CA Final – AUDIT

Amendments for Nov-2017 Exam

INDEX

July-2017 Edition

- Please also see May 17 amendment file available on auditguru.in/downloads
- Additional Video Links suggested
- youtu.be/2p3mkvJQWxE How to come out of Failure
- youtu.be/6lBBm4l9gjwHow to write CA Final AUDIT Paper
- youtu.be/FqsvT5k83is SAs Shortcut

SA 260 (Revised) COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

SA MAP

- What is role of communication between Auditor & TCWG? (B)
- How to identify TCWG? (B)
- Matters to be communicated to TCWG? (A)
  - **a.** Significant Difficulties (A)
  - **b.** Significant Matters(B)
- Comment about communication process? (B)
- Factors affecting form of communication (A)

1. WHAT IS ROLE OF COMMUNICATION BETWEEN AUDITOR & TCWG? (B)

This SA focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:

(a) The auditor and those charged with governance in understanding matters related to the audit in context,*(E.g.Company absorbed a small company during the year, so TCWG must have thought about financial / legal etc aspects, Communication with auditor will make them understand RMM involved & procedures that will be deployed)* and in developing a constructive working relationship.*(Free frank communication without hesitation about critical matters like related party transactions & managerial remuneration)* This relationship is developed while maintaining the auditor's independence and objectivity;

(b) The auditor in obtaining from those charged with governance information relevant to the audit.*(E.g. TCWG my inform that in some branches risk of misappropriation of assets)*For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and

(c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, *(E.g.Input from auditor helps TCWG understand problems in consolidation & how to overcome them)*thereby reducing the risks of material misstatement of the financial statements *(As systems will improve control risk & thereby RMM will come down).*

KEY TO REMEMBER
→(For Both TCWG & Auditor) Understanding Matters in context of Audit &Developing constructive working relationship
→(For Auditor) Obtaining information relevant to audit
→(For TCWG) Helps in overseeing financial reporting process which will ultimately reduce RMM

2. HOW TO IDENTIFY TCWG? (B)

1. Management is a group of people who are involved and take responsibility of day to day operations of the company.
2. TCWG is group of people who meet periodically to supervise overview current management's performance, take strategic long-term decisions and decide company's policies. This includes overseeing the financial reporting process.

3. TCWG may be not be integral part of entity.*(See table given below)*
4. TCWG may be integral part of entity.
5. Members of TCWG may be completely different from management.
6. In some cases, TCWG members may be different
7. In some case all TCWG & management members may be same.

Entity	**Management**	**TCWG**	**Remarks**
Government Entity like ISRO	Directors appointed by central government.	Concerned Ministry	Here TCWG is not legal part of company.
Company	CEO &CFO (They are not directors)	Board of Directors	Here TCWG is integral part of entity but none of the members are common.
Co-Operative Society	Chairman + Secretary	Governing Body (Which includes Chairman & Secretary)	So some members in management are common
Partnership Firm	Partners	Partners	Here TCWG & Management are same

8. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.
9. If their governance structure includes committees, auditor may communicate to committees instead of Board of Directors. Such committees are called Sub-Groups.
   He must identify appropriate committee which is responsible for overseeing financial reporting, which is generally audit committee.
   Sometimes he may have to communicate to remuneration committee etc for matters relevant to them.
10. If auditor is not satisfied with response of sub group or he feels it is appropriate, he may communicate to governing body also
11. When All of Those Charged with Governance are Involved in Managing the Entity.

In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this SA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, thematters need not be communicated again with those same person(s) in their governance role. Such as Significant Matters & WR. The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.

3. MATTERS TO BE COMMUNICATED TO TCWG? (A)

(Just After Appointment)

a. The Auditor's Responsibilities in Relation to the Financial Statement Audit
   The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:
   - The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
   - The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

(Just before starting Audit work)

b. Planned Scope and Timing of the Audit

The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.

(During the Audit)

c. Significant Findings from the Audit

The auditor shall communicate with those charged with governance:

- ❖ The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. *(Eg Whether Accounting Policies are Conservative or Aggressive, Are they in line with industry practices etc) When* applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;*(SLM & WDV are acceptable & popular in FRF but machine hour method of depreciation is more appropriate)*;
- ❖ Significant difficulties, if any, encountered during the audit;
- ❖ Unless all of those charged with governance are involved in managing theentity:
- ❖ Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and
- ❖ Written representations the auditor is requesting;

(Before signing audit report)

d. Circumstances that affect the form and content of the auditor's report, if any; and
(Key Audit Matters under SA 701 / Modifications Under SA 705 / EMP or OMP under SA 706)

(Others)

e. Any other significant matters arising during the audit that, in the auditor'sprofessional judgment, are relevant to the oversight of the financial reporting process.*(Eg Safety & Security of financial data)*

(Only in Listed Companies)

f. Auditor Independence

In the case of listed entities, the auditor shall communicate with those chargedwith governance:

- ❖ A statement that the engagement team and others in the firm as appropriate,the firm and, when applicable, network firms have complied with relevantethical requirements regarding independence; and
- ❖ All relationships and other matters between the firm, network firms,and the entity that, in the auditor's professional judgment, mayreasonably be thought to bear on independence. This shall includetotal fees charged during the period covered by the financialstatements for audit and non-audit services provided by the firm andnetwork firms to the entity and components controlled by the entity.These fees shall be allocated to categories that are appropriate toassist those charged with governance in assessing the effect ofservices on the independence of the auditor; and
- ❖ The related safeguards that have been applied to eliminate identifiedthreats to independence or reduce them to an acceptable level.

Below content is related / similar to above hence included here, no need to include it in answer.

Objectives of SA 260 *(Each SAs has objectives, i.e objectives auditor is supposed to achieve after reading, understanding & implementing this SA. Objectives of all SAs are not important only those where there is probability of asking questions, I feel objectives of SA 260 are important)*

(a) Promote effective two-way communication between the auditor and those charged with governance.

(b) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

(c) Obtain from those charged with governance information relevant to the audit;

(d) Provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

KEY TO REMEMBER
→To promote effective two-way communication between TCWG
→Communicate clearly responsibilities of auditor *(Just After Appointment)*
→Overview of planned scope & timing of audit *(Just before starting Audit work)*
→Obtain relevant audit related Information *(During the Audit)*
→Timely observation arising from audit which helps in governance *(Before signing audit report)*

3a. SHORT NOTE ON SIGNIFICANT DIFFICULTIES TO BE COMMUNICATED TO TCWG

A. Significant difficulties, if any, encountered during the audit;

- An unnecessarily brief time within which to complete the audit. *(Only 1 week given to finish work at client's premises with availability of client staff)*
- Restrictions imposed on the auditor by management. *(Cannot visit factory &godown)*
- The unavailability of expected information. *(list of debtors & inventory is not available instead hardcopy of register is given)*
- Significant delays in management providing required information. *(information being provided after 3 weeks)*
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence. *(to get voucher audit team member has to walk a 2 km, reach go down and search out of 10,000 files)*
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested. *(Even that bank balance has reduced to zero, OD limit is exhausted not ready to prepare documents such as future cash to assess going concern)*

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.

3b. SHORT NOTE ON SIGNIFICANT MATTERS TO BE COMMUNICATED TO TCWG

Following Significant Matters should be communicated to TCWG

Significant matters discussed, or subject to correspondence with management may include such matters as:

(During Appointment)

- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.

(During Start of The Audit)

- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. *(E.g. Big customer has cancelled order which can lead to obsolescence of inventory)*

(During the year)

- Significant events or transactions that occurred during the year.*(E.g. Audit of absorption during the year)*

(Near End of Audit)

- Significant matters on which there was disagreement with management,except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

(Other Auditors)

- Concerns about management's consultations with other accountants on accounting or auditing matters.*(Misstatements reported by Internal Auditor & action taken by management)*

4. COMMENT ABOUT COMMUNICATION PROCESS? (B)

Establishing the Communication Process
The auditor shall communicate with those charged with governance the form, timing and expected general content of communications.*(Oral Vs Written, Quarterly Vs Monthly)*

Forms of Communication
The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit when, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit.

The auditor shall communicate in writing with those charged with governance regarding auditor independence when required for Audit Evidence
(Significant Findings & Independence communication should be in writing)

Timing of Communications
The auditor shall communicate with those charged with governance on a timely basis.

Adequacy of the Communication Process The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

5. FACTORS AFFECTING FORM OF COMMUNICATION

Effective communication may involve structured presentations and written reports*(Background, Current Status, Objective, Procedures Performed, Results, Summary etc)* as well as less structured communications, including discussions. The auditor may communicate matters other than those identified either orally or in writing.Written communications may include an engagement letter that is provided to those charged with governance.

In addition to the significance of a particular matter*(Management Fraud is very significant it should be in writing & structured)*, the form of communication *(e.g., whether to communicate orally or in writing, the extent of detail or summarisation in the communication, and whether to communicate in a structured or unstructured manner)* may be affected by such factors as:

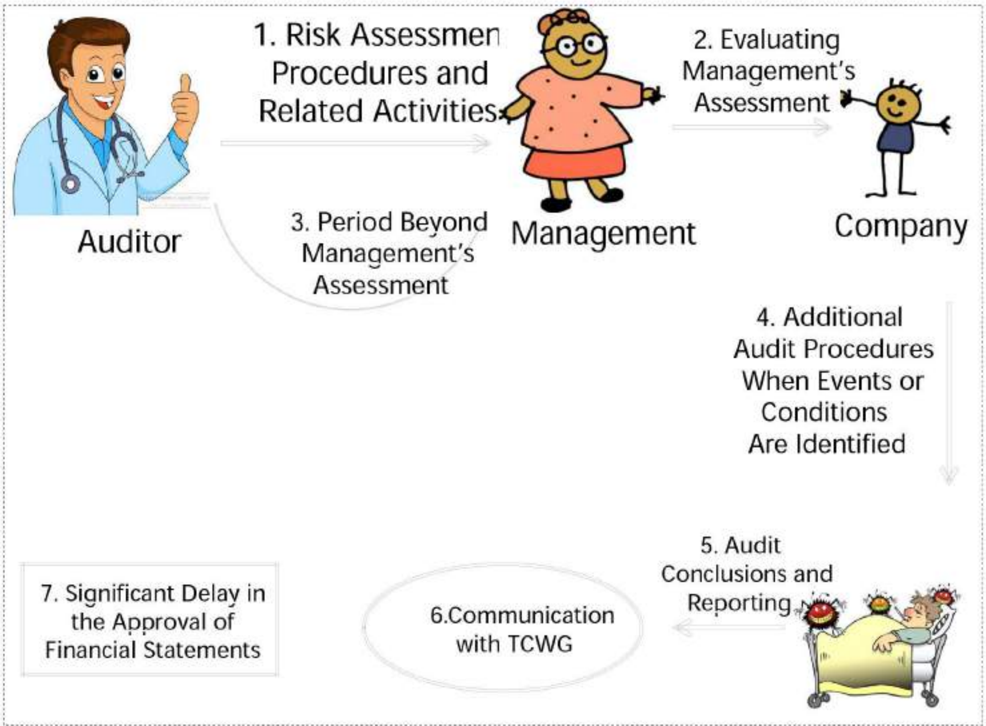
"Legal PROCESS"

- **L**egal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.*E.g. Writing &Structured: - If required by law such as 143(12).*
- Whether management has **P**reviously communicated the matter.*E.g. Writing &Structured: - If matters related to first time launched ESOP schemes.*
- Whether the matter has been satisfactorily **R**esolved.*E.g. Writing &Structured: - Delay in getting information for audit is not yet resolved.*

- The amount of **O**ngoing contact and dialogue the auditor has with those charged with governance. *E.g. Writing &Structured: - If communication is happening after gap of time and presently no other matter is being discussed.*
- Whether there have been significant **C**hanges in the membership of a governing body.*E.g. Writing &Structured: - If there are significant changes.*
- The **E**xpectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.*E.g. Writing &Structured: - If they communicated it earlier or mentioned in engagement letter.*
- The **S**ize, operating structure, control environment, and legal structure of the entity.E.g.*Writing &Structured: - If it is big, decentralised, weak CE, complicated legal structure.*
- In the case of an audit of **S**pecial purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.*E.g. Writing &Structured: - If both assignments are being conducted to avoid confusion & mismatch.*

When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarise the matter in later communications so that all of those charged with governance have full and balanced information.

