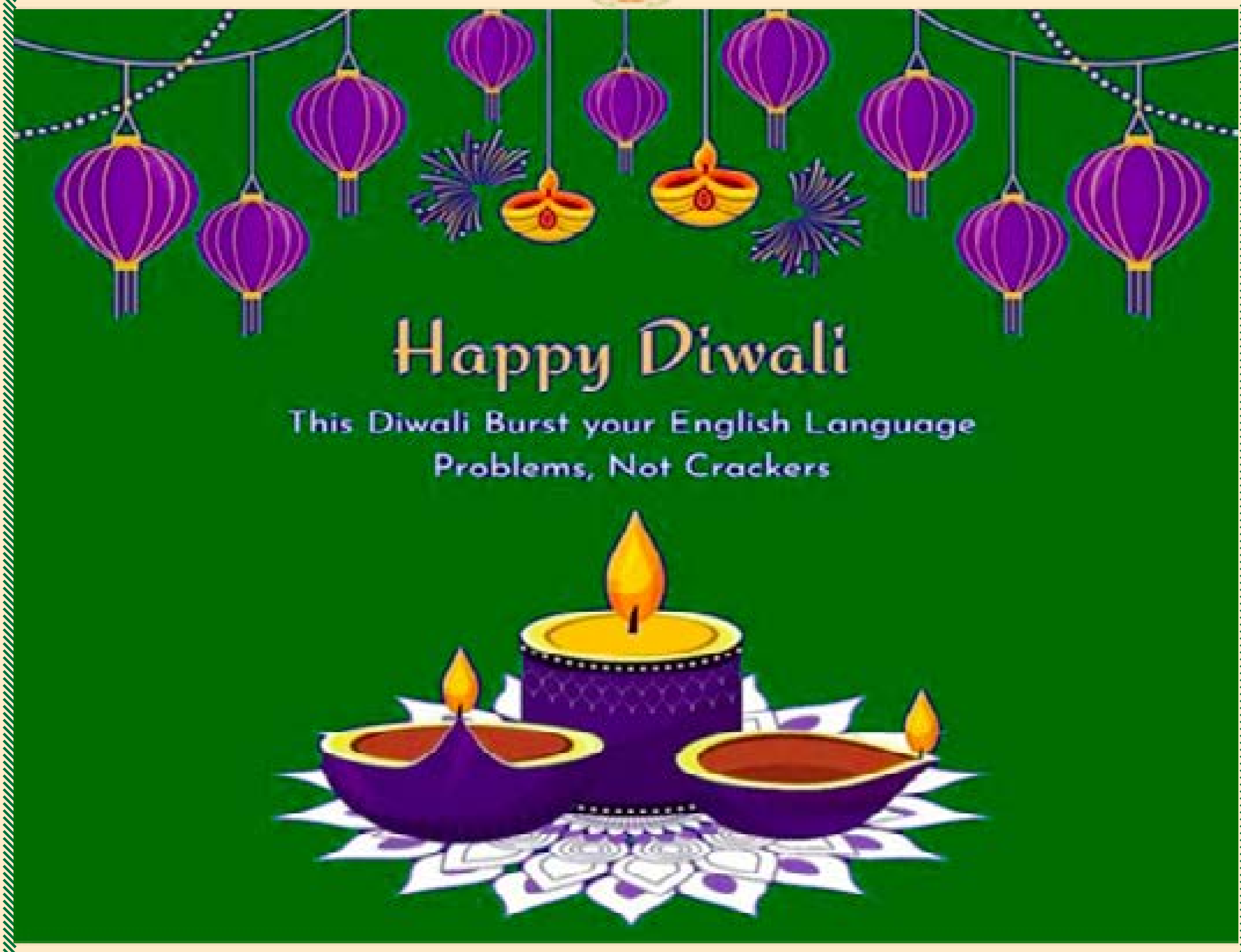

Chengalpattu District Branch of SIRC of ICAI

(Formerly known as Kanchipuram District Branch)

E- NewsLetter

OCTOBER 2022

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Chengalpattu District Branch of SIRC of ICAI
Managing Committee Team

S No	Name	Positions	Photo	Phone No.
1	CA SATHIYANARAYANAN K R	CHAIRMAN		9840118712
2	CA SIVAGURUNATHAN T	VICE CHAIRMAN		9894517944
3	CA NARASIMMA RAGHAVAN R	SECRETARY		9840738963
4	CA PRIYA A	TREASURER		9840718073
5	CA MADHUMITHA R	SICASA CHAIRPERSON		9841956926
6	CA SHIVACHANDRA REDDY K	MC MEMBER		9841410909
7	CA AANAND P	MC MEMBER		9791119996
8	CA RAVICHANDRAN S	MC MEMBER		9840634996
9	CA SATHISH T S	MC MEMBER		9841543303

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Editorial Board	
Chairman	CA. Sathiyanarayanan K R
Coordinator	CA. Sivagurunathan T
Member	CA. Narasimma Raghavan R
Member	CA. Aanand P
Member	CA. Madhumitha R
Member	CA. Priya A

ARTICLES INVITED FROM MEMBERS:

Note: Articles are invited from members for publishing in newsletter. The articles shall be either on the specific subject or a general article. Members can mail their article with Name, Membership Number, Mobile Number, Residential Address, Office Address & Photo to our Mail mentioned below

Note: The views expressed in the articles published are their own views and Chengalpattu District Branch does not endorse or take responsibility for the views expressed in the articles.

Contact us:

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E-NEWSLETTER
CHENGALPATTU DISTRICT BRANCH OF SIRC OF ICAI

From the Chairman's Desk

Greetings to all professional colleagues

The festive season has reached its peak with Dussehra and Diwali approaching.

Hope everyone has completed the tax audit commitments within the due date.

Let us now start relaxing for some time. While relaxing let us all also try to update the amendments made in various areas of our practice.

Happy festival celebrations to all
Jai Hind

CA Sathiyanarayanan K R
Chairman

01.10.2022

Common Mistakes in Financial Statements and Audit Reports

CA. Kamal Garg

Legal Requirements under the Companies Act, 2013

Schedule II
(See Section 123)
Useful lives to compute depreciation

Part 'A'

1. Depreciation is the systematic allocation of the depreciable amount of an assetover its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset entity.

2. For the purpose of this Schedule, the term depreciation includes amortisation.

Question

Whethersinceprovidingdepreciationisrequiredonlyforthepurposesofcomputingprofitsfor:
a) dividenddeclaration;and/or
b) managerialremuneration,
Can it be said that if above two purposes are not there for the current financial year, then there is no need to provide depreciation in the books of account?

Legal Requirements under the Companies Act, 2013

The financial statements shall give a true and fair view of the state of affairsof the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III –Section 129(1)	Auditor to report whether, in his opinion, the financial statements comply with the accounting standards –Section 143(3)(e)

Whether the **Statutory auditors** be concerned about presentation of financial statements as per schedule III even if the accounting has been carried out as applicable accounting standards?

