

Sr. No.	Reference	Page No.	Observations of FRRB	Recommendations of FRRB
1	Study-on-Compliance-of-Financial-Reporting-Requirements-Volume-III-compressed	480	From the Auditors' Report as given in the Annual Report of a company, it has been noted that the auditor has not given the firm's registration number in the audit report signed on 31 August, 201X.	<u>Paragraph A 36 of SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements</u> It has been noted that the firm's registration number should be mentioned in the audit report signed on or after 1st October, 2010.
2		481	Abstract of the Auditor's Report as given in the Annual Report of a company reads as follows: "We have audited the accompanying financial statements of XXX Ltd... Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company... Our responsibility is to express an opinion on these financial statements based on our audit... An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements... We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. In our opinion and to the best of our information and according to the explanations given to us..."	<u>Standard on Auditing (SA) 700 (Revised), Forming an Opinion and Reporting on Financial Statements</u> As per the illustrative format of Auditor's Reports on Financial Statements an auditor is required to present the audit report duly divided under different headings viz 'management responsibility for the financial statements', 'Auditor's Responsibility', 'Opinion', 'Report on other legal and regulatory requirements.'
3		482	Abstract of Auditor's Report given in the Annual Report of a banking company reads as follows: "6. In our opinion and to the best of our information and according to the explanation given to us, the said accounts together with the notes thereon give the information required by the Banking Regulations Act, 1949 as well as Companies Act, 1956, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India: ... (ii) In the case of the Profit and Loss Account of the	In practice the enterprise either earns profit or incurs loss in any financial year. Therefore, the auditor should express his opinion either on profit or loss, as the case may be. A reader of the financial statements may get confused on reading 'profit/loss'.

			<b><i>profit/loss</i></b> for the year ended on that date; ( <b><i>emphasis supplied</i></b> )”	
4		482	Paragraph 4(d) of the Auditor’s Report as given in the Annual Report of a company reads as under: “4. As required by section 227(3) of the Act, we report that: (a) In our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956.”	<p>When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor’s opinion shall be that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.”</p> <p>In this case, it was noted that the financial statements do not comply with the requirements of various accounting standards as notified under the Companies (Accounting Standards) Rules, 2006, viz, AS 3, AS 10, AS 11, AS 15, AS 16, AS 18, AS 19, AS 28 and AS 29. Despite so many non-compliances, the auditor has expressed an unmodified opinion.</p> <p>Accordingly, it was viewed that the requirements of Section 227(3) of Companies Act, 1956 as well as SA 700 have not been complied with.</p>
5		484	In the Annual Report of a bank the title of the Audit Report has been stated as “AUDITOR’S REPORT”.	<p>It may be noted that Paragraph 21 of SA 700, Forming an Opinion and Reporting on Financial Statements, reads as follows: “21. The auditor’s report shall have a title that clearly indicates that it is the report of an independent auditor.”</p>
6		484	From the Auditor’s Report given in the Annual Report of a company, it has been noted that although the auditor has expressed his opinion on the true and fair view of the Cash Flow Statement he has not referred the Cash Flow Statement in his opening or introductory paragraph which reads as follows: “We have audited the accompanying financial statements of XXX Ltd which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.”	<p>The term “General Purpose Financial Statements” includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public...”</p> <p>From the above, it was viewed that in the introductory paragraph the auditor should have included Cash Flow Statement as part of the financial statements to comply with the reporting requirements of SA 700.</p>
7		485	Paragraph (1) of the auditor’s report as given in the Annual Report of a company states as follows: “We have audited the attached Balance Sheet of XXX Limited as at March 31, 20XX and the relative Profit and Loss Account and the Cash Flow Statement for the year ended on that date all of which we have signed under	<p>It was noted from the auditor’s report that the auditor has referred to Statement of Profit and Loss as “relative Profit and Loss Account. It was viewed that there is no such term either in the Companies Act or in the Standards on Auditing and that use of such term in the audit report should be avoided.</p>

			reference to this report.”	
8		486	In the Annual Report of a company, it has been noted that the Significant Accounting Policies and Notes to Accounts have been given on the letterhead of the audit firm.	The practice of preparing the financial Statements on the stationery of the firm is against the aforesaid recommendation of the Institute.
9		486	From the Annual Report of a company, it has been noted that the auditor has signed the audit report at one place while he has signed the financial statements on the same day at a different place.	It was noted that the place of signature of the auditor’s report is different from the place of signature of the financial statements. It was possible that the financial statements are signed by the directors at a different location. It was viewed that when these are signed by the auditors along with the audit report both should be signed at the same location.
10		487	In the Annual Report of a company the note regarding related party disclosures has been stated as follows: “Related Parties and transactions with them as specified in Accounting Standard 18 “Related Parties Disclosures” issued by ICAI has been identified and given below on the basis of information available with the company and the same have been relied upon by the auditors.”	It was viewed that usage of the phrase ‘relied upon by the auditor’ may lead the users of financial statements to believe that the auditor has merely relied on the information provided by the management without applying appropriate audit procedures to verify the existence of such relationship and the transactions with such parties. If the auditor has performed all the necessary audit procedures to conclude that the related party relationship disclosed is correct then the auditor should not use such phrases. Accordingly, it was viewed that the requirement of SA 500 has not been complied with.
11		488	The ‘Opinion’ paragraph and ‘Report on other Legal and Regulatory Requirements’ in the Auditor’s Report as given in the Annual Report of a company read as follows: Opinion “In our opinion and to the best of our information and according to the explanations given to us, the 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: (b) In the case of the Balance Sheet, the state of affairs of the Company as at March 31, 20xx; (c) In the case of the Profit and Loss Account, the loss for the year ended on that date; and (d) In the case of the Cash Flow Statement, the cash flows for the year ended on that date.  <b>Report on Other Legal and Regulatory Requirements:</b>	It was further noted that the auditor has expressed unqualified opinion and has raised issue in the paragraph ‘Report on other Legal and Regulatory requirements’ with regard to adopting going concern basis for preparing financial statements. It was viewed that the company was primarily governed by the Companies Act 1956; hence reporting such important fact under ‘Report on other Legal and Regulatory requirements’ is neither in line with paragraph 19 and 20 of SA 570 going concern nor with SA 700.  It was observed that the auditor has neither included the going concern issue as an ‘Emphasis of Matter’ nor expressed any ‘qualified opinion’. Accordingly, it was viewed that the requirements of SA 700 have not been complied with.

		<p>“2. The banks, financial institutions and other lenders have filed legal cases against the company for recovery of outstanding loans and interest thereon. No provision has been made in these accounts for additional interest, penal interest, liquidated damages etc. amounting to Rs. xxx as claimed by the above lenders at various legal forums. The same has been shown as contingent liability in notes to accounts attached to the said accounts. Company however had been providing interest on the above loans on a basis as considered appropriate by the management but up to 31<sup>st</sup> March, 20xx. <b><i>However, the company has stopped providing interest on all loans from banks and financial institutions whether secured or unsecured w.e.f. 01.04.20XX on the ground that these loans would have been declared NPA by them. Interest amounting to Rs. xxx up to the current year ended 31st March, 20XX has not been provided but the same has also been included in contingent liability (emphasis supplied).</i></b></p> <p>These financial statements have been prepared on a going concern basis. The Company has incurred an operating loss during the year. The company is passing through a severe liquidity crisis and is unable to honour its commitment to lenders, preference shareholders, suppliers and employees. The bankers, financial institutions and other lenders have taken legal action for recovery of their dues. Several petitions for winding up of the company have been filed by the creditors and lenders. The company is contesting these petitions or is settling such petitions out of courts.</p> <p>The company is in the process of restructuring its business and also trying to identify alternative source of finance. In the absence of adequate financial support this basis would be invalid. Provision would then have to be made for any loss that might arise when the company’s assets are realised.</p>	
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12		491	<p>From the Annual Report of a company, it has been noted that the auditor has expressed his opinion on the financial statements under the heading “Auditor’s Responsibility’. It has been further noted that under the heading ‘Report on other Legal and Regulatory Requirements’ the auditor has reported as under:</p> <p>...</p> <p>“Accounting Standard 15 on Employee Benefits, the company has been providing for gratuity liability on an ad-hoc basis but not as stipulated by the standard (Refer Note 29.2.ii)”</p>	The auditor has reported that the gratuity liability recognised is not as per AS 15. It was viewed that it is a vague information for the reader, since it is not clear whether the auditor only intends to report it as an emphasis of matter or to modify his report. In view of the noncompliance with AS 15, the auditor should have modified his opinion.
13		493	<p>One of the paragraph of Auditor’s Report and Notes to the accounts as given in the Annual Report of a bank respectively read as follows: <b>“Auditor’s Responsibility</b></p> <p>6. Without qualifying our opinion, we refer to:-</p> <p>c) Note no. XX regarding provision of Pension and Gratuity.”</p> <p><b>Notes to Accounts</b></p> <p><b>XX. Unamortised Pension and Gratuity Liabilities</b></p> <p>During the FY 20XX-XX, the Bank has incurred a liability amounting Rs. xxx on account of reopening of pension option Rs. xxx and enhancement of Gratuity Ceiling Rs. xxx. The Bank has amortised the said liability over a period of five years commencing from FY 20XX-XX in terms of RBI circular no. DBOD. BP.BC.80/21.04.018/2010-11 dated 9th February 2011. Accordingly, Rs. Xxx (Representing one fifth of Rs. xxx) has been charged to Statement of Profit and Loss during the current financial year. The detailed break-up is as under ....</p>	<p>It was noted from the Auditor’s Report that without qualifying opinion, the auditor has referred to certain matters. In other words, the auditor has laid emphasis on those matters.</p> <p>In view of the above, it was observed that in the reported case, the auditor has not reported emphasis of matters as required in SA 706. He has also not followed the Announcement issued by the Institute and has neither quantified the pension and gratuity liabilities nor has mentioned anything about the exemption granted by RBI/departure from AS 15 in his report.</p> <p>Accordingly, it was viewed that the requirements of SA 706 have not been complied with.</p>
14	Study-on-Compliance-of-Financial-Reporting-Requirements-	272	From the Annual Report of a company, it has been noted that the auditor has signed the Auditors’ Report prior to the date when the financial statements were signed and authenticated by the directors of the company.	Since the Auditor’s responsibility is to report on the financial statements as prepared and presented by the management, the auditor should not date the report earlier than that the date on which the financial statements are signed or approved by management.

