

No.520/69-CLII

GOVERNMENT OF INDIA

Ministry of Law, Justice and Company Affairs

'A' Wing, 5th Floor, Shastri Bhavan,

Dr. Rajendra Prasad Road, New Delhi-1

Dated 7th November, 1975

ORDER

G. S. R.- In exercise of the powers conferred by sub-section (4-A) of section 227 of the Companies Act, 1956 (1 of 1956), read with the notification of the Government of India in the Ministry of Law, Justice and Company Affairs no. G.S.R. 443 (E), dated the 18th October, 1972, and in supersession of all previous orders on the subject in relation to the companies to which this order applies, and after consultation with the Institute of Chartered Accountants of India (constituted under the Chartered Accountants Act, 1949 (38 of 1949), in regard to the class of companies to which this order applies and other ancillary matters the Company Law Board hereby makes the following order, namely:

1. **Short, title application and commencement-**(1) This order may be called the Manufacturing and Other Companies (Auditors Report) Order, 1975.

(2) It shall apply to every company which is engaged in one or more of the following activities namely:

- (a) Manufacturing, mining or processing;
- (b) supplying and rendering services;
- (c) trading ; and
- (d) the business of financing, investment, chit fund, Nidhi or benefit societies.

(3) It shall come into force on the 1st of January, 1975.

2. Definitions- In this order,-

(a) "Chit fund", "Nidhi" or "mutual benefit" company means a company engaged in the business of managing, conducting or supervising as a foreman or agent or any transaction of arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe a certain sum of instalments for a definite period and that each subscriber in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement, shall be entitled to a prize amount, and includes companies whose principal business is accepting fixed deposits from its members and lending money to them;

(b) "finance company" means a company engaged in the business of financing, whether by making loans or advances or otherwise, of any industry, commerce or agriculture and includes any company engaged in the business or hire purchase and of financing of housing;

(c) "investment company" means a company engaged in the business of acquisition and holding, or dealing in, shares stocks, bonds, debentures, debentures stocks or securities issued by the Central or any State Government or any local authority or in other market table securities of a like nature;

(d) "manufacturing company" means a company engaged in any manufacturing process as defined in the Factories Act, 1948 (63 of 1984);

(e) "mining company" means a company owning a mine, and includes a company which carries on the business of a mine either as a lessee or occupier thereof;

(f) "processing company" means a company engaged in the business of processing materials with a view to its use, sale, delivery or disposal;

(g) "service company" means a company engaged in the business of supplying, providing, maintaining and operating any services, facilities, conveniences, bureau and the like for the benefit of others;

(h) "trading company" means a company engaged in the business of buying and selling goods.

3. **Auditor's report to contain matters specified in paragraphs 4 and 5.**- Every report made by the auditor under section 227 of the Companies Act, 1956 (1 of 1956), on the accounts of every company examined by him to which this order applies for every financial year ending on any day or after the commencement of this order shall contain the matters specified in Paragraphs 4 and 5 of this order.

4. **The matters to be included in the Auditor's Report.**- The Auditor's Report on the accounts of the companies to which this order applies shall include a statement on the following matters, namely:

A. In the case of a manufacturing, mining or processing company:

(i) whether the company is maintaining proper record 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 account;

(ii) in case any of the fixed assets have been revalued during the year the basis of revaluation should be indicated;

(iii) as to whether physical verification has been conducted by the management at reasonable periods in respect of finished goods, stores, spare parts and raw materials, and if any significant discrepancies have been noticed on such verification as compared to book records, whether the same have been properly dealt with in the books of account; whether the auditor is satisfied that the valuation of these stocks is fair and proper in accordance with the normally accepted accounting principles and are on the same basis as in the earlier year; if there is any deviation on 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 sections 301 and 370 (i-C) of the Companies Act, 1956 (1 of 1956), whether the rate of interest and the terms and conditions of such loans are *prima facie* prejudicial to the interests 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 amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the company for recovery of the principal and interest;

(vi) whether there is 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) whether where any stores, raw materials or components exceeding Rs. 10,000 in value for each type thereof are purchased during the year from the subsidiaries, firms or companies or other parties in which the directors are interested, whether the prices paid for such items are reasonable as compared to the prices of similar items supplied by other parties.

(viii) whether any unserviceable or damaged stores and raw materials are determined and whether provision for the loss, if any, has been made in the account.

(ix) in case the company had accepted deposits from the public whether the directives issued by the Reserve Bank of India and the provisions of section 58-A of the Companies Act, 1956 and the rules framed thereunder, wherever applicable have been complied with;

(x) is the company maintaining reasonable records for the sale and disposal of reliable 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;

(xii) where maintenance of cost records has been prescribed by the Central Government under section 209(1) (d) of the companies Act, 1956 (1 of 1956), whether such accounts and records have been maintained;

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 receipts, issued and consumption of materials and stores, commensurate with its size and nature of its business and whether such system provides for a responsible allocation of the materials and man-hours 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 of the company and the nature of its business.

C. In the case of 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 provisions been made for the loss;

D. In the case of a finance, investment, chit fund, *Nidhi* or mutual benefit company:

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

(ii) whether adequate documents 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, securities, debentures and other investments whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other 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 (1 of 1956).

5. Reasons to be stated for unfavourable or qualified answers:

Whether, in the Auditor's Report the answer to any of the questions referred to in Paragraph 4 of this order is unfavourable or qualified the Auditor's Report shall also state the reasons for such unfavourable or qualified answer, as the case may be. Where the Auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

B.P. MENON,
Member, Company Law Board.