



Do's and Don't in Company Audits

- CA VISHAL P. DOSHI

J. B. Nagar CPE Study Circle
of WIRC of ICAI

WORK FROM HOME

suggested activities relating to audit & assurance

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Review of financial data

Review and scrutiny of financial data upto a particular cut-off date and resolving queries with clients (other than documentation possibly)

Financial statements for 2019-20

- Verifying amounts for year ended March 2019 as comparable of previous year column for March 2020
- Verifying opening balances from TB of 2019-20 with the audited closing balances of March 2019
- Confirmation of applicability of various statutory provisions for each client
- Incorporating additional disclosure requirements for March 2020
- Tax audit annexures can be prepared from data available of interim audits



Preparing engagement letters for

- all financial statements certification where audit is required under law (companies, LLPs & trusts)
- all tax audits

Standardising formats and masters

- Significant accounting policies for different type of entities
- Accounting Standards applicability
- Engagement & Quality Control Standards applicability
- Audit reporting using WIRC Publication on "Anthology of KAM and other Reporting in Audit Reports"
- CARO 2016 (applicable for year ended March 2020) using WIRC Publication on "Insight into CARO Reporting"
- Reviewing checklists for various audit processes

For formats, templates & other information kindly contact on email / mobile given above

Before the audit



Appointment letter & ADT – 1



Communication with previous auditor (if required)



Engagement letter



Memorandum & articles of association



Materiality limits



Compliance checklist

During the audit



Accounting Standards – recognition, measurement and disclosures



Standards on Auditing – mandatory for auditor



Compliance with Companies Act, 2013 & related rules



Verifying provisions of Income Tax Act, 1961



Labour law compliances



Internal Financial Controls over Financial Reporting

Schedule III

Division I - Financial Statements for a company whose Financial Statements are required to comply with the ***Companies (Accounting Standards) Rules, 2006***

Division II - Financial Statements for a company whose financial statements are drawn up in compliance of the ***Companies (Indian Accounting Standards) Rules, 2015***

Division III - Financial Statements for a ***Non-Banking Financial Company (NBFC)*** whose financial statements are drawn up in compliance of the ***Companies (Indian Accounting Standards) Rules, 2015***

Requirements of the Act and/ or the notified Accounting Standards will prevail over the Schedule.

There is an explicit requirement to use the same unit of measurement uniformly throughout the Financial Statements and notes thereon.

Small and Medium Companies

“Small and Medium Sized Company” (SMC) means, a company-

- i. whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- ii. which is not a bank, financial institution or an insurance company;
- iii. whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- iv. which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
- v. which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Small and Medium Companies

An existing company, which was previously not SMC and **subsequently becomes SMC**, shall **not be qualified for exemption or relaxation** until the company **remains SMC for two consecutive accounting periods**.

SMC which does not disclose certain information pursuant to the exemptions or relaxations given to **it shall disclose (by way of a note to its financial statements) the following:**

“The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”

Initial Document Requirements

Organogram / authorisation matrix / contact person(s)

Update on products / locations / operations / capex

Addition / liquidation / change in status of entities in the group

Master data from MCA website

Computation of total income & Income tax return for previous year

Minutes of Board & General Meetings

Statutory Registers

MBP-1


Trial Balance

Forms filed during the year


CRL-1	Information to the Registrar by company regarding the number of layers of subsidiaries
CHG-1	Application for registration of creation, modification of charge (other than related to debentures)
CHG-4	Particulars for satisfaction of charge thereof
MSME	Half yearly return with the registrar in respect of outstanding payments to Micro or Small Enterprise
DPT-3	Return of deposits
PAS-3	Return of allotment
MGT-14	Filing of Resolutions and agreements to the Registrar
MGT-15	Form for filing Report on Annual General Meeting
AOC-5	Notice of address at which books of account are maintained
MR-1	Return of appointment of MD/WTD/Manager
MGT-4	Form for filing annual return by a company
AOC-4	Form for filing financial statement and other documents with the Registrar

Current / Non-current classification

Items of inventory which may be consumed or realized within the company's normal operating cycle should be classified as current even if the same are not expected to be so consumed or realized within twelve months after the reporting date.