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15		272	In the Auditor's Report given on the financial statement of a company, while mentioning his membership number 'F' is prefixed to it.	The report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report should be signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report should also mention the membership number assigned by the Institute of Chartered Accountants of India.
16		273	From the Auditors' Report of a company, it has been noted that Opening paragraphs of the Auditors Report states to have " <b>examined</b> the attached Balance Sheet" (Emphasis added).	The auditor should have used the word 'audited' rather than using the word 'examined' to reflect his correct responsibility.
17		274	From the Auditors' Report of a company, it has been noted that the report was not addressed to anyone.	"8. The auditor's report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations. Ordinarily, the auditor's report is addressed to the authority appointing the auditor." It was viewed that in a company, the members appoint the auditor hence, the Auditors' Report should be addressed to the members of the company.
18		274	From the Annual Reports of some companies, it has been noted that membership number of the auditor was neither mentioned in the Auditor's Report nor in the Annexure to the Auditors' Report prepared in pursuance to Section 227(4A) of the Companies Act, 1956. In other cases, it was noted that the membership number of the auditor was not mentioned in the Balance Sheet and/or the Profit and Loss Account of the companies.	The report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report should be signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report should also mention the membership number assigned by the Institute of Chartered Accountants of India. Therefore, it was viewed that the auditor should mention his membership number assigned by the Institute while signing the Auditors' Report.
19		275	From the Auditors' Report given in the Annual Report of some companies, it has been noted that although the auditors had properly reported in context of the Balance Sheet and the Profit and Loss Account of the company in the Auditor's Report no reference was made to the Cash Flow Statement in the same. Further, in other cases, it was noted that although the Auditors' Report referred to the Cash Flow Statement in the opening or the introductory paragraph of the Auditors' Report, the opinion paragraph omitted to report on it.	In the above-mentioned cases, the auditor's report on financial statements would also contain an expression of opinion on the true and fair view of the cash flows for the period under audit.  Auditors' Report on financial statements should not only contain reference to the Cash Flow Statement in its opening and introductory paragraph but also expresses opinion on the Cash Flow Statement for the period under audit.
20		279	While expressing opinion in the Auditors' Report of some companies the auditors often omit to state	It was observed from the given Auditors' Reports of the companies that although the auditor had reported that the said accounts give the information required by

			<p>whether the statements prepared are in conformity with the financial reporting framework and statutory requirement relevant to the company as illustrated below:</p> <p>“In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view...”</p>	<p>the Companies Act, 1956, in the manner so required and give true and fair view but omitted to state as to whether such statements of accounts are in conformity with the accounting principles generally accepted in India. Accordingly, the stated reports were considered to be incomplete.</p>
21		280	<p>From the Auditor's report on the financial statement of a company, it has been noted that the auditor had expressed opinion on the Balance Sheet, the Profit and Loss Account as well as on the accounts of the company '<b>subject to a note</b>' stating change in an accounting policy.</p>	<p>It was observed from Notes of the Accounts that although the company had made sufficient disclosure about the change in the method of depreciation during the year under audit, still the auditor expressed opinion subject to the note relating to change in depreciation method, which raises doubt on the note. It was felt that perhaps the auditors were not in agreement with the management for change in depreciation method; in that case, the subject matter of qualification is ambiguous or otherwise the usage of the phrase "subject to" is improper in the extant case. Hence, the expression of opinion by the auditors was observed to be neither clear nor in line with the requirement of paragraph 4, 29 or 38 of Standards on Auditing (SA) 700, 'The Auditor's Report on Financial Statements'.</p>
22		282	<p>The opening paragraph of the Auditors' Report given in the Annual Report of a company states as follows: “We have audited the attached Balance Sheet of X Ltd. as at 31st March, XXXX and Profit &amp; Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management...”</p>	<p>It was noted from the Auditors' Report that although the auditors had stated in the opening paragraph that the financial statements are the responsibility of the company's management, they omitted to state that it is their responsibility to express an opinion on the financial statements based on the audit as required by paragraph 10 of SA 700.</p>
23		283	<p>From the Auditors report read with Annexure to Auditors Report as well as Notes to Accounts as given in the Annual Report of a Company, it has been noted that the auditor had reported that proper books of accounts have been maintained by the company subject to a paragraph of annexure to auditors report. In that paragraph, it had been reported that the auditor had broadly reviewed subject to one of the notes to accounts and non-maintenance of proper inventory records at certain units.</p>	<p>It was noted from the Auditor's Report that the qualification with regard to non-maintenance of proper books of account, had not been specifically provided for.</p> <p>It was viewed that auditors should have qualified their report by specifically mentioning that note rather than routing it through various reports.</p>

			In the notes to accounts, it was stated that in the accounts of one of its units, various errors and inconsistencies have crept in, mainly in the areas of production and material accounting, valuation of inventories, creation of masters etc.	
			From the Auditor's Report of companies, it is often noted that the auditors express their opinion on financial statement "Subject to accounting policies and notes to accounts" despite the fact that such reports do not contain any facts indicating qualified opinion.	