

PAPER – 6 : AUDITING AND ASSURANCE

Question No.1 is compulsory.

Attempt any **five** questions from the remaining six questions.

Question 1

Discuss the following:

- (a) Provisions regarding appointment of Auditors -
- (i) First auditor of a Government company and a Non-Government company.
 - (ii) Subsequent auditor of a Government company and a Non- Government company. **(5 Marks)**
- (b) XYZ Ltd. has prepared financial statements for the year 2017-18. It mentioned in the significant accounting policies that depreciation on tangible fixed assets is provided on SLM basis over the useful lives of the assets as estimated by the management. The company has ignored the useful lives of the assets mentioned in Schedule II of the Companies Act, 2013. As a Statutory Auditor of the Company, how would you deal with this? **(5 Marks)**
- (c) State the requirements relating to audit sampling, sample design, sample size and selection of items for testing. **(5 Marks)**
- (d) As per Section 138 of the Companies Act, 2013 only listed companies are required to appoint an internal auditor. **(5 Marks)**

Answer

- (a) (i) **Appointment of First Auditor of a Government Company:** Section 139(7) of the Companies Act, 2013 provides that in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration of the company.

In case the Comptroller and Auditor-General of India does not appoint such auditor within the above said period, the Board of Directors of the company shall appoint such auditor within the next 30 days. Further, in the case of failure of the Board to appoint such auditor within next 30 days, it shall inform the members of the company who shall appoint such auditor within 60 days at an extraordinary general meeting. Auditors shall hold office till the conclusion of the first annual general meeting.

Appointment of First Auditor of a Non-Government Company: As per Section 139(6) of the Companies Act, 2013, the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within 30 days from the date of registration of the company.

In the case of failure of the Board to appoint the auditor, it shall inform the members of the company.

The members of the company shall within 90 days at an extraordinary general meeting appoint the auditor. Appointed auditor shall hold office till the conclusion of the first annual general meeting.

- (ii) **Appointment of Subsequent Auditor of a Government Company:** As per Section 139(5) of the Companies Act, 2013, in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.

Appointment of Subsequent Auditor of a Non-Government Company: As per section 139(1) of the Companies Act, 2013, every company shall, at the first annual general meeting appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.

- (b) **Providing Depreciation ignoring Schedule II to the Companies Act, 2013:** Section 129 of the Companies Act, 2013, requires that the financial statements shall give a true and fair view of the state of affairs of the company and are in compliance with Accounting Standards.

Further, as per Schedule II to the Companies Act, 2013 on 'Useful Lives to Compute Depreciation', the useful life of an asset shall not ordinarily be different from the useful life specified therein.

However, if such a company uses a useful life of the asset which is different from the above limits, it shall disclose the justification for the same in its financial statement.

In the given case, XYZ Limited has mentioned in the significant accounting policies that the depreciation on tangible fixed assets is provided on the straight line method over the useful lives of the assets as estimated by the management and ignored the useful lives of the assets as provided under Schedule II to the Companies Act, 2013.

Therefore, the statutory auditor of the company should ensure that the management has disclosed the justification for consideration of different useful life of the assets from that as indicated under Schedule II. If the justification has not been provided then the auditor

of the company shall suggest the management for the same and if management refuses, the auditor should qualify his report accordingly.

- (c) **Audit Sampling:** As per SA 530 on "Audit Sampling", the meaning of the term Audit Sampling is – the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

The requirements relating to sample design, sample size and selection of items for testing are explained below-

Sample design - When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

Sample Size- The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

Selection of Items for Testing- The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

- (d) **Applicability of Provisions of Internal Audit:** As per section 138 of the Companies Act, 2013 the following class of companies (prescribed in rule 13 of Companies(Accounts) Rules,2014) shall be required to appoint an internal auditor (which may be either an individual or a partnership firm or a body corporate), namely-

- (1) every listed company;
- (2) every unlisted public company having-
 - (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - (ii) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (3) every private company having-
 - (i) turnover of two hundred crore rupees or more during the preceding financial year; or

- (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In view of above, it would not be correct to state that only Listed Companies are required to appoint an internal auditor.

