

## Enhancing Audit Quality

*Given below are some of the common non-compliances observed by the Financial Reporting Review Board (FRRB) during review of general purpose financial statements of certain enterprises and auditors' reports thereon. These have been published for the information of members, both in practice and industry, so that they observe the highest level of best practices.*

### Schedule VI to The Companies Act, 1956

1. As per the requirements of Schedule VI to Companies Act, 1956 the interest received has to be shown under the head 'Other income'. Some enterprises show interest received as deduction from interest paid in the Schedule to the profit and loss account regarding 'Interest and Financial charges', which is contrary to the requirements of Schedule VI to Companies Act, 1956.
2. As per the requirements of Schedule VI to the Companies Act, 1956, insurance is required to be shown separately from taxes whereas some enterprises do not disclose tax and insurance separately but disclose them as one figure, which is contrary to the requirements of Schedule VI to the Companies Act, 1956.
3. Schedule VI to the Companies Act, 1956 requires 'Repairs to buildings' to be disclosed separately from 'Repairs to machinery'. In few cases, the enterprises disclose only one figure of 'Repairs to assets' in the financial statement. This is not as per the requirements of Schedule VI to the Companies Act, 1956.
4. Part II of Schedule VI to the Companies Act, 1956, requires the amount of income from investments has to be shown as classified into income from trade investments and other investments. Some enterprises bifurcate the same into income from current investments and long-term investments, which is contrary to the requirements of Schedule VI to the Companies Act, 1956.
5. As per Part I of Schedule VI of the Companies Act, 1956 (Vertical Form) it is required to show on the face of the Balance Sheet the following under the head 'Fixed Assets' on the Application of Funds side of the Balance Sheet:

Gross Block  
Less: Depreciation

Net Block

Capital work-in-progress

Some enterprises merge the aforesaid details under schedule and do not show the required details on the face of the Balance Sheet itself, which is contrary to the requirements of Schedule VI to the Companies Act, 1956.

6. As per Part I of Schedule VI of the Companies Act, 1956 (Vertical Form), it is required to show on the face of the Balance Sheet the following under the head 'Current Assets, Loan and Advances' on the Application of Funds side of the Balance Sheet:
  - a) Inventories
  - b) Sundry debtors
  - c) Cash and Bank balances
  - d) Other Current Assets, and
  - e) Loans and Advances

Some enterprises merge the aforesaid details under schedule and do not show the required details on the face of the Balance Sheet itself, which is contrary to the requirements of Schedule VI to the Companies Act, 1956.

7. As per Part I of Schedule VI of the Companies Act, 1956 (Vertical Form), it is required to show on the face of the Balance Sheet the following under the head 'Current Liabilities and Provisions' on the Application of Funds side of the Balance Sheet as:
  - a) Liabilities
  - b) Provisions

Some enterprises merge the aforesaid details under schedule and do not show the required details on the face of the Balance Sheet itself, which is contrary to the requirements of Schedule VI to the Companies Act, 1956.