• The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act……………………and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder

or under any order made under sub-section (11) and to the best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed ~ Section 143(2)
• Every auditor shall comply with the auditing standards ~ Section 143(9)
• 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 ~ SA 200;
• The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements ~ SA 200;
• Misstatement – A difference between:
a) the amount, classification, presentation, or disclosure of a reported financial statement item; and
b) the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework ~ SA 200 and SA 450;
• It is the auditor's responsibility, while forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement ~ SA 700

Schedule II

Abstract of accounting policy of a company on Depreciation of PPE

Non - compliance	Requirements
Depreciation on property, plant & equipment (PPE) is provided on Straight Line Method over their useful lives and in the manner specified in Schedule II to the Companies Act, 2013. However, in respect of certain Plant & Machineries and Electric Installations, depreciation is provided as per their useful lives assessed on the basis of technical evaluation by the external valuer, ranging from 20 to 40 years.	?
Schedule II to Companies Act, 2013 introduced concept of useful life of asset instead of using specific depreciation rates as provided in Schedule XIV to Companies Act, 1956. Therefore, the company viewed that Schedule II to Companies Act, 2013 provides only straight line method of depreciation and any other method cannot be used.	

Property, Plant and Equipment are stated at cost, net of recoverable taxes, trade discount and rebates less accumulated depreciation and impairment losses, if any, as computed in accordance with the method prescribed under Schedule II of the Co. Act, 2013; • Intangible Assets are stated at cost of acquisition net of recoverable taxes, trade discount and rebates less accumulated amortisation/depletion and impairment losses, if any, as computed as per the method prescribed under Sch. II of the Co. Act, 2013	?
Depreciation on property, plant & equipment (PPE) is provided on Straight Line Method over their maximum useful lives as specified in Schedule II to the Companies Act, 2013, except where different useful lives are adopted on the basis of technical advice obtained by the company from independent experts	
Depreciation on those assets, whose actual cost does not exceed Rs. 5,000/=, has been provided @ 100% in accordance with Schedule II of the Companies Act, 2013	

Schedule III

AS Compliant Companies
Division I –Part –I : Balance Sheet

EQUITIES AND LIABILITIES
Shareholders' Funds (a) Share Capital (b) Reserves & Surplus (c) Money Reserved against share warrants
Share Applicationmoney pending Allotment
Non CurrentLiabilities (a) Long-term borrowings (b) Deferred tax liabilities (Net) (c) Other Long termliabilities (d) Long-term provisions
Current Liabilities (a) Short-term borrowings (b) Trade Payables:— (A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues of creditors other than micro enterprises and small enterprises (c)Other current liabilities (d) Short-term provisions
Total

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ASSETS
Non-Current Assets (a) Property, Plant and Equipment [and Intangible assets] (i) Tangible assetsProperty, Plant and Equipment (ii) Intangible assets (iii) Capital work-in-progress (iv) Intangible assets under development (b) Non-current investments (c) Deferred tax assets (net) (d) Long-term loans and advances (e) Other non-current assets
CurrentAssets (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets
TOTAL

Division I –Part –II : Statement of Profit & Loss

Particulars	Note No.	Figures at the end of current reporting period	Figures at the end of previous reporting period
Revenue from Operations Other Income Total RevenueIncome(I + II) Expenses Cost of Material Consumed Purchases of Stock in Trade Changesin inventories of finished goods, Work in progress and stock in trade Employee Benefit expense Finance Costs Depreciation and amortization expense Other expenses Profit Before Exceptionaland extraordinary items and tax ExceptionalItems Profit Before extraordinary items and tax Extraordinary Items Profit Before Tax Tax Expense Current Tax Deferred Tax Profit (loss)for the period from continuing operations Profit (loss) from discontinuing operations Tax expense of discontinuing operations Profit(loss) from discontinuingoperations (after tax) Profit (loss) for the period Earnings per equity share Basic Diluted			

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General Instructions For Preparation of Balance Sheet

Non-compliance	Requirement
The Schedule III requires all items in the Balance Sheet to be classified as either Current or Non-current; • One of the underlying criteria for such classification is 'operating cycle' • No disclosure was made for 'operating cycle'	?
In one case, notes to accounts stated that company's operating cycle is six months. The sale contract provides for a normal credit period of three months. However, the company does not expect to receive the payment within twelve months from the reporting date due to ongoing litigation with the customer; • Still the company classified trade receivable for such customer under 'current asset' category	?
In one case, investments were classified into 'current' and 'non-current' category under Schedule III; • Whereas AS 13 requires to classify investments as 'current' and 'long-term'; • Still the company did not make appropriate disclosures about investments under Schedule III as to classification in tandem with AS 13	?
In one case, Deferred Tax Liability was classified into current and non-category; • In another case, Deferred Tax Asset was classified into current and non-category; • Deferred Tax/ Liability was classified into current and non-current category	?
In one case, there was convertible debt where the conversion option lied with the issuer; • In another case, there was mandatorily convertible debt instrument; • In both the cases, such convertible debt was classified into non-current category on the grounds that Schedule III states that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification	?
In one case, there was unpaid amount towards shares subscribed by the subscribers of the MOA; • The company hence gave a descriptive note for the same without any treatment in Financial Statements	?
In one case, a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period was given; • The company, however, gave such reconciliation for total number of shares in aggregate, whereas the notes also stated that company has issued Equity Shares as well as Preference Shares	?
In one case, shares in the company held by each shareholder holding more than 5% shares was given by specifying the number of shares held; • The company however gave such shareholding for total number of shares in aggregate whereas the notes also stated that company has issued Equity Shares as well as Preference Shares	?

Non-compliance	Requirement
In one case, the loan payable by the company was converted into equity under an arrangement between the company and the lender; • The company disclosed the same as shares allotted as fully paid up pursuant to contract(s) without payment being received in cash • Note: Clause (i) of Note 6A of Part I of Schedule III requires separate disclosures for non-cash allotments	?
In one case, the company made a separate disclosure of shareholding of its promoters including the percentage change therein during the year; • The company disclosed the same in the format prescribed under Schedule III which requires disclosure only in respect of shares held at the end of the year • Reference: Clause (m) of Note 6(A)	?
In one case, the company received 'calls in advance' from some shareholders; • The company disclosed the same as a part of the paid-up capital • Reference: In terms of Section 50, a company, if so authorized by its Articles, may accept from any member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up	?
In one case, the company was having long term borrowings; • The company no where separately disclosed the current maturities of such long-term borrowings	?
In one case, the company was having secured long term borrowings; • The company disclosed that all long terms borrowings are secured against tangible assets owned by the company and personal security of promoters, shareholders and third parties	?
In one case, the company was having some 'leasehold improvements'; • The company disclosed 'leasehold improvements' by clubbing the same under 'Assets held under Lease'	?
In one case, the company was having some investments in LLPs; • The company disclosed the same under the sub-heading "investments in partnership firm"; • Note: Schedule III requires disclosure in regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner)	?
In some cases, the company has given capital advances for procurement of PPE; • One company disclosed the same under the sub-heading "Capital Work-in Progress"; • Another company disclosed the same as 'Short-Term Advance' as the PPE was expected to be received in next months from the reporting date.	?