Question 2

State with reasons (in short) whether the following statements are correct or incorrect (Answer any eight):

- (a) No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the Bank.
- (b) Letter of weakness issued by the Management.
- (c) Incoming auditor should study Memorandum of Association and Articles of Association to check the validity of his appointment.
- (d) The auditor will issue a disclaimer of opinion if he disagrees with the management with regard to the acceptability of the Accounting policies and the inadequacy of disclosures in the financial statements.
- (e) Government companies are also to be considered for the ceiling on number of audits.
- (f) A company cannot issue bonus shares if it has defaulted in payment of bonus to employees.
- (g) The summarized returns of the books of account of the company, kept and maintained outside India, shall be sent to the registered office at half-yearly intervals.
- (h) The concept of materiality is an important and relevant consideration for the auditor in financial statement.
- (i) Computer software which is integral part of the related hardware can be treated as intangible asset.
- (j) Written representation from management can be a substitute for other evidence that the auditor could expect to be reasonably available. **(8 x 2 = 16 Marks)**

Answer

- (a) **Incorrect:** The person who is controlling the trade receivables should ensure that proper accounting entries have been passed by crediting respective trade receivables account. The balance of cheque in hand should be disclosed alongwith the cash and bank balances in the financial statements.
- (b) **Incorrect:** The letter of weakness is a report issued by the auditor stating the weakness in the internal control mechanism. It also suggests measures by which the weakness in the system to be corrected and control system be made better protected.

- (c) **Incorrect:** The auditor should study the Memorandum of Association to check the objective of the company to be carried on, amount of authorized share capital etc. and Articles of Association to check the internal rules, regulations and ensuring the validity of transactions relating to accounts of the company.

To see the validity of appointment, the auditor should ensure the compliance of the provisions of section 139, 140 and 141 of the Companies Act, 2013.

- (d) **Incorrect:** The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

If the auditor disagrees with the management in the matters relating to the acceptability of Accounting policies selected and inadequacy of disclosures in the financial statements, he should issue a qualified report or express an adverse opinion.

- (e) **Correct:** As per Section 141(3)(g) of the Companies Act 2013, in calculating ceiling limit of twenty companies one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore are excluded.

In view of above, since Government Companies are not there in exceptions, hence these are to be considered for the ceiling on number of audits.

- (f) **Correct:** A company cannot issue bonus shares if it has defaulted in respect of the payment of statutory dues of the employees, such as contribution to provident fund, gratuity and bonus.
- (g) **Incorrect:** As per Companies (Accounts) Rules, 2014, the summarized returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at quarterly intervals, which shall be kept and maintained at the registered office of the company.
- (h) **Correct:** The concept of materiality is fundamental to the process of accounting. It covers all the stages from recording to classification and presentation. It is very important for the auditor who has constantly to judge whether a particular item is material or not and ensure that a material item is disclosed separately and distinctly.
- (i) **Incorrect:** As per AS-26 on Intangible Assets, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as a fixed asset. Therefore, computer software which is the integral part of the related hardware should be treated as fixed asset/tangible asset.
- (j) **Incorrect:** One of the objectives of the written representation is to support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representation. So it is clear that written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

Question 3

How will you vouch/verify the following?

- (a) *Receipt of Capital subsidy*
- (b) *Bank balances*
- (c) *Sales commission expenditure*
- (d) *Advance to suppliers*

(4 x 4 = 16 Marks)

Answer**(a) Receipt of Capital Subsidy:**

- (i) Refer to application made for the claim of subsidy to ascertain the purpose and the scheme under which the subsidy has been made available.
- (ii) Examine documents for the grant of subsidy and note the conditions attached with the same relating to its use, etc.
- (iii) See that conditions to be fulfilled and other terms especially whether the same is for a specific asset or is for setting up a factory at a specific location.
- (iv) Check relevant entries for receipt of subsidy.
- (v) Check compliance with requirements of AS 12 on "Accounting for Government Grants" i.e. whether it relates to specific amount or in the form of promoters' contribution and accordingly accounted for as also compliance with the disclosure requirements.

(b) Verification of Cash at Bank: While testing the authenticity of cash at bank, the following areas may be considered by the auditor-

- (i) Apart from comparing the entries in the cash book with those in the Pass Book the auditor should obtain a certificate from the bank confirming the balance at the close of the year as shown in the Pass Book.
- (ii) Examine the bank reconciliation statement prepared as on the last day of the year and see whether (a) cheques issued by the entity but not presented for payment, and
(b) cheques deposited for collection by the entity but not credited in the bank account have been duly debited/credited in the subsequent period.
- (iii) Pay special attention to those items in the reconciliation statements which are outstanding for an unduly long period. The auditor should ascertain the reasons for such outstanding items from the management. He should also examine whether any such items require an adjustment write-off.
- (iv) Examine relevant certificates in respect of fixed deposits or any type of deposits with banks duly supported by bank advices.