Any liability, pertaining to which the company does not have an unconditional right to defer its settlement for at least twelve months after the Balance Sheet/reporting date, will have to be classified as current.



A company also needs to classify its employee benefit obligations as current and non-current categories.

Share Capital

All disclosures should be made separately for **both Equity and Preference Shares** and for **each class** of share capital within Equity and Preference Shares.

The requirement is to disclose **shares of the company held by –**

- Its holding company;
- Its ultimate holding company;
- Subsidiaries of its holding company;
- Subsidiaries of its ultimate holding company;
- Associates of its holding company; and
- Associates of its ultimate holding company.

Share Application Money

Share Application money pending allotment is to be disclosed as a separate line item on the face of Balance Sheet **between “Shareholders’ Funds” and “Non-current Liabilities”**.

Share application money **not exceeding the issued capital** and to the extent **not refundable** is to be disclosed under this line item.

If the company’s **issued capital is more than the authorized capital** and **approval** of increase in authorized capital **is pending**, the amount of share application money received **over and above the authorized capital** should be shown under the head **“Other Current Liabilities”**.

Various disclosure requirements (under Equity or Current Liabilities)

Share Application Money

To allot the securities against the Share Application money received **within 60 days**, else the whole application money is required to be **refunded within 15 days** from the date of completion of 60 days failing which it shall be liable to repay that money with interest @ 12% p.a. from the expiry of the 60th day.

Further as per **Companies (Acceptance of Deposit) Rules, 2014**, from the 76th day **such amount shall be treated as a deposit** under these rules.

Any adjustment of the amount for any other purpose shall not be treated as refund.

Borrowings

Schedule III stipulates that the nature of security shall be **specified separately in each case**. A **blanket disclosure of different securities covering all loans classified** under the same head such as 'All Term loans from banks' **will not suffice**.

Where **one security is given for multiple loans**, the same may be **clubbed together** for disclosure purposes with adequate details or cross referencing.

When promoters, other shareholders or any third party have given any personal security for any borrowing, such as shares or other assets held by them, **disclosure should be made thereof**, though such **security does not result** in the classification of such borrowing as **secured**.

Borrowings

Disclosure of repayment terms should include the period of maturity with respect to the Balance Sheet date, number and amount of instalments due, the applicable rate of interest and other significant relevant terms if any.

- **In case of prepayments, disclosure can be made as per sanctioned terms**

A company **need not disclose** information for **defaults other than** in respect of repayment of **loan and interest**.

Details of any default in repayment of loan and interest **existing as on the Balance Sheet date** needs to be disclosed. Any default that had occurred during the year and **was subsequently made good before the end of the year does not need to be disclosed**.

Exempted Deposits

Company from any other company (such as ICD)

Receipts of amount from Director/ Relative of director out of own fund

Compulsorily convertible debenture which are convertible within 10 years (unsecured)

Secured debentures (including optionally, compulsory and Non convertible) are not deposits