Issue: Cash and Cash Equivalents

- Deposits with original maturity of three months or less only should be classified as cash equivalents – AS 3;
- Thus, Bank balances held as margin money or security against borrowings are neither in the nature of demand deposits, nor readily available for use by the company, and accordingly, do not meet the aforesaid definition of cash equivalents;
- However, under Schedule III – Cash and Cash Equivalents comprise of:
- "Balances with banks held as margin money or security against borrowings, guarantees, etc. and bank deposits with more than 12 months maturity."

Cash and Cash Equivalents
Question:
How to deal with this apparent conflict between the requirements of the Schedule III and the AS with respect to which items should form part of Cash and cash equivalents

Answer:
AS would prevail over the Schedule III;
Company to make necessary modifications in the F.S.;
Accordingly, the conflict should be resolved by changing the caption "Cash and Cash Equivalents" to "Cash and Bank Balances," which may have two sub-headings:
"Cash and Cash Equivalents" and
"Other Bank Balances."
The former should include only the items that constitute Cash and cash equivalents defined in accordance with AS 3 (and not the Schedule III), while the remaining line-items may be included under the latter heading

Share Application Money
What does Companies Act say

A company making shall allot its securities within 60 days from the date of receipt of the application money.
If the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within 15 days from the date of completion of 60 days.
If the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest @12% p.a. from the expiry of 60th day – Section 42(6).
If the securities for which application money or advance for such securities was received cannot be allotted within 60 days from the date of receipt of the application money and such application money is not refunded to the subscribers within 15 days from the date of completion of 60 days, such amount shall be treated as a deposit – Rule 2(1)(c)(vii) of Companies (Acceptance of Deposits) Rules, 2014

What does CARO say

Para 3(v)	Para3(xiv)
in case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated	whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance

Areas not to be overlooked

Harmonised Reporting: While reporting for private placement of securities if share application money is not dealt with in accordance with Section 42 then not only the reporting under Para 3(xiv) of CARO, 2016 is required but the reporting is also required under Para 3(v) and Para 3(xiii) of CARO, 2016

Maintenance of liquid assets and creation of deposit repayment reserve account on or before the 30th day of April of each year with any scheduled bank - the amount remaining deposited shall not at any time fall below 20% of the amount of deposits maturing during the financial year;

Disclosure in the financial statement: Every private/ public company shall disclose in its financial statement, by way of notes, about the money received from the directors, [or relatives of directors] – Rule 16A:

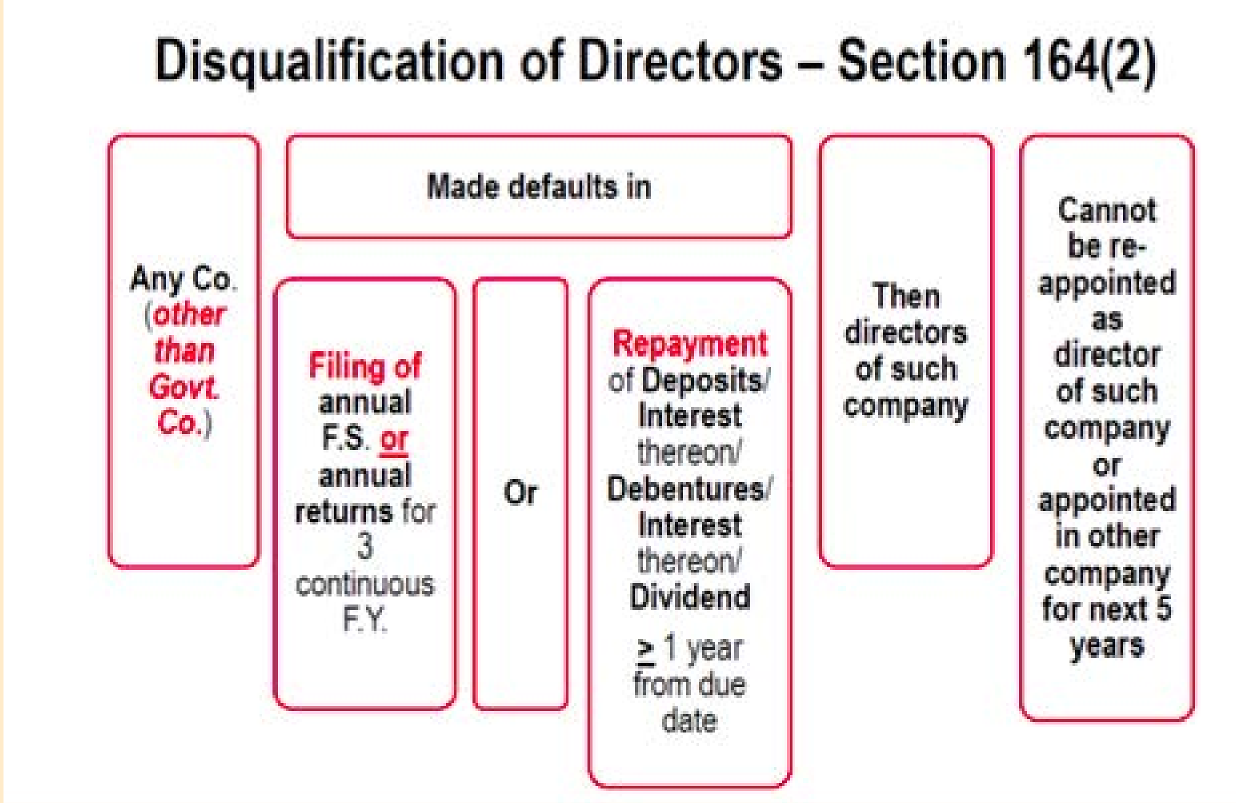
Twin compliances namely AS 18 and Rule 16A;

Public company cannot accept deposits from relatives of directors;

HUF neither relative under AS18 nor under Section 2(77)(i)

Areas not to be overlooked - Questions

RST (P) Limited Equity and Liabilities (Extract)	As at 31.3.2022 (in Lakhs)	As at 31.3.2021 (in Lakhs)
Shareapplication money pending allotment (money was received through Banking channels on 16thJanuary,2021)	100	100



General Instructions For Preparation of Statement of Profit and Loss

Non-compliance	Requirement
In one case, the company was engaged in manufacturing of cars and has made sale of scrap which was generated during the manufacturing process; The company disclosed the sale of scrap as 'other non-operating income'	?
In one case, the company was having interest from customers on amounts overdue; The company has disclosed the same as 'other operating revenue'	?
In one case, certain penalties were levied upon the company under PF Law; The company has disclosed the same under 'Employee Benefit Expenses' as 'contributions to provident fund'	?
In one case, the company has taken certain assets on finance lease and was paying lease rent for the same; The company has disclosed the finance charges on finance leases under the heading 'Miscellaneous Expenses'	?
In one case, the company has paid some interest on shortfall in payment of advance income-tax; • The company has clubbed such interest with 'current tax' under the heading 'Tax Expense	?
In one case, the company has incurred CSR expenditure; • The company has disclosed the CSR expenditure under the heading 'Other Expenses' with a sub-heading 'CSR Expenditure for the year'	?