SA 570
GOING CONCERN



1. Risk Assessment Procedures and Related Activities

Collect information are there any
"Events or Conditions creating Significant Doubt over Going Concern"

- While applying Risk Assessment Procedures under SA 315 **"Understanding Entity and Its Environment"**
- By analysing **Preliminary Assessment** Regarding Going Concern made by Client
- **If there is no Preliminary Assessment** then ask management and understand **basis of going concern assumption**

Remain alert if there are any such circumstances then revise risk of material misstatement and change NTE of audit procedures

1. RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

When performing risk assessment procedures as required by SA 315, the auditor shall consider whether there are Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. *(E.g. Negative Financial / Operating / Other Indicators)* In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:

(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or

(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption,*(E.g. Credit Rating / Inclusion in Sensex Shares / Share Prices etc)* and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. *(E.g. Sale of major part of fixed assets / Drastic decline in product demand (Milk Butter Vs Peanut Butter) etc)*

(Cover in answer only if specifically asked)

Evaluating Management's Assessment

If management prepares going concern assessment, then auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

(Future period covered)

- In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date.

(Inclusion of all relevant information)

- In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit. *(E.g. Legal Matters / Employee Related Matters etc.)*

(Going beyond management's coverage)

- Period beyond Management's Assessment

  The auditor shall inquire*(Only)* of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

2. EVENTS OR CONDITIONS CREATING SIGNIFICANT DOUBT OVER GOING CONCERN

The following are **examples of events or conditions that, individually or collectively**, may cast significant doubt about the going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

(In sequence of falling business)

- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Net liability or net current liability position.
- Adverse key financial ratios.
- Arrears or discontinuance of dividends.

(Borrowing Related Points)

- Inability to comply with the terms of loan agreements.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Inability to obtain financing for essential new product development or other essential investments.

(Creditor Related Points)

- Inability to pay creditors on due dates.
- Indications of withdrawal of financial support by creditors. *(No advance from customers)*
- Change from credit to cash-on-delivery transactions with suppliers.

Operating

- Management intentions to liquidate the entity or to cease operations. *(E.g.Start-ups)*
- Shortages of important supplies. *(Power Generating Plants)*
- Loss of key management without replacement.
- Labour difficulties.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Emergence of a highly successful competitor.

Other

- Uninsured or underinsured catastrophes when they occur.
  (Law related matters)
- Non-compliance with capital or other statutory requirements. *(CAR in Banks)*
- Changes in law or regulation or government policy expected to adversely affect the entity.
- 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.

3. ADDITIONAL AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, **the auditor shall** obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

(Management's Assessment if not prepared yet)

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions *(Introducing new products, cost cutting, sale of assets, sale of investments, issue of shares, taking new loans etc)* in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation *(E.g. Will such funds be sufficient to carry on business)* and whether management's plans are feasible in the circumstances. *(can they pull off such big changes in given short span)*

(Cash flow forecast)

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:

- ✓ Evaluating the reliability of the underlying data generated to prepare the forecast; and
- ✓ Determining whether there is adequate support for the assumptions underlying the forecast.

(Subsequent Events)

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

(Written Representation)

(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

Audit procedures that are relevant to the requirement **may include** the following:

(Management's Assessment if not prepared yet)

- ✓ Obtaining and reviewing reports of regulatory actions.
- ✓ Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- ✓ Reading the terms of debentures and loan agreements and determining whether any have been breached.
- ✓ Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- ✓ Evaluating the entity's plans to deal with unfilled customer orders. *(When there is shortage of raw material)*
- ✓ Determining the adequacy of support for any planned disposals of assets.

(Cash flow forecast)

- ✓ Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- ✓ Analyzing and discussing the entity's latest available interim financial statements.

(Subsequent Events)

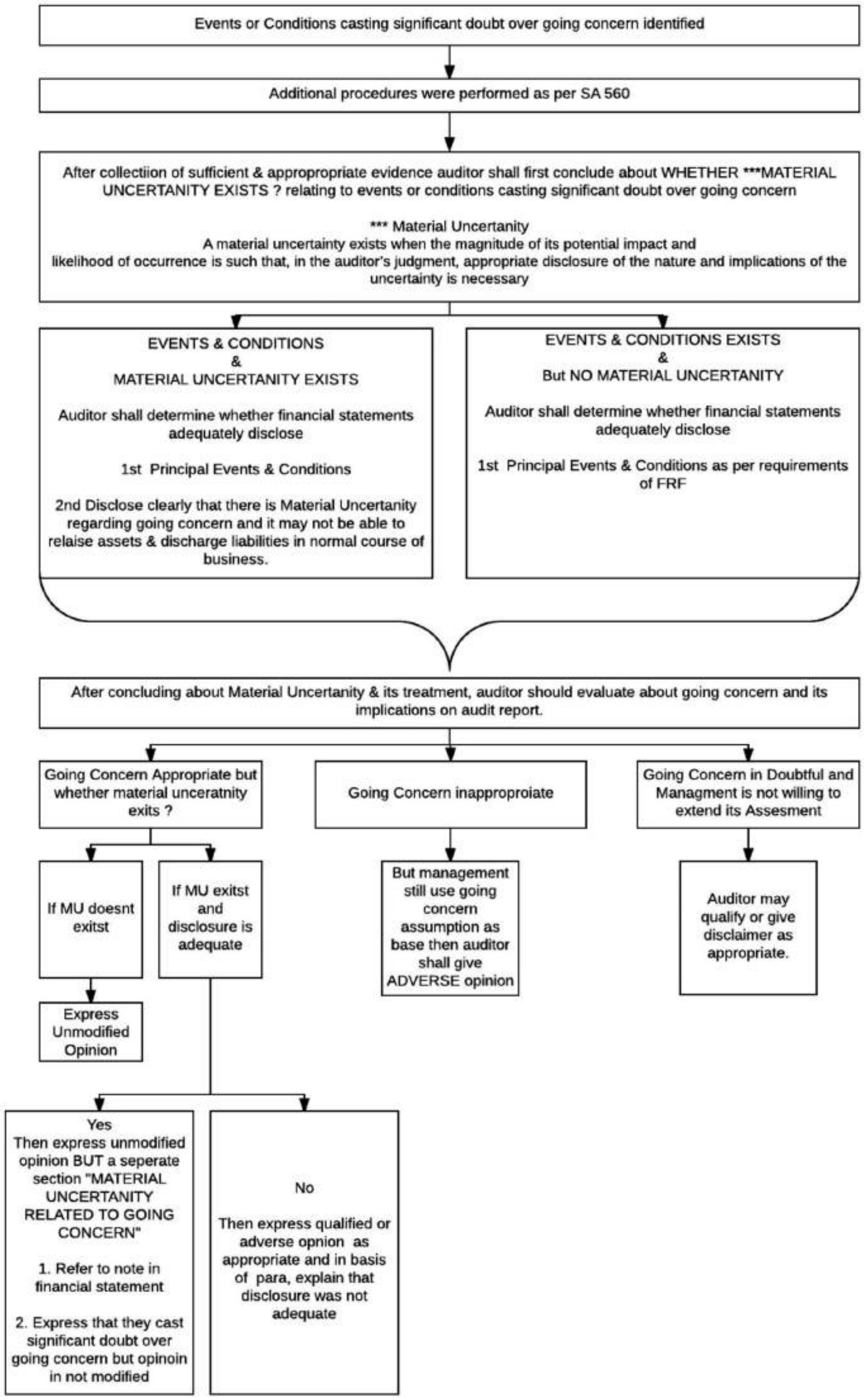
- ✓ Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

(Written Representation)

- ✓ Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

✓ Confirming the existence, terms and adequacy of borrowing facilities.

4. CONCLUSION & REPORTING



Theory of above chart

A. Auditor Conclusions

The auditor shall evaluate whether sufficient appropriate audit evidence has beenobtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

(a) In the case of a fair presentation financial reporting framework, the fair presentation ofthe financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

- **Adequacy of Disclosures When Events or Conditions Have Been Identified and a MaterialUncertainty Exists**

If the auditor concludes that management's use of the going concern basis ofaccounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

- Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- Disclose clearly that there is a material uncertainty related to events or conditions thatmay cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

- **Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists**

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

B. Implications for the Auditor's Report

- **Use of Going Concern Basis of Accounting Is Inappropriate**

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

- **Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists;**

- **Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements**

  If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

  1. Draw attention to the note in the financial statements that discloses the matters related to going concern; and
  2. State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

- **Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements**

  If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

  (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and

  (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

- **Management Unwilling to Make or Extend Its Assessment**

  If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report.

5. SIGNIFICANT DELAY

If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.

Use PM analysis file on auditguru.in/downloads for practicing questions. We have purposefully not included questions here to avoid duplication.

PROFESSIONAL ETHICS

1. ADVERTISING BY MEMBERS IN PRACTICE ENGAGED IN COACHING / TEACHING ACTIVITIES

Regulation 190A issued as per First Schedule, Part 1, Clause 11

Regulation 190A of the Chartered Accountants Regulations, 1988 provides that a chartered accountant in practice shall not engage in any business or occupation other than the profession of accountancy, except with the permission granted in accordance with a resolution of the Council.

Permission for Teaching

The Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full time tutorship under any educational institution other than Coaching organization of the Institute).

Restrictions

Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

Second Schedule, Part 2, Clause 6

Keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Abstain from Advertising

In view of the above, such members are advised to abstain from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action, as per the provisions of Chartered Accountants Act, 1949 and Rules /Regulations framed thereunder .

Sign Board Allowed

Subject to the above prohibition, such members may put, outside their Coaching /teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

PROFESSIONAL ETHICS

BELOW ARE IMPORTANT AMENDMENTS FROM MAY 17

1. FIRST SCHEDULE, PART-1 (CLAUSE-4)

1. Direct Membership

Section (4) (1) (v) was framed so that ICAI can give direct membership to some members of foreign bodies who wants to come to India and do practise here. But from 1997 all such permissions were cancelled and as on today there is no direct membership for foreign professionals.

Foreign professionals can use MOU route as discussed earlier to become ICAI member

2. Partnership with foreign professional (In India or Outside India)

ICAI has not issued list of foreign professional bodies with whom membership can be done. So as on today no partnership is possible with foreign professionals. If they use MOU route become ICAI member then we can do partnership.

3. Partnership with MBA

Regulation 53A gives to lists

i. List of Professional Bodies

ii. List of Qualifications (Includes MBA)

(So people covered here (Including MBA) eligible under clause 2 (paying) / 3 (accepting) / 5 (securing work)

Regulation 53B gives list of professional bodies (Doesn't Include MBA) with whom CA in practice can do partnership under clause 4

So it is clear from above that we can share fees and work but cannot do partnership with MBA.

Now there is drafting error, in Regulation 53A is written that it is for cl 2 / 3 / 4 / 5 now 4 should not be there, module and many authors has ignored this point and stick to point that strictly only Regulation 53B is relevant for partnership.

2. SECOND SCHEDULE, PART-1 (CLAUSE-4)

1. Permitting the use of firm name by client, mentioning the firm as a "Knowledge Partner" or in the "Thank You" advertisement, is not permissible, however mention of name of an individual member with prefix/suffix "CA" as a "knowledge partner " is permissible.

2. The Council has issued the following guidelines for use of expressions such as 'Associates of'Correspondents of... etc. on letter heads, visiting cards etc. of firms of CharteredAccountants:(Association etc)

3. The use of expressions / words 'in Association with .... 'Associates of 'Correspondents of.... etc., on the stationery letter heads, visiting cards and professional documents etc. of firms of Chartered Accountants is not permissible in view of the provisions of clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949 irrespective of whether the connection bearing name sought to be used was the name of an Indian firm or a foreign firm. The Council has not barred entering into such association and the restriction given under the above clause is to bar an advertisement appearing / derived from such associations."

4. Whether the office of a CA is permitted to go in for ISO 9001:2000 certification or other similarcertifications?Yes, there is no bar for a member to go in for ISO9001:2000 certification or other similarcertifications.
However, the member cannot use the expression like "ISO Certified" on his professional documents, visiting cards, letterheads or sign boards etc."