- (v) The auditor should examine the possibility, that even though the balance in an apparently inoperative account may have remained stagnant, transactions may have taken place in that account during the year.
- (vi) In relation to balances/deposits with specific charge on them, or those held under the requirements of any law, the auditor should examine that suitable disclosures are made in the financial statements.
- (vii) Remittances shown as being in transit should be examined with reference to their credit in the bank in the subsequent period. Where the auditor finds that such remittances have not been credited in the subsequent period, he should ascertain the reasons for the same. He should also examine whether the entity has reversed the relevant entries in appropriate cases.
- (viii) The auditor should examine that suitable adjustments are made in respect of cheques which have become stale as at the close of the year.
- (ix) Where material amounts are held in bank accounts which are blocked, e.g. in foreign banks with exchange control restrictions or any banks which are under moratorium or liquidation, the auditor should examine whether the relevant facts have been suitably disclosed in the financial statements. He should also examine whether suitable adjustments on this account have been made in the financial statements in appropriate cases.
- (x) Where the auditor finds that the number of bank accounts maintained by the entity is disproportionately large in relation to its size, the auditor should exercise greater care in satisfying himself about the genuineness of banking transactions and balances.

(c) Sales Commission Expenditure:

- (i) Ascertain agreement, if any, in respect of sales transaction actually occurred during the year carried out by authorized parties on its behalf. If yes, the commission should be in accordance with the terms and conditions as specified.
- (ii) Check evidence of services rendered by the party to whom commission is paid with reference to correspondence etc.
- (iii) Ensure that the sales in fact have taken place and the same has been charged to Statement of Profit and Loss.
- (iv) Compare the amount incurred in previous years with reference to total turnover.
- (v) Check entries regarding TDS on commission at the time of credit to Payee's Account, or payment, whichever is earlier.
- (vi) Ensure that the payment has been made through cheque only, if limit as stated in the clause of tax audit is exceeded.

(d) Advances to the Suppliers:

- (i) Obtain schedule of debit balances in trade payables' account and pay particular attention to the age of the balances. Also, scrutinise the bought ledger by tracing the corresponding entries in the cash/bank book.
- (ii) Enquiry should be made for long unadjusted outstanding and check as to whether any of them would require provisioning.
- (iii) Examine that the advances have not been shown as deposits in balance sheet as per Section 143(1) of the Companies Act, 2013.
- (iv) Confirmation of balances should be obtained and reconciliation be done in case of any discrepancies.
- (v) Assess the possibility of delivery of goods against advance payment and examine whether provisioning is required.
- (vi) Ensure proper classification in the Balance sheet as per requirement of Schedule III to the Companies Act, 2013

Question 4

Answer *all* questions:

- (a) *State the disadvantages of the use of an Audit programme.* **(4 Marks)**
- (b) *As an auditor, you have examined the book debts of a company. Give some indications which lead to doubts about recovery as uncollectable debts from trade receivables and advances.* **(6 Marks)**
- (c) *An NGO operating in Mumbai has collected large scale donations for Kerala flood victims. This NGO has appointed you to audit its accounts for the specific period in which it collected donations. Draft audit programme, mentioning six points peculiar to the situation, which you would like to incorporate in your audit programme.* **(6 Marks)**

Answer

- (a) **Some disadvantages are also there in the use of audit programmes. The disadvantages are:**
 - (i) The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.
 - (ii) The programme often tends to become rigid and inflexible following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.

- (iii) Inefficient assistants may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
- (iv) A hard and fast audit programme may kill the initiative of efficient and enterprising assistants.

(b) The following are some of the indications of doubtful and uncollectible debts, loans and advances:

- (i) The terms of credit have been repeatedly ignored.
- (ii) There is stagnation, or lack of healthy turnover, in the account.
- (iii) Payments are being received but the balance is continuously increasing.
- (iv) Payments, though being received regularly are quite small in relation to the total outstanding balance.
- (v) An old bill has been partly paid (or not paid), while later bills have been fully settled.
- (vi) The cheques received from the trade receivables have been repeatedly dishonoured.
- (vii) The debt is under litigation, arbitration, or dispute.
- (viii) The auditor becomes aware of unwillingness or inability of the trade receivable to pay the dues, e.g., a trade receivable has either become insolvent, or has closed down his business, or is not traceable.
- (xi) Amounts due from employees, which have not been repaid on termination of employment.
- (x) Collection is barred by statute of limitation.

