay down principles and procedures for preparation and presentation of consolidated financial statements under AS and Ind AS respectively. In other words, whenever a parent decides to or is required to prepare and present consolidated financial statements, it should do so in accordance with the requirements of applicable Accounting Standards under the relevant financial reporting framework. This Guidance Note does not provide guidance in relation to amalgamation/business combination.

2. Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, a consolidated statement of change in equity (if applicable) and any explanatory notes annexed to, or forming part thereof. Consolidated financial statements are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statements. The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are prescribed under the Schedule III of the Companies Act, 2013.

MCA has issued a road map for convergence with Ind AS. Those companies which are required to follow Ind AS will prepare their consolidated financial statements as per Ind AS 110 on Consolidated Financial Statements. Companies which are not covered by Ind AS road map and don’t voluntarily elect to follow Ind AS are required to follow AS 21 on Consolidated Financial Statements notified under Companies (Accounting Standards) Rules, 2006 as amended upto date (recently AS 21 has been amended as per Notification No. G.S.R. 364(E) dated March 30, 2016). It may also be noted that Section 129 of the Companies Act, 2013 now mandates preparation of consolidated financial statements by all companies having subsidiaries and associates and joint ventures or joint operations. Similarly, paragraph 9 of AS 21(Revised) requires enterprises which do not have a subsidiary but have an associate and/or a joint venture to also prepare consolidated financial statements in accordance with AS 23 and AS 27 respectively.

For non-corporate entities, accounting standards issued by ICAI are applicable.

For Companies covered by Ind AS, the relevant accounting standards are Ind AS 27 – Separate Financial Statements, Ind AS 28 – Investments in Associates and Joint Ventures, Ind AS 110 – Consolidated Financial Statements, Ind AS 111 – Joint Arrangements and Ind AS 112 – Disclosure of Interest in Other Entities, notified under the Companies (Indian Accounting Standards) Rules, 2015. For Companies not covered by Ind AS, the relevant accounting standards are AS 21 - Consolidated Financial Statements, AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements and AS 27 – Financial Reporting of Interests in Joint Ventures, notified under the Companies (Accounting Standards) Rules, 2006. For non-corporate entities, the relevant accounting standards are AS 21, 23 and 27 issued by ICAI.

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3. An entity which prepares the consolidated financial statements, either under any law or regulation governing the entity or *suo motu*, might be required to or otherwise engage the auditor for conducting the audit of consolidated financial statements. However, a law or regulation governing the entity may require the consolidated financial statements to be audited by the statutory auditor of the entity. This Guidance Note provides guidance on the specific issues and audit procedures to be applied in an audit of consolidated financial statements. This Guidance Note can also be used while auditing consolidated financial statements prepared for special purpose, to the extent applicable.

4. This Guidance Note does not deal with accounting matters arising on consolidation of financial statements.

Definitions

5. Various terms used in this Guidance Note, have the same meaning as defined in applicable accounting standards. The same have been given in Appendix II to the Guidance Note.

Responsibility of Parent

6. The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. This includes:

(a) identifying components, and including the financial information of the components to be included in the consolidated financial statements;

(b) where appropriate, identifying reportable segments for segment reporting;

(c) identifying related parties and related party transactions for reporting;

(d) obtaining accurate and complete financial information from components;

(e) making appropriate consolidation adjustments.

(f) harmonization of accounting policies and accounting framework; and.

(g) GAAP conversion, where applicable.

7. Apart from the above, the parent ordinarily issues instructions to the management of the components specifying the parent’s requirements relating to financial information of the components to be included in the consolidated financial statements. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

Responsibility of the Auditor of the Consolidated Financial Statements

8. Section 129(4) of the Companies Act, 2013 requires that 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. Besides other matters, the principal auditor of the consolidated financial statements is responsible for expressing an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework under which the parent prepares the consolidated financial statements in addition to reporting on the additional matters as required under the Companies Act, 2013 and any other statute to the extent applicable.

9. Therefore, the auditor's objectives in an audit of consolidated financial statements are:

(a) to satisfy himself that the consolidated financial statements have been prepared in accordance with the requirements of applicable financial reporting framework;

(b) to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements.

(c) to enquire into the matters as specified in section 143(1) of the Companies Act, 2013; and.

(d) to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013; for other matters under section 143(3)(j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a), (b) and (c) to the extent applicable.

10. Standards on Auditing, Statements and Guidance Notes on auditing issued by the Institute of Chartered Accountants of India apply in the same manner to audit of consolidated financial statements as they apply to audit of separate financial statements. It means that the auditors, while conducting the audit of consolidated financial statements are, inter alia, expected to:

(a) plan their work to enable them to conduct an effective audit in an efficient and timely manner;

(b) obtain an understanding of the accounting and internal control systems including IT system like consolidation tool, sufficient to plan the audit and determine the nature, timing and extent of his audit procedures. Such an understanding would help the auditors to develop an effective audit approach;

(c) use professional judgment to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level; etc.

3 The auditor of the consolidated financial statements generally report on the matters pertaining to the component, on the basis of auditors' report of the respective component.

4 As specified under the Companies Act, 2013.
Audit Considerations

11. The following features of consolidated financial statements have an impact on the related audit procedures:

(a) The consolidated financial statements are prepared on the basis of separate financial statements of the parent and its components, using the consolidation procedures prescribed by Accounting Standards\(^5\) under applicable financial reporting framework; and

(b) The auditor of the consolidated financial statements may use the work of other auditors as per requirement of Standards on Auditing unless the auditor of consolidated financial statements is also the auditor of the other components of the group.

12. The consolidated financial statements (including the intermediate consolidated financial statements prepared internally)\(^6\) are prepared using the separate financial statements of the parent and its components and also other financial information, which might not be covered by the separate financial statements of these entities. The ‘other financial information’ would include disclosures to be made in the consolidated financial statements about the components, proportion of items included in the consolidated financial statements to which different accounting policies have been applied where permitted, adjustments made for the effects of significant transactions or other events that occur between the financial statements of parent and its components, as the case may be, etc. Thus, this ‘other financial information’ would be required to be additionally disclosed.

13. When an auditor accepts the audit of consolidated financial statements, the auditor should assess whether based on his work alone he would be able to express an opinion on the true and fair view presented by the consolidated financial statements. If the auditor is of the view that his own participation may not be enough or sufficient, he should consider using the work of ‘other auditors’.

14. Such ‘other auditors’ might be the statutory auditors of the separate financial statements of one or more of the components or the auditors appointed specifically for assisting the auditor of the consolidated financial statements (the principal auditor).

15. Where the statutory auditors of one or more of the components of the parent are also requested to assist the principal auditor, the work to be performed by such statutory auditors


\(^6\) Intermediate consolidated financial statements are the consolidated financial statements of an intermediate parent, e.g., Company A has one subsidiary Company B. Company B has a subsidiary Company C. In this case, Company B is the intermediate parent and the consolidated financial statements prepared by Company B will be intermediate consolidated financial statements.
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for use by the principal auditor would constitute an assignment separate from the assignment to conduct the statutory audit of the respective component.

16. Standard on Auditing (SA) 600, ‘Using the Work of Another Auditor’ establishes standards when an auditor, reporting on the financial statements of an entity (the group—in the case of consolidated financial statements), uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity (Paragraph 2 of SA 600). The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.

17. In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS. (Refer paragraph 27 and 30 of this Guidance Note).

- The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.

- However, while considering the observations (for instance modification and/or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the concept of materiality would not be considered. Thus, the component auditor's observations, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are required to be included in the parent auditor’s report on the CFS, regardless of materiality. (Refer paragraph 46 of this Guidance Note)

Auditing the Consolidation

18. Before commencing an audit of consolidated financial statements, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. The auditor should make plans, among other things, for the following:

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(a) Understanding of the group structure and group-wide controls, including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;

(b) understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of financial statements of foreign components;

(c) determining and programming the nature, timing, and extent of the audit procedures to be performed based on the assessment of the risk of material misstatement in the consolidation process;

(d) determining the extent of use of other auditor’s work in the audit; and

(e) coordinating the work to be performed.

19. A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.

20. The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion as referred to in paragraph 19 above. In respect of completeness of this information, the auditor should perform the following procedures:

(a) review his working papers for the prior years for the known components;

(b) review the parent’s procedures for identification of various components;

(c) make inquiries of management to identify any new components or any component which goes out of consolidated financial statements.

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8 Group-wide controls may include a combination of the following:

a. group management’s risk assessment process, that is, the process for identifying, analysing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements

b. monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level

c. a process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components

d. a central IT system controlled by the same general IT controls for all or part of the group

e. control activities within an IT system that is common for all or some components

f. monitoring of controls, including activities of the internal audit function and self-assessment programs

g. consistent policies and procedures, including a group financial reporting procedures manual

h. group-wide programs, such as codes of conduct and fraud prevention programs, and

i. arrangements for assigning authority and responsibility to component management.
(d) review the investments of parent as well as its components to determine the shareholding in other entities;

(e) review the joint ventures and joint arrangements as applicable;

(f) review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group.

(g) review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013.