5. CCM, RCM and Member of Managing Comm. of Branches may print either their residential address, or office address including Tel. / Fax No. without mentioning the firm's name on the back of the visiting cards"

6. Member who is in practice cannot use the designation of `District Governor' in his rotary visiting card along with the word `Chartered Accountant' "

3. FIRST SCHEDULE, PART-1 (CLAUSE-6 & 7)

1. Visiting Card Clarification

Allowed

- Name
- Designation "Chartered Accountant" / Qualifications
- Firm Name (All firms where ca is associated, no restrictions) (Cl 7)
- CA LOGO
- Address / Email ID
- Website Address (Only Name Don't Use Please Visit / Visit / Click etc. (Cl 6)
- Quick Response Code (It should give only that info which is allowed) (Cl 7)

Not Allowed

- Year of Establishment (Cl 7)
- Photograph (Cl 7)
- Any Other Logo (Cl 7)
- Associates of " Some Other Firm" (Cl 7)
- ISO Certification (Cl 7)
- Celebrating 75 years (Cl 6 & Cl 7)
- Vision / Mission of the Firm (CL 6)

2. Publishing a book by a firm containing its history for the purpose of distributing to clients, associates, friends and well wishersAnd printing of the words 'Celebrating 75 years in the Profession' on special letterheads and envelopes of the firm will lead to solicitation of professional work, hence not permissible as per the provisions of Clauses (6) and (7) of Part I of the first Schedule to the C.A. Act, 1949."

3. Shortcut to remember exceptions given in Regulation 192 for charging fees on percentage basis

Shortcut to remember 8 points in regulation 192 where fees can be charged on percentage basis or contingent upon findings or results.
Akshay Kumar took certain management consultancy services 1 and registered co-operative society 2 and then raised money though certain financial services 3 to start production and then went for cost optimisation 4 after sales he used debt recovery services 5. After suffering losses he got assets valued for direct tax and duties 6 and appointed liquidator / receiver for realization 7
He is ready to take any other service or audit as prescribed by council. 8
90

Regulation 192
No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings or results of such work, provided that:
(1) in the case of *certain management consultancy services* as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
(2) In the case of an auditor of a *co-operative society*, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits;
(3) in the case of certain *fund raising services*, the fees may be based on a percentage of the fund raised;
(4) in the case of services related to *cost optimisation*, the fees may be based on a percentage of the benefit derived; and
(5) in the case of *debt recovery services*, the fees may be based on a percentage of the debt recovered;
(6) In the case of a *valuer for the purposes of direct taxes and duties*, the fees may be based on a percentage of the value of property valued
(7) "In the case of a *receiver or a liquidator*, the fees may be based on a percentage of the realization or disbursement of the assets;
; (8) *any other service or audit as may be decided by the Council*.

4. Can ca in practice charge fees on percentage basis in case of recovery in banking sector?
Giving Service is Permissible
A question arises whether the Chartered Accountants in Practice acting as Recovery Consultant for recovery of Non-Performing Assets (NPA) of Banks, the service permitted to be rendered pursuant to Section 2(2)(iv), can charge fee on percentage basis as is permitted under Regulation 192 for „receiver" or „liquidator".
Recent Amendment in Regulation 192
The Council of the Institute has framed Regulation 192 which exempts debt recovery services where fees may be based on a percentage of the debt recovered.
Hence, CA. will not be held guilty for professional misconduct, if he charges fees on percentage basis in

4. FIRST SCHEDULE, PART-1 (CLAUSE-11)

case of debt recovery services. Earlier ESB opinion which prohibited it is overridden by amendment.

Clarifications
Selling Agents
1. Cannot become direct selling agent , can become credit card credentials verifier" (General Permission)

2. CA in practice can establish TIN-FC on its own or under franchisee (General Permission)
3. A chartered accountants in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
4. It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
5. A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.

Settler of Trust

1. It is permissible for a member in practice to be a settler of a trust.

Directorship

1. The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplicitor (which is generally permitted as per ICAI norms), if he is non –executive director, required in the Board Meetings only , and not paid any remuneration except for attending such Board Meetings.
2. As per Committee on Ethical Standards has decided director of holding should not become auditor in subsidiary company, though it is not prohibited by Company Act 2013

5. FIRST SCHEDULE, PART-1 (11)

Statutory Auditor related clarifications

➢ Whether a statutory auditor can accept the system audit of same entity?
Yes, the statutory auditor can accept the assignment of a system audit of the same entity, provided it do not involve any scrutiny/review of financial data and information.
➢ A statutory auditor and tax auditor cannot be valuer of the unquoted equity shares as it would create threats to independence of the auditor, which may not possibly be reduced by application of safeguards.

Internal Auditor related clarifications

➢ It is prohibitive to undertake the assignments of internal Audit of a client and entry of the transaction for Accounting simultaneously being violative of the provisions of the `Guidance Note on Independence of Auditors'."
➢ A CA/CA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).
➢ A CA Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.

Bank Audit related clarifications

➢ Concurrent auditor of an entity cannot accept an assignment under any statute
➢ A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'. *(Many RRBs are sponsored by Indian Banks)*
➢ A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.

6. KNOW YOUR CLIENT (KYC) NORMS

The Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.
Explanation: "Attest Functions" for the purpose of this Announcement will include services pertaining to Audit, Review, Agreed upon Procedures and Compilation of Financial Statements.

1. WHERE CLIENT IS AN INDIVIDUAL/ PROPRIETOR

A. GENERAL INFORMATION
- Name of the Individual
- Business Description
- Copy of last Audited Financial Statement
- PAN No. or Aadhar Card No. of the Individual

B. ENGAGEMENT INFORMATION
- Type of Engagement

2.WHERE CLIENT IS A CORPORATE ENTITY

A. GENERAL INFORMATION
- Name and Address of the Entity
- Name of the Parent Company in case of Subsidiary
- Business Description
- Copy of last Audited Financial Statement

B. REGULATORY INFORMATION
- Company PAN No.
- Company Identification No.
- Directors' Names & Addresses
- Directors' Identification No.

C. ENGAGEMENT INFORMATION
- Type of Engagement

3. WHERE CLIENT IS A NON-CORPORATE ENTITY

A. GENERAL INFORMATION
- Name and Address of the Entity
- Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)
- Business Description
- Copy of last Audited Financial Statement
- Copy of PAN No.

B. ENGAGEMENT INFORMATION
- Type of Engagement

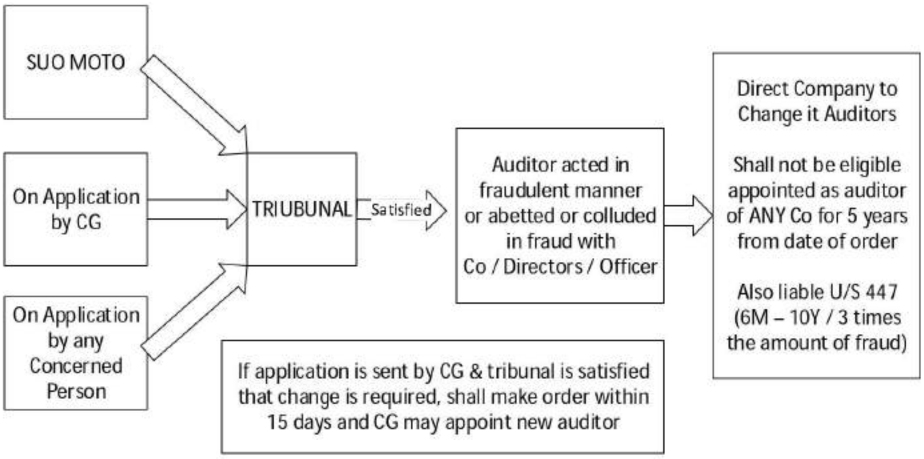
These KYC Norms shall be mandatorily applicable for engagements accepted on or after 1st January, 2017.

AMENDMENTS
COMPANY AUDIT I (SEC 139 TO SEC 148)

PART-B

Sec 140 (5)

Can tribunal remove auditor? Can single shareholder initiate removal of auditor?



Sec 143

We need to understand amendment in Schedule III
Following should be given in notes to accounts

X. Every company shall disclose the details of Specified Bank Notes (SBN) held and transacted during the period from 8th November, 2016 to 30th December 2016 as provided in the Table below: —

	SBNs	Other denomination notes	Total
Closing cash in hand as on 08.11.2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12.2016			

Explanation: For the purposes of this clause, the term 'Specified Bank Notes' shall have the same meaning provided in the notification of the Government of India, in the Ministry of Finance, Department of Economic Affairs number S.O. 3407(E), dated the 8th November 2016.

From Annual Report of Infosys FY 16-17

2.27 Disclosure on Specified Bank Notes

During the year, the Company had Specified Bank Notes (SBNs) or other denomination notes as defined in the MCA notification, G.S.R. 308(E), dated March 31, 2017. The details of SBNs held and transacted during the period from November 8, 2016 to December 30, 2016, the denomination-wise SBNs and other notes as per the notification are as follows:

in ₹

Particulars	SBNs [1]	Other denomination notes	Total
Closing cash in hand as on November 8, 2016	2,32,000	3,52,117	5,84,117
Add: Permitted receipts	–	5,61,236	5,61,236
Less: Permitted payments	(98,000)	(7,65,438)	(8,63,438)
Less: Amount deposited in Banks	(1,34,000)	–	(1,34,000)
Closing cash in hand as on December 30, 2016	–	1,47,915	1,47,915

[1] For the purposes of this clause, the term 'Specified Bank Notes' shall have the same meaning provided in the notification of the Government of India, in the Ministry of Finance, Department of Economic Affairs number S.O. 3407(E), dated November 8, 2016.

Now amendment in rule 11 issued under section 143(3)

Auditors must specify following in their audit report

(d) *whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November 2016 to 30th December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.*

From Infosys, Annual Report

iv. the Company has provided requisite disclosures in its standalone Ind AS financial statements as to holdings as wel as dealings in Specified Bank Notes during the period from 8 November, 2016 to 30 December, 2016 and these are in accordance with the books of accounts maintained by the Company. Refer to Note 2.27 to the standalone Ind AS financial statements

Audit Procedures for above

Cash Count

1. In case the auditor had conducted physical cash counts on 8th November 2016 and 30th December 2016 or a closer date before or after that date (for example 31st December 2016), he should consider performing roll forward or roll-back procedures to confirm the balance as certified by the Management has been arrived at correctly.

Closing Balance Certificate

2. Obtain closing cash balance certificate with denominations from the Management as at 8th November 2016 and as at 30th December 2016 in respect of Specified bank notes (SBNs) and other denomination notes.

Confirm with Books of Accounts

3. Confirm the balances as certified by the Management from the books of accounts as at those dates.

Obtain Reconciliation

4. Obtain a reconciliation of the cash balance from the Management.

Control over SBN Transactions

5. Obtain an understanding of the controls and procedures implemented by the company during the period 9th November 2016 to as at 30th December 2016 to ensure that there were no payments and receipts made in SBN other than those permitted by regulators from time to time. Whether the controls (if implemented by the company) were reasonable to prevent and detect any non-permitted transactions.

Listing of Payments / Deposits

6. Obtain a listing from the Management as to how the SBNs available with the company as at closing on 8th November 2016 were dealt with, example.
   (i) Used for payment for permitted transactions in accordance with the issued notifications* from time to time.
   (ii) Deposited in bank accounts (with dates and amount, with denominations), as evident from bank deposit slips/bank statements.
   (iii) Used for Payment for non-permitted transactions
   [Where cases of non-permitted transactions were noted, the auditor should report the same against Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 - Refer reporting scenario 6]
   (iv) SBNs as available with the company as at closing hours of 30th December 2016.

Listing of Receipts

7. Obtain a listing from the Management if there were any receipts of the SBNs during the period from 9th November 2016 to 30th December 2016, including the nature of transaction and amount with denominations. Further examine with the relevant notification that they were eligible to accept SBNs

Verify Payments / Deposits

8. For the details of payments given by the company, verify the following with reference to relevant notifications issued from time to time:
   (i) Payments for permitted transactions: Verify cash payment vouchers and whether the purpose for which payments were made are covered under permitted/ non-permitted transactions.
   (ii) Deposited in bank accounts (with dates and amount, with denominations): verify deposit slips or deposit form which would contain details of denominations and would also be acknowledged by the Bank.
9. Obtain bank statement regarding deposits made with the Banks.