(c) Receipt of Donations:

- (i) **Internal Control System:** Existence of internal control system particularly with reference to division of responsibilities in respect of authorised collection of donations, custody of receipt books and safe custody of money.
- (ii) **Custody of Receipt Books:** Existence of system regarding issue of receipt books, whether unused receipt books are returned and the same are verified physically including checking of number of receipt books and sequence of numbering therein.
- (iii) **Receipt of Cheques:** Receipt Book should have carbon copy for duplicate receipt and signed by a responsible official. All details relating to date of cheque, bank's name, date, amount, etc. should be clearly stated.
- (iv) **Bank Reconciliation:** Reconciliation of bank statements with reference to all cash deposits not only with reference to date and amount but also with reference to receipt book.

- (v) **Cash Receipts:** Register of cash donations to be vouched more extensively. If addresses are available of donors who had given cash, the same may be cross-checked by asking entity to post thank you letters mentioning amount, date and receipt number.
- (vi) Foreign Contributions, if any, to receive special attention to compliance with applicable laws and regulations.

Question 5

Answer all questions:

- (a) Discuss with reference to SA-230, factors affecting form, contents and extent of audit documentation. **(4 Marks)**
- (b) Alpha Ltd. intends to maintain its books of accounts in electronic form. State the conditions that the company should comply with in this regard. **(6 Marks)**
- (c) State assertions that are implied in the extract of financial statement given below:

			(₹)
	Plant & Machinery (at Cost)		4,00,000
Less:	Depreciation:		
	Up to Previous year	1,40,000	
	For the year	<u>26,000</u>	<u>1,66,000</u>
			<u>2,34,000</u>

- (i) Indicate assertions in respect of transactions and events for the period relating to Fixed Assets.
- (ii) State specific assertions relating to the above extract of financial statement.

(6 Marks)

Answer

- (a) **Form, Content and Extent of Audit Documentation:** Working papers should record the audit plan, nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained.

The form, content and extent of working papers depend on factors such as:

- ◆ The size and complexity of the entity.
- ◆ The nature of the audit procedures to be performed.
- ◆ The identified risks of material misstatement.
- ◆ The significance of the audit evidence obtained.
- ◆ The nature and extent of exceptions identified.

- ◆ The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- ◆ The audit methodology and tools used.

(b) Electronic form of Books of accounts: Second proviso to section 128(1) read with the Companies (Accounts) Rules, 2014 allows a company to keep its books of account or other relevant papers in electronic mode.

However, the books of account and other relevant books and papers maintained in electronic mode shall comply with the following conditions:

- (a) the books of account and other relevant books and papers shall remain accessible in India so as to be usable for subsequent reference.
 - (b) the books of account and other relevant books and papers shall be retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.
 - (c) the information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.
 - (d) the information in the electronic record of the document shall be capable of being displayed in a legible form.
 - (e) there shall be a proper system for storage, retrieval, display or printout of the electronic records as the audit committee, if any, or the board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.
 - (f) the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a periodic basis.
- (c) (i) Assertions about transactions and events for the period relating to fixed assets :**
- (1) Occurrence—transactions and events relating to fixed assets have been recorded, have occurred and pertain to the entity.
 - (2) Completeness—all transactions and events relating to fixed assets that should have been recorded have been recorded.
 - (3) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - (4) Cut-off—transactions and events have been recorded in the correct accounting period.

- (5) Classification—transactions and events have been recorded in the proper accounts.

(ii) The specific assertions are as follows:

- (1) the firm owns the plant and machinery;
- (2) the historical cost of plant and machinery is ₹ 4 lacs;
- (3) the plant and machinery physically exists;
- (4) the asset is being utilised in the business of the company productively;
- (5) total charge of depreciation on this asset is ₹ 1,66,000 to date on which ₹ 26,000 relates to the year in respect of which the accounts are drawn up; and
- (6) the amount of depreciation has been calculated on recognised basis and the calculation is correct.

Question 6

Answer *all* questions:

- (a) Explain the circumstances in which Option on Shares arises. **(4 Marks)**
- (b) State the information to be gathered by auditor about the CIS environment that is relevant to the audit plan. **(6 Marks)**
- (c) State six important advantages of audit of accounts of a Partnership firm. **(6 Marks)**

Answer

- (a) Schedule III, Part I, requires disclosure of the particulars of any option on unissued share capital. An option on shares arises when a person has acquired a right under an agreement with the company to subscribe for share in the company if he so chooses.**

Such options generally arise under the following circumstances:

- (i) Under the promoter's agreements, subsequently ratified by the company;
- (ii) Collaboration agreement;
- (iii) Loan agreements, debenture deeds
- (iv) Agreements to convert preference shares into equity shares; and
- (v) Other contracts, such as for supply of capital goods and/or merchandise.