Issue: Earning Per Share

Para 15 of Accounting Standard 20, "Earnings Per Share", requires that BEPS should be calculated by dividing net profit for the period attributable to the equity shareholders by weighted average number of equity shares outstanding during the period.

From the above Para 15 of AS 20, an entity should use weighted average number of equity shares outstanding during the period. It can't use number of equity shares outstanding either at the beginning or at the end of the year, except when there is no increase/ decrease in equity share capital during the period.

Referring to above, in the instant case Company Z has not computed BEPS correctly.
RST Limited
- 1stApril,2019 –Equity Shares –10,000 shares
- 1stOct,2019 –fresh issue –1,000 shares (additionally issued)
- 31stMarch,2020 –outstanding equity shares –11,000 shares
- PAT = Rs. 1,10,000
- BEPS = 1,10,000/ 11,000 = is it correct ? = no
- Weighted Avg. Number of Equity Shares = [(10,000 (x) 12/12) + (1,000 (x) 6/12)] = '10,500' number of shares
- BEPS = 1,10,000/ '10,500' = this is correct position as per AS 20

Certain Matters w.r.t. Audit Report to be looked into by the Auditors

Auditor has signed the Auditor's report prior to the date when the Financial Statements were signed and authenticated by the director of the company.	SA-700 (Para-26) 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.
Auditor has mentioned his membership number with Prefix "F" in Auditor'sReport.	SA-700 (Para- 28) Neither Institute allots Membership Number to its members with any prefix like "F" or "A" nor SA-700 permits the use of such prefixes with the membership number in the Auditor's Report
Abstract of Auditor's Report: "For XYZ & Associates Chartered Accountants (ABC) Partner Membership No. 00000"	It may be noted that footnote 26 given with reference to Paragraph A36 of SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, inter alia, provides that in addition to the other requirements relating to signature on the audit report, as prescribed under the relevant Standard on Auditing, the registration number of the firm as allotted by ICAI should be stated in the audit reports signed by them.

In 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, 2013, 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: In the case of the Profit and Loss Account of the profit/ loss for the year ended on that date;	It was noted from theAuditors' Report that the auditor has expressed opinion 'profit/loss'. It was further noted that in the Opinion Paragraph of Appendix to SA 700, 'Forming an opinion and Reporting on Financial Statements', the phrase 'profit/loss' has been used while expressing the opinion. It was viewed that in appendix, such phrase has been used to indicate the situations when the given format may be used. However, in practice the enterprise earns either the profit or incurs loss, therefore, the auditor should express his opinion either on profit or loss, as case may be. A reader may get confused on readi3n1g 'profit/ loss' which should be avoided.
The Auditor has given his report within the paragraphs stated in SA 700 but without using the headings for respective paragraphs.	It was noted that Standard on Auditing (SA) 700 (Revised), Forming an Opinion and Reporting on Financial Statements is applicable from the periods beginning on or after April 1, 2018. Further, 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. 'Opinion', 'Management's and TCWG responsibility for the financial statements', 'Auditor's Responsibility', 'Report on other legal and regulatory requirements. It was noted that the given financial statements pertain to financial year 2018-19, however, the heading of different paragraphs defining separate elements of report have not been given as prescribed under SA 700
"AUDITORS' REPORT The Bank of ....……… Report on the Financial Statements Management's Responsibility ………. Report on Other Legal and Regulatory Requirements ………."	It was 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." It was noted that auditor has given report without stating whether it is an independent report or otherwise as per the requirements of SA 700.

Abstract of Signature in Auditor's Report given in the Annual Report: "For and on behalf of" XYZ &Associates	It was noted that auditor's report as well as report on CARO has been signed on behalf of the firm. It was viewed that the report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report is signed in personal name of the auditor. Accordingly, the signatures of Auditor were considered to be not in accordance with the requirements of under SA700.
Paragraph (1) of auditor's report reads as under: "We have audited the attached Balance Sheet of XYZ Limited as at March 31, 2012 and the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date all of which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit (emphasis added)."	It was noted from the auditor's report that the auditor has referred to Statement of profit and loss as "related Profit and Loss Account". It was viewed that there is no such term either in the Companies Act or other related regulations. Hence, it was viewed that usage of such terms should be avoided.
Opening Auditor's paragraphs of Report the states " examined the attached Balance Sheet…"	Term 'examined' signifies wider function than the actual responsibility of the auditor. Auditor should have used the word 'audited' rather than using the word 'examined' to reflect his correct responsibility.
In the Auditor's Report, no reference was made to the Cash Flow Statement in opening paragraph and opinionparagraph.	SA-700 (Para-9) The Auditor's Report should identify the Cash Flow Statement as a part of Financial Statements and further, also express an opinion on the Cash Flow Statement audited.
Although the Auditors have Qualified their report with regards to non-compliance of certain Accounting Standards, they have omitted to report the qualification of the possible effect either individually or in aggregate.	With regards to SA-700, it is viewed that, while expressing opinions other than unqualified, the auditor should report the reasons for such opinion and should also report the quantitative impact of such on the financial statements of each, individually as well as their aggregate. Where it is not practicable to quantify the same, auditor must quantify the same based on estimates provided by the management.

"We have audited the attached Balance Sheet of X Ltd. as at 31st March, xxxx and Profit & Loss Account for the year ended on that date annexed thereto.The Financial Statements are the responsibility of the company's management".	Para 33 and 37 of SA-700 (R) requires the auditor to state the responsibility of management towards the Financial Statement along with their own responsibility to express an opinion on the Financial Statements based on Audit. This needs to be reported under two separate headings namely: 1. Responsibilities of Management and TCWG; and 2. Auditor's Responsibilities for the Audit of the Financial Statements
An unqualified opinion given referring to the following comment: "In our opinion, the Balance Sheet, the Profit & Loss Account, the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in section 133 of the Companies Act, 2013".	From the Annual Report of the Company, there were many noncompliance of Accounting Standards, but still the auditors have given a Clean Report.
Auditor often omit to state whether the statements prepared are in conformity with the Framework and Financial Reporting statutory requirements relevant to the company.	SA-700 requires that the Opinion Para of the Auditor's Report should clearly indicate the FRF used to prepare the F/S and state the auditor's opinion as to whether the F/S gives true & fair view in accordance with FRF and, where appropriate, whether the F/S comply with the Statutory Requirements – see illustration in next slide.

Qualified Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20XX, and the statement of Profit and Loss, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)).

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 section of our report, the aforesaid financial statements give the information required by the Companies Act 2013 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 March 31st, 20XX and its profits and its cash flows for the year ended on that date.