Verify Receipts

10. Where the entity is covered under the permitted list to receive payments in SBN (e.g. hospital, toll-collection companies, petrol pumps, air ticket etc.) as per the notifications issued from time to time, obtain details of receipts made by the company and deposits made with the Bank. Also verify the same from the books of accounts of the company, bank deposit slips and bank statements.

Written Representation

11. Obtain management representation regarding the following:
    (i) Completeness of the disclosure made in the notes to the financial statements.
    (ii) Manner of dealing in the SBNs during 9th November 2016 to 30th December 2016, deposited in bank, payment against permitted transactions etc.
    (iii) Permitted receipts and permitted payments made by the company as per the Government notifications issued from time to time.

IFSC

In exercise of the powers conferred by clauses *(a)* and *(b)* of sub-section (1) of section 462 and in pursuance of sub-section (2) of the said section of the Companies Act, 2013 (18 of 2013), the Central Government, in the interest of public, hereby directs that certain provisions of the Companies Act, 2013 (18 of 2013), as specified in column (2) of the Table, shall not apply or shall apply with such exceptions, modifications and adaptations as specified in column (3) of the said Table, to a private company which is licensed to operate by the Reserve Bank of India or the Securities and Exchange Board of India or the Insurance Regulatory and Development Authority of India from the International Financial Services Centre located in an approved multi services Special Economic Zone set-up under the Special Economic Zones Act, 2005 (28 of 2005) read with the Special Economic Zones Rules, 2006 (hereinafter referred to as "Specified IFSC private company"), namely:—

Fourth proviso to sub-section (1) of section 139	Intimation of Appointing Auditor	For the words "fifteen days" read as "thirty days".
All provisos to sub-section (2) of section 139	Cooling Period / Common Partner Restriction	Shall not apply. ***(That means only change is required, cooling period is not relevant, he can come back after change anytime as company decide, further audit can go to common partner firm also)***
Sub-section (1) of section 140	Removal of Auditor before expiry	In sub-section (1), after the proviso, the following proviso shall be inserted, namely: — "Provided further that in case of a Specified IFSC private company, where, within a period of sixty days from the date of submission of the application to the Central Government under this sub-section, no decision is communicated by the Central Government to the company, it would be deemed that the Central Government has approved the application and the company shall appoint new auditor at a general meeting convened within three months from the date of expiry of sixty days period.". ***(That means automatic approval from central government regarding removal of auditor before expiry, if not decision given within 60 days, further 3 months' time is given instead of 60 days)***

Same exemptions are for public company also for sections between Sec 139 to 148

AMENDMENTS
COMPANY AUDIT II (SEC 128 TO SEC 138)

PART-B

IFSC

In exercise of the powers conferred by clauses (*a*) and (*b*) of sub-section (1) of section 462 and in pursuance of sub-section (2) of the said section of the Companies Act, 2013 (18 of 2013), the Central Government, in the interest of public, hereby directs that certain provisions of the Companies Act, 2013 (18 of 2013), as specified in column (2) of the Table, shall not apply or shall apply with such exceptions, modifications and adaptations as specified in column (3) of the said Table, to a private company which is licensed to operate by the Reserve Bank of India or the Securities and Exchange Board of India or the Insurance Regulatory and Development Authority of India from the International Financial Services Centre located in an approved multi services Special Economic Zone set-up under the Special Economic Zones Act, 2005 (28 of 2005) read with the Special Economic Zones Rules, 2006 (hereinafter referred to as "Specified IFSC private company"), namely:—

Sub-section (3) of section 134	to make board reports simple	In sub-section (3), the following proviso shall be inserted, namely: — "Provided that in case of a Specified IFSC private company, if any information listed in this sub-section is provided in the financial statement, the company may not include such information in the report of the Board of Directors.". ***(Eg Profits / Proposed Dividend / Transfer to General Reserve etc)***
Section 138	Internal audit can be avoided	Shall apply if the articles of the company provides for the same. ***(So now internal audit has become voluntary for such companies)***

Same exemptions are for public company also for sections between Sec 128 to 138

SECTION 124, 125 AND IEPF RULE-2016

1. PART-I TRANSFER OF UNPAID/UNCLAIMED DIVIDEND.

Section 124 & IEPF Rules 2016

Part I- Transfer of Unpaid / Unclaimed Dividend

Transfer to Unpaid Dividend Account (UDA)
Dividend Declared --> Unclaimed / Unpaid for 30 Days --> Transfer within next 7 days to Special Account opened with Schedule Bank "Unpaid Dividend Account"
*If there is default then company will have to pay interest @ 12% on such amount, members will be entitled to such money in proportion of unpaid amount

↓

Any person entitled to above transferred money can apply to company and get the payment

↓

Website Upload
Within 90 days of transferring amount to Unpaid Dividend Account, Prepare Statement containing NAME / LAST KNOWN ADDRESS / AMOUNT and place on company website (If Any) and also on any other website as prescribed by Government

↓

Transfer to IEPF
If any amount is unclaimed / unpaid for 7 years from date of transfer to UDA then transfer it to IEPF along with accrued interest along with form IEPF-1

2. PART-II TRANSFER OF SHARES.

Part II- Transfer of Shares

Condition of Transfer
If dividend is unclaimed / unpaid for 7 consecutive years or more, then such shares should be transferred to IEPF,

(Clarification) if dividend is claimed or paid for any year in 7 consecutive years, shares wont be transferred.

When to transfer shares to IEPF?
Shares should be transferred to DEMAT account of authority within 30 days from due date of transfer.
Further if 7 years are completed before rules were notified or gets completed between 7th Sept to 31st Mar 17 then due date of transfer will be 31st May (So transfer should be within 30 days from this date)

Court / Tribunal / Statutory Order
If specific order from court / tribunal / statutory authority restraining transfer of shares or payment of dividend or where shares are hypothecated or pledged under depository act 1996 then such shares shall not be transferred to IEPF.

And details of such shares should be given in form IEPF 3 within 30 days from end of financial year.

Process of Transfer
Board shall authorise Company Secretary or Any other person to sign documents in there behalf.

Intimation & Public Notice
Inform concerned shareholders on latest address available and also publish notice in leading English and regional newspaper to concerned shareholders that names / folio number / DP -ID / Client ID are available on website, and website address 3 months before due date.

Transferring Demat Shares	**Transferring Physical Shares**
Corporate Action Company should inform depository where shareholders have there account by the way of corporate action for transfer of shares in favour of authority.	**Duplicate Share Certificate** After informing shareholders and giving newspaper notice, on non receipt of any application company should issue duplicate share certificate and it shall be stated on face of it "Issued in lieu of share certificate No...... for purpose of transfer to IEPF" Word Duplicate should be in stamped or punched in bold on first page
Transfer by Depository Depository shall transfer shares as directed by corporate action	**Register Entry** Particulars of such share certificates should be entered in Register of Renewed and Duplicate Share Certificate maintained in Form SH-2
	Corporate Action Company should inform depository where shareholders have there account by the way of corporate action to convert the duplicate share certificates into DEMAT form and transfer in favour of the Authority
	Transfer by Depository Depository shall transfer shares as directed by corporate action

Corporate Actions
"Corporate Action" means any action taken by the company relating to transfer of shares and all the benefits accruing on such shares namely, bonus shares, split, consolidation, fraction shares etc., except right issue to the Authority

Preserve copies for its records

Details of Transferee Shareholders
The company shall maintain the details of shareholding of each individual shareholders whose shares have been credited to the DEMAT account of the Authority.

Statement to Authority
While effecting such transfer, the company shall send a statement to the Authority in Form No. IEPF 4 containing details of such transfer.

3. PART-IIIFUND & RELATED PROCEDURE.

Voting Rights Will Be Frozen

The voting rights on shares transferred to the Fund shall remain frozen until the rightful owner claims the shares

Provided that for the purpose of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the shares which have been transferred to the Authority shall not be excluded while calculating the total voting rights.

↓

Accruing Benefits

All benefits accruing on such shares e.g., bonus shares, split, consolidation, fraction shares etc., except right issue shall also be credited to such DEMAT account.

↓

Separate Ledger Account for Dividend Received

Any further dividend received on such shares shall be credited to the Fund and a separate ledger account shall be maintained for such proceeds.

↓

Transfer of Shares Only to Claimant

The shares held in such DEMAT account shall not be transferred or dealt with in any manner whatsoever except for the purposes of transferring the shares back to the claimant as and when he approaches the Authority except in case of delisting or winding up as explained below.

↓

What if delisting takes place?

If the company is getting delisted, the Authority **shall surrender shares** on behalf of the shareholders in accordance with the SEBI (Delisting of Equity Shares) Regulations, 2009 and the proceeds realised shall be credited to the Fund and a separate ledger account shall be maintained for such proceeds.

↓

What if company wounding up takes place?

In case the company whose shares or securities are held by the Authority is being wound up, the Authority may surrender the securities to receive the amount entitled on behalf of the security holder and credit the amount to the Fund and a separate ledger account shall be maintained for such proceeds.

↓

Punishment

Fine on Company 5,00,000 to 25,00,000

Fine on every officer of the company who is in default 1,00,000 to 5,00,000

Section 125 & IEPF Rules 2016

Part III- Fund & Related Procedure

Creation of FUND

CG shall establish fund which will be called Investor Education & Protection Fund.

Authority to administer IEPF

The Central Government shall constitute, by notification, an authority for administration of the Fund consisting of a chairperson and such other members, not exceeding 7 and a CEO , as the Central Government may appoint.

Administration of IEPF

The manner of administration of the Fund, appointment of chairperson, members and chief executive officer, holding of meetings of the authority shall be in accordance with such rules as may be prescribed.

Resources for IEPF

The Central Government may provide to the authority such offices, officers, employees and other resources in accordance with such rules as may be prescribed.

Transfer from IEPF exiting under Company Act 1956

--> All rights shall be transferred
--> All existing assets (receivables) / properties (movable / immovable) shall be transferred
--> all debts / obligations / contracts / suits / legal proceeding shall be of IEPF Authority
--> Any reference hence forth to IEPF in any law / rules / regulation would mean IEPF authority

What should be transferred to Fund?

1. No Need to Wait For 7 Years (5)

Grants as per law approved in parliament / Donations / Sale Proceeds from selling securities acquired fraudulently as per Sec 38 / Money under old sections of company act 1956 / All income earned by the Authority in any year

2. Unclaimed or Unpaid for 7 Years (3)

Unpaid Dividend as per Sec 124 / Shares as per Sec 124 /redemption amount of preference shares unpaid or unclaimed 7 years or more / Sale proceeds of fractional shares pending distribution for 7 or more years

3. Unclaimed and Unpaid for 7 Years (3)

application money due for refund / matured deposits other than banking company / matured debentures / Unclaimed and unpaid for 7 years or more

#interest accrued on such items whether unclaimed or unpaid

Intimation to Authority & Central government

Within 30 days of end of financial year inform --> authority, amounts which will become due for transfer in next financial year in form IEPF -6

Within 60 days of end of financial year authority should inform --> central government details of company who failed to transfer amount to IEPF

Within 30 days of closure of books of accounts after year end inform --> authority, why there was difference in amounts intimated in IEPF-6 (last year) and amounts actually transferred in current year

By end of next financial year authority should inform --> central government details of company who failed to file information as given above.

Remittance & Challan

Remittance to specified branches of PNB or other authorised banks engaged by MCA 21 within period of 30 days from becoming due.

Amount shall be submitted along with challan in triplicate to PNB or other authorised banks engaged by MCA 21 who will return 2 challans duly stamped indicating amount received.

Receiving Bank Branch will submit challan retained earlier along with daily credit scroll to its focal point branch, which will be forwarded to MCA

Company shall file with Authority one copy of the challan indicating the deposit of the amount to the Fund along with Form IEPF -1 within 30 days of submission of challan

**The amount may also be remitted by Electronic Fund Transfer in such manner, as may be specified

Records & Power to Inspect

The company shall maintain all records of the persons in respect of whom unpaid or unclaimed amount has remained unpaid or unclaimed for a period of seven years and has been transferred to the Fund and the Authority shall have the powers to inspect such records.