- (b) The auditor should gather information about the CIS environment that is relevant to the audit plan, including information as to:**

- How the CIS function is organized and the extent of concentration or distribution of computer processing throughout the entity.

- The computer hardware and software used by the entity.
 - Each significant application processed by the computer, the nature of the processing (e.g. batch, on-line), and data retention policies.
 - Planned implementation of new applications or revisions to existing applications.
 - When considering his overall plan the auditor should consider matters, such as:
 - Determining the degree of reliance, if any, he expects to be able to place on the CIS controls in his overall evaluation of internal control.
 - Planning how, where and when the CIS function will be reviewed including scheduling the works of CIS experts, as applicable.
 - Planning auditing procedures using computer-assisted audit techniques.
- (c) **Advantages of Audit of Accounts of a Partnership:** On broad considerations, the advantages of audit of accounts of a partnership could be stated as follows:
- (1) Audited accounts provide a convenient and reliable means of settling accounts between the partners and, thereby, the possibility of occurrence of a dispute among them is mitigated. On this consideration, it is usually provided in and accepted by the partners, shall be binding upon them, unless some manifest error is brought to light within a specified period subsequent to the accounts having been signed.
 - (2) On the retirement or death of a partner, audited accounts, which have been accepted by the partners, constitute a reliable evidence for computing the amounts due to the retiring partner or to the representative of the deceased partner in respect of his share of capital, profits and goodwill.
 - (3) The accounts of a partnership, which have been audited, are generally accepted by the Income Tax Department as the basis for computing the assessable income of the partners.
 - (4) Audited statement of accounts are relied upon by the banks when advancing loans, as well as by prospective purchasers of the business, as evidence of the profitability of the concern and its financial position.
 - (5) Audited statements of account can be helpful in the negotiations to admit a person as a partner, especially when they are available for a number of past years.
 - (6) An audit is an effective safeguard against any undue advantage being taken by a working partner or partners especially in the case of those partners who are not actively associated with the working of the firm.

Question 7

Write short notes on any **four** of the following:

- (a) *Errors of Commission*

- (b) *Contents of Audit Note book*
- (c) *Disclaimer of Opinion*
- (d) *Classification of Contingent liabilities and Commitments as per Schedule III.*
- (e) *Applicability of Cost Audit.* **(4 x 4 = 16 Marks)**

Answer

- (a) **Errors of Commission:** When a transaction has been mis-recorded either wholly or partially it is called as an error of commission. Error of commission can happen in the following ways-

- (i) Errors in posting,
- (ii) Errors in Casting,
- (iii) Errors in carrying forward,
- (iv) Errors occurring during extraction of balances, etc.

Posting errors may be of a wrong account, wrong amount or wrong file.

The first type of errors will not affect the trial balance, however, the other two will affect the agreement of trial balance.

Casting errors are the errors committed while making the totals. This error affects the trial balance.

Error of carry forward and errors of extraction of balances also affect the trial balance.

Error of duplication is another type of error of commission which means recording the same transaction twice.

Such errors however, do not affect the trial balance but they will affect the Statement of Profit and Loss (over statement of expenditure).

- (b) **Contents of Audit Note Book:** Audit note book contains large variety of matters observed during the course of audit. Significant matters observed during audit which should be recorded in audit note book are normally the following-

- (i) Audit queries not cleared immediately.
- (ii) Mistakes or irregularities observed during the course of audit.
- (iii) Unsatisfactory book-keeping arrangements, costing method.
- (iv) Important information about the company which is not apparent from the accounts.
- (v) Special points requiring consideration at the time of verification of annual accounts.
- (vi) Important matters for future reference.

- (c) **Disclaimer of Opinion:** The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

- (d) **Contingent liabilities and commitments (to the extent not provided for)**

- (i) Contingent liabilities shall be classified as:
- (a) Claims against the company not acknowledged as debt;
 - (b) Guarantees;
 - (c) Other money for which the company is contingently liable
- (ii) Commitments shall be classified as:
- (a) Estimated amount of contracts remaining to be executed on capital account and not provided for;
 - (b) Uncalled liability on shares and other investments partly paid
 - (c) Other commitments (specify nature).

- (e) **Applicability of Cost Audit:** Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 states the provisions related to the applicability of cost audit depending on the turnover of the company as follows-

- (i) Classes of companies specified under item (A) "Regulated Sectors" are required to get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees 50 crore or more and the aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is rupees 25 crore or more.
- (ii) Classes of companies specified under item (B) "Non-Regulated Sectors" are required to get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees 100 crore or more and the aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is rupees 35 crore or more.