

Precautions in Audit under the Companies Act 2013



For J B Nagar CPE Study Circle

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Agenda



1. Change in the format of the Audit Report and Other Standards of Auditing
2. Documentation SA 230, Agreeing the Terms of Audit Engagements SA 210, Management's Representation SA 580
3. Emphasis of Matter and Other Matter paragraph
4. Type of Modification to the Auditor's Opinion
5. Going Concern - Case Study 1
6. CARO 2016
7. Compliance with Accounting Standards
8. Audit Report and UDIN

The new and revised Standards on Auditing



- ▶ SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
 - ▶ SA 701 Communicating Key Audit Matters in the Independent Auditor's Report
 - ▶ SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
 - ▶ SA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- ▶ *Revised SA 700, 705 and 706 are effective for audits of FS for the periods beginning on or after April 1, 2018.*

SA 700 (Revised)



Forming an Opinion and Reporting on Financial Statements

SA 700 (Revised)



- ☞ Applicability: For audits of financial statements for periods beginning on or after 01 April 2018
- ☞ Quiz : FY ending 31st March, 2016...17 etc ?

Significant Changes in SA 700 (R)

Opinion: The auditor's opinion is now required to be positioned at the beginning of the audit report, followed by the Basis for Opinion.

Basis for Opinion: The Basis for Opinion section previously was required only when the auditor's opinion was modified.

This section is now required **for all auditor's reports**.

Audit was conducted in accordance with the SAs and whether the audit evidence obtained is sufficient and appropriate to provide a basis for the opinion.

Includes a **new affirmative statement** that the **auditor is independent of the entity** and has fulfilled the auditor's **other relevant ethical responsibilities** relating to the audit,

Both as per the Code of Ethics issued by the ICAI , and under the provisions of the Companies Act, 2013 and the Rules thereunder.

Significant Changes in SA 700 (R)

Other Information

A new section on Other Information (where applicable) in accordance with requirements of Revised SA 720, The Auditor's Responsibilities relating to other Information.

Going Concern

Enhanced reporting requirements when a material uncertainty related to going concern exists and disclosure in the financial statements are adequate.

Unlike extant manner to report material uncertainties within an Emphasis of Matter paragraph, reporting of a material uncertainty is required to be made within a separate section that includes a heading and specific wording that are prescribed.

Material uncertainty + inadequate disclosure - *warrants modification* in the audit report in accordance with the requirements specified in Revised SA 705.

Significant Changes in SA 700 (R)

❑ **Those Charged with Governance**

This section identifies those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities for preparing financial statements (in many cases, the audit committee).

❑ **Expanded description of the auditor's responsibilities.**

This approach results in a fuller (and wider) description of the auditor's responsibilities in relation to specific matters, including fraud, internal control, accounting policies and accounting estimates, evaluating the overall presentation, structure and content of the financial statements and disclosures, group audits, and communications with those charged with governance.

The description of the auditor's responsibilities for the audit of the financial statements shall be included:

- (a) Within the body of the auditor's report;
- (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.

Significant Changes in SA 701 (R)

Key Audit Matters – Center piece of the revised Auditor's Report (AR)

A new Key Audit Matters (KAMs) section for audits of listed entities and

Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report;

and when the auditor is required by law or regulation to communicate key audit matters in the auditor's report. The new Key Audit Matters section

Key Audit Matters is the subject of a new separate standard, SA 701. Communicating Key Audit Matters in the Independent Auditor's Report

Auditor's Report - Changes in Report Structure

Earlier Structure of Auditor's Report: Report on the Financial Statements	Revised Structure of Auditor's Report: Report on Audit of Financial Statements
Title: Independent Auditor's Report	Title: Independent Auditor's Report
Addressee: As per Engagement terms	Addressee: As per Engagement terms
Subtitle: Report on the FS	Subtitle: Report on the Audit of the FS
Introductory Paragraph: To mention <ul style="list-style-type: none"> ○ Whose FS are audited and period covered ○ Title of each statement in FS ○ Refer summary of significant accounting policies and explanatory information 	Opinion: Including information to be mentioned in introductory paragraph before
Management's Responsibility for the Financial Statements	Basis for Opinion - required in all cases - whether qualified or not
Auditor's Responsibility	Emphasis on Matter (EOM) - not to include Going Concern
Basis for modified opinion, if any	Key Audit Matters