⇩

Maintenance of Register & Monthly Reconciliation

Each designated bank shall furnish an abstract of such receipts during the month to the Authority within 7 days after the close of every month.

Authority should maintain register physically / electronically from statements received from company ans reconcile them from challan received from receiving branch.

Details on Website

Every company shall within a period of 90 days after the holding of AGM or the date on which it should have been held as per the provisions of section 96 of the Act and every year thereafter till completion of the seven years period, identify the unclaimed amounts, as referred in sub-section 2 of section 125 of the Act, as on the date of holding of Annual General Meeting or the date on which it should have been held as per the provisions of section 96 of the Act, separately furnish and upload on its own website and also on website of Authority or any other website as may be specified by the Government, a statement or information through Form No. IEPF 2, separately for each year, containing following information, namely:—

(a) the names and last known addresses of the persons entitled to receive the sum;(b) the nature of amount;(c) the amount to which each person is entitled;(d) the due date for transfer into the Investor Education and Protection Fund; and(e) such other information as may be considered relevant for the purposes.

4. PART-IV REFUND & RELATED PROCEDURE.

Part IV- Refund & Related Procedure

Utilisation of Fund

1. No Need to Wait For 7 Years (2)

Sale Proceeds from selling securities acquired fraudulently as per Sec 38 / Money under old sections of company act 1956

2. Unclaimed or Unpaid for 7 Years (3)

Unpaid Dividend as per Sec 124 / Shares as per Sec 124 /redemption amount of preference shares unpaid or unclaimed 7 years or more / Sale proceeds of fractional shares pending distribution for 7 or more years

3. Unclaimed and Unpaid for 7 Years (3)

application money due for refund / matured deposits other than banking company / matured debentures /

Unclaimed and unpaid for 7 years or more

#interest accrued on such items whether unclaimed or unpaid

4. Promotion of investor education, awareness & protection.

5. Reimbursement of legal expenses incurred for class action suit under Sec 37 / Sec 245

6. Any other purpose incidental thereto

Claiming Money from IEPF

Any person claiming to be entitled to the amount may apply to the authority .

Only one claim per company in financial year

The claimant shall file only one consolidated claim in respect of a company in a financial year.

Procedure for Refund

IEPF 5

Submit an online application to Authority in Form IEPF-5 available on the website www.iepf.gov.in along with fee specified.

Send IEPF -5 it to Company

Send the IEPF duly signed by him along with, requisite documents to the concerned company at its registered office for verification of his claim.

Verification Report

The company shall, within 15 days from the date of receipt of claim, send a verification report to the Authority.

Payment / Transfer

After verification of the entitlement of the claimant—

(a) Drawing and Disbursement Officer of the Authority shall present a bill to the Pay and Accounts Office for e-payment

(b) To the shares claimed, the Authority shall issue a refund sanction order with the approval of the Competent Authority and shall credit the shares to the DEMAT account of the claimant to the extent of the claimant's entitlement.

Record Keeping

The Authority shall, in its records, cause a note to be made of all the payments made above.

Time Limit of 60 Days

An application received for refund shall be disposed off by the Authority within 60 days from the date of receipt of the verification report from the company, complete in all respects and any delay beyond 60 days shall be recorded in writing specifying the reasons for the delay and the same shall be communicated to the claimant in writing or by electronic means.

Incomplete/Not Approved Application

In cases, where the application is incomplete or not approved, a communication shall be sent to the claimant and the concerned company by the Authority detailing deficiencies of the application.

Legal Heir / Successor

In case, claimant is a legal heir or successor or administrator or nominee of the registered shareholder, he has to ensure that the transmission process is completed by the company before filing any claim with the Authority.

In case, claimant is a legal heir or successor or administrator or nominee of any other registered security or in cases where request of transfer or transmission of shares is received after the transfer of shares by company to the Authority, the company shall verify all requisite documents required for registering transfer or transmission and shall issue letter to the claimant indicating his entitlement to the said security and furnish a copy of the same to the Authority while verifying the claim of such claimant.

Indemnity by Company to Authority

The company shall be liable under all circumstances , due to any incongruity or inconsistency or disparity in the verification report or otherwise and the Authority shall not be liable to indemnify the security holder or Company for any liability arising out of any discrepancy in verification report submitted etc., leading to any litigation or complaint arising thereof.

Spending Money out of IEPF

It shall be competent for the authority to spend money out of the Fund

Accounts & Records

The authority shall administer the Fund and maintain separate accounts and other relevant records in relation to the Fund in such form as may be prescribed by CG after consultation with the CAG

Audit of IEPF

The accounts of the Fund shall be audited by the Comptroller and Auditor- General of India at such intervals as may be specified by him and such audited accounts together with the audit report thereon shall be forwarded annually by the authority to the Central Government.

Rules (Audit by Internal Audit Party & Expenditure)

The accounts of the Authority shall be audited annually by the Internal Audit Party of the office of Chief Controller of Accounts and Comptroller and Auditor-General of India at such intervals and any expenditure incurred in connection with such audit shall be payable by the Authority to the Comptroller and Auditor-General of India.

Powers of C&AG will be same as they have with respect to audit of government companies.

Certified Accounts by CAG --> Authority --> CG --> Parliament

Returns and reports

Authority should submit return and reports as specified.

Authority shall, within 180 days after the end of each financial year, submit to CG a annual report giving a true and full account of its activities during the previous financial year.

Annual Report & Audit Report to be laid in Parliament

Central Government shall cause the annual report and the audit report given by the Comptroller and Auditor-General of India to be laid before each House of Parliament.

Protection of action taken in good faith

Immunity against any suit, case or legal action against CG / Authority / Members / Officers / Employees if any action is taken in good faith.

5. FORMS UNDER IEPF RULE-2006.

Forms under IEPF Rules 2016

FORM NO. IEPF-1

Statement of amounts credited to Investor Education and Protection Fund

FORM NO. IEPF-2

Statement of unclaimed and unpaid amounts

FORM NO. IEPF-3

Statement of shares and unclaimed or unpaid dividend not transferred to the Investor Education and Protection Fund

FORM NO. IEPF-4

Statement of shares transferred to the Investor Education and Protection Fund

FORM NO. IEPF-5

Application to the Authority for claiming unpaid amounts and shares out of Investor Education and Protection Fund (IEPF)

FORM NO. IEPF-6

Statement of unclaimed or unpaid amounts to be transferred to the Investor Education and Protection Fund

NON-BANKING FINANCIAL COMPANIES

1. AUDIT REPORT

Reporting to BOD / RBI

The recent RBI regulations have considerably increased the responsibility of auditors of NBFCs. A very onerous task of reporting to the Board of Directors on certain specified matters and to the RBI on an exception basis has been imposed upon him. This reporting requirement is in addition to the normal reporting requirements to the shareholders under section 143 of the Companies Act, 2013. Auditors will thus have to be very careful whilst carrying out audits of NBFCs to ensure that all matters which they are required to take into consideration for the purposes of reporting to the RBI have been taken due care of.

Statements / Information / Particulars of Deposit

Section 45MA of the Reserve Bank of India Act has been introduced with effect from 13.12.1974. Under this provision the auditor of a non-banking financial company or a nonbanking miscellaneous company which has accepted public deposits, has to inquire whether or not the company has furnished to the Reserve Bank of India statements, information of particulars relating to the deposits as are required to the furnished under Chapter IIIB of the Reserve Bank of India Act. The provision further states that if on inquiry the auditor is not satisfied about the compliance by the company, it is his duty to make to the Reserve Bank giving the aggregate amount of deposits held by the company. The auditor is also required to incorporate the report or intended to be made to the Reserve Bank, in his report to thecompany under Section 143 of the Companies Act, 2013 and alsoReport to Board of Directors.

RBI issued NBFC AR Directions 2016

The Reserve Bank of India (RBI) has issued Non-Banking Financial CompaniesAuditor's Report (Reserve Bank) Directions, 2016 (the Directions) to auditor of every nonbanking financial companies.

Duty of Auditor

The Directions shall apply to every auditor of a non-banking financial company as defined in section 45 I(f) of the Reserve Bank of India Act, 1934. Auditors to submit additional Report to the Board of Directors: In addition to the Report made by the auditor under Section 143 of the Companies Act, 2013 examined for every financial year ending on any day on or after the commencement of these Directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.

Matters to be Included

Material to be included in the Auditor's report to the Board of Directors: The auditor'sreport on the accounts of a non-banking financial company shall include a statement on thefollowing matters, namely -

All NBFCs

(A) In the case of all Non-Banking Financial Companies

(COR)

1. Conducting Non-Banking Financial Activity without a valid Certificate of Registration (CoR) granted by the Bank is an offence under chapter V of the RBI Act, 1934. Therefore, if the company is engaged in the business of non-banking financial institution as defined in section 45-I (a) of the RBI Act and meeting the Principal Business Criteria (Financial asset/income pattern) as laid down vide the Bank's press release dated April 08, 1999, and directions issued by DNBR, auditor shall examine whether the company has obtained a Certificate of Registration (CoR) from the Bank.

(Principal Business Test)

2. In case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its Principal Business Criteria (Financial asset/income pattern) as on March 31 of the applicable year.

(Net Owned Fund)

3. Whether the non-banking financial company is meeting the required net owned fund requirement as laid down in Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Systematically Important if Asset Size above 500 Crore

Non-Systematically Important & Non-Deposit taking NBFC (ND-NBFC)
Systematically Important & Not Deposit taking NBFC (SI-ND-NBFC)
Systematically Important & Deposit taking NBFC (SI-D-NBFC)

(Certificate from Statutory Auditor)

Note: Every non-banking financial company shall submit a <u>Certificate from its Statutory Auditor</u> that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the nonbanking financial company is registered, <u>within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year</u>. The format of Statutory Auditor's Certificate (SAC) to be submitted by NBFCs has been issued by RBI.

NBFCs holding Deposits

(B) In the case of a non-banking financial companies accepting/holding public deposits Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely-

(Regularization of Deposits)

1. Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 are regularized in the manner provided in the said Directions; 1

(Rating)

2. In respect of non-banking financial companies referred to in clause (iii) above, whether the credit rating, for each of the fixed deposits schemes that has beenassigned by one of the Credit Rating Agencies listed in Non-Banking FinancialCompanies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 is inforce; and 2

(MIGR)

3. Whether the non-banking financial company is accepting "public deposit" without minimuminvestment grade credit rating from an approved credit rating agency as per the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; 3

(Limit as per Credit Rating Agency)

4. (b) whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency; 4

(Deposits within the limit?)

5. Whether the public deposits accepted by the company together with other borrowings indicated below viz.
   (a) from public by issue of unsecured non-convertible debentures/bonds;
   (b) from its shareholders (if it is a public limited company); and
   (c) which are not excluded from the definition of 'public deposit' in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016,

   are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; 5

(Computation of CAR)

1. Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in terms of the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein; 6

(Liquidity Norms)

2. Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the RBI Act and whether the details of the designated bank in which the approved securities are held is communicated to the office concerned of the Bank in terms of NBS 3; Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016; 7

(Default of Interest)

3. Whether the company has defaulted in paying to its depositors the interest and /or principal amount of the deposits after such interest and/or principal became due; 8

(Compliance with Prudential Norms)

4. Whether the company has complied with the prudential norms on income recognition,accounting standards, asset classification, provisioning for bad and doubtful debts, andconcentration of Credit/investments as specified in the Directions issued by the Bank interms of the Master Direction - Non-Banking Financial Company - Systemically ImportantNon-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; 9

(Return of Deposit)

5. Whether the company has furnished to the Bank within the stipulated period the return on deposits as specified in the NBS 1 to – Non- Banking Financial Company Returns (Reserve Bank) Directions, 2016; 10

(Quarterly Report)

6. Whether the company has furnished to the Bank within the stipulated period the quarterly return on prudential norms as specified in the Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016; 11

(Violation of Public Deposit Direction)

7. Whether the company has violated any restriction on acceptance of public deposit as provided in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; 12

(New Branches)

8. Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016. 13

NBFCs Not Accepting Deposits

(C) In the case of a non-banking financial company not accepting public deposits Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely: -

(Board Resolution)

1. Whether the Board of Directors has passed a resolution for non- acceptance of any public deposits; 1

(Acceptance of Deposit)

2. Whether the company has accepted any public deposits during the relevant period/year; 2
(Classification)
3. whether the non-banking financial company has been correctly classified as NBFC Micro Finance Institutions (MFI) as defined in the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. 3

(Systematically Important NBFC)

4. In respect of Systemically Important Non-deposit taking NBFCs as defined in Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016:

   (a) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS-7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;

   (b) Whether the company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period. 4

(Prudential Norms)

5. Whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable

to it in terms of Non-Banking Financial Company – No Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; 5

NBFC not required COR

(D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions Apart from the matters enumerated in (A)(I) above where a company has obtained a specific advice from the Bank that it is not required to hold CoR from the Bank, the auditor shall include a statement that the company is complying with the conditions stipulated as advised by the Bank.