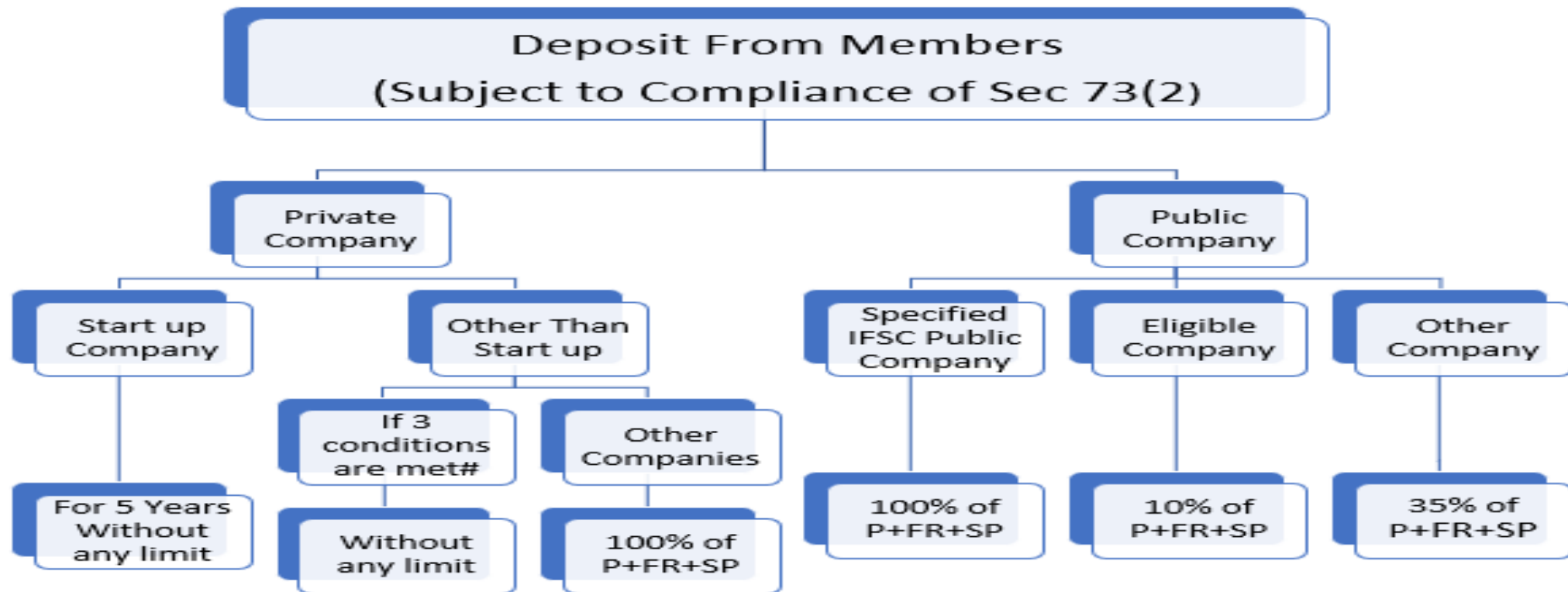
Promoters of the company by way of unsecured loan -stipulation of any lending financial institution or a bank

- exemption shall be available only till the loans of financial institution or bank are repaid and not thereafter

Business Advance/ Deposit

- Advance for supply of good or services - supplied within 365 days
- Against immovable property - adjusted against such property in accordance
- Security deposit for the performance of the contract
- Advance under long term projects for supply of capital goods

Deposit from members



P+FR+SP = Paid-up share capital, Free Reserves and Securities Premium account

Deposit from members

For section 73(2), amount of such deposits together with the amount of other deposits outstanding as on the date of acceptance or renewal of such deposits is considered for determining permissible amount of deposit.

Private company which fulfils all the following conditions:

- i. Company which is not associate /subsidiary of any other company
- ii. Borrowing from bank / FI / anybody corporate < twice of paid up capital or Rs. 50 crore, whichever is less
- iii. Company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73

Provision vs Liability

A provision is a liability which can be measured only by using a substantial degree of estimation.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Provisions can be distinguished from other liabilities such as trade payables and accruals because in the measurement of provisions substantial degree of estimation is involved with regard to the future expenditure required in settlement.

For each class of provision, an enterprise should disclose:

- (a) the carrying amount at the beginning and end of the period;
- (b) additional provisions made in the period, including increases to existing provisions;
- (c) amounts used (i.e. incurred and charged against the provision) during the period; and
- (d) unused amounts reversed during the period.

A Small and Medium-sized Company, may not comply with paragraph above.

Provision vs Liability

Provision for	Classification
Audit fees	Current Liability
Expenses	Current Liability
Warranty	Current / Non-current Provision
Bonus	Current Liability
Leave / gratuity	Current / Non-current Provision
Doubtful debts	Adjust against Trade Receivable
Income tax	Current Liability

~~Fixed Assets~~ Property, Plant and Equipment

A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions... through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

...the corresponding amounts (comparatives) for the immediately preceding reporting period for **all items** shown in the Financial Statements including notes shall also be given.

AS 6, Depreciation Accounting, has been withdrawn on 30/03/2016.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

Loan to Directors

No company shall, directly or indirectly,

- Advance any **loan**, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or
- Give any **guarantee** or
- Provide any **security** in connection with any loan taken by him or such other person.