Auditor's Report -Changes in Report Structure

Earlier Structure of Auditor's Report: Report on the Financial Statements	Revised Structure of Auditor's Report: Report on Audit of Financial Statements
	Other Information, where applicable.
Auditor's Opinion	Responsibilities of Management and Those Charged with Governance for the Financial Statements
Emphasis on Matter	Auditor's Responsibilities for the Audit of the Financial Statements
Other Matters	Other matter (OM)
Subtitle: Report on Other Legal and Regulatory Requirements	Subtitle: Report on Other Legal and Regulatory Requirements
Signature	Signature
Date	Date
Place	Place

Revised Audit Report Format



Refer to [PDF](#) file >>>>>

SA 210 Agreeing the Terms of Audit Engagements

- ☞ Very vital document.
- ☞ It defines the scope and responsibilities of the Auditor
- ☞ In practice , except for the listed companies , compliance with standard is very low.
- ☞ Make sure to have the engagement letter.

SA 230 Audit Documentation



- ∞ Permanent Files
- ∞ Temporary Files
- ∞ Keep records of queries raised and solution there of.
- ∞ Acts as evidence that the Audit complies with SAs in case of disciplinary actions or legal suits.

Written Representations SA 580



- ❧ Commonly known as the Management's Representation Letter. (MR)
- ❧ One of the very important documents an Auditor must have.
- ❧ An endorsement of the management's assertions.
- ❧ Who drafts MR ?
- ❧ The date of MR should be same as the date of the Audit Report.
- ❧ Do obtain the MR

Written Representations SA 580



What if the management denies to give the WR ?

If management refuses to provide a representation that the auditor considers necessary, this constitutes a scope limitation and the auditor should express a qualified opinion or a disclaimer of opinion.

Written Representations SA 580



- ❧ Whether it is mandatory to obtain separate engagement letter and management representation letter in respect of audit of IFCFR?
- ❧ Response - As required by Standard on Auditing (SA) 210, “Agreeing the Terms of Audit Engagements” and Standard on Auditing (SA) 580, “Written Representations”, auditor obtains engagement letter and letter of representation respectively for purpose of financial statements audit.
- ❧ No separate engagement letter and written representation letter for audit of IFCFR - *obtain a combined engagement letter and written representation letter.*



What if the matter does not require qualification but still the Auditor wants to draw the attention ?

Emphasis of Matter



(a) **Emphasis of Matter paragraph** – A paragraph included in the auditor's report that refers to *a matter appropriately presented or disclosed in the financial statements* that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Commentary

Emphasis comments used increasingly to draw attention to matters which, in their judgement, are fundamental to the understanding of financial statements.
.... Andhighlights matters of importance that do not require audit qualification."

Emphasis of Matter



We draw attention to Note 36(ii)(f)(vii) to the consolidated financial statements which describe the uncertainties related to the legal outcome of Department of Telecommunications' demand with respect to One Time Spectrum Charge. Our opinion is not qualified in respect of this matter.

Source: Bharti Airtel Limited FY 2014-15

Other Matter Paragraph



Other Matter paragraph – A paragraph included in the auditor's report that refers to *a matter other than those presented or disclosed in the financial statements* that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Other Matter



The accompanying standalone financial statements include total assets of Rs. 244.69 crore as at March 31, 2015, and loss before tax of Rs 118.27 crore for the year ended on that date, in respect of an unincorporated joint venture not operated by the Company, whose financial information has not been audited by us and whose unaudited financial information has been furnished to us by the management and our opinion, in respect of the said unincorporated joint venture is based solely on such information. Our opinion is not modified in respect of this matter.