Reasons

1. Reasons to be stated for unfavorable or qualified statements Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavorable or qualified, the auditor's report shall also state the reasons for such unfavorable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 3 above, his report shall indicate such fact together with reasons therefor.

Exception Report

2. Obligation of auditor to submit an exception report to the Bank

(I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavorable or qualified, or in the opinion of the auditor the company has not complied with:

(a) the provisions of Chapter III B of RBI Act (Act 2 of 1934); or

(b) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or

(c) Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

It shall be the obligation of the auditor to make a report containing the details of such unfavorable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Nonbanking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per first Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.

CG & LODR-2015

1. CONCEPT OF CORPORATE GOVERNANCE & LODR

Concept of Corporate Governance

Corporate Governance means principles, rules, procedures; systems framed to take decisions on behalf of company, so as to direct and control company. *(BOD Composition, Meetings, Transactions Approvals &Executions,Information Processing, Accounting & Auditing Etc.)*

In India, corporate governance depends on Company Act 2013. Listing Agreement & Disclosure Requirements 2015 (LODR).

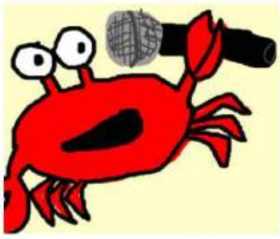
Applicability of LODR

Unless otherwise provided, these regulations shall apply to the listed entity who has listed any of the following designated securities on recognised stock exchange(s):

(a) Specified securities[1] listed on main board[2] or SME Exchange or institutional trading platform;
(b) Perpetual non-cumulative preference shares, Perpetual debt instrument *(Only one left out perpetual cumulative preference shares may because they are comparatively less risky)*
(c) Non-convertible Redeemable Preference shares, Non-Convertible Redeemable Debt securities
(d) Indian Depository Receipts;
(e) Securitised Debt Instruments;
(f) Units issued by Mutual Funds;
(g) Any other securities as may be specified by the Board.

1. Equity Shares & Convertible Securities (Convertible Preference Shares & Convertible Debentures)
2. Main Board means Recognised Stock Exchange having nationwide trading terminals

2. ENUMERATE THE ISSUES ADDRESSED IN THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015 REGARDING CORPORATE GOVERNANCE



$C^2R^2ABS^4$On MIC 4 good corporate governance.

Issues of Corporate Governance: Issues addressed in the LODR, 2015 regarding corporate governance are-

C- Compliance Certificate by the CEO and CFO; | **C**-Compliance Certificate from either the auditors or practising company secretaries regarding compliance of conditions on corporate governance

R-Risk management procedures | **R**- Related party transactions disclosures,

A-Audit Committee --> Composition / Meetings / Powers / Role and Responsibilities

B-Board composition / key function & responsibilities / compensation / disclosures;

S-Subsidiary company management procedures | **S**- Statement of Deviation or Variation | **S**- Securities Transfer | **S**- Stakeholder Committee

O- Obligations of Director and Senior Management

M- Management Discussion & Analysis Content

I- Information to shareholders; ***(About Directors)***

C- Code of Conduct and vigil mechanism;

3. COMPLIANCE CERTIFICATE

The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

First comes IFCR

(a) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

Then comes transactions

(b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.

Then comes Financial Statements

(c) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:

- **(i)** These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- **(ii)** These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

Then indications to Audit Committee

(d) They have indicated to the auditors and the Audit committee:

- **(i)** Significant changes in internal control over financial reporting during the year;
- **(ii)** Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
- **(iii)** Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting."

What should auditor do for IFCR in context of LODR?

- ✓ Check whether there is IFCR Framework (Detailed Document for IFCR)
- ✓ Whether risks and related documents are mitigated for each significant process
- ✓ Whether assessment procedure followed by CEO / CFO is reasonable
- ✓ Whether there is process to identify significant changes in accounting policy / IFCR are communicated to audit committee & auditor
- ✓ Whether there is process to which deficiencies identified & steps taken to rectify are communicated to audit committee / auditor
- ✓ Whether there is process to issue compliance certificate after considering above & involvement of audit committee (refer to the minutes of the Audit Committee meetings)
- ✓ In situations where negative or adverse comments or exclusions/disclaimers are contained in the Compliance Certificate, the auditor should take cognizance of the same in the Audit Report and/or the certificate of compliance of conditions of corporate governance.

4. COMPLIANCE CERTIFICATE BY AUDITOR

Requirement to Obtain Compliance Certificate

As per Schedule V, a listed entity shall obtain a compliance certificate from either theauditors or practicing company secretaries regarding compliance of conditions ofcorporate governance and shall annex it to the Directors' Report.

Adverse or Qualified Statement& Examples

Depending upon the facts and circumstances, some situations may require an adverseor qualified statement or a disclosure without necessarily making it a subject matter ofqualification in the Auditors' Certificate, in respect of compliance of requirements ofcorporate governance for e.g.,

Examples of such circumstances:

Shareholder Related

(Transfer of Shares)

- The power of share transfer is not delegated to an officer or a committee or to theregistrar and share transfer agents.

Director Related

(Number of Non-Executive Directors)

- The number of non-executive directors is less than 50% of the strength of Board ofdirectors.

(Directorships)

- A director is a member of more than 10 committees or acts as Chairman of morethan 5 committees across all companies in which he is a director.

(Time gap between 2 BOD Meetings)

- The time gap between two Board meetings is more than one hundred and twentydays.

Audit Committed Related

(Setting up Audit Committee)

- A qualified and independent audit committee is not set up.

(Chairman of Audit Committee)

- The Chairman of the audit committee is not an independent director.

(Meetings of AC)

- The Audit Committee does not meet four times a year.

(Powers of Audit Committee)

- The necessary powers in terms of Part C of Schedule II have not been vested bythe Board in the Audit Committee.

Financial Reporting Related

(Quarterly Results)

(h) The information of quarterly results is neither put on the listed entity's website norsent in a form so as to enable the stock exchange on which the entity's securitiesare listed to enable such stock exchange to put it on its own website.

CASE STUDIES

Statements appearing in the Auditors' certificate on compliance of conditions ofcorporate governance:

1. ABC Oil & Natural Gas Commission - Non-compliance with (a) appointment ofminimum number of independent directors (b) filling up the vacancies caused due tothe resignation orretirement of independent directors within the specified time periodand (c) appointment of woman director to the Board during certain specified periods.
2. XYZ Bank - Non-compliance with appointment of woman director to the Board forthe F.Y.2015-16.
3. PQR Electrification Corporation Limited - Non-compliance with appointment ofwoman director to the Board
4. RST Oil Corporation Limited - Non-compliance with (a) minimum number ofindependent directors in the composition of Board of Directors (b) appointment ofwoman director from 29.10.2015 (c) filling up the vacancies caused due to theretirement of independent directors for part of the year.
5. RKP National Fertilizers Limited - Non-compliance with;

   (a)minimum number ofindependent directors in the composition of Board of Directors

(b) appointment ofwoman director
(c)performance evaluation of independent directors by the entire Boardof Directors and
(d) performance evaluation by the independent directors of the non-independent directors, that of the board of directorsas a whole and that of the Chairperson of the company.

Auditor's Responsibility
The auditor's responsibility in certifying compliance with the requirements of corporate governance relates to the verification and certification of factual implementation of requirements of corporate governance as stipulated in the LODR Regulations. Such verification and certification is neither an audit nor an expression of opinion on the financial statements of the company. The certificate from the auditor as regards compliance with the requirements of corporate governance is neither an assurance as to the future viability of the company, nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

Performa of Compliance Certificate
A Performa of the certificate to be issued by the auditors regarding compliance ofconditions of corporate governance is shown below:

CERTIFICATE

To,
The Members of................
(Name of the entity)

(Intro)
We have examined the compliance of conditions of corporate governance by (name ofthe entity) for the year ended on .... as stipulated in Securities Exchange Board ofIndia (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinaftercalled as "SEBI (LODR) Regulations, 2015").

(Management Responsibility)
The compliance of conditions of corporate governance is the responsibility of themanagement.

(Issuer's Responsibility)
Our examination was limited to procedures and implementation thereof,adopted by the company for ensuring the compliance of the conditions of the corporategovernance. It is neither an audit nor an expression of opinion on the financialstatements of the company.

(Opinion)
In our opinion and to the best of our information and according to the explanationsgiven to us, we certify that the company has complied with the conditions of corporategovernance as stipulated in the above-mentioned Regulations.OR (as applicable)In our opinion, and to the best of our information and according to the explanationsgiven to us, subject to the following:

1)
2)
We certify that the company has complied with the conditions of corporate governanceas stipulated in the above-mentioned Regulations.We state that such compliance is neither an assurance as to the future viability of thecompany nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For & on behalf of
XYZ & Co.
Chartered Accountants
(Partner / Proprietor)

Membership No.
Place..........
Date............

5. RISK MANAGEMENT & RELATED PARTY

R-Risk management procedures | **R**- Related party transactionsdisclosures, -- Please cover it from LAW Notes (Risk Management Committee & Related Party Permissions & Disclosures)

6. AUDIT COMMITTEE

Audit Committee under LODR Vs Company Act 2013

Particulars	LODR	Companies Act
Applicability	Same as applicability of LODR	As per Section 177 all listed companies, Public companies having paid up capital 10 crores or more, turnover 100 crores or more, Loan/Borrowing/ Debenture/ Deposit 50 crores or more are supposed to have AUDIT COMMITTEE.
Composition	Minimum 3 Directors (2/3rd IDs)	Minimum 3 Directors (Majority IDs)
Qualifications	All members should be "Financially Literate"At least one Expert	Majority including Chairman should be able to "able to understand FST"
Chairman	Should be ID	Silent
Secretary	Company Secretary of Company.	Silent
Number of meetings	Audit Committee shall meet at least 4 times in a year, Gap between 2 meetings should not be more than 4 months.	Silent
Quorum	2 Members or 1/3rd of members whichever is higher. (At least 2 IDs)	Silent
Invitees to committee Meetings	Finance Head / Head of Internal Audit / Representative of Statutory Auditor /	Auditor / Key Managerial Person can attend and have right to be heard with respect to audit report but cannot vote
Presence at AGM	Chairman of Audit Committee should be present at AGM	Silent

*Refer Annexure for role of Audit Committee (last page of chapter)

Mandatory Review by Audit Committee

The audit committee shall mandatorily review the following information:

(Start of the year)

(1) The appointment, removal and terms of remuneration of the chief internal audit or shall be subject to review by the audit committee.

(During the year)

(2) Statement of significant related party transactions (as defined by the audit committee), submitted by management;

(3) Management letters / letters of internal control weaknesses issued by the statutory auditors;

(4) Internal audit reports relating to internal control weaknesses; and

(Quarter/ Year End)

(5) Statement of deviations:

(a) Quarterly statement of deviation(s) including report of monitoring agency, inapplicable, submitted to stock exchange(s) in terms of Regulation 32(1).

(b) Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7)

(Year End)

(6) Management discussion and analysis of financial condition and results of operations;

7. BOARD COMPOSITION

B-Board composition / key function & responsibilities / compensation / disclosures; --- Please cover it from LAW Notes

8. SUBSIDIARY

Corporate governance requirements with respect to subsidiary of listed entity:

- At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, incorporated in India.

("Material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
Explanation -The listed entity shall formulate a policy for determining 'material' subsidiary.)

- The audit committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.

- The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.

- The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.