(h) also identify the changes in the shareholding that might have taken place during the reporting period.

21. The auditor should document procedures performed for assessing completeness of the components to be consolidated.

22. There would be various means by which control, joint control or significant influence can be obtained. In this regard, the auditor may verify the Board’s minutes, shareholder agreements entered into by the parent, agreements with the entities to which the parent might have provided any technology or know how, enforcement of statute, as the case may be, etc.

The auditor may also review the minutes of the meetings of the Board of Directors subsequent to the year-end to understand if there has been any liquidation of investments or any further investments have been made as these may provide further evidence to understand if the control was meant to be temporary in nature or otherwise.

23. Where a component is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion and whether such exclusion is in conformity with the applicable financial reporting framework, for example, under the Companies (Accounting Standards) Rules, 2006, there could be two reasons for exclusion of a subsidiary, associate or jointly controlled entity – one, that the relationship of parent with the subsidiary, associate or jointly controlled entity is intended to be temporary or the subsidiary, associate or joint venture operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. Similarly, under the Companies Act, 2013, intermediate subsidiary in India is not required to present consolidated financial statements. Ind AS 110 also prescribes certain criteria where consolidated financial statements are not required. In such cases, the

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% (a) A parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind ASs.

(b) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.
auditor should satisfy himself that the exclusion made by the management falls within these categories, e.g. in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture is temporary, the auditor should verify that the intention of the parent, to dispose off the subsidiary, investment in associate or interest in jointly controlled entity, in the near future, existed at the time of acquisition of the subsidiary, making investment in associate or jointly controlled entity. The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements. If an entity is excluded from the consolidated financial statements for reasons other than those allowed by the applicable financial reporting framework, the auditor should consider its effect on the auditor’s report to be issued.

24. The auditor should also examine whether there is any change in the status of a component (e.g., subsidiary to associate, JV to associates or vice – versa). The auditor, in such cases, should examine whether these changes have been appropriately accounted for in the consolidated financial statements as required by the relevant accounting standards under the applicable financial reporting framework.

25. (a) In preparing consolidated financial statements in accordance with the Companies (Accounting Standards) Rules, 2006, the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows and then certain calculations like determination of goodwill or capital reserve, minorities interest and adjustments like elimination of intra group transactions, balances and unrealised profits etc. are made in accordance with the requirements of Accounting Standard (AS) 21, “Consolidated Financial Statements”. Investments in associates are accounted for using the Equity Method as prescribed in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”. A parent that has an interest in a jointly controlled entity, reports its interest in the consolidated financial statements using proportionate consolidation method in accordance with Accounting Standard (AS) 27, “Financial Reporting of Interests in Joint Ventures”. Many of the procedures appropriate for the application of equity method and the proportionate consolidation method are similar to the consolidation procedures set out in Accounting Standard (AS) 21, “Consolidated Financial Statements”.

(b) For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015:

- the financial statements of the parent and its subsidiaries are combined as per Ind AS 110, “Consolidated Financial Statements” on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows;
- related goodwill/ capital reserve and non-controlling interest is determined as per Ind As 103;

(c) an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Ind AS, to measure all of its subsidiaries at fair value through profit or loss.
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- adjustments like elimination of intra group transactions, balances, unrealised profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110.

- Investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, “Investments in Associates and Joint Ventures”. Interests in assets, liabilities, revenues and expenses in a joint operation are accounted for as part of separate financial statements of the entity in accordance with Indian Accounting Standard (Ind AS) 111, “Joint Arrangements”.

26. The auditor should verify that the adjustments warranted by the relevant accounting standards under the applicable financial reporting framework have been made wherever required and have been properly approved by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments. No adjustments, other than those envisaged in this Guidance Note, can be carried out in the preparation of CFS at the group level.

Special Considerations

Permanent Consolidation Adjustments

27. Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Permanent consolidation adjustments are:

(a) Determination of goodwill or capital reserve as per applicable accounting standards.

(b) Determination of amount of equity attributable to minority/ non-controlling interests.

28. The auditor should verify that the above calculations have been made appropriately. The auditor should pay particular attention to the determination of pre-acquisition reserves of the components. Date(s) of investment in components assumes importance in this regard. The auditor should also examine whether the pre-acquisition reserves have been allocated appropriately between the parent and the minority interests/ non-controlling interests of the subsidiary. The auditor should also verify the changes that might have taken place in these permanent consolidation adjustments on account of subsequent acquisition of shares in the components, disposal of the components in the subsequent years.

29. It may happen that while working out the permanent consolidation adjustments, in the case of one subsidiary, goodwill arises and in the case of another subsidiary a capital reserve arises. The parent may choose to net off these amounts to disclose a single amount in the consolidated balance sheet where permitted by the applicable financial reporting framework. In such cases, the auditor should verify that the gross amounts of goodwill and capital reserves arising on acquisition of various subsidiaries have been disclosed in the notes to the consolidated financial statements to reflect the excess/shortage over the parents’ portion of the subsidiary’s equity.

Current Period Consolidation Adjustments

30. Current period consolidation adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done. Current period
consolidation adjustments primarily relate to elimination of intra-group transactions and account balances including:

(a) intra-group interest paid and received, or management fees, etc.;
(b) unrealised intra-group profits on assets acquired/ transferred from/to other subsidiaries;
(c) intra-group indebtedness;
(d) adjustments related to harmonising the different accounting policies being followed by the parent and its components;
(e) adjustments to the financial statements (of the parent and the components being consolidated) for recognized subsequent events or transactions that occur between the balance sheet date and the date of the auditor’s report on the consolidated financial statements of the group.

There are two types of subsequent events:

a. The first type of subsequent events consists of events or transactions that provide additional evidence about conditions that existed at the date of the financial statements, including the estimates inherent in the process of preparing financial statements (i.e. adjusting events).

b. The second type of subsequent events consists of events that provide evidence about conditions that did not exist at the date of the financial statements but arose subsequent to that date (i.e. non-adjusting events).

Events occurring after balance sheet date which do not require adjustments would not normally require disclosure, although they may be of such significance that they may require a disclosure in the report of approving authority in the case of accounting standards and in the financial statements in case of Ind AS. For such events, the following shall be disclosed:

a. The nature of the event; and

b. An estimate of its financial effect or a statement that such an estimate cannot be made.

(f) adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and not already recognised in its financial statements and the date of the auditor’s report on the group’s consolidated financial statements when the financial statements of the component to be used for consolidation are not drawn up to the same balance sheet date as that of the parent;

(g) In case of a foreign component, adjustments to convert a component’s audited financial statements prepared under the component’s local GAAP to the GAAP under which the consolidated financial statements are prepared.

(h) determination of movement in equity attributable to the minorities interest/non-controlling interest since the date of acquisition of the subsidiary.

(i) adjustments of deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intragroup transactions and undistributed profits of the component in case of consolidated financial statements prepared under Ind AS.
31. The adjustments required for preparation of consolidated financial statements are made in memorandum records kept for the purpose by the parent. The auditor should review the memorandum records to verify the adjustment entries made in the preparation of consolidated financial statements. Apart from reviewing the memorandum records, the auditor should inter alia:

(a) verify that the intra group transactions and account balances have been eliminated;

(b) verify that the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances;

(c) verify that adequate disclosures have been made in the consolidated financial statements of application of different accounting policies in case, it was impracticable to harmonize them. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so\(^\text{10}\).

(d) verify the adjustments made to harmonise the different accounting policies including adjustments made by management to convert a component’s financial statements prepared under the component’s GAAP to the GAAP under which the consolidated financial statements are prepared;

(e) verify the calculation of minorities/non-controlling interest;

(f) verify adjustments relating to deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from Intergroup transactions (where the parent’s accounts are maintained in Ind AS);

(g) verify that income and expenses of the subsidiary are included in consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognised in consolidated financial statements at the acquisition date\(^\text{11}\).

32. The auditor should gain an understanding of the procedures adopted by the management of the enterprise to make the above mentioned adjustments. This helps the auditor in reducing the audit risk to an acceptably low level.

33. One of the important adjustment that may be required in the current period is determination of impairment loss that might exist for goodwill arising on consolidation. Goodwill arising on consolidation is carried at the value determined at the date of acquisition of the component, and the same is to be tested for impairment loss at every balance sheet date.

\(^{10}\) AS 21/ AS 23/ AS 27 permit application of different accounting policies, if it is impractical to use uniform accounting policies, that fact should be disclosed together with the proportion of the items in the consolidated financial statements to which the different accounting policies have been applied. Ind AS 28 permits that financial statement of an associate can be prepared using different accounting policies if it is impractical to do so however adjustment shall be made to make the accounting policies confirm to those of parent when the financial statements are used by parent in applying the equity method.

\(^{11}\) Where the consolidated financial statements are prepared under Indian Accounting Standards.
34. The auditor should examine whether any impairment loss has been determined by the parent. If yes, the auditor should examine the procedure followed for determination of impairment loss. The auditor should satisfy himself that the amount of impairment loss determined is fair. In case the impairment loss in goodwill of a component has been determined in foreign currency, the auditor should verify if any amount of loss in local currency need to be adjusted from currency translation reserve on account of movement in the exchange rate from the date when the goodwill was first accounted for in the consolidated financial statement of parent, to the date of determination of impairment loss.