Source: Cairn India Ltd 2014-15

Other Matter

“We did not audit the share of gain in a joint venture of Rs 7,276 million for the year ended March 31, 2015, included in the accompanying financial statements in respect of the joint venture, whose financial statements and other financial information have been audited by other auditors and whose report has been furnished to us by the management. Our opinion, in so far as it relates to the affairs of such joint venture is based solely on the report of other auditors. “

Source : Bharti Airtel Limited 2014-15

Emphasis of matter or Other matter paragraph – Summary



Emphasis of Matter (EOM)

- A matter appropriately presented or disclosed in the financial statements, which, in the auditor's judgment, is of such importance, that it is fundamental to users' understanding of the financial statements

- EOM is not a substitute for a modified opinion.

- The matter has not been determined to be a KAM to be communicated in the audit report.

For example: A significant subsequent event occurs between date of financial statements and the date of audit report.

Other Matter (OM)

- A matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's responsibilities or the auditor's report.

- Not prohibited by law or regulation.

- The matter has not been determined to be a KAM to be communicated in the audit report

For example: Planning and scoping matters. Audit of subsidiaries not carried on by the principal Auditor.

If the auditor expects to include EOM or OM in auditor's report, the auditor shall communicate with TCWG.

Determining the Type of Modification to the Auditor's Opinion



Types of Modified Opinions

The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements Are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Case Study 1



Position as at March 31,2019

ABC Pvt. Ltd. has paid up capital of Rs. 1,00,000/-

ABC's accumulated losses are Rs. 20,00,000/-

Operating results for the year ended 31st March, 2019

Operating losses Rs. 3,00,000/-

Question: How as an auditor will you report in audit report? Or deal with such situation ? Also do consider SA 570 Going Concern.... CAS

CARO 2016 Applicability - General

Only to stand alone financial statementsNot Applicable to consolidated financial statements

Also not applicable to :

Banking Company as defined under Section 5 (c) of the Banking Regulation Act, 1949

Insurance Company as defined under the Insurance Act, 1938

Companies incorporated with Charitable objects etc. (Section 8 /25 Company)

One Person Company as defined under Section 2(62) of the Act, 2013

Small Company as defined U/s 2(85) of the Act , 2013 = Limits and definition .

CARO 2016 – Exclusions



- ❧ Private Company, not being a subsidiary or holding of a public Company:
- ❧ Having a paid up capital and reserves and surplus not more than **rupees one crore as on the balance sheet date**, and
- ❧ Which does not have total borrowings exceeding **rupees one crore** from any bank or financial institution *at any point of time during the financial year* and
- ❧ Which does not have a total revenue as disclosed in Schedule III to the Act, (including revenue from discontinuing operations) *exceeding rupees ten crores during the financial year as per the financial statements.*

- ❧ *All of the above three conditions must be fulfilled.*

- ❧ *Caveat : Constant monitoring must be there – avoid copy paste of last year.*

Few Important Paras of CARO 2016 related to Companies Act 2013



Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.

If so, a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

c) If the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest. [Paragraph 3(iii)]

Cause 3 (iii) Continue



Under section 189 of the Act, every company is required to maintain one or more registers which contain the particulars of all contracts or arrangements to which sub-section (2) of section 184 or section 188 of the Act applies.

The particulars of all contracts or arrangements in which directors are interested is required to be maintained by every company in Form MBP-4 as specified in Rule 16(1) of the Companies (Meetings of Board and its Powers) Rules, 2014.

It is, however, suggested that the auditor should acquaint himself with all the requirements of sections 184, 188 and 189 of the Act and rules there under

Be careful for the loans squared-up during the year and report such transactions under this clause.

Analysis of S 185 as amended



- 1) No company shall, directly or indirectly, advance any loan, including any loan represented by a book debt to, or give any guarantee or provide any security in connection with any loan taken by, —
 - (a) any director of company, or of a company which is its holding company or any partner or relative of any such director; or
 - (b) any firm in which any such director or relative is a partner.
- (2) A company may advance any *loan to any person in whom any of the director* of the company is interested, subject to the condition that —
 - (a) a special resolution is passed by the company in general meeting:

Explanatory statement - disclose the full particulars and the purpose .
 - (b) the loans are utilised by the borrowing company for its principal business activities.

Analysis of S 185 as amended

"any ~~person in whom any of the~~  ~~director of the company is interested~~"
means –

- (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 twenty-five per cent. 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 of any director or directors, of the lending company.