Explanation-For the purpose of this regulation, the term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted material subsidiary for the immediately preceding accounting year.

- A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal.

- Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal.

- Where a listed entity has a listed subsidiary, which is itself a holding company, the provisions of this regulation shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

KEY TO REMEMBER

Listed holding companies should pay attention, supervise functioning of unlisted subsidiaries. There are more requirements for Unlisted Material Subsidiaries (Contributed 20% or more of consolidated net income or net worth in immediately preceding accounting year)

All Unlisted Subsidiaries

1. *Bring to notice of BOD of listed company all significant transactions & arrangements (exceed 10% of totals as per preceding year) entered by such subsidiary*

2. *Minutes of BOD meetings should be placed at BOD meeting of listed company.*

3. *Audit Committee should review financial statements (in particular investments)*

Material Unlisted Subsidiaries

1. *At least one independent director from holding company should be director at such company.*

2. *Shall not dispose shares and reduce holding below 50% or cease control unless approved by special resolution or approval by court / tribunal*

3. *Shall not sale / dispose / lease more than 20% of assets during financial year unless approved by special resolution or approval by court / tribunal*

Above requirements will also be applicable for listed subsidiaries with respect to its subsidiaries.

9. STATEMENT OF DEVIATIONS OR VARIATIONS

Quarterly Submission to Stock Exchange

(1) The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.

Deviation

(a) Indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;

Variation

(b) Indicating category-wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

Number of Quarters

(2) The statement(s) shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.

Audit Committee Involvement

The audit committee shall mandatorily review:

(a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).

(b) Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice.

10. TRANSFER OR TRANSMISSION OR TRANSPOSITION OF SECURITIES

Delegation of Powers

The Board of Directors of a listed entity shall delegate the power of transfer ofsecurities
to a committee or
to the compliance officer or
to the registrar
to an issueand/or share transfer agents.

Once in Fortnight

However, the board of directors and/or the delegated authority shall attend to theformalities pertaining to transfer of securities at least once in a fortnight. It may benoted that the delegated authority shall report on transfer of securities to the board ofdirectors in each meeting.

Responsibility of Auditor

(Confirm Delegation)

The auditor should ascertain from the minutes book of the Board meetings whether thelisted entity has delegated the power of share transfer to an officer or a committee or tothe registrar and share transfer agents.

(Confirm once in fortnight requirement)

The auditor should also verify from the recordsmaintained to ascertain whether the delegated authority has attended to share transferformalities at least once in a fortnight. The auditor may verify whether any transferrequest are pending for more than a fortnight and are not attended to in terms of thisRegulation.

11. STAKEHOLDERS RELATIONSHIP COMMITTEE

(Constitution)

(i) The listed entity shall constitute a Stakeholders Relationship Committee tospecifically look into the mechanism of redressal of grievances of shareholders,debenture holders and other security holders.

(Chairman)

(ii) The chairperson of this Committee shall be a non-executive director.

(Other Members)

(iv) The Board of Directors shall decide other members of this Committee.

(Function)

(v) The Committee shall consider and resolve the grievances of the security holders ofthe listed entity including complaints related to transfer of shares, non-receipt ofbalance sheet, non-receipt of declared dividends.

(Auditor Responsibility)

The auditor should ascertain from the minutes book of the Board meetings whether aBoard committee, namely a Shareholders/ Investors Grievance Committee has been setup under the chairmanship of a non-executive director to specifically look into theredressal of shareholder and investors complaints like transfer of shares, non-receipt ofbalance sheet, non-receipt of declared dividends, etc.

Further the auditor should alsoascertain from the minutes book of the Shareholders/ Investors Grievance Committeemeetings whether such committee is prima facie functioning.The auditor should also verify from the records of the Shareholders/ InvestorsGrievance Committee as well as from the certificate obtained by the listed entity fromSEBI and stock exchange(s), if any, as regards the investors' grievances pending up tothe date of certificate of compliance of conditions of corporate governance.

12. OBLIGATIONS OF DIRECTOR AND SENIOR MANAGEMENT

(Discloser of Shareholding by Non-Executive Directors)

(iv) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

(Senior Manager Disclosure)

(vi) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

(Max Directorships)

(ii) A director shall not be a member in more than 10 committees or act as Chairperson of more than 5 committees across all listed entities in which he is a director. Furthermore, every director shall inform the listed entity about the committee positions he occupies in other listed entities and notify changes asandwhen they take place. It may be noted that for the purpose of considering the limit of the committees onwhich a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 shall be excluded and for the purpose of reckoning the limit under this sub-clause,

Chairpersonship/membership of the Audit Committee and the Stakeholders' Relationship Committee alone shall be considered.

(BOD Meetings)

(i) The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.

(Review Compliance Reports)

(iii) The Board shall periodically review compliance reports of all laws applicable to thelisted entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.

(Liability of Independent Director)

(v) An independent director shall be held liable, only in respect of such acts ofomission or commission by the listed entity which had occurred with hisknowledge, attributable through Board processes, and with hisconsent orconnivance or where he had not acted diligently with respect of the provisionscontained in the LODR Regulations.

(Notice Period of Independent Director)

(vi) An independent director who resigns or is removed from the Board of Directors ofthe listed entity shall be replaced by a new independent director at the earliest butnot later than the immediate next Board meeting or three months from the date ofsuch vacancy, whichever is later.

Provided that where the listed entity fulfils the requirement of independentdirectors in its Board even without filling the vacancy created by such resignationor removal, as the case may be, the requirement of replacement by a newindependent director shall not apply.

(Succession of BOD / Senior Management)

(vii) The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.

13. MANAGEMENT DISCUSSION AND ANALYSIS

This section shall include discussion on the following matters within the limits setby the listed entity's competitive position:

(a) Industry structure and developments *(Past Year)*
(b) Outlook *(Future of economy & industry)*
(c) Opportunities and Threats *(At Macro Level)*
(d) Risks and concerns *(At Micro Level)*
(e) Internal control systems and their adequacy *(ICS in Company)*
(f) Material developments in Human Resources / Industrial Relations front, including number of people employed. *(HR Function in company)*
(g) Segment–wise or product-wise performance*(Financial)*
(h) Discussion on financial performance with respect to operational performance*(Operational)*

Disclosure of Accounting Treatment:
Where in the preparation of financial statements, a treatment different from thatprescribed in an Accounting Standard has been followed, the fact shall be disclosedin the financial statements, together with the management's explanation as to whyit believes such alternative treatment is more representative of the true and fairview of the underlying business transaction.

14. INFORMATION TO SHAREHOLDERS

In case of the appointment of a new director or re-appointment of a director theshareholders must be provided with the following information:

(a) A brief resume of the director;
(b) Nature of his expertise in specific functional areas;
(c) Disclosure of relationships between directors inter-se;
(d) Names of listed entities in which the person also holds the directorship and themembership of Committees of the Board; and
(e) Shareholding of non-executive directors.

The auditor should ascertain from the communications sent, whether in the case ofappointment of a new director or re-appointment of a director, the shareholders havebeen provided with the information stipulated above.

15. CODE OF CONDUCT

(Responsibility of BOD & SM)
(i) The Board shall lay down a code of conduct for all Board members and seniormanagement of the listed entity.

(Incorporate Companies Act)
(ii) The Code of Conduct shall suitably incorporate the duties of Independent Directors as laid down in the Companies Act, 2013. *

(Posting on Website)
(iii) The code of conduct shall be posted on the website of the company.

(Compliance)
(iv) All Board members and senior management personnel shall affirm compliance withthe code on an annual basis.

(Declaration by CEO)
(v) The Annual Report of the company shall contain a declaration to this effect signedby the CEO.

(Senior Management)
For this purpose, the term "senior management" shall mean personnel of the listedentity who aremembers of its core management team excluding Board of Directors.Normally, this would

comprise all members of management one level below theexecutive directors, including all functional heads.

(Responsibility of Auditor)

The auditor should ascertain whether the Board of Directors of the company has laiddown a Code of Conduct for all Board members and senior personnel of the companyand obtain a copy of the same. Heshould also verify whether all Board members andsenior management personnel have affirmed compliance with the code on an annualbasis and whether the code has been posted on company's website.

16. ROLE OF AUDITOR IN AUDIT COMMITTEE AND CERTIFICATION OF COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

(Importance of Audit Process)

- The LODR Regulations as well as the Companies Act, 2013 in respect of the constitutionof Audit Committee underline the importance of audit process and its contribution tothe corporate governance process.

(Attending AC Meetings)

- Regulation 18 (1) (f) stipulates that a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.

(Communication with AC)

- The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee. He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

(Assisting Management & AC)

- The auditor must devote substantial professional time in assisting the management andthe Audit Committee to enable them to discharge their functions effectively and incertification of the requirements of corporate governance.
  The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, heshould play a significant role in assisting management to ensure better standards ofcorporate governance.

CONSOLIDATION OF FINANCIAL STATEMENTS

1. CONSOLIDATION UNDER COMPANY ACT 2013

Compulsory Consolidation

According to Section 129(3) of the Companies Act, 2013, where a company has one or moresubsidiaries, including associate company and joint venture, it shall, in addition to its ownfinancial statements prepare a consolidated financial statement of the company and of all thesubsidiaries in the same form and manner as that of its own.

Mutatis Mutandis

Further, section 129(4) of the saidAct, provides that the provisions applicable to the preparation, adoption and audit of the financialstatements of a holding company shall, mutatis mutandis, also apply to the consolidatedfinancial statements.

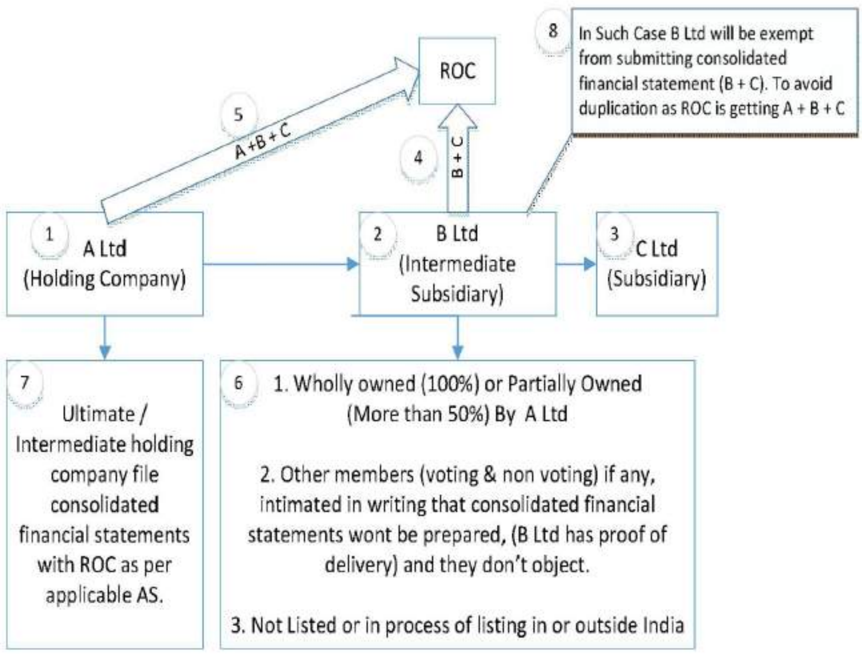
Approval

The Consolidated financial statements shall also be approved by the board of directors beforethey are signed on behalf of the board, along with its own financial statements and shall also belaid before the annual general meeting of the company along with the laying of its own financialstatement.

Exemption Under Company's Act

But following exemptions were granted as per Rule 6 Company (Accounts) Rule 2014. Consolidation is not applicable

i. Amended exemption regarding wholly owned / partially owned subsidiary



Exemption Under AS

Further there are exemption as per AS

i. Temporary holding of subsidiary shares

ii. Not able to economic benefits from subsidiary / associate / JV

What if no consolidation?

Requirement of Schedule III if no consolidation is done is as follows

An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

Even if no consolidation is done following should be done for all subsidiaries

1. As per Sec 129 Attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed (FORM AOC 1)
2. As per Sec 136 provided also that every company having a subsidiary or subsidiaries shall, — *(Here subsidiary means only subsidiary not associate & JVs)*
   - **a.** Place separate audited accounts in respect of each of its subsidiary on its website, if any;
   - **b.** Provide a copy of separate audited financial statements in respect of each of its subsidiary, to any shareholder of the company who asks for it.