Strict prohibition in case of the following individuals and firms:

- Any director of the company; or
- Any director of its holding company; or
- Any partner of any such director; or
- Relative of any such director;
- Any firm in which any such director is a partner; or
- Any firm in which the relative of any such director is a partner

Loans to Directors

If

a) A special resolution is passed by the Company in general meeting; and

b) The loans are utilised by the borrowing company for its principal business activities.

*then a Company **can** advance any loan or give any guarantee or provide any security in connection with any loan taken by*

*(a) any private company of which **any such director is a director or member**;*

*(b) any body corporate at a general meeting of which **not less than 25% of the total voting power** may be exercised or controlled by any such director, or by two or more such directors, together; or*

*(c) any body corporate, the Board of directors, managing director or manager, **whereof is accustomed to act in accordance with the directions or instructions of** the Board or any director or directors, of the lending company.*

Unbilled revenue vs. WIP

Applicable to contracts where revenue is recognised

- over time (PoCM)
- at fixed intervals but not coinciding with period end

Unbilled revenue if any of the following is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
- if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

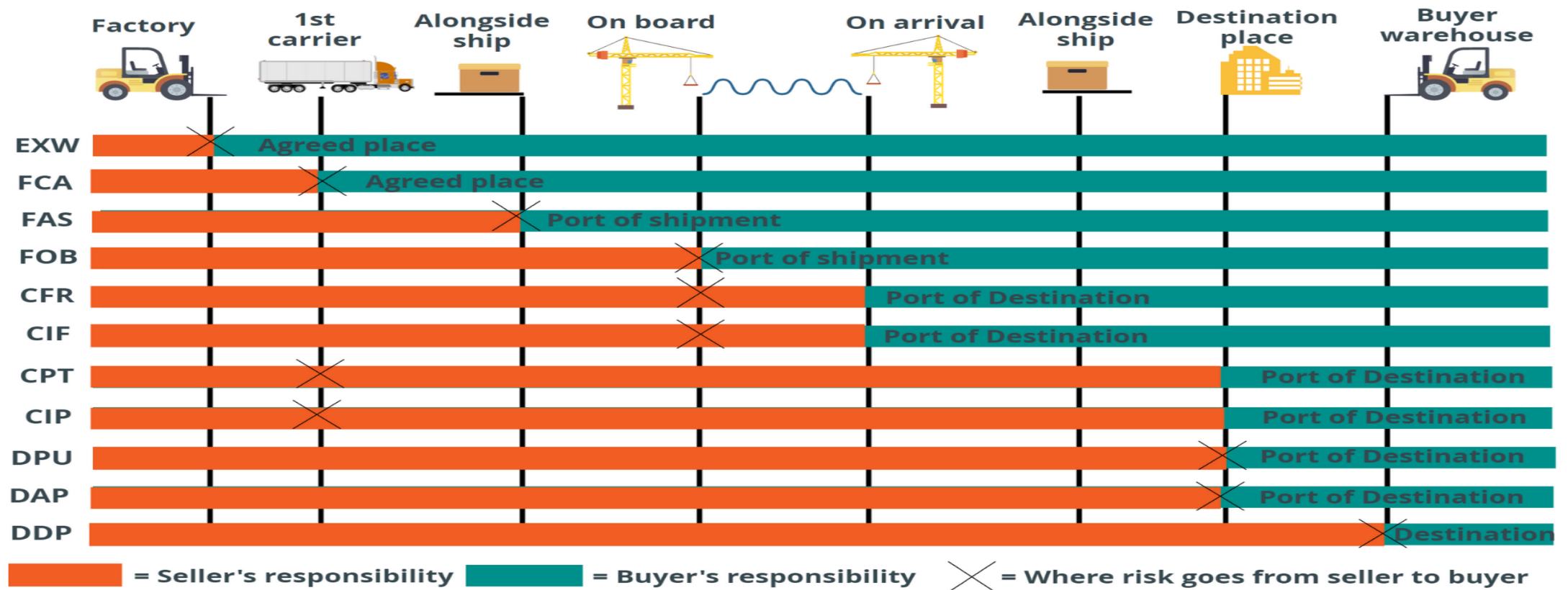
Unbilled revenue with profit / WIP at lower of cost or NRV

Incoterms 2020

EXW – Ex works	FCA – Free Carrier FAS – Free Alongside Ship FOB – Free On Board	CFR – Cost and Freight CIF – Cost, Insurance and Freight CPT – Carriage Paid To CIP – Carriage & and Insurance Paid	DAP – Delivered At Place DPU – Delivered at Place Unloaded DDP – Delivered Duty Paid
<ul style="list-style-type: none">• Seller makes the goods available to the Buyer at the delivery point indicated by the Seller• Seller is not obligated to perform customs or export clearance and does not bear the risk and costs of loading	<ul style="list-style-type: none">• Seller is responsible for export customs clearance• Seller does not pay transportation and insurance costs	<ul style="list-style-type: none">• Seller is responsible for export customs clearance• Seller arranges the transport contract with the forwarder• All costs after loading are the responsibility of the Buyer	<ul style="list-style-type: none">• Seller is obligated to deliver the goods to a specific place on the Buyer's side after the port of destination

Transfer of risk

Incoterms 2020



Other Important matters

Reclassification of exchange loss as borrowing cost in case of foreign currency borrowings

Restatement of advances in foreign currency

Scrutiny of legal & professional expenses

Balance of borrowings vis-à-vis finance cost

Payments are bill by bill or lumpsum / on account

External confirmations & subsequent collections

Credit amounts in debit ledgers & vice-versa

ICDS impact & adjustments

Cash Flow Statement

Tax Reconciliation

After the audit



Obtain Management Representation Letter



Generate UDIN (preferably on same day)



Scan all important documents



Keep original financial statements in permanent file



Raise invoice



Collect fees

Inventory under COVID-19

Management is required to **establish procedures** under which inventory is **physically** counted **at least once a year** to ensure existence, condition and support valuation of inventory.

CARO 2016 also requires auditors to comment on “Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account”.

SA 500 “Audit Evidence” & SA 501 “Audit Evidence - Specific Considerations for Selected Items”

Inventory under COVID-19

Management unable to conduct physical inventory counting as on the date of financial statements

Physical inventory counting conducted by management at a date other than the date of financial statements

Alternative audit procedures where it is impracticable for auditors to attend physical inventory counting

- Using the work of internal auditor
- Engaging other Chartered Accountant(s) to attend physical verification
- Use of technology in inventory counting

Inventory held by a third party

Inventory in transit / cut-off procedures

Audit Reporting

Audit Report - Other Matters (Piramal Enterprises Ltd.)

Due to the COVID-19 related lockdown, we were unable to observe the Management's year-end physical verification of inventory at certain locations amounting to Rs. 217.12 crores (Total Inventory Rs. 423.56 crores). We have performed alternate procedures to audit the existence of inventory as per the guidance provided in SA 501 "Audit Evidence – Specific Considerations for Selected Items", which includes inspection of supporting documentation relating to purchases, production, sales, results of cyclical count performed by the Management through the year and such other third party evidences where applicable, and have obtained sufficient appropriate audit evidence to issue our unmodified opinion on these Standalone Financial Results. Our report is not modified in respect of this matter.

Going Concern

Examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern:

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Going Concern

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

Going Concern - Mitigating factors

capital expenditure reductions,

reduction in dividends,

suspension of non-performance based bonuses,

deferral of payments of principal and interest,

cost reduction actions,

working capital reduction,

taxation payment holidays or deferrals or COVID-19 driven government funding,

asset liquidation,

government supported staff retention schemes and other governmental measures,

arrangements with lenders to lend against any government guaranteed cash flows

Audit Reporting

Audit Report - Other Matters (SBI Life Insurance Company Ltd)

Due to the COVID-19 pandemic and the lockdown and other restrictions imposed by the Government and local administration, the audit processes were carried out based on the remote access to the extent available/feasible and necessary records made available by the management through digital medium. Our opinion is not modified in respect of the above matter.

COVID-19 and CARO


Fixed Assets

Inventory

Statutory Dues

Repayment of Loan


WIRC Publications



Western India Regional Council of
The Institute of Chartered Accountants of India

Anthology on KAM & other Reporting in Audit Reports (SA 701,705,706)

Visit E-Publication on www.wirc-icai.org for complete list with search facility




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(Set up by an Act of Parliament)

e-Handbook on Role of Chartered Accountancy Firms to ensure compliance with Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015

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