

APPENDIX - V

The auditor of companies, to which Order of 1st January, 1975 is applicable, besides giving his report under section 227(2) is also required to include in his report a statement about each of the following matters :-

- (A) In the case of manufacturing, mining or processing company :-
 - (i) Whether the company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets, whether these fixed assets have been physically verified by the management and if any serious discrepancies were noticed on such verification; whether the same have been properly dealt with in the books of accounts;
 - (ii) In case any of the fixed assets have been revalued, the basis of revaluation should be indicated;
 - (iii) has physical verification been conducted by the management at reasonable periods in respect of finished goods, stores, spare parts and raw materials and if any serious discrepancies have been noticed on such verification as compared to book records, whether the same have been properly dealt with in the books of accounts; whether the auditor is satisfied that the valuation of these stock is fair and proper in accordance with the normally accepted accountancy

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(xiii) is the company regular in depositing provident fund dues with the appropriate authority and if not, the extent of arrears of provident fund dues, shall be indicated by the auditor.

(B) In the case of a service company :-

(i) all the matters specified in clause(A) to the extent to which they are applicable;

(ii) whether the company has a reasonable system of recording receipt issues and consumption of materials and stores commensurable with the size and nature of its business and whether such system provides for a reasonable allocation of the materials and manhours consumed to the relative jobs;

(iii) whether there is a reasonable system of authorisation at proper levels with necessary control on the issue of stores and allocation of stores and labour to jobs and whether there is any system of internal control commensurate with the size and nature of its business.

(C) In the case of a trading company :-

(i) all the matters specified in clause(A) to the extent to which they are applicable;

(ii) have damaged goods been determined and if the value of such goods is significant, has provision been made for the loss;

prices paid for such items are reasonable as compared to the prices of similar items supplied by other parties;

- (viii) whether any undesirable or damaged stores and raw materials are determined and whether provisions for the loss, if any has been made in the account;
- (ix) in case the company has accepted deposits from public, whether the directives issued by the Reserve Bank of India and the provisions of section 58(A) of the Act and the rules framed thereunder, wherever, applicable, have been complied with;
- (x) is the company maintaining reasonable records of the sale and disposal of realisable by-products and scraps where applicable and significant;
- (xi) in relation to companies the paid up capital of which at the commencement of the financial year concerned exceeds Rs. 25 Lakhs, whether the company has an internal audit system commensurate with its size and nature of its business;
- 9xii) where the maintenance of cost records have been prescribed by the Central Government under sec.209(1)(d) of the Act, whether such accounts and records have been maintained;

principles and is on the same basis as in the earlier years; if there is any deviation in the basis of valuation, the effect of such deviation, if material, is to be reported;

- (iv) If the company has taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 and 370 (1-G) of the Companies Act, 1956; whether the rate of interest and terms and conditions of such loans are prima facie prejudicial to the interest of the company;
- (v) Whether the parties to whom the loans or advances in the nature of loans have been given by the company are repaying the principal amount as stipulated and are also regular in payment of interests and if not, whether reasonable steps have been taken by the company for recovery of the principal and interest;
- (vi) is there an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets;
- (vii) Where any stores, raw materials or components exceeding Rs. 10,000 in value of each type there of are purchased during the year from the subsidiaries, firms or companies or other parties in which the directors are interested; whether the

(D) In the case of a finance, investment, chit fund, nidhi or mutual benefit society :-

(1) all the matters specified in clause (A) to the extent to which they are applicable;

(ii) Whether adequate document and records are maintained in a case where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other similar securities;

(iii) whether the provisions of any special statute applicable to chit fund, nidhi or mutual benefit society have been duly complied with;

(iv) if the company is dealing or trading in shares debentures, securities and other investments whether proper records have been maintained of the transactions and contracts and whether the shares, securities, debentures and investments have been held by the company in its own name except to the extent of the exemption, if any, granted under section 49 of the companies Act, 1956.

REASONS TO BE STATED ON UNFAVOURABLE OR QUALIFIED

ANSWERS :-

In case the auditor's answer to any of the questions in clauses A.B.C. and (as applicable to the company) is qualified or unfavourable, the auditor shall state in his report the reasons for such answer. In case the auditor is unable to express any opinion in answer to a particular question, he will have to state the reason for it.