2. RESPONSIBILITY OF PARENT

The responsibility for the preparation and presentation of consolidated financial statements,among otherthings, is that of the management of the parent. This includes:

- **(a)** identifying components, and
- **(b)** obtaining accurate and complete financial information from components; and
- **(c)** GAAP conversion, where applicable.
- **(d)** harmonization of accounting policies and accounting framework; and.
- **(e)** including the financial information of the components to beincluded in the consolidated financial statements;
- **(f)** making appropriate consolidation adjustments.
- **(g)** where appropriate, identifying reportable segments for segmental reporting;
- **(h)** identifying related parties and related party transactions for reporting;

Instructions to Component

Apart from the above, the parent ordinarily issues instructions to the management of thecomponent specifying the parent's requirements relating to financial information of thecomponents to be included in the consolidated financial statements. The instructions ordinarilycover the accounting policies to be applied, statutory and other disclosure requirementsapplicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reportingtimetable.

3. RESPONSIBILITY OF AUDITOR

Responsibilities under Companies Act is Same

Section 129(4) of the Companies Act, 2013 requires that the provisions of this Actapplicable to the preparation, adoption and audit of the financial statements of a holdingcompany shall, mutatis mutandis, apply to the consolidated financial statements.

Besidesother matters, the principal auditor of the consolidated financial statements isresponsible for expressing an opinion on whetherthe consolidated financial statements are prepared,in all material respects, in accordance with thefinancial reporting framework under which theparent prepares the consolidated financialstatements in addition to reporting on the additionalmatters as required under the Companies Act, 2013and any other statute to the extent applicable.*(For example, reporting on Sec 143 / IFCR)*

Objectives of Auditor

Therefore, the auditor's objectives in an audit of consolidated financial statements are:

(Express Opinion)

(b)to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements.

(Compliance of FRF)

(a) to satisfy himself that the consolidated financial statements have been prepared inaccordance with the requirements of applicable financial reporting framework;

[Sec 143(1)]

(c) to enquire into the matters as specified in section 143(1) of the Companies Act, 2013;and.

[Sec 143(3)]

(d) to report on the matters given in the clauses (a) to (i) of section 143(3) of theCompanies Act, 2013; for other matters under section 143(3)(j) read with rule 11 ofthe Companies (Audit and Auditors) Rules, 2014,to comment on the mattersspecified in sub-rule (a),(b) and (c)2 to the extent applicable.

Follow SA / GN

Standards on Auditing, Statements and Guidance Notes on auditing matters issued by the Institute of Chartered Accountants of India apply in the same manner to audit of consolidated financial statements as they apply to audit of separate financial statements. It means that the auditors, while conducting the audit of consolidated financial statements are, *inter alia,* expected to:

(a) plan their work to enable them to conduct an effective audit in an efficient and timely manner;

(b) obtain an understanding of the accounting and internal control systems including ITsystem like consolidation tool, sufficient to plan the audit and determine the nature,timing and extent of his audit procedures. Such an understanding would help theauditors to develop an effective audit approach;

(c) use professional judgement to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level; etc.

4. AUDIT CONSIDERATIONS

The following features of consolidated financial statements have an impact on the relatedaudit procedures:

Use of Separate Financial Statements

(a) The consolidated financial statements are prepared on the basis of separatefinancial statements of the parent and its components, using the consolidationprocedures prescribed by Accounting Standards under applicable financialreporting framework; and

Auditor has to use work of other auditors

(b) The auditor of the consolidated financial statements may use the work of otherauditors as perrequirement of Standards on Auditing unless the auditor ofconsolidated financial statements is also the auditor of the other components of thegroup.

Use of Other Information

(d) The consolidated financial statements (including the intermediate consolidated financial statements prepared internally) are prepared using the separate financial statements ofthe parent and its components and alsoother financial information, which might not becovered by the separate financial statements of these entities.

Other Information Includes?

(e) The 'other financialinformation' would include disclosures to be made in the consolidated financialstatements about the components, proportion of items included in the consolidatedfinancial statements to which different accounting policies have been applied wherepermitted, adjustments made for the effects of significant transactions or other eventsthat occur between the financial statements of parent and its components, as the casemay be, etc. Thus, this 'other financial information' would be required to be additionallydisclosed.

Separate Assistance from other Auditor

When an auditor accepts the audit of consolidated financial statements, the auditorshould assess whether based on his work alone he would be able to express an opiniononn the true and fair view presented by the consolidated financial statements. If the auditoris of the view that his own participation may not be enough or sufficient, he shouldconsider using the work of 'other auditors'.Such 'other auditors' might be the statutory auditors of the separate financial statementsof one or more of the components or the auditors appointed specifically for assisting theauditor oftheconsolidatedfinancialstatements(the principalauditor).

Where the statutory auditors of one or more of the components of the parent are alsorequested to assist the principal auditor, the work to be performed by such statutoryauditors for use by the principal auditor would constitute an assignment separate fromthe assignment to conduct the statutory audit of the respective component.

Comply with SA 600

Standard on Auditing (SA) 600, 'Using the Work of Another Auditor' establishes standardswhen an auditor, reporting on the financial statements of an entity (the group—in the caseof consolidated financial statements), uses the work of another auditor on the financialinformation of one or more components included in the financial statements of the entity(Paragraph 2 of SA 600). The principal auditor, if he decidesto use the work of anotherauditor in relation to the audit of consolidated financial statements, should comply withthe requirements of SA 600.

Materiality

In carrying out the audit of the standalone financial statements, the computation ofmateriality for thepurpose of issuing an opinion on the standalone financial statementsof each component would be done component-wise on a standalone basis. However, withregard to determination of materiality during the audit of consolidated financialstatements (CFS), the auditor should consider the following:

(a) The auditor is required to compute the materiality for the group as a whole. Thismateriality should be used to assess the appropriateness of the consolidationadjustments (i.e. permanent consolidation adjustments and current periodconsolidation adjustments) that are made by the managementinthepreparationofCFS.

(b) The parent auditor can also use the materiality computed on the group level todetermine whether the component's financial statements are material to the groupto determine whether they should scope in additional components, and considerusing the work of other auditors as applicable.However, while considering the observations (for instance modification and /or emphasisof matter in accordance with SA 705/706) of the component auditor in his report on thestandalone financial statements, the concept of materiality would not be considered.Thus, the component auditor's observations, if any, on the component's financialstatements, irrespective of whether the auditors of the component are also the auditorsof the CFS or not, are required to be included in the parent auditor's report on the CFS,regardless of materiality.

5. AUDITING THE CONSOLIDATION

Planning Audit of Consolidation

Before commencing an audit of consolidated financial statements, the auditor should plan hiswork to enable him to conduct an effective audit in an efficient and timely manner.

The auditorshould make plans, among other things, for the following:

(Group Structure / Controls / IT Systems)

(a) Understanding of the group structure and group-wide controls includingassessment of Information Technology (IT) system and related general andapplications IT related controls (manual and automated) for consolidation process;

(Accounting Policies / Harmonisation /Translation)

(b) Understanding of accounting policies of the parent and its components as well as ofthe consolidation process including the process of translation of financialstatements of foreign components;

(NTE)

(c) Determining and programming the nature, timing, and extent of the audit proceduresto be performed based on the assessment of the risk of material misstatement in theconsolidation process;

(Using work of Others)

(d) Determining the extent of use of other auditor's work in the audit; and

(Co-Ordination)

(e) Coordinating the work to be performed.

List of Components

A parent which presents consolidated financial statements is required to consolidate allits components in the consolidated financial statements other than those for whichexceptions have been provided in the relevant accounting standards under the applicablefinancial reporting framework.

The auditor should obtain a listing of all the components included in the consolidatedfinancial statementsand review the information provided by the management of theparent identifying the components. The auditor should verify that all the componentshave been included in the consolidated financial statements unless these componentsmeet criterion for exclusion.

How to ensure completeness?

In respect of completeness of this information, the auditorshould perform the following procedures:

(a) review his working papers for the prior years for the known components;

(b) review the parent's procedures for identification of various components;

(c) make inquiries of management to identify any new components or any componentwhich goes out of consolidated financial statements.

(d) review the investments of parent as well as its components to determine theshareholding in other entities;

(e) review the joint ventures and joint arrangements as applicable;

(f) review the other arrangements entered into by the parent that have not beenincluded in the consolidated financial statements of the group.

(g) review the statutory records maintained by the parent, for example registers undersection 186, 190 of the Companies Act, 2013.

(h) also identify the changes in the shareholding that might have taken place during thereporting period.

Document audit process for completeness

The auditor should document procedures performed for assessing completeness of the components to be consolidated.

Verify board minutes& share holder agreements

There would be various means by which control, joint control or significant influence canbe obtained. In this regard, the auditor may verify the Board's minutes, shareholderagreements entered into by the parent, agreements with the entities to which the parentmight have provided any technology or know how, enforcement of statute, as the casemay be, etc. The auditor may also review the minutes of the meetings of the Board ofDirectors subsequent to the year-end to understand if there has been any liquidation ofinvestments or any further investments have been made as these may provide furtherevidence tounderstand if the control was meant to be temporary in nature or otherwise.

Exclusion

Where a component is excluded from the consolidated financial statements, the auditorshould examine the reasons for exclusion and whether such exclusion is in conformitywith the applicable financial reporting framework, for example, under the Companies(Accounting Standards) Rules, 2006, there could be two reasons for exclusion of asubsidiary, associate or jointly controlled entity – one, that the relationship of parent withthe subsidiary, associate or jointly controlled entity is intended to be temporary or thesubsidiary, associate or joint venture operates under severe long-term restrictions whichsignificantly impair its ability to transfer funds to the parent.

Similarly, under theCompanies Act, 2013, intermediate subsidiary in India is not required to present consolidated financial statements.Ind AS 110 also prescribes certain criteria whereconsolidated financial statements are not required.

In such cases, the auditor shouldsatisfy himself that the exclusion made by the management falls within these categories,e.g. in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture istemporary, the auditor should verify that the intention of the parent, to dispose offthesubsidiary, investment in associate or interest in jointly controlled entity, in the nearfuture, existed at the time of acquisition of the subsidiary, making investment in associateor jointly controlled entity. The auditor should also verify that the reasons for exclusionare given in the consolidated financial statements. If an entity is excluded from the
consolidated financial statements for reasons other than those allowed by the applicable financial reporting framework, the auditor should consider its effect on the auditor's report to be issued.

Change in Status

The auditor should also examine whether there is any change in the status of acomponent (e.g., subsidiary to associate, JV to associates or vice – versa). The auditor,in such cases, should examine whether these changes have been appropriatelyaccounted for in the consolidated financial statements as required by the relevantaccounting standards under the applicable financial reporting framework.

Various methods of consolidation

(As per Accounting Standard)

(a) In preparing consolidated financial statements in accordance with the Companies(Accounting Standards) Rules, 2006, the financial statements of the parent and itssubsidiaries are combined on a line by line basis by adding together like items of assets,liabilities, income, expenses and cash flows and then certain calculations like determinationof goodwill or capital reserve, minorities interest and adjustments like elimination of intragroup transactions, balances and unrealised profits etc. are made in accordance with therequirements of Accounting Standard (AS) 21, "Consolidated Financial Statements".Investments in associates are accounted for using the Equity Method as prescribed inAccounting Standard (AS) 23, "Accounting for Investments in Associates in ConsolidatedFinancial Statements". A parent that has an interest in a jointly controlled entity, reports itsinterest in the consolidated financial statements using proportionate consolidation methodin accordance with Accounting Standard (AS) 27, "Financial Reporting of Interests in JointVentures". Many of the procedures appropriate for the application of equity method and theproportionate consolidation method are similar to the consolidation procedures set out inAccounting Standard (AS) 21, "Consolidated Financial Statements".

(As per Ind AS)

(b) For consolidation of subsidiaries in accordance with the Companies (IndianAccounting Standards) Rules,2015:

- the financial statements of the parent and its subsidiaries are combined as per Ind AS110, "ConsolidatedFinancial Statements" on a line by line basis by adding together likeitems of assets, liabilities, