8

GUIDANCE NOTE ON CERTIFICATE TO BE ISSUED BY THE AUDITOR OF A COMPANY PURSUANT TO COMPANIES (ACCEPTANCE OF DEPOSITS) RULES, 1975*

1. The Companies (Acceptance of Deposits) Amendment Rules, 1978 promulgated on 30^{th} March, 1978 to amend the Companies (Acceptance of Deposits) Rules, 1975 issued under Section 58A of the Companies Act, *inter alia*, have introduced a new requirement of certification of the Return of Deposits to be filed with the Registrar of Companies under Rule 10, by the auditor of the Company.

2. The aforesaid amendment rules have come into force with effect from 1^{st} April, 1978 and, accordingly, all the Returns of Deposits made as on 31^{st} March, 1978 onwards require to be duly certified by the auditors of the companies concerned.

3. Rule 10(1) of the Companies (Acceptance of Deposits) Rules, 1975 as it stands after the amendment referred to above requires, every company to which these rules apply shall, on or before the 30^{th} day of June of every year, file with the Registrar, a return in the form annexed to these rules and furnishing the information contained therein as on 31^{st} day of March of that year, duly certified by the auditor of the Company. It follows, therefore, that every company to which these rules apply shall prepare the return as on 31^{st} March of every year, shall get the return certified by the concerned auditor and shall submit the audited return to the Registrar of Companies by 30^{th} June.

---

* Published in "The Chartered Accountant", September, 1979, pp. 275-276.

4. It may be observed that neither the amended Rule 10 of the Companies (Acceptance of Deposits) Rules, 1975 nor the form of return prescribed thereunder provides the manner in which the auditor should certify the return. Even in the form of return, no space has been provided for auditors' certificate. Consequently, no statutory guidance is available to the auditor as regards the scope, manner and limitations inherent in this requirement of certification.

5. There are inherent practical problems involved in this certification. Having regard to the problems, the Company Law Committee of the Institute has decided to issue this Guidance Note for aiding the members in correctly understanding the implications involved and for securing uniformity in approach.

6. The problems associated with this work of certification include the following:

Accounting year ending of companies in large number of cases may not coincide with the date prescribed for making the return i.e., 31st March. As a result the following situations may arise:

(a) A part of the accounting data of some of the companies, relating to deposits underlying the balances included in the return of deposit is bound to remain unchecked during the normal cycle of statutory audit.

(b) Similarly, companies whose year-end after 31^{st} March will invariably have data to be included in the Return of Deposit covered by the checking of two successive statutory audits, which may not necessarily be by the same auditor.

(c) There may also occur a change in the auditors during the reporting period, i.e., between April and June. It is possible in such a case that the retiring auditors hold office for a part of this period and the new auditors hold office for the remaining part.

7. The following can be considered as satisfactory approach in the circumstances enumerated above.

(a) The auditor, if the period of his office has not come to an end by the time he certifies the return or he is re-appointed, should carry out the necessary checking of the transactions falling beyond the period covered by statutory audits so as to satisfy himself about the accuracy of the figures, set against various items in the return and the information, if any, contained in the return. If, however, the auditor in view of the volume of transactions in the balance period, is unable to carry out a complete audit for the balance period, he may qualify and indicate the extent of checking done for the balance period. In any case, the auditor who certifies the return should ensure that any residual period not already audited is covered by necessary checking.

(b) Where the auditor is faced with a situation that part of the period covered by the return under certification has been statutorily audited by a different auditor, he is in the normal course entitled to rely on the work performed by such auditor as is related to his work in connection with the certification. It may also be pointed out that this principle has been explicitly accepted by the Institute of Chartered Accountants of India in Clause (2) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. However, it would be desirable that the auditor makes a mention of the fact that part of the data underlying the figures in the return have been audited by other auditor and he has relied on such work. In making this mention, the period covered by the audit of the other auditor should also be mentioned. However, if there are circumstances to suggest that the work of the previous auditor may require a review before being relied upon, it would be safer to do the review before deciding whether to place reliance on such work or not. It is emphasised that the need for a review would not in the normal course arise; it is, however, possible that in course of audit of the accounts of the current year, matters may come to the notice of the auditor to warrant a need for review.

(c) In the natural course it is expected that the outgoing auditor will do the certification if he has covered longer part of the period for which the return is made. In case, for any reason, the outgoing auditor is not able to undertake this certification, the incoming auditor will certify the return in accordance with the procedure referred to earlier.

8. In terms of Rule 10(1) the auditor is to certify the deposit return. The deposit return is also required to be certified by the Manager of the Company pursuant to the form of return as annexed to the Companies (Acceptance of Deposits) Rules. The Manager has to verify and certify the figures of deposits, liquid assets and interest rates under Parts A, B, and C of the Return form as correctly prepared. In addition, he is to certify the aggregate of the paid-up capital and free reserves, etc., as arrived at on the lines

indicated in explanation to Rule 3 of the Rules. It is open to debate whether the certificate of the Manager on paid-up capital and free reserves referred to above requires a further certification by the auditor. Rule 10(1) requires the return together with the information contained therein to be duly certified by the auditor of the company. The Manager's certificate on paid-up capital and free reserves constitutes information contained in the return and accordingly this requires to be covered by the certificate of the auditor.

9. The auditor in drafting the certificate should make clear what he is certifying. The Institute does not approve the issue of a bald certificate such as "Examined and found correct." Two suggested certificates-an unqualified one and the other a qualified one, are given hereunder for the guidance of the members:

(i) "We have examined the books of account and other records maintained by ……………………….. Company Ltd. in respect of the particulars furnished in the Return of Deposits as on 31st March, 19____ and certify that to the best of our knowledge and according to the information and explanations given to us and as shown by the records examined by us, the figures of deposits and interest rates under Parts A, B, and C of the Return are correct.

    We further certify the correctness of the particulars of the paid-up capital and free reserves, etc., given in the Manager's Certificate.

    Place:
    Date: Chartered Accountants"

(ii) "We have verified the figures of deposits and interest recorded in the annexed Return of Deposits of ………. as at 31st March, 19_____ with the register maintained by the Company in accordance with the Companies (Acceptance of Deposits) Rules, 1975 and certify that to the best of our knowledge and according to the information and explanation given to us and as shown by the record shown to us, the annexed Return has been correctly prepared, except that deposits from employees aggregating to Rs._______ have not been treated by the Company as Deposits, for the purpose of this Return but instead indicated in the Return separately in brackets against the respective items of 'Deposits'.

We further certify the correctness of the particulars of the paid-up capital and free reserves, etc., given in the Manager's Certificate.

Place:
Date: Chartered Accountants"

10. If the auditor has any reservation about the figures stated in the return either due to any error or on account of a particular interpretation being followed by the company in treating items, say as deposits or exempt deposits or otherwise, to which he does not subscribe, he should include a suitable qualification in the Certificate.

11. Statements in the Certificate conveying reliance having been placed on certain documents or representation of the management are superfluous and may cause confusion and therefore such statements should be avoided.