

Guidance Note on Audit of Consolidated Financial Statements

The basic objective of the Guidance Note is to provide detailed guidance to the members in understanding and resolving critical issues that might arise while auditing consolidated financial statements, for example, the objective of audit of consolidated financial statements, expectations from the auditors of consolidated financial statements vis a vis applicability of Engagement and Quality Control Standards (Formerly known as Auditing and Assurance Standards) to audit of consolidated financial statements, salient features of consolidated financial statements having an impact on audit thereof, types on consolidated adjustments, reporting responsibilities, situations where the auditor of parent's financial statements is also the auditor of the consolidated financial statements and situations where he is not. The Guidance Note contains illustrative formats of audit reports on consolidated financial statements.

The Guidance Note assumes added importance in view of the fact that while the Securities and Exchange Board of India had amended Clause 32 of the Listing Agreement to require the listed companies to publish consolidated financial statements in addition to their separate financial statements, other companies are preparing consolidated financial statements on a voluntary basis as a mark of good reporting and governance practices.

Moreover, the Companies (Amendment) Bill, 2003 also envisages preparation of consolidated financial statements, thereby, giving it a statutory mandate.

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