S 185 exemptions



- Loan to MD/WTD - as part of condition of service / approved by the special resolution.
- Loan given in the ordinary course of its business and interest not less than the bank rate declared by the RBI.
- Subject to the conditions that the loan is used by the subsidiary for its principal business activities :
 - Loan given by holding company to wholly owned subsidiary company
 - Guarantee or security provided by holding Co. for loan taken by WOS Co.
 - Guarantee or security provided by holding Co. for loan taken from banks or FIs subsidiary Co. (other than WOS)

Section 185 shall **NOT** apply in the following cases: -



The provisions of Section 185 Shall not apply to a Private Company

- A) In whose share capital no other body corporate has invested any money
- B) If the borrowings of such a company from banks or FI or any body corporate is less than twice of its paid up capital or 50 crore rupees, whichever is **lower**; and
- C) Such a Company has no default in repayment of such borrowings subsisting at the time of making transactions under this sectionVide Notification dated 5th June 2015

Clause 3(iv) – interpretation of indirectly



Section 185 prohibits advance of any loan to directors, etc., directly or indirectly.

Indirect is interpreted in case of Dr. Freddie Ardeshir Mehta v. Union of India [1991] 70 Comp. Cas. 210 (Bom.) to mean a loan to a director through the agency of one or more intermediaries.

For example, if company A borrows from company B and lends the same to company C and loan from B to C is covered by section 185. In this case section 185 shall also be applicable in case of lending from company A to C because it would be construed as an indirect loan from B to C

The auditor should report the nature of noncompliance,

- the maximum amount outstanding during the year and
- the amount outstanding as at the balance sheet date in respect of
 - (i) the Directors; and
 - (ii) persons in whom directors are interested (specify the relationship with the Director concerned)..

Audit Procedure Paragraph 3(iv) - Compliance of Section 185 of the Companies Act 2013: Loan to directors, etc.



For this purpose, the auditor should carry out the following procedures:

- (i) Obtain from the management the details of the directors or any other person in whom the director is interested. Also check the details of the persons covered under this clause from Form MBP-1 and from the Register maintained u/s 189 of the Act.
- (ii) Obtain and check the details of the transactions carried out with such persons, including of any guarantee given and security provided.
- (iii) Further examine the details to find out whether any of the transaction is attracting the provisions of section 185 of the Act.
- (iv) In case of transactions that are covered under the exceptions as provided under section 185, the auditor should obtain the necessary evidence in support of such exception.

Clause 3(iv) – Compliance of Section 186 of the Companies Act 2013: Loan and investment by company



The section also prohibits a company from making investments through more than two layers of investment companies

Check the Limit :

Whether, **at any point of time during the year** in case of aforesaid transactions, the Company has exceeded, the higher of :-

60 % of its paid-up share capital, free reserves and securities premium account or

100 % of its free reserves (as defined in section 2(43) of the Act and securities premium account.

If it exceeds the limits specified above, whether prior approval by means of a **special** resolution passed at a general meeting has been obtained.

Clause 3(iv) and S 186

Also check whether :-



- **the company has passed the board resolution as prescribed and obtained the prior approval, wherever required, from the public financial institution concerned where any term loan is subsisting.**
- rate of interest is not lower than the prevailing yield of one year, three year, five year or ten year government security closest to the tenor of the loan granted
- If the company is in default in the repayment of any deposits accepted or in payment of interest thereon, then the company is not allowed to give any loan or guarantee or any security or an acquisition till such default is subsisting.
- the company has maintained a register (as per Form MBP-2) in the manner as prescribed and also check the compliances of other provisions and relevant rules

Draw attention to S 186(4) Re disclosures – full particulars plus the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security

In case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with?

If not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal, whether the same has been complied with or not? [Paragraph 3(v)]

- (a) Section 73 of the Act, prohibits a company (other than a banking company, non-banking financial company (NBFC) and such other company as may be specified by the central government in consultation with the Reserve Bank of India), to invite, accept or renew deposits from the public except in the manner provided in this section and the Companies (Acceptance of Deposits) Rules, 2014.
- (b) Section 76 of the Act, permits the public companies having specified net worth or turnover, to accept deposits from persons other than its members subject to compliance with section 73 and the Companies (Acceptance of Deposits) Rules, 2014.

*** Discuss few examples of acceptable deposits.

Clause 3(xiii)

Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards; [Paragraph 3(xiii)]

Section 188 of the Act is applicable to all classes of companies (including private companies). The Act envisages the approval of Board of Directors and/or the approval of the shareholders (by way of resolution passed in the general meeting of the company), as the case may be, in accordance with the provisions of section 188. However:-

- (i) approval of shareholders by way of resolution is not required for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- (ii) approval of the Board of Directors and shareholders is not required in respect of related party transactions entered into by the company in its ordinary course of business and on an arm's length basis.

Clause 3 (xiii)



The Related Party, with reference to a company is defined in section 2(76) of the Act. The transactions which are covered by section 188 are:

- (i) sale, purchase or supply of any goods or materials;
- (ii) selling or otherwise disposing of, or buying, property of any kind;
- (iii) leasing of property of any kind; (iv) availing or rendering of any services;
- (iv) appointment of any agent for purchase or sale of goods, materials, services or property;
- (v) related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- (vi) Underwriting the subscription of any securities or derivatives thereof, of the company.

Explanation (b) to Section 188(1) defines 'arm's length transaction' to mean a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

Clause 3 (xiii) and MR



The auditor should obtain written representations from management and, where appropriate, those charged with governance that:

- (i) They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
- (ii) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework

Section 177(4)(iv) of the Act requires that audit committee (of every listed companies and other classes of companies which is required to constitute audit committee) to approve transactions of the company with related parties.

Compliance with Accounting Standards



Few Examples

Compliance with AS : Common Errors

- ❧ Reference note of Accounting Policy missing - SPI Ltd - P 85
- ❧ EPS reference rate no is normally missing in Statement of Profit & Loss Account. Basic and diluted both EPS to be mentioned.
- ❧ Reference no. of Cash & Cash Equivalents is also missing many times in Cash Flow Statements.

Compliance with AS - Illustrations



Reported in Annual Report : Intangible Assets

Intangible Assets are recognised and accounted at cost in accordance with Accounting Standard 26 'Intangible Assets' issued by ICAI (In case of Sun Pharma the note is missing altogether)

Observation :

Reference should have been made to the Accounting Standards notified under the Companies (Accounting Standards) Rules ,2006 rather than those issued by the Institute of Chartered Accountants of India .

Ideally should be like :

 *Intangible assets: Computer software includes enterprise resource planning project and other cost relating to software which provides significant future economic benefits. Costs comprise license fees and cost of system integration services*

Compliance with AS: Tangible Assets



☞ **Tangible assets:**

- ☞ i) Fixed assets other than ii) below are carried at cost of acquisition | construction including incidental expenses directly attributable to the acquisition | construction activity, as the case may be, less accumulated depreciation, amortisation and impairment as necessary.
- ☞ *Reference to borrowing cost is missing.*
- ☞ **Finance costs: This title is misleading.**
- ☞ Borrowing costs in relation to acquisition and construction of qualifying assets are capitalised as part of cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as expense in the year in which these are incurred.

Compliance with AS - AS 22



30. Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.

Explanation:

Deferred tax assets (net of the deferred tax liabilities, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Investments' and deferred tax liabilities (net of the deferred tax assets, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Unsecured Loans.'

*This is in **contrast** with requirements of Division I of Schedule III to the Companies Act, 2013*

Compliance with AS - Contingent Liabilities

- ❧ Bills discounted – EPCG related disclosures.
- ❧ It has been observed that for EPCG obligations – disclosures are either inadequate or not there.
- ❧ Same is the case with corporate guarantee. (financial guarantee)
- ❧ Letters of Credit for Imports
- ❧ Trade commitments
- ❧ Letter of comfort on behalf of subsidiaries, to the extent of limits

Compliance with AS – AS 18 Related Party Disclosures

Requirement of Para 21

*Name of the related party and nature of the related party relationship where control exists should be disclosed **irrespective of whether or not** there have been transactions between the related parties.*

Managerial Remuneration

In case of transactions (i.e. remuneration) with the key management personnel have not been disclosed under Related Party Disclosures; instead only a reference to the note on managerial remuneration has been given.