35. The auditor should also perform audit procedures to understand and verify whether Intragroup losses are indicating an impairment loss that requires recognition in the consolidated financial statements.

36. Apart from verifying that the calculation and disclosures regarding minorities/non-controlling interest have been made appropriately, the auditor also determines, in cases where the minority interests’ share of the losses exceed the minority/non-controlling interests’ share of the equity, the excess, and any further losses applicable to the minority interest, have been accounted for in accordance with the relevant accounting standards.

37. The financial statements of the components used in the consolidation should be drawn up to the same reporting date as that of the parent. If it is not practicable to draw up the financial statements of one or more components to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent’s financial statements. In any case, the difference between reporting dates should not be more than six months in case of financial statements under AS and three months in case of financial statements under Ind AS. The auditor of the consolidated financial statements should review other components’ results between its financial reporting date and that of the parent for significant transactions or other events that have taken place during the period and, therefore, need to be reflected in the consolidated financial statements. Recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position, results of operations or cash flows.

38. The fundamental accounting assumption of “consistency” requires the auditor of the consolidated financial statements to consider whether the length of the reporting periods and any difference in financial year-ends are the same from period to period. If there have been any changes in the respective reporting periods of the components included in the consolidated financial statements that have a material effect on the financial statements, the auditor should ensure that the entity discloses such changes and the manner of treatment in the financial statements.

39. The Ministry of Corporate Affairs has issued a Circular number 39/2014 dated October 14, 2014 stating that Schedule III to the Act read with the applicable Accounting Standards does not envisage that a company while preparing its consolidated financial statements merely repeats the disclosures made by it under separate financial statements being consolidated. In the consolidated financial statements, the company would need to give all disclosures relevant to consolidated financial statements only.
40. Further, Accounting Standard (AS) 21 also lays down certain principles that should be observed while giving the information which is part of the separate financial statements of the Components but that need not be reported in the notes and other explanatory material of the consolidated financial statements. The auditor should:

(a) examine that the notes required by the applicable standards which are necessary for presenting a true and fair view of the consolidated financial statements have been included in the consolidated financial statements as an integral part thereof; and

(b) examine that additional statutory information disclosed in the separate financial statements of the subsidiary and/or a parent having bearing on the true and fair view of the consolidated financial statements have been disclosed in the consolidated financial statements.

41. In addition, the information required pursuant to Schedule III to the Companies Act, 2013 (‘general instructions for the preparation of consolidated financial statements’) should be disclosed. For example, following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.\(^\text{12}\)

42. As regards consolidation adjustments (including elimination of intra group transactions), it should be ensured that these are either disclosed as a single line item separately or adjusted in the information (e.g. net assets) disclosed for the parent and its each component.

43. The Ind AS 110 does not give a list of information which is part of the separate financial statement of the components but that need not be reported in the notes and other explanatory material of the consolidated financial statements, however, based on section 129(4) and MCA circular 39/2014 as referred above, it can be construed that, even in consolidated financial statements under Ind AS, only those disclosures should be given which are relevant to consolidated financial statements.

44. Based on the above discussion, in case of companies, the information such as the following given in the notes to the separate financial statements of the parent and/or the subsidiary, need not be included in the consolidated financial statements.

(i) Source from which bonus shares are issued, e.g., capitalisation of profits or Reserves or from Securities Premium Account.

\(^{12}\) For companies which are covered by Ind AS.
(iii) Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.


(iv) A statement of investments (whether shown under “financial assets or non-financial assets as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.

(v) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:
   (a) raw materials;
   (b) components and spare parts;
   (c) capital goods.

(vi) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.

(vii) Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.

(viii) The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.

(ix) Earnings in foreign exchange classified under the following heads, namely:-
   (a) export of goods calculated on F.O.B. basis;
   (b) royalty, know-how, professional and consultation fees;
   (c) interest and dividend;
   (d) other income, indicating the nature thereof.

However, notwithstanding the above, the auditor needs to ensure compliance with disclosure requirements of applicable accounting standards and other applicable laws for consolidated financial statements.

Management Representations

45. Standard on Auditing (SA) 580, “Written Representations” requires the auditor to obtain appropriate representations from management. The auditor of the consolidated financial statements should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent and that parent’s
management has approved the consolidated financial statements. In addition, the auditor of the consolidated financial statements should obtain written representations from parent’s management on matters material to the consolidated financial statements. Examples of such representations include:

(a) Completeness of components included in the consolidated financial statements;
(b) Identification of reportable segments for segment reporting;
(c) Identification of related parties and related party transactions for reporting;
(d) Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra-group transactions.

Reporting

46. With reference to the auditor’s responsibility under paragraph 8, there could be two situations in an audit of consolidated financial statements—when the parent’s auditor is also the auditor of all the components to be included in the consolidated financial statements and when the parent’s auditor is not the auditor of one or more components and therefore, uses the work of other auditors in the audit. The auditor should, while preparing the report, consider the requirements of Standard on Auditing (SA) 700, “Forming an Opinion and Reporting on Financial Statements”, SA 705, “Modifications to the Opinion in the Independent Auditor’s Report and SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report. Where, the auditor uses the work of other auditors in the audit of consolidated financial statements, the requirements of Standard on Auditing (SA) 600, “Using the Work of Another Auditor” should also be considered. Reference may also be made to paragraph 16 for using the work of another auditor.

When the Parent’s Auditor is also the Auditor of All its Components

47. While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed. In case of any departure, the auditor should consider the same while drafting the audit report.

48. Auditor should issue an audit report expressing an opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit. Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statement. Suggested format of the audit report to be issued in such circumstance is given in Appendix I to this Guidance Note.

When the Parent’s Auditor is not the Auditor of All its Components

49. In a case where the parent’s auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should consider the requirements of SA 600.
50. As prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor’s report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent’s auditor. Total assets, revenues and cash flows not audited by the parent’s auditor should be presented before giving effect to permanent and current period consolidation adjustments. Reference in the report of the auditor on the consolidated financial statements to the fact that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries. Suggested format of the audit report to be issued by the auditor of the consolidated financial statements in this circumstance is given in Appendix I to this Guidance Note.

When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent

51. The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent’s GAAP because of their unfamiliarity with such GAAP.

52. When a component’s financial statements are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group’s consolidated financial statements, the parent’s management perform a conversion of the components’ audited financial statements from the framework used by the component to the framework under which the consolidated financial statements are prepared. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation. Suggested format of the audit report to be issued by the auditor of the consolidated financial statements in this circumstance is given in Appendix I to this Guidance Note.

53. A component may alternatively prepare financial statements on the basis of the parent’s accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group’s consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group’s consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with “group accounting policies”.

54. When applying the approach in paragraph 53 above of using group accounting policies as the financial accounting framework for components to report under, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the
GAAP applicable to the parent’s financial statements. This ensures that the information prepared under the requirements of the group accounting policies will be directly usable and relevant for the preparation of consolidated financial statements by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component’s financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components’ audit report and make reference to it in the auditor’s report on the consolidated financial statements. See paragraph 50 for additional guidance.

When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent

55. Normally, audits of financial statements, including consolidated financial statements, are performed under auditing standards generally accepted in India (“Indian GAAS”). In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor’s audit report in their audit report on the consolidated financial statements, the components’ financial statements should also be audited under a framework that corresponds to Indian GAAS.

Components Not Audited

56. Generally, the financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components’ auditor.

57. Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor (or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, “Modifications to the Opinion in the Independent Auditor’s Report”13.

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Appendix I

Illustrative Formats of Independent Auditor’s Report on Consolidated Financial Statements

Illustration 1: Unmodified Opinion

Note:
The following illustrative format is based on the assumptions that all components have been audited by the Principal Auditor.
The independent auditor of Consolidated Financial Statements:
- Gives an Unmodified Opinion on the consolidated financial statements

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS\textsuperscript{14} financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations\textsuperscript{15}, comprising the Consolidated Balance Sheet as at 31\textsuperscript{st} March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income)\textsuperscript{16}, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity\textsuperscript{17}, for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements")

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)\textsuperscript{18},

\textsuperscript{14} if applicable.
\textsuperscript{15} As the case may be as per the relevant accounting standards.
\textsuperscript{16} if applicable.
\textsuperscript{17} if applicable.
\textsuperscript{18} if applicable.
consolidated cash flows and consolidated statement of changes in equity\textsuperscript{19} of the Group including its Associates and Jointly controlled entities/ Joint ventures and Joint operations\textsuperscript{20} in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 / Indian Accounting Standards specified under Section 133 of the Act\textsuperscript{21}. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities/joint ventures and joint operations\textsuperscript{22} are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled entities/joint ventures and joint operations\textsuperscript{23} and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the

\textsuperscript{19} if applicable.

\textsuperscript{20} As the case may be as per the relevant accounting standards.

\textsuperscript{21} Select as applicable.

\textsuperscript{22} As the case may be as per the relevant accounting standards.

\textsuperscript{23} As the case may be as per the relevant accounting standards.
accounting estimates made by the Holding Company’s Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs (financial position) of the Group, its associates and jointly controlled entities/joint ventures and joint operations\(^\text{24}\) as at 31\(^{\text{st}}\) March, 20XX, and their consolidated profit/loss (financial performance including other comprehensive income)\(^\text{25}\), their consolidated cash flows and consolidated statement of changes in equity\(^\text{26}\) for the year ended on that date.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, we report, to the extent applicable, that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.

(b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

(c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement, and Consolidated Statement of Changes in Equity\(^\text{27}\) dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.

(d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act\(^\text{28}\).

(e) On the basis of the written representations received from the directors of the Holding Company as on 31\(^{\text{st}}\) March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations incorporated in

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\(^{24}\) As the case may be as per the relevant accounting standards.

\(^{25}\) if applicable.

\(^{26}\) if applicable.

\(^{27}\) if applicable.

\(^{28}\) Select as applicable.
India, none of the directors of the Group companies, its associate companies and jointly controlled entities/ joint venture and joint operations\(^{29}\) incorporated in India is disqualified as on 31\(^{\text{st}}\) March 20XX from being appointed as a director in terms of Section 164 (2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations\(^{30}\) incorporated in India and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".

(g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations\(^{31}\) - Refer Note XX to the consolidated financial statements.

Or

There were no pending litigations as at 31st March, 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations\(^{32}\).

ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities /joint ventures and joint operations\(^{33}\) and (b) the Group's share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities/joint ventures and joint operations\(^{34}\) did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31\(^{\text{st}}\) March, 20XX.

iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations\(^{35}\) incorporated in India during the year ended 31st March 20XX.

\(^{29}\) As the case may be as per the relevant accounting standards.
\(^{30}\) As the case may be as per the relevant accounting standards.
\(^{31}\) As the case may be as per the relevant accounting standards.
\(^{32}\) As the case may be as per the relevant accounting standards.
\(^{33}\) As the case may be as per the relevant accounting standards.
\(^{34}\) As the case may be as per the relevant accounting standards.
\(^{35}\) As the case may be as per the relevant accounting standards.
Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations36 incorporated in India during the year ended 31\textsuperscript{st} March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations37 incorporated in India during the year ended 31\textsuperscript{st} March 20XX: [describe the delays, covering date of payment, amount involved and number of days' delay.]

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)

(Designation\textsuperscript{38})
(Memberhip No. XXXXX)

Place of Signature:
Date:

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\textsuperscript{36} As the case may be as per the relevant accounting standards.

\textsuperscript{37} As the case may be as per the relevant accounting standards.

\textsuperscript{38} Partner or Proprietor as the case may be.
Illustration 2: Unmodified Opinion

Note:
The following illustrative format is based on the assumptions that the Group has:

- Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, and they did not have any matter to report under section 143(3)(f) of the Companies Act, 2013.
- Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.

The independent auditor of Consolidated Financial Statements:

- Gives an Unmodified Opinion on the consolidated financial statements.
- Discloses the aforementioned facts about the Components in the "Other Matters" Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014.

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations, comprising the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income), the Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

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Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)\(^43\), consolidated cash flows and consolidated statement of changes in equity\(^44\) of the Group including its Associates and Jointly controlled entities /Joint ventures and Joint operations\(^45\) in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 / Indian Accounting Standards prescribed under Section 133 of the Act\(^46\). The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities/joint ventures and joint operations\(^47\) are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled entities/joint ventures and joint operations\(^48\) and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the

\(^{43}\) if applicable.
\(^{44}\) if applicable.
\(^{45}\) As the case may be as per the relevant accounting standards.
\(^{46}\) Select as applicable.
\(^{47}\) As the case may be as per the relevant accounting standards.
\(^{48}\) As the case may be as per the relevant accounting standards.
III.528 Auditing Pronouncements

consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of other auditors on separate financial statements and on the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs (financial position) of the Group, its associates and jointly controlled entities/joint ventures and joint operations as at 31st March, 20XX, and their consolidated profit/loss (financial performance including other comprehensive income), their consolidated cash flows and consolidated statement of changes in equity for the year ended on that date.

Other Matters

(a) We did not audit the financial statements/financial information of _____ subsidiaries, and _____jointly controlled entities/joint operations, whose financial statements/financial information reflect total assets of Rs. ____ and net assets of Rs. ____ as at 31st March, 20XX, total revenues of Rs. ____ and net cash outflows/(inflows) amounting to Rs. ____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. ____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates and joint ventures, whose financial statements/financial information have not been audited by us. These financial statements/financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial

49 As the case may be as per the relevant accounting standards.
50 As the case may be as per the relevant accounting standards.
51 if applicable.
52 if applicable.
53 As the case may be as per the relevant accounting standards.
54 Please delete what is not applicable in the given case.
statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities/joint ventures and joint operations and associates, and our report in terms of sub-section (3) of Section 143 of the Act, as far as it relates to the aforesaid subsidiaries, jointly controlled entities/joint ventures and joint operations and associates, is based solely on the reports of the other auditors.

Certain of these subsidiaries/associates/joint ventures and joint operations are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Company’s management has converted the financial statements of such subsidiaries/associates/joint ventures and joint operations located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company’s management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries/associates/joint ventures and joint operations located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us.

(b) We did not audit the financial statements/financial information of ______subsidiaries and ________ jointly controlled entities/joint operations, whose financial statements/financial information reflect total assets of Rs.____ and net assets of Rs.____ as at 31st March, 20XX, total revenues of Rs.____ and net cash outflows/(inflows) amounting to Rs.____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group’s share of net profit/loss of Rs.____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____ associates and joint ventures, whose financial statements/financial information have not been audited by us. These financial statements/financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities/joint ventures and joint operations and associates, is based solely on such unaudited financial statements/financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements/financial information are not material to the Group.

55 As the case may be as per the relevant accounting standards.
56 As the case may be as per the relevant accounting standards.
57 As the case may be as per the relevant accounting standards.
58 Please delete what is not applicable in the given case.
59 As the case may be as per the relevant accounting standards.
60 As the case may be as per the relevant accounting standards.
Our opinion above on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit and on the consideration of report of the other auditors on separate financial statements and the other financial information of subsidiaries, associates and jointly controlled entities/joint ventures and joint operations⁶¹, as noted in the ‘other matter’ paragraph, we report, to the extent applicable, that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.

(b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

(c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity⁶² dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.

(d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act⁶³.

(e) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations⁶⁴ incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies/joint venture incorporated in India is disqualified as on 31st March 20XX from being appointed as a director in terms of Section 164(2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations⁶⁵ incorporated in India and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.

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⁶¹ As the case may be as per the relevant accounting standards.
⁶² if applicable.
⁶³ Select as applicable.
⁶⁴ As the case may be as per the relevant accounting standards.
⁶⁵ As the case may be as per the relevant accounting standards.
(g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations66, as noted in the 'Other matter' paragraph:

i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities/joint ventures and joint operations67. Refer Note XX to the consolidated financial statements.

Or

There were no pending litigations as at 31st March 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities/joint ventures and joint operations68.

ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities/joint ventures and joint operations69 and (b) the Group's share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities/joint ventures and joint operations70 did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31st March 20XX.

iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations71 incorporated in India during the year ended 31st March 20XX.

Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations72

66 As the case may be as per the relevant accounting standards.
67 As the case may be as per the relevant accounting standards.
68 As the case may be as per the relevant accounting standards.
69 As the case may be as per the relevant accounting standards.
70 As the case may be as per the relevant accounting standards.
71 As the case may be as per the relevant accounting standards.
72 As the case may be as per the relevant accounting standards.
incorporated in India during the year ended 31st March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India during the year ended 31st March 20XX: [describe the delays, covering date of payment, amount involved and number of days’ delay.]

For XYZ & Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation73)
(Membership No. XXXXX)

Place of Signature:
Date:

73 Partner or Proprietor as the case may be.
Illustration 3: Modified Opinion

Note:
The following illustrative format is based on the assumptions that the Group has:

- Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, and they have issued a modified opinion and also reported under section 143(3)(f) and 143(3)(h) of the Companies Act, 2013.
- Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.

The independent auditor of Consolidated Financial Statements:

- Gives a **Modified Opinion** on the consolidated financial statements.
- Discloses the aforementioned facts about the Components in the "Other Matters" Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014.

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations, comprising the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income), the Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these
consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)\(^78\), consolidated cash flows and consolidated statement of changes in equity\(^79\) of the Group including its Associates and Jointly controlled entities /Joint ventures and Joint operations\(^80\) in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 / Indian Accounting Standards prescribed under Section 133 of the Act\(^81\).

The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities /joint ventures and joint operations\(^82\) are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled entities/joint ventures and joint operations\(^83\) and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's

\(^78\) if applicable.

\(^79\) if applicable.

\(^80\) As the case may be as per the relevant accounting standards.

\(^81\) Select as applicable.

\(^82\) As the case may be as per the relevant accounting standards.

\(^83\) As the case may be as per the relevant accounting standards.
Part-III: Guidance Notes

III.535

preparation of the consolidated financial statements that give a true and fair view in order to
design audit procedures that are appropriate in the circumstances. An audit also includes
evaluating the appropriateness of the accounting policies used and the reasonableness of the
accounting estimates made by the Holding Company's Board of Directors, as well as evaluating
the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other
auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters
paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion
on the consolidated financial statements.

Basis for Qualified Opinion

We draw your attention to the following qualification to the audit opinion of the financial statements
of [Name of the subsidiary company], a subsidiary of the Holding Company issued by an
independent firm of Chartered Accountants vide its Report dated [date] reproduced by us as under:

“[State the Basis for Qualified Opinion as included by the component auditor in his report]"

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us
and based on the consideration of reports of other auditors on separate financial statements and
on the other financial information of the subsidiaries, associates and jointly controlled entities/joint
ventures and joint operations\(^84\), the aforesaid consolidated financial statements give the
information required by the Act in the manner so required and except for the effects of the matter
referred to in the Basis for Qualified Opinion paragraph above, give a true and fair view in
conformity with the accounting principles generally accepted in India, of the consolidated state of
affairs (financial position) of the Group, its associates and jointly controlled entities/joint ventures
and joint operations\(^85\) as at 31\(^{st}\) March, 20XX, and their consolidated profit/loss (financial
performance including other comprehensive income)\(^86\), their consolidated cash flows and
consolidated statement of changes in equity\(^87\) for the year ended on that date.

Other Matters

(a) We did not audit the financial statements / financial information of _____ subsidiaries, and
_____ jointly controlled entities / joint operations\(^88\), whose financial statements/ financial
information reflect total assets of Rs.___ and net assets of Rs. _____ as at 31\(^{st}\) March,
20XX, total revenues of Rs.___ and net cash outflows/(inflows)\(^89\) amounting to Rs. ______for
the year ended on that date, as considered in the consolidated financial statements. The
consolidated financial statements also include the Group's share of net profit/loss of Rs.

\(^{84}\) As the case may be as per the relevant accounting standards.
\(^{85}\) As the case may be as per the relevant accounting standards.
\(^{86}\) if applicable.
\(^{87}\) if applicable.
\(^{88}\) As the case may be as per the relevant accounting standards.
\(^{89}\) Please delete what is not applicable in the given case.
for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities / joint operations and associates, and our report in terms of sub-section (3) of Section 143 of the Act, insofar as it relates to the aforesaid subsidiaries, jointly controlled entities / joint ventures and joint operations and associates, is based solely on the reports of the other auditors.

Certain of these subsidiaries/associates/ joint ventures and joint operations are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Company's management has converted the financial statements of such subsidiaries/associates/ joint ventures and joint operations located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries/associates/ joint ventures and joint operations located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us.

(b) We did not audit the financial statements / financial information of subsidiaries and jointly controlled entities/ joint operations, whose financial statements/financial information reflect total assets of Rs. _____ and net assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs._____ and net cash outflows/(inflows) amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs.____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities / joint ventures and joint operations and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities / joint ventures and joint operations and associates, and our report in terms of sub-section (3) of Section 143 of the Act.
entities/joint ventures and joint operations95 and associates, is based solely on such unaudited financial statements/financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements/financial information are not material to the Group.

Our opinion above on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/financial information certified by the Management.

**Report on Other Legal and Regulatory Requirements**

As required by Section 143(3) of the Act, based on our audit and on the consideration of report of the other auditors on separate financial statements and the other financial information of subsidiaries, associates and jointly controlled entities/joint ventures and joint operations96, as noted in the ‘other matter’ paragraph, we report, to the extent applicable, that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.

(b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors, except as stated in the auditor’s report dated [date] on the financial statements of [Name of the component], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants which is reproduced as below:

“[State the remark as included by the component auditor in his report].

(c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity97 dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.

(d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act98.

(e) The audit report on the financial statements of [Name of the subsidiary], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants vide its audit report dated [date] contains the following remark, which is reproduced by us as below:

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95 As the case may be as per the relevant accounting standards.
96 As the case may be as per the relevant accounting standards.
97 if applicable.
98 Select as applicable.
“The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Group.”

(f) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations99 incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies/joint venture incorporated in India is disqualified as on 31st March 20XX from being appointed as a director in terms of Section 164(2) of the Act.

(g) The audit report on the financial statements of [Name of the subsidiary], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants vide its audit report dated [date] contains the following remark, which is reproduced by us as below:

“The qualification relating to maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.”

(h) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations100 incorporated in India and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.

(i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations101, as noted in the ‘Other matter’ paragraph:

i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities/joint ventures and joint operations102. Refer Note XX to the consolidated financial statements.

Or

There were no pending litigations as at 31st March 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities/joint ventures and joint operations103.

ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on

99 As the case may be as per the relevant accounting standards.
100 As the case may be as per the relevant accounting standards.
101 As the case may be as per the relevant accounting standards.
102 As the case may be as per the relevant accounting standards.
103 As the case may be as per the relevant accounting standards.
long-term contracts including derivative contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities/joint ventures and joint operations\textsuperscript{104} and (b) the Group’s share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities/joint ventures and joint operations\textsuperscript{105} did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31\textsuperscript{st} March 20XX.

iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations\textsuperscript{106} incorporated in India during the year ended 31\textsuperscript{st} March 20XX.

Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/joint ventures and joint operations\textsuperscript{107} incorporated in India during the year ended 31\textsuperscript{st} March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India during the year ended 31\textsuperscript{st} March 20XX: [describe the delays, covering date of payment, amount involved and number of days’ delay.]

For XYZ & Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation\textsuperscript{108})
(Membership No. XXXXX)

Place of Signature:
Date:

\textsuperscript{104} As the case may be as per the relevant accounting standards.
\textsuperscript{105} As the case may be as per the relevant accounting standards.
\textsuperscript{106} As the case may be as per the relevant accounting standards.
\textsuperscript{107} As the case may be as per the relevant accounting standards.
\textsuperscript{108} Partner or Proprietor as the case may be.
Appendix II

Definitions of Terms used in the Guidance Note

(This Appendix form part of the Guidance Note. The purpose of this Appendix is to define the terms which have been used in this Guidance Note)

Terms defined under Accounting Standards

1. **Associate**: An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

2. **Consolidated financial statements**: Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

3. **Control**:
   a. The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
   b. control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

4. **Group**: A group comprises a parent and its subsidiaries.

5. **Joint control**: Joint control is the contractually agreed sharing of control over an economic activity.

6. **Joint venture**: A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

7. **Minority interest**: Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through subsidiary(ies), by the parent.

8. **Parent**: A parent is an enterprise that has one or more subsidiaries.

9. **Significant influence**: Significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.

10. **Subsidiary**: A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Terms defined under Ind AS

1. **Associate**: An associate is an entity over which the investor has significant influence.

2. **Control of an investee**: An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3. **Consolidated financial statements**: The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
4. **Group**: A parent and its subsidiaries.

5. **Joint Control**: Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

6. **Joint Venture**: A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

7. **Non-controlling Interest**: Equity in a subsidiary not attributable, directly or indirectly, to a parent.

8. **Parent**: An entity that controls one or more entities.

9. **Power**: Existing rights that give the current ability to direct the relevant activities.

10. **Relevant Activities**: Relevant activities are activities of the investee that significantly affect the investee’s returns.

11. **Significant Influence**: Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

12. **Subsidiary**: An entity that is controlled by another entity.

13. **Separate Financial Statements**: Separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109, ‘Financial Instruments’.

**Terms defined under SA 600, “Using the Work of Another Auditor”**

1. **Component**: It is a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by principal auditor.
III.5.42 Auditing Pronouncements

**Guidance Note on Audit of Internal Financial Controls Over Financial Reporting**

**SECTION I: BACKGROUND**

**Introduction**

1. Internal control helps entities achieve important objectives and sustain and improve performance.

Paragraph 4(c) of the Standard on Auditing (SA) 315 “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” defines the term ‘internal control’ as “the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.”

SA 315 requires the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement and help the auditor to reduce the risks of material misstatement to an acceptably low level.

2. Section 217(2AA) of the Companies Act, 1956 required the Directors of a company to specifically state in the Directors’ responsibility statement that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the (1956) Act, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

The Act, 2013 has significantly expanded the scope of internal controls to be considered by the management of companies to cover all aspects of the operations of the company. Clause (e) of Sub-section 5 of Section 134 to the Act requires the directors responsibility statement to state that the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Clause (e) of Sub-section 5 of Section 134 explains the meaning of internal financial controls as “the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.”

Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the board report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial statements.
The inclusion of the matters relating to internal financial controls in the directors responsibility statement is in addition to the requirement of the directors stating that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

3. The concept of internal financial controls is not new in India for listed companies. Clause 49 of the Equity Listing Agreement requires certification by the CEO / CFO stating that they accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify those deficiencies.

Auditors’ Responsibility for Reporting on Internal Financial Controls over Financial Reporting in India

4. Clause (i) of Sub-section 3 of Section 143 of the Act requires the auditors’ report to state whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

It may be noted that auditor’s reporting on internal financial controls is a requirement specified in the Act and, therefore, will apply only in case of reporting on financial statements prepared under the Act and reported under Section 143.

Accordingly, reporting on internal financial controls will not be applicable with respect to interim financial statements, such as quarterly or half-yearly financial statements, unless such reporting is required under any other law or regulation.

Reporting on internal financial controls over financial reporting under the 2013 Act vis-à-vis reporting on internal controls under the Companies (Auditor’s Report) Order, 2015 (CARO)

5. The scope for reporting on internal financial controls over financial reporting is significantly larger and wider than the reporting on internal controls under CARO. Under CARO the reporting on internal controls is limited to the “adequacy” of controls over purchase of inventory and fixed assets and sale of goods and services. As such, CARO does not require reporting on all controls relating to financial reporting and also does not require reporting on the “adequacy and operating effectiveness” of such controls.

Reporting on internal financial controls over financial reporting – global scenario: In June 2003, the Securities and Exchange Commission (SEC) of the United States of America adopted Rules for the implementation of Sarbanes – Oxley Act, 2002 (SOX) that required certification of the Internal Controls over Financial Reporting (ICFR) by the management and by the auditors.

The Public Company Accounting Oversight Board (PCAOB) has issued its Auditing Standard (AS) 5 on “An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of
Financial Statements”. This Standard establishes requirements and provides direction that applies when an auditor is engaged to also perform an audit of the internal controls over financial reporting in addition to the audit of the financial statements.

6. In June 2006, the Financial Instruments and Exchange Act (J-SOX) was passed by the Diet, the National Legislature of Japan. The requirements of this legislation are similar to the requirements of internal controls over financial reporting under SOX.

**Reporting by the Auditors**

8. Where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting, such opinion is in addition to and distinct from the opinion expressed by the auditor on the financial statements.

**Combined audit of internal financial controls over financial reporting and financial statements**

9. In a combined audit of internal financial controls over financial reporting and financial statements, the auditor should design his or her testing of controls to accomplish the objectives of both audits simultaneously. In a combined audit of internal controls over financial reporting and financial statements, the auditor expresses opinion on the following aspects:

a. Opinion on internal control over financial reporting, which requires:
   - Evaluating and opining on management’s assessment of the effectiveness of internal financial controls (In Japan based on the requirements of the Financial Instruments and Exchange Act).
   - Evaluating and opining on the effectiveness of internal controls over financial reporting (In USA based on the requirements of Section 404 of the Sarbanes–Oxley Act).

b. Opinion on the financial statements.

10. While the objectives of the audit of internal controls over financial reporting and audit of financial statements are not identical, the auditor plans and performs the work to achieve the objectives of both the audits in an integrated manner. Therefore, in a combined audit of internal financial controls over financial reporting and financial statements, the auditor should design his or her testing of controls to accomplish the objectives of both audits simultaneously.

11. In such an audit, the auditor plans and conducts the audit:

   - To obtain sufficient evidence to support the auditor’s opinion on the internal financial controls as of the year-end, and
   - To obtain sufficient evidence to support the auditor's control risk assessments for purposes of the audit of the financial statements.

12. Obtaining sufficient evidence to support control risk assessments of “Low” for purposes of the financial statements audit ordinarily allows the auditor to reduce the amount of audit work that otherwise would have been necessary to opine on the financial statements.
13. Unlike the requirements in Japan referred in paragraph 9 above, in India, auditors are not required to report on the management’s assertion of effectiveness on internal financial controls. Reporting under the Act will be an independent assessment and assertion by the auditor on the adequacy and effectiveness of the entity’s system of internal financial controls.

SECTION II: REPORTING ON INTERNAL FINANCIAL CONTROLS UNDER THE COMPANIES ACT, 2013

Criteria to be considered by companies for developing, establishing and reporting on internal financial controls over financial reporting

14. Internal controls are a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met. “Internal Control System” means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

15. To state whether a set of financial statements presents a true and fair view, it is essential to benchmark and check the financial statements for compliance with the framework. The Accounting Standards specified under the Companies Act, 1956 (which are deemed to be applicable as per Section 133 of the 2013 Act, read with Rule 7 of Companies (Accounts) Rules, 2014) is one of the criteria constituting the financial reporting framework on which companies prepare and present their financial statements under the Act and against which the auditors evaluate if the financial statements present a true and fair view of the state of affairs and the results of operations of the company in an audit of the financial statements carried out under the Act.

16. Similarly, a benchmark system of internal control, based on suitable criteria, is essential to enable the management and auditors to assess and state adequacy and compliance of the system of internal control.

17. In the Indian context, for example, the Appendix 1 “Internal Control Components” of SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” 1, issued by ICAI, provides the necessary criteria for Internal financial controls over financial reporting for companies.

18. Internal control is a process/set of processes designed to facilitate and support the achievement of business objectives. Any system of internal control is based on a consideration of significant risks in operations, compliance and financial reporting. Objectives such as improving business effectiveness are included, as are compliance and reporting objectives.

1 Refer Section III of this Guidance Note.
19. The fundamental therefore is that effective internal control is a process effected by people that supports the organization in several ways, enabling it to provide reasonable assurance regarding risk and to assist in the achievement of objectives.

20. Fundamental to a system of internal control is that it is integral to the activities of the company, and not something practiced in isolation.

21. **An internal control system:**
   - Facilitates the effectiveness and efficiency of operations.
   - Helps ensure the reliability of internal and external financial reporting.
   - Assists compliance with laws and regulations.
   - Helps safeguarding the assets of the entity.

22. In general, a system of internal control to be considered adequate should include the following five components:
   - Control environment
   - Risk assessment
   - Control activities
   - Information system and communication
   - Monitoring.

   The components of internal control are discussed in more detail in Section III of this Guidance Note.

23. Internal financial controls system needs to be dynamic to address the changes in entity’s operating environment, including:
   - Business developments, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
   - Legal and regulatory developments such as changes in industry regulations and new regulatory reporting requirements.
   - Changes in the financial reporting framework, such as changes in accounting standards.

24. Internal financial controls should not be confused with Enterprise Risk Management (ERM). Internal control is an integral part of enterprise risk management. The following are some of the key differences between internal controls over financial reporting and ERM:
   - ERM is applied in strategy setting while internal financial controls operate more at the process level.
   - ERM is applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk while internal financial controls are applied for the processes which contribute to financial reporting.
25. It may be noted that Clause (n) of Sub-section 3 of Section 134 of the Act requires the board report to include a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the board may threat the existence of the company. The existence of an appropriate system of internal financial control does not by itself provide an assurance to the board of directors that the company has developed and implemented an appropriate risk management policy.

Objective in an audit of internal financial controls over financial reporting and interpretation of the term ‘internal financial controls’ for auditor’s reporting under Section 143(3)(i)

26. Meaning of internal financial controls under the Act

Clause (e) of Sub-section 5 of Section 134 which explains the meaning of internal financial controls specifically states that the meaning is for the purpose of that clause. The explanation provided in clause (e) of Sub-section 5 of Section 134, inter alia, states that the internal financial controls system includes policies and procedures for ensuring efficiency and effectiveness of business and ensuring accuracy of accounting records.

27. Meaning of internal control

Standard on Auditing 315 “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment” defines Internal Control as follows:

“The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.” (Emphasis added)

28. Objectives of an auditor in an audit of internal financial controls over financial reporting

The auditor's objective in an audit of internal financial controls over financial reporting is to express an opinion on the effectiveness of the company’s internal financial controls over financial reporting. It is carried out along with an audit of the financial statements. Because a company's internal controls cannot be considered effective if one or more material weakness exists, to form a basis for expressing an opinion, the auditor must plan and perform the audit to obtain sufficient appropriate evidence to obtain reasonable assurance about whether material weakness exists as of the balance sheet date. A material weakness in internal financial controls may exist even when the financial statements are not materially misstated.

29. Paragraph A1 of Standard on Auditing (SA) 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” states “The auditor’s opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.” (Emphasis added)
30. Paragraph A1 of the SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing further states that “in some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.” Thus, it may be noted that even if the auditor performs his or her audit in accordance with the Standards on Auditing, the auditor will not be able to express an opinion on the adequacy or effectiveness with which management has conducted the affairs (business) of the entity.

31. Reporting under Section 143(3)(i)

The reporting by the auditor is dependent on the underlying criteria for internal financial controls over financial reporting adopted by the management. However, any system of internal controls provides only a reasonable assurance on achievement of the objectives for which it has been established. Also, the auditor shall use the concept of materiality in determining the extent of testing such controls.

As discussed above, establishing an appropriate criteria and system of internal financial controls over financial reporting to, inter alia, ensure efficiency and effectiveness of business and accuracy of accounting records is the responsibility of the company’s management.

32. Globally also, auditor’s reporting on internal controls is together with the reporting on the financial statements and such internal controls reported upon relate only to internal controls over financial reporting. For example, in USA, Section 404 of the Sarbanes Oxley Act of 2002, prescribes that the registered public accounting firm (auditor) of the specified class of issuers (companies) shall, in addition to the attestation of the financial statements, attest the internal controls over financial reporting.

33. It may be noted that in India too, the Act specifies the auditor's reporting on internal financial controls only in the context of the audit of financial statements.

Further, Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the board report of all companies to state the details in respect of adequacy of internal financial controls with reference to the “financial statements” only.

34. Consistent with the above requirements of the Act and the Rules thereunder as well as the practice prevalent globally, the term ‘internal financial controls’ wherever used in this Guidance Note in the context of the responsibility of the auditor for reporting on such controls under Section 143(3)(i) of the Act, per se implies and relates to “internal financial controls over financial reporting”.

For this purpose, “internal financial controls over financial reporting” shall mean,

“A process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding
the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.”

The process may also be designed by, or under the supervision of a committee or group of the aforesaid persons.

35. Considering the above, the auditor should obtain reasonable assurance to state whether an adequate internal financial controls system was maintained and whether such internal financial controls system operated effectively in the company in all material respects with respect to financial reporting only.

Applicability of standards on auditing for the audit of internal financial controls over financial reporting

36. Paragraph A1 of SA 200, *inter alia*, states “In some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.”

Accordingly, the Standards on Auditing do not fully address the auditing requirements for reporting on the system of internal financial controls over financial reporting. However, relevant portions of the Standards on Auditing need to be considered by the auditor when performing an audit of internal financial controls over financial reporting. For example, the auditor should consider the requirements of SA 230, “Audit Documentation” when documenting the work performed on internal financial controls; the auditor should consider and apply the requirements of SA 315 when understating internal controls, etc.

37. This guidance aims to provide the supplementary procedures that would need to be considered by the auditor for planning, performing and reporting in an audit of internal financial controls over financial reporting under Clause (i) of Sub-section 3 of Section 143 of the 2013 Act. The applicable standards on auditing which, *inter alia*, need to be considered by the auditor when

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2 This definition of the term “Internal Controls Over Financial Reporting” has been reproduced from the Auditing Standard (AS) 5, *An Audit of Internal Control Over Financial Reporting that Is Integrated with An Audit of Financial Statements* issued by the Public Company Accounting Oversight Board (PCAOB), USA. The other text in this Guidance Note which has been reproduced from the aforesaid AS 5 of PCAOB has been identified in *italics* text in the relevant sections of the Guidance Note. The copyright of the so reproduced material rests with the PCAOB.
performing an audit of internal financial controls is given in the respective paragraphs of this guidance.

**Specified date for reporting on the adequacy and operating effectiveness of internal financial controls over financial reporting**

38. The reporting by the auditor on internal financial controls under clause (i) of Sub-section 3 of Section 143 of the Act does not specify whether the auditor’s report should state if such internal financial controls existed and operated effectively during the period under reporting of the financial statements or as at the balance sheet date up to which the financial statements are prepared.

39. Reporting on internal financial controls system is similar to reporting on operations of the company. Whilst the testing is carried out on the transactions recorded during the year, the reporting is as at the balance sheet date. For example, if the company's revenue recognition was erroneous through the year under audit but was corrected, including for matters relating to internal control that caused the error, as at the balance sheet date, the auditor is not required to report on the errors in revenue recognition during the year.

40. Attention is invited to paragraph (k) of Clause 57 of the Statement on the Companies (Auditor’s Report) Order, 2003 issued by the Institute of Chartered Accountants of India on the auditor’s responsibility for reporting on internal control and continuing failure in the internal control under CARO. The said paragraph states that “The auditor, while commenting on the clause, makes an assessment whether the major weakness noted by him has been corrected by the management as at the balance sheet date. If the auditor is of the opinion that the weakness has not been corrected, then the auditor should report the fact while commenting upon the clause.”

41. Accordingly, the auditor should report if the company has an adequate internal financial controls system in place and whether the same was operating effectively as at the balance sheet date. It should be noted that when forming the opinion on internal financial controls, the auditor should test the same during the financial year under audit and not just as at the balance sheet date, though the extent of testing at or near the balance sheet date may be higher.

42. It may also be noted that auditor’s reporting on internal financial controls is a requirement specified in the Act and, therefore, will apply only in case of reporting on financial statements prepared under the Act and reported under Section 143.

Accordingly, reporting on internal financial controls will not be applicable with respect to interim financial statements, such as quarterly or half-yearly financial statements, unless such reporting is required under any other law or regulation.

**Auditors’ responsibility for reporting on internal financial controls over financial reporting in the case of unlisted companies**

43. Under the Act, the directors statement of responsibility over establishing adequate internal financial controls and asserting operating effectiveness of such controls of the company is required only in case of listed companies. However, it appears that the auditor is required to report on adequacy and operating effectiveness of such internal financial controls even in the case of
unlisted companies since Clause (i) of Sub-section 3 of Section 143 of the 2013 Act does not specifically state that it is applicable only in the case of listed companies.

44. It may be noted that the management has the primary responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. Consequently, the responsibility of designing, implementing and maintaining appropriate internal financial controls also rests with the management. It may also be noted that Clause (vii) of Sub-section 4 of Section 177 of the Act states that every audit committee shall act in accordance with the terms of reference specified in writing by the board which shall, inter alia, include, “evaluation of internal financial controls and risk management systems”. Further, Sub-section 5 of Section 177 provides that the audit committee may call for the comments of the auditors about internal control systems including the observations of the auditors and may also discuss any related issues with the internal and auditors and the management of the company.

In addition, Rule 8(5)viii) of the Companies (Accounts) Rules, 2014 requires the board report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial statements.

Consequently, even if a specific statement of responsibility of the directors over internal financial controls is not made in the board’s report to the members of unlisted companies, ensuring adequacy and operating effectiveness of the internal financial controls system still remains with the management and the persons charged with governance in the company.

45. Therefore, this guidance also applies for reporting on internal financial controls in respect of unlisted companies and small companies and one person companies as defined in the Companies Act, 2013. Further, a small or a one person company typically possesses qualitative characteristics such as:

a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

b) One or more of the following:
   i. Straightforward or uncomplicated transactions;
   ii. Simple record-keeping;
   iii. Few lines of business and few products within business lines;
   iv. Few internal controls;
   v. Few levels of management with responsibility for a broad range of controls; or
   vi. Few personnel, many having a wide range of duties.

It may, however, also be noted that these qualitative characteristics are not exhaustive, nor are they exclusive to small or one person companies. Also, all small and one person companies need not necessarily display all of these characteristics.3

3 Attention of the readers is also drawn to Section IG 19 of the Guidance Note.
Auditors’ responsibility for reporting on internal financial controls over financial reporting in case of consolidated financial statements

46. Section 129(4) of the 2013 Act states that the provisions of the 2013 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. As such, on a strict reading of the aforesaid provision in the 2013 Act, it appears that the auditor will be required to report under Section 143(3)(i) of the 2013 Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting, even in the case of consolidated financial statements.

47. In the case of components included in the consolidated financial statements of the parent company, reporting on the adequacy and operating effectiveness of internal financial controls over financial reporting would apply for the respective components only if it is a company under the 2013 Act. Accordingly, in line with the approach adopted in case of reporting on the consolidated financial statements on the clauses of section 143(3) and reporting on the Companies (Auditor’s Report) Order, 2015 notified under section 143(11) of the 2013 Act, the reporting on adequacy and operating effectiveness of internal financial controls would also be on the basis of the reports on section 143(3)(i) as submitted by the statutory auditors of components that are Indian companies under the Act. The auditors of the parent company should apply the concept of materiality and professional judgment as provided in the Standards on Auditing and this Guidance Note while reporting under section 143(3)(i) on the matters relating to internal financial controls over financial reporting that are reported by the component auditors.

SECTION III: OVERVIEW OF INTERNAL CONTROLS AS PER SA 315

48. Components of Internal Control

Appendix I to SA 315 explains the five components of any internal control as they relate to a financial statement audit. The five components are:

i. Control environment
ii. Entity’s risk assessment process
iii. Control activities
iv. Information system and communication
v. Monitoring of controls

I. Control environment

49. The control environment encompasses the following elements:

(a) **Communication and enforcement of integrity and ethical values.** The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical behavior are the product of the entity’s ethical and behavioral standards, how they are communicated, and how they are reinforced in practice. The enforcement of integrity and ethical values includes, for example, management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts. The communication of entity policies on
integrity and ethical values may include the communication of behavioral standards to personnel through policy statements and codes of conduct and by example.

(b) **Commitment to competence.** Competence is the knowledge and skills necessary to accomplish tasks that define the individual’s job.

(c) **Participation by those charged with governance.** An entity’s control consciousness is influenced significantly by those charged with governance. The importance of the responsibilities of those charged with governance is recognised in codes of practice and other laws and regulations or guidance produced for the benefit of those charged with governance. Other responsibilities of those charged with governance include oversight of the design and effective operation of whistle blower procedures and the process for reviewing the effectiveness of the entity’s internal control.

(d) **Management’s philosophy and operating style.** Management’s philosophy and operating style encompass a broad range of characteristics. For example, management’s attitudes and actions toward financial reporting may manifest themselves through conservative or aggressive selection from available alternative accounting principles, or conscientiousness and conservatism with which accounting estimates are developed.

(e) **Organisational structure.** Establishing a relevant organizational structure includes considering key areas of authority and responsibility and appropriate lines of reporting. The appropriateness of an entity’s organisational structure depends, in part, on its size and the nature of its activities.

(f) **Assignment of authority and responsibility.** The assignment of authority and responsibility may include policies relating to appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties. In addition, it may include policies and communications directed at ensuring that all personnel understand the entity’s objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable.

(g) **Human resource policies and practices.** Human resource policies and practices often demonstrate important matters in relation to the control consciousness of an entity. For example, standards for recruiting the most qualified individuals – with emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior – demonstrate an entity’s commitment to competent and trustworthy people. Training policies that communicate prospective roles and responsibilities and include practices such as training schools and seminars illustrate expected levels of performance and behavior. Promotions driven by periodic performance appraisals demonstrate the entity’s commitment to the advancement of qualified personnel to higher levels of responsibility.

**Entity’s risk assessment process**

50. For financial reporting purposes, the entity’s risk assessment process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity’s applicable financial reporting framework, estimates their significance,
assesses the likelihood of their occurrence, and decides upon actions to respond to and manage them and the results thereof. For example, the entity’s risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyses significant estimates recorded in the financial statements.

51. Risks relevant to reliable financial reporting include external and internal events, transactions or circumstances that may occur and adversely affect an entity’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Management may initiate plans, programs, or actions to address specific risks or it may decide to accept a risk because of cost or other considerations. Risks can arise or change due to circumstances such as the following:

   a) Changes in operating environment. Changes in the regulatory or operating environment can result in changes in competitive pressures and significantly different risks.

   b) New personnel. New personnel may have a different focus on or understanding of internal control.

   c) New or revamped information systems. Significant and rapid changes in information systems can change the risk relating to internal control.

   d) Rapid growth. Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.

   e) New technology. Incorporating new technologies into production processes or information systems may change the risk associated with internal control.

   f) New business models, products, or activities. Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with internal control.

   g) Corporate restructurings. Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with internal control.

   h) Expanded foreign operations. The expansion or acquisition of foreign operations carries new and often unique risks that may affect internal control, for example, additional or changed risks from foreign currency transactions.

   i) New accounting pronouncements. Adoption of new accounting principles or changing accounting principles may affect risks in preparing financial statements.

II. Control activities

52. Generally, control activities that may be relevant to an audit may be categorised as policies and procedures that pertain to the following:

   a) Performance reviews. These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data – operating or financial – to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance.
b) Information processing. The two broad groupings of information systems control activities are application controls, which apply to the processing of individual applications, and general IT-controls, which are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. Examples of application controls include checking the arithmetical accuracy of records, maintaining and reviewing accounts and trial balances, automated controls such as edit checks of input data and numerical sequence checks, and manual follow-up of exception reports. Examples of general IT-controls are program change controls, controls that restrict access to programs or data, controls over the implementation of new releases of packaged software applications, and controls over system software that restrict access to or monitor the use of system utilities that could change financial data or records without leaving an audit trail.

c) Physical controls. Controls that encompass:
   • The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.
   • The authorisation for access to computer programs and data files.
   • The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records). The extent to which physical controls intended to prevent theft of assets are relevant to the reliability of financial statement preparation, and therefore the audit, depends on circumstances such as when assets are highly susceptible to misappropriation.

d) Segregation of duties. Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person’s duties.

53. Certain control activities may depend on the existence of appropriate higher level policies established by management or those charged with governance. For example, authorisation controls may be delegated under established guidelines, such as, investment criteria set by those charged with governance; alternatively, non-routine transactions such as, major acquisitions or divestments may require specific high level approval, including in some cases that of shareholders.

III. Information system, including the related business processes, relevant to financial reporting, and communication

54. An information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Many information systems make extensive use of information technology (IT).

55. The information system relevant to financial reporting objectives, which includes the financial reporting system, encompasses methods and records that:
   a) Identify and record all valid transactions.
b) Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting.

c) Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.

d) Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.

e) Present properly the transactions and related disclosures in the financial statements.

56. The quality of system-generated information affects management’s ability to make appropriate decisions in managing and controlling the entity’s activities and to prepare reliable financial reports.

57. Communication, which involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting, may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda. Communication also can be made electronically, orally, and through the actions of management.

V. Monitoring of controls

58. An important management responsibility is to establish and maintain internal control on an ongoing basis. Management’s monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions. Monitoring of controls may include activities such as, management’s review of whether bank reconciliations are being prepared on a timely basis, internal auditors’ evaluation of sales personnel’s compliance with the entity’s policies on terms of sales contracts, and a legal department’s oversight of compliance with the entity’s ethical or business practice policies. Monitoring is done also to ensure that controls continue to operate effectively over time. For example, if the timeliness and accuracy of bank reconciliations are not monitored, personnel are likely to stop preparing them.

59. Internal auditors or personnel performing similar functions may contribute to the monitoring of an entity’s controls through separate evaluations. Ordinarily, they regularly provide information about the functioning of internal control, focusing considerable attention on evaluating the effectiveness of internal control, and communicate information about strengths and deficiencies in internal control and recommendations for improving internal control.

60. Monitoring activities may include using information from communications from external parties that may indicate problems or highlight areas in need of improvement. Customers implicitly corroborate billing data by paying their invoices or complaining about their charges. In addition, regulators may communicate with the entity concerning matters that affect the functioning of internal control, for example, communications concerning examinations by bank regulatory agencies. Also, management may consider communications relating to internal control from external auditors in performing monitoring activities.
61. Components of internal control and guidance provided

Refer Table below to see the mapping of internal control components with relevant references in this guidance:

<table>
<thead>
<tr>
<th>Internal Control Component</th>
<th>Guidance reference*</th>
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</table>
| **Control environment**    | Paragraphs 88 – 93 – Identifying entity-level controls  
                              Paragraph 84 – Using the work of others |
| **Risk assessment**         | Paragraph 76-78 – Role of risk assessment  
                              Paragraph 80-81 – Addressing the risk of fraud  
                              Paragraph 105-107 – Selecting controls to test  
                              Paragraphs 113, 119, 122 – Relationship of risk to the evidenced obtained  
                              Paragraph 124 and 127 – Special considerations for subsequent years’ audit  
                              Paragraphs 144 and 145 – Subsequent events |
| **Control activities**      | Paragraphs 100-104 – Understanding likely sources of misstatement  
                              Paragraphs 105 – 107 – Selecting controls to test  
                              IG 2.4 – Process flow diagrams  
                              IG 4 – Understanding IT Environment |
| **Information system and communication** | IG 2.4 – Process flow diagram  
                                            IG 8 – Information Produced by the Entity (IPE)  
                                            IG 2.9 to 2.13 – IPE Diagrams  
                                            IG 9.3 and 9.4 - Situation in which service organisations are relevant for internal financial controls |
| **Monitoring activities**   | Paragraphs 90, 91 and 93 – Identifying entity-level controls  
                              Paragraph 135 – Indicators of material weakness |

* These references are not exhaustive. The purpose of these references is to help the reader understand the requirements of the components of internal control system in a better manner.

Effective Internal Control

62. The control environment sets the tone of an organization, influencing the control consciousness of its people. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity’s internal control and its importance in the entity.

63. Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. There is little point in assessing the implementation of a control that is not
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effective, and so the design of a control is considered first. An improperly designed control may represent a material weakness or significant deficiency in the entity’s internal control.

64. An entity’s system of internal control contains manual elements and often contains automated elements. The use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed, and reported. An entity’s mix of manual and automated elements in internal control varies with the nature and complexity of the entity’s use of information technology. Manual elements in internal control may be more suitable where judgment and discretion are required such as for the following circumstances:

- Large, unusual or non-recurring transactions.
- Circumstances where errors are difficult to define, anticipate or predict.
- In changing circumstances that require a control response outside the scope of an existing automated control.
- In monitoring the effectiveness of automated controls.

65. The extent and nature of the risks to internal control vary depending on the nature and characteristics of the entity’s information system. The entity responds to the risks arising from the use of IT or from use of manual elements in internal control by establishing effective controls in light of the characteristics of the entity’s information system.

Limitations of internal control system

66. Internal control, no matter how effective, can provide an entity with only reasonable assurance and not absolute assurance about achieving the entity’s operational, financial reporting and compliance objectives. Internal control systems are subject to certain inherent limitations, such as:

- Management’s consideration that the cost of an internal control does not exceed the expected benefits to be derived.
- The fact that most internal controls do not tend to be directed at transactions of unusual nature. The potential for human error, such as, due to carelessness, distraction, mistakes of judgement and misunderstanding of instructions.
- The possibility of circumvention of internal controls through collusion with employees or with parties outside the entity.
- The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
- Manipulations by management with respect to transactions or estimates and judgements required in the preparation of financial statements.