The Auditor has expressed opinion on the Balance Sheet, Profit & Loss Account as well as on the accounts of the Company 'subject to a note 'x' of notes to account' stating a change in the Accounting Policy of Depreciation method. When the auditor expresses a qualified opinion, it would not be appropriate to use phrase such as "subject to" in the Opinion section as these are not sufficiently clear or forceful – Para A20 of SA 705(R)	'subject to' is improper although the company has made sufficient disclosure of change in Accounting Policy. Further, since the auditor is not in agreement with the management for change in Depreciation method, in that case, 'subject matter of qualification' is ambiguous and basis of opinion should be provided properly with financial impact to the extent practicable
Membership no. of auditor was mentioned in Audit Report, but not in CARO, Balance Sheet, Statement of Profit & Loss.	SA-700 (Para-28) The partner/proprietor signing the audit report should compulsorily mention the Membership No. assigned by ICAI and also the Firm Registration No. to be mentioned.
Report was not addressed to anyone.	SA-700 (Para-8) The auditor's report should be appropriately addressed as required by the circumstances of engagement and applicable Laws & Regulations. Ordinarily, the auditor's report is addressed to the authority, appointing the auditor (Under the Companies Act 2013, audit report on CFS will be addressed to members, earlier it was addressed to Board of Directors.)
Matters to be looked into for CARO	
The management has conducted physical verification of the fixed assets during the year and "we are informed that discrepancies noticed were not material".	The use of words "We are informed that", prima facie creates an impression that no documentary evidence was available to substantiate the verification and that the auditor has wholly relied on management's representation. However, the auditor's duty is to express his opinion and not just disclose the information given by the management, hence not as per CARO. [It may start with According to information and explanation given to us….]
"All assets are not verified but there is a regular programme of is verification. The same reasonable. Management has explained that no material discrepancies were noticed".	CARO requires that auditor should use his judgment to determine that discrepancy is material or not. Duty has been casted on auditor to express his opinion. In the given case, auditor has relied on the management's explanation and has not used his judgment.

"Programme of physical verification is reasonable, though all the assets are not verified. Management is in process of identifying discrepancies, if any, on such verification".	Comments are not as per requirement. It indicates lapse of the policy that physical verification of even those assets which were taken for verification is not complete. Inappropriate conclusion is made by auditor that company is having regular programme for verification.
The company has maintained proper records of inventory. No material discrepancies were noticed on physical verification of inventory except as recorded by excise department as per note…	CARO requires the auditor to comment on whether the discrepancies noticed have been adequately dealt with. Here, the auditor has only reported on discrepancies by referring to the note but he has omitted to comment on whether those discrepancies were properly dealt with in the Books ofAccounts.
(a) The parties to whom loans have been given by the company are repaying the principal amounts as stipulated and interest thereon wherever applicable. (b) In case of overdue amounts exceeding 1 Lakh reasonable steps have been taken by the company for recovery of principal amount & interest thereon and necessary provisions have been made wherever such amounts appear to be doubtful of recovery.	It is observed that the stated comments are providing contradictory information. If the parties are regular in repaying the principal as well as the interest then the question of overdue amounts does not arise.
It has been noticed that the auditor has reported only in context of 'undisputed' statutory dues and is silent on 'disputed' statutory dues.	As per clause (vii)(b) of CARO, the auditor is required to report on specified statutory dues that have not been deposited on account of any dispute. In case there are no dues which have not been deposited on amount of dispute then the auditor shall explicitly report it, rather being silent on it.
The company is regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employee state insurance, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other statutory dues with the appropriate authorities. Late deposit, if any, has been attached in Form 3CD.	It is noted that whereas CARO requires 'disclosure of amount' which are in arrears for the period of more than 6 months, the auditor has simply reported the means, i.e. Form 3CD where such information is available. It was further viewed that Form 3CD is a part of Tax Audit Report and hence the requisite information for neither available in CARO report or in the F/S attached. Accordingly, the auditor has not complied with the reporting requirement.

Question

- RST Limited
- Gratuity is payable under Payment of Gratuity Act and Bonus is payable under Payment of Bonus Act
- The company has delayed in making such payments
- The Company has also delayed in transferring amounts to IEPF
- Whether such delay in payments of gratuity, bonus and IEPF is reportable under Para 3(vii) of CARO

Caution:

- IEPF deposit delays are not reportable under CARO. They are reportable as per Rule 11 of Audit Rules on the face of audit report

Question: Whether the following reporting made in CARO is correct?
"According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit";

Ind AS Compliant Companies

Division I –Part –I : Balance Sheet

ASSETS
Non-Current Assets (a) Property, Plant and Equipment (b) Capital Work-in-Progress (c) Investment Property (d) Goodwill (e) Other Intangible assets (f) Intangible assets under development (g) Biological Assets other than bearer plants (h) Financial Assets ~ (i) Investments; (ii) Trade Receivables; (iii) Loans; (iv) Others (i) Deferred tax assets (net) (j) Other non-current assets
CurrentAssets (a) Inventories (b) Financial Assets ~ (i) Investments; (ii) Trade Receivables; (iii) Cash and cash equivalents; (iv) Bank balances other than (iii); (v) Loans; (vi) Others (c) Current Tax Assets (Net) (d) Other current assets
TOTAL ASSETS

Division II –Part –I : Balance Sheet

EQUITIESAND LIABILITIES
Equity (a) Equity Share Capital (b) Other Equity
Liabilities
Non Current Liabilities (a) Financial Liabilities ~ (i) Borrowings; (ii) Lease Liabilities;(iii) Trade Payables; (iv) Others (b) Provisions (c) Deferred tax liabilities (Net) (d) Other Long term liabilities
Current Liabilities (a) Financial Liabilities ~ (i) Borrowings; (ii) Lease Liabilities;(iii) Trade Payables; (iv) Others (b)Other current liabilities (c) Provisions (d) Current Tax Liabilities (Net)
TOTAL EQUITY AND LIABILITIES

Division II –Part –II : Statement of Profit & Loss

Particulars	Note No.	Figuresfor the current reporting period	Figuresfor the previous reporting period
Revenue from Operations Other Income Total Income(I + II) Expenses Cost of Material Consumed Purchases of Stock in Trade Changesin inventories of finished goods, Stock in trade and Work in progress Employee Benefit expense Finance Costs Depreciation and amortization expense Other expenses Profit/ (Loss) Before Exceptionalitems and tax ExceptionalItems Profit/ (Loss) Before Tax Tax Expense: Current Tax Deferred Tax Profit (loss)for the period from continuing operations Profit (loss) from discontinued operations Tax expense of discontinued operations Profit(loss) from discontinuedoperations (after tax) Profit (loss) for the period Other Comprehensive Income Total Comprehensive Income Earnings per equity share (separate break up required for Continuing, Discontinued and Overall Operations) (i). Basic (ii). Diluted			

General Instructions For Preparation of Balance Sheet

Non-compliance	Requirement
In some cases, the company has given capital advances for procurement of PPE; One company disclosed the same under the sub-heading “Capital Work-in Progress”; Another company disclosed the same as ‘Short-Term Advance’ as the PPE was expected to be received in next months from the reporting date.	
• In one case, the company was having Bank Overdraft; • The company has disclosed ‘Bank Overdraft’ under the heading ‘Cash and Cash-equivalents’	
• In one case, the company has outstanding ‘compulsory convertible debentures’ without any component of liability, i.e. 100% convertible into equity; • The company has disclosed the same as ‘Borrowings’ under the heading ‘Non- current Liabilities’	
• In one case, in CARO, 2016, the auditor reported that there was a default in repayment of borrowings and interest during the year; • The company however has not disclosed the same in the notes to accounts as required by Schedule III	
General Instructions For Preparation of Statement of Profit and Loss	
• In one case, the company has suffered loss due to fire-breakdown of factory plant; • The company has presented such loss as an ‘extraordinary loss’	
• In one case, the company was having brought forward ‘MAT Credit’; • The company has presented such MAT Credit as ‘MAT Credit Entitlement’ under the heading ‘Other Non-Current Assets’	
• In one case, the company was having brought forward ‘MAT Credit’; • The company has presented such MAT Credit as ‘MAT Credit Entitlement’ under the heading ‘Other Non-Current Assets’	

Other Observations

Units of Measurement

Non-compliance	Requirement
• It was observed from note relating to RP Disclosures given in the Annual Report of a company that the amounts of corporate guarantees given on behalf of RPs were disclosed in foreign currencies. • It was observed that whereas in the given case the financial statements have been reported in rupees, certain transactions under related party disclosures have been reported in terms of US dollars (USD), Australian Dollars (AUD) and Japanese Yens (JPY)	

Issue: Cash Flow Statement

In the cash flow statement an entity has categorised its cash flows during a particular period into four categories, which are, Cash flow from Operating Activities, Cash flow From Investing Activities, Cash Flow from Financing Activities and Cash flow from Other Activities.

Whether the entity has categorised its cash flows correctly as per AS 3/ Ind AS 7, Cash Flow Statements?

Particulars	Amount (Rs.)	Amount (Rs.)
NetProfit before Tax	1000	
Non-cash items and working capital adjustments	(100)	
Cash from Operating Activities (A)		900
Cash from Investment Activities (B)		500
Cash from FinancingActivities (C)		(200)
Net increase in cash and cash equivalents [(A) + (B) + (C)]		1200
Cash and cash equivalents at beginning of period (D)		1800
Cash and cash equivalents at end of period (E)		3100
Changesduring year on account of (D)and (E)		(1300)
NetProfit before Tax	1000	
Non-cash items and working capital adjustments	(100)	
Cash from Operating Activities		900
Cash from Investment Activities		500
Cash from FinancingActivities		(200)
Net increase in cash and cash equivalents		1300
Cash and cash equivalents at beginning of period		1800
Cash and cash equivalents at end of period		3100

Issue: Related Party Disclosures

As per AS 18/ Ind AS 24, if there have been transactions with related parties, during the existence of a related party relationship, the entity should disclose a description of the relationship between the parties.

In the instant case, C Ltd. has disclosed description of relationship only in case of transactions with KMP and their relatives, but has not disclosed the type of relationship in case of transactions with other related parties.

Therefore, related party transactions in this case have not been properly disclosed.

Issue: Govt. Grants related to revenue

A company (say Company X) is engaged in the business of manufacturing and selling of tea. During the previous financial year it had received subsidy on fertilisers from the government.

While preparing financial statements for previous year, X has clubbed the amount of subsidy with revenue of that year.

Is accounting treatment of governmental subsidy correct?

• As per AS 12/ Ind AS 20, Government grants related to revenue should be recognised on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense.

• Therefore, the company X should disclose the subsidy on fertilisers as other income or should net off the amount of subsidy from the expenditure incurred on purchase of fertilisers.

Issue: Provision for gratuity

An entity has a rule that no gratuity shall be payable to an employee if he or she leaves service before completion of five years. The company believes that no liability should be accrued for gratuity till the first five years of an employee.

Is the contention of the company correct ?

• Albeit the gratuity benefit may not vest in first five years, yet there is a probability that certain employees shall complete five years and shall become eligible for gratuity. Merely because a benefit has not vested does not mean that the obligation does not exists.

The 'probability' concept account for percentage of employees for which the benefit will/ will not vest. Accordingly provision should be created during the first five years of service.

• In other words, the benefit of gratuity although becomes payable after 5 years but the obligation accrues over a period of 5 years. Hence an entity must estimate the number of employees who will become eligible for gratuity (depending upon the attrition percentage across different levels) and accordingly estimate the amount of provision required each year even if the employees are not eligible for gratuity as on date.

Issue: Interest on borrowed funds, initially capitalized as per accrual concept but later waived off by lenders

A company is engaged in business of manufacturing and sale of chemicals. The company borrowed funds for purchasing of assets in the preceding years. Interest cost on the borrowed funds was capitalised in accordance with the laws and regulations till the time of commercial production. Later on after the start of commercial production, no interest was paid to lender because of the financial problems. During the current year the company repaid the principal amount to the lenders and as per the arrangement the lenders waived off the interest which was already capitalised. The company recognised the waived interest as capital reserve. How should such interest waiver be treated in books of account ?

• No, the interest waiver cannot be recognised as a capital reserve. Instead, the interest that has been capitalised as part of the historical cost of the asset and has subsequently been waived off, should be reduced from the fixed asset cost and accumulated depreciation. The adjustment should be carried out as on the date of waiver. The rationale is that, since the asset has been correctly capitalised based on actual cost incurred, but subsequently not paid, the capitalised amount of the fixed asset should be reduced - EAC opinion Query 23 Volume 23

Issue: Disclose whether entity has conducted any impairment test

In the financial statement a company (F Ltd.) has not disclosed any information to indicate that it has conducted any impairment test of its assets during the financial year.
Is it correct disclosure?

• As per AS 28/ Ind AS 36, "Impairment of Assets" an entity should assess at each balance sheet date whether there is any indication that an asset may be impaired.
• So, an entity should disclose either its accounting policy in respect of impairment of assets or whether the entity has conducted impairment test during the financial year. In the instant case, F Ltd. also should disclose the same.

Concept of ISD and Cross Charge in GST

CA Vasudev Joshi

Background

- Fundamental Crux of implementation of GST law is seamless flow of Input Tax Credit (ITC)
- Federal System of Government mandating State Wise Registration (Sec 25(2) of CGST Act, 2017)
- State Wise Registration paves way for deeming fiction of Distinct Persons (Sec 25(4) of CGST Act, 2017)
- Commercial necessity of businesses to have multi-locational units across India such as Head office, Branch Office, Factories etc. with centralized corporate functions (marketing, legal, accounting, audit, IT etc.)
- Due to such centralized procurements, allocation of such costs to respective units to assess the profitability of such units and also apportion the ITC of tax paid on such procurements.
- In view of the above business structures and commercial necessities, the concept of ISD and Cross charge are of vital importance to ensure compliance and prevent the business from litigations.

Concept of ISD – Input Service Distributor

What is ISD – Sec 2(61)	Compliance for ISD – Sec 20, 24, 39
an office of the supplier of goods or services or both It receives tax invoices issued under section 31 towards the receipt of input services It issues a prescribed document for the purposes of distributing the credit of tax paid on the said services Such document is issued to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office.	Section 24 requires an office of the supplier which intends to act as Input Service Distributor (ISD), to separately obtain registration as ISD. Section 20 contains provisions relating to manner of distributing the credit by ISD. Section 39 provides for filing of return (GSTR-6) by ISD.

ISD – Credit distribution

Specific credit	Credit specifically attributable to a recipient to be distributed only to such recipient
Segregate to distribute	ITC on account of CGST, SGST, UTGST, IGST to be distributed separately to recipients
Credit attributable to more than one recipient	• Credit to be distributed pro rata on basis of turnover in a State/ UT to aggregate turnover of attributable recipients • Turnover for preceding financial year or quarter preceding month of distribution of credit to be adopted for such valuation
Eligible vs Ineligible credit	ISD to distribute ineligible and eligible input tax credit separately
Reduction in input tax credit	• Credit reduction on account of credit note issued to ISD to be apportioned to recipients in the same ratio of original allocation • Such amount to be reduced from distribution amount in the month in which such credit note is included in ISD returns • Where distribution amount is less than adjustment amount, such amount shall be added to output tax liability of recipient

ISD – Conditions

Credit	Credit of input services alone shall be eligible for distribution. Credit cannot be distributed in respect of inputs and capital goods.
Prescribed Document	• Credit to be distributed to recipients against ISD invoice containing prescribed particulars. • Invoice series to be maintained separately per registration. • ISD invoice should clearly indicate that it is issued only for distribution of ITC.
Time Limit	Credit to be distributed within same month of availability of credit
Recipient	Supplier of goods/ services having same PAN as that of ISD
Quantum	Credit amount distributed not to exceed credit available for distribution
Segregation	Credit to be segregated for distribution by ISD basis the type of tax and eligibility of credit

ISD - Compliances

Registration	Offices which receive common input services to obtain GST registration to operate as ISD
Documentation	ISD Invoice and ISD credit note to be issued with prescribed particulars
Reporting & Filing	ISD to file returns in GSTR-6 furnishing details of tax invoices on which credit has been received and distributed.
Time Limit	Invoice to be issued in the same month of availability of credit for distribution. Returns to be filed by 13th day of every succeeding month

Concept of Cross Charge

What is Cross Charge – Not defined under the GST law
What is the Need for Cross Charge ?

As per Section 25 (4) and 25 (5) of Central Goods and Services Tax Act, 2017:

Person, who has obtained or is required to obtain more than one GST registration in one or various States or Union Territories, shall for each registration be treated as distinct persons

Person, who has obtained GST registration in a State or Union Territory with respect to an establishment shall be treated as distinct person under GST regime for any establishment of such entity in any other State/ Union Territory.

As per Schedule I to the Central Goods and Services Tax Act, 2017 following activity shall be treated as supply even if made without consideration:

Supply of goods and/ or services between related persons or between distinct persons, when made in the course of furtherance of business.

Cross Charge – Mechanism

Need for cross charge	Supply of service by the cross-charging office (supplier) to the recipient office (Recipient)
Valuation	• As per the valuation rules under GST, the value of cross charge invoices issued by the HO/ Branch shall be deemed to be at Open Market Value where the following requirements are fulfilled: • The supply being undertaken by HO/ Branch is a taxable supply as defined under Section 2(108) of Central Goods and Services Tax Act, 2017; • The recipient of the supply viz. Branch/HO are eligible for full Input Tax Credit.
Implementation of Cross Charge	• Various common costs that would be incurred by HO (Eg. legal/ audit, IT costs, etc.), such costs may then need to be allocated to the respective branches by way of cross charge (based on branch turnover) • The costs directly attributable to a particular branch but incurred by HO (in exception circumstances) may then be cross charged only to that specific branch

Comparative Analysis

Cross Charge	**Input Service Distributor**
Need for cross charge arises because of the deeming fiction of distinct persons and Schedule I	Concept of ISD is recognized by the law in terms of Section 20.
Cross charge can be implemented for distribution of costs and ITC towards Inputs, input services and capital goods.	ISD is an enabler for distribution of only credits towards input services procured centrally.
Technically, for a cross charge, there is a requirement of supply of services.	There is no requirement of supply of services. ISD is a mere distribution of credit of tax paid on input services.
• In view of the above, it is clear that both ISD & Cross Charge are not inter-changeable concepts. Both are completely different concepts. • In other words, cross charge cannot be a substitute to ISD and vice – versa. • ISD is required only when the taxpayer wishes to distribute the credits on input services.	
Advantages	Advantages
• No separate GST registration required; no additional compliance • Flexibility in periodicity for cross charge • Reverse charge liability can be paid and directly cross charged • ITC of goods can also be cross-charged • Transfers not only tax; cost as well (in case full ITC available to recipient)	• Basis of apportionment specifically recognized in law • ISD invoice with only the ITC to be distributed is raised

Disadvantages	Disadvantages
• Increase in intra - company billing • Documentation and back up to be maintained • Risk of cross charge valuation being disputed	• Separate registration for ISD, increased compliances • Operational difficulties - Volume and timelines for transferring credits • RCM liability cannot be paid • Credit for goods cannot be distributed • Cost cannot be transferred

Concluding Remarks

- Various AARs and AAARs in case of Columbia Asia, Cummins India have pronounced that Cross Charge and ISD are different concepts
- Orissa High Court in case of JSW Steel Limited has observed that distributing service cost along with credit through cross charge route in the garb of support services is not within the ambit of GST law.
- Rise in litigations because of inter-co. supply and cross charges during the departmental GST audits.
- Importance shall be given to such bifurcation of expenses among the branches by the business and maintain complete trail of documents to avoid litigation.
- The GST Council in its 35th Council meeting placed a draft circular that provides for taxability of services provided between distinct persons and provided that its mandatory to obtain ISD registration. However, due to no consensus on this agenda by various states, the matter was referred to Law committee to examine further and deferred the issuance of such circular.
- Due to rising confusions among the trade and industry even after 5 years of implementation of the law, It would be prudent for the board (CBIC) to issue necessary clarification on the subject to ensure uniformity in the implementation of the law.

General Topics

CA. Sriram L

Beware of these frauds when certifying data

Case-1

One of the Companies had exported the goods against the shipping bills and had discounted export bills on different dates. Since the bills were long outstanding, the lead bank requested Commissioner of Customs Duty to verify the genuineness of these bills.

As per Commissioner's report, out of all shipping bills, only a small number were genuine, a few shipping bills pertained to ICD, Ludhiana and rest of shipping bills were not genuine, and were forged.

Case-2

The other Company made purchases to the tune of Rs.6740 crore. Out of this, Rs.1679.45 crore was for purchase of fancy shirting.

On review of purchase invoices and stock records of this item indicated that purchase invoice did not define any code, grade, make etc. It was unable to confirm physical movement of fancy shirting material.

Mismatches were found in products mentioned in LC invoice documents and products mentioned as per books of the company.

Case-3

In case of another company, the turnover was inflated. There was no actual purchase or movement of stocks as depicted by the borrower company in its books of accounts and financial statements.