Observation:

A mere reference to a note cannot be construed as information itself.

Compliance with AS – AS 18 Related Party Disclosures

In many cases amount is mentioned but :

- *The nature of relationship and ,*
- *The nature of transaction is not mentioned.*
- *In some cases the names of the related parties also are missing.*

Compliance with AS - AS 10 PPE

- ❧ The **residual value** and the **useful life** of an asset should be reviewed at least at each financial year-end.
- ❧ The **depreciation method** applied to an asset should be reviewed at least at each financial year-end and, if there has been a change in the method of depreciation, such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.
- ❧ In many Audit reports the policy statement to above effect is missing.

In view of above - change in method of depreciation is now considered as change in an estimate and not an accounting policy.

Compliance with AS : AS 13 Accounting for Investments



What is investment property ?

A building classified as Investment Property – should it be depreciated ?

Compliance with AS : AS 13

Accounting for Investments

Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and fair value. Long Term Investments are stated at cost less provision, if any, for other than temporary diminution in value.

Pursuant to Para 35(a) the Company has to disclose :

(a) the accounting policies for determination of carrying amount of investments

Compliance with AS - AS 13



In some cases, accounting policies on investments have been disclosed as follows:

- Investments are stated at cost.
- Investments are carried at lower of cost or market value and provision is made to recognise any decrease in the carrying value, as applicable. Unquoted investments are accounted at cost.

However, An enterprise should disclose current investments and long term investments distinctly in its financial statements

The method of valuation of investments depends upon the nature of the investment i.e. whether it is current investments or long- term.

Compliance with AS - AS 13



Income from investments

- ☞ To be divided as interest, dividends,(showing separately dividends from subsidiary companies) , and rentals on investments , showing separately such income from :
- ☞ Long term and current investments
- ☞ Non-bifurcation of income leads to non-compliance with the disclosure requirements of AS 13.

Compliance with AS : AS 19 Leases Over to CARO

Many companies do not comply with requirements of para 25.

However, para 25(a)(b) and (c) are not applicable to Small and Medium Company.

Reporting on Internal Financial Control (IFC)



As per Sec 143(3)(i) of Companies Act 2013, the report of auditor should state as to whether the company has adequate Internal Financial Control System in place and the operating effectiveness of such controls.

Further, Rule 10A of Companies (Audit & Auditors) Rules 2014 states that:

- a) For the financial years commencing on or after 1st April 2015, the report of the auditor should state about existence of adequate Internal financial controls and its operating effectiveness.
- b) The auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April 2014 and ending on or before 31st March 2015.

Internal Financial Control



Report on Internal Financial Control Notification dated 13th June 2017

S 143(3)(i) shall not apply to a private company:-

- (i) which is a one person company or a small company; or
- (ii) which has turnover less than rupees fifty crores (Rs 50 Cr) as per latest audited financial statement or

which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than rupees twenty five crore. (25 Cr) ”

Relaxation for Smaller Companies

Factors that may indicate less complex operations include:

- Concentration of ownership and management in a small number of individuals;
- Straightforward or uncomplicated transactions;
- Simple record-keeping/centralized accounting;
- Few lines of business and few products within business lines;
- Few internal controls;
- Few levels of management with responsibility for a broad range of controls;
- Few personnel, many having a wide range of duties;
- Use of less complex IT systems;
- Extensive involvement by the owners and senior management in the day-to-day activities of the business.

Source : Implementation guide on Audit of Internal Financial Controls over Financial Reporting with specific reference

Form of the Report



“In our opinion considering nature of business, size of operation and organizational structure of the entity, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March 20XX, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”

UDIN



For all certificates w.e.f 1st February,2019.

For all GST and tax Audit Reports w.e.f. 1st April, 2019.

For all other Audits, Assurance & Attest functions w.e.f.
1st July,2019.

Separate UDIN for audit under the Companies Act and
Tax Audit.

UDIN & Joint Audits



In case of joint audits, **all** the signing Auditors have to obtain UDIN separately and mention their UDIN individually on the reports signed by them.

UDIN to be mentioned next to Membership No.



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