There had been misappropriation of funds by the management of the company. They explored all possible avenues to divert the funds. There was mis-match of accounting data vis-à-vis the banking statements and the non-reporting of the same in the audited financials by the auditors of company.

The payment made to the beneficiaries of LCs was diverted to the accounts of the debtors of the company from where it was finally routed either to the account of the borrower company or to its subsidiaries.

Case-4

Another company had been importing pharmaceutical products and chemicals from overseas suppliers based at Singapore and were exporting its products to Hong Kong and Singapore having a branch office at Dubai. The exporting company owned by the same proprietor as the supplier company.

The company was dealing in computers, computer peripherals and other commodities.

There were consignment transactions of computers and computer peripherals, whereby the company was sending computers and computer peripherals to its branch office at Dubai by way of Branch transfers.

The export and import documents submitted to bank by company in respect of the Merchanting Trade transactions purported to be relating to pharmaceutical and allied products appeared to have been falsified.

Case-5

The other Company finalized its Balance sheet for the year 2011-12 and got it audited on 30.04.2012 showing profit of Rs.23.74 crores. On the basis of the Balance Sheet, the company got credit facilities from consortium banks. Subsequently, the company revised its audited B/s for 2011-12 on 05.09.2012 without informing any of the member Banks. The profit in the revised balance sheet was reduced to Rs.0.34 crore.

The Company was maintaining current accounts with the Banks, which were not part of consortium. The credit turnover in these accounts was Rs.176.96 crore. The Company had incurred loss of Rs.241.83 crore during 2012-13 as against profit of Rs.0.34 crore during 2011-12 against same volume of turnover of Rs.2178 crore in both years.

The Company routed sales proceeds through account with non consortium Banks without prior permission of consortium. The Company had not submitted Book Debt statements certified by CA.

Issues found by Central Vigilance Commission

1. The Company had submitted forged Bills of Entries/Postal documents to banks and huge amounts of foreign exchange were remitted to various overseas accounts.
2. The status of Bill of Entry in the ICEGATE system under option "Bill of entry at ICES" was not checked and "Out of Charge" (OOC) date in the concerned column of OCC was not verified with the print out of exchange control copy of the Bill of Entry submitted by the importer as proof of import.
3. The company had generated entire set of documents for exporting the goods, but cancelled later on. Directorate of Revenue Intelligence had submitted details of 13 shipping Bills.
4. It was also found that 35 shipping bills were issued by CFS (container freight station) and rests of shipping bills were not genuine but were forged.
5. Apart from Bank accounts with consortium members, transactions were carried out in other Bank accounts of company. The nature and purpose of these transactions could not be ascertained.
6. Incorrect and non-existing debtors were included in the debtors' statement of the company. The company resorted to circular transactions to report higher sales/purchases figures, Mismatch were noticed in the stocks/debtors as per the books of the company and as per the stock statement submitted by the company.
7. In circular transactions, the parties were related to each other either by way of common directorship in other companies in individual capacity or through family members.
8. The majority of the transactions reflected in their respective Bank's statements were in nature of the same day fund transfers to connected parties. The majority of LC payments used for circular rotation of money had been made against purchase of Fancy Shirting which was trading product of the company.
9. Most of the debtors were not available. The debt confirmation letters sent by the consortium leader by Regd. post were returned undelivered in most of the cases. Confirmations were received only from 22 debtors, but they denied the dues reported by the borrower company to the consortium lenders.
10. Perusal of the statement of bank accounts of beneficiaries of the LCs revealed that the payments received were re-routed through various accounts and channelized back either

to the account of the borrower company or one of its subsidiary/ associate concern.

11. Out of the 12 transport operators, two were fictitious and enquiries in the vicinity revealed that no such transport operators ever existed at these addresses. The two available transport companies informed that the lorry receipts attached with the invoices were fake which were not issued by them.

12. To find out the authenticity of the data of the debtors, the audit company selected 10 top buyers of the borrower company and found that all the 10 parties were not traceable at the given addresses.

13. The company/ firms to whom payments were made by banks were dealing with products not related to the business of the borrower company.

14. The Company had made sale/purchase transactions of the same products with same companies/related companies. There was no evidence of any processing value addition to the products.

15. The Company had sold goods to a firm on merchant export basis which was dealing in information and technology, telecommunications, office automation and electrical appliances. The company had made purchases from a firm which was engaged in manufacturing and distribution of computer components, consumer electronics, and digital electronics.

16. Three associates/subsidiaries were shown in the balance sheet of the company. However, these companies virtually existed on papers without any functional or business activities.

17. The bills of lading were wrongly generated by non-existent forwarders. Their Dubai office responded that they could not trace the details of bills of lading. Four companies were involved in fake merchant trade transactions with the company.

18. A complaint lodged by the bank with CBI has revealed that the directors of the company in collusion with each other fabricated the records and faked non-existent transactions as genuine transactions and indulged in fabrication of purchases and sales of the same products from firms which were actually dealing in IT, telecommunication, electric and electronic products.

19. The stock audit was conducted on 20.05.2013 and 21.05.2013. It was observed that Drawing Power comes to Rs.20.64 crore against total sanctioned limit of Rs.465.00 crore whereas the company submitted stock statement showing D.P. of Rs.467.59 crore in Feb 2013. The company did not submit stock statement after Feb2013.

20. The Company had reduced the holding of sundry debtors at the end of March 2013 in the age group of 90 days from Rs. 525.76 crore to Rs.216.04 crore. The Company could not produce documentary evidence for such reduction.

21. From the stock statement, it was observed that holding had substantially increased from Rs.58.74 crore as on 31.03.2012 to Rs.1216.17 crore as on 31.03.2013 which represented increase by 114.78% in comparison to previous year.

22. No records were maintained for stores & consumables which constituted Rs.47 crore during 2012-13 indicating lack of internal control system. Due to lack of detailed information the auditors had not commented in respect of end use of funds.

23. The Company had not complied with bank's instruction to submit Book Debt statement certified by CA along with VAT returns for the financial year 2011-12 and 2012-13 which implied that Book Debt statement submitted to Bank were inflated.

The above is the verbatim reproduction from Central Vigilance Commission Report on Banking Frauds- 2018, on manufacturing sector select cases. There are other sectors are also discussed in the report.

Conclusion

In all the above cases, the CA certificates, stock audit verification, debtors verification, confirmation of balance, diversion of funds, verification of proof export and import related documents etc., were not properly carried out by the CA and the Banking officials.

PHOTO GALLERY

Teachers' Day – "Aacharya Devo Bhava"
Date : 05-09-2022







PHOTO GALLERY

Topic: "Cross Charge & ISD in GST"
Speaker: CA. Vasudev Joshi K,
Date : 10-09-2022

PHOTO GALLERY

Topic: Recent Developments under Tax Audit U/s 44AB
Speaker: CA. Uttamchand Jain
Date : 14-09-2022

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Topic: Common mistakes in Financial Statement and Audit Reports
Speaker: CA. Kamal Garg, Delhi
Date : 19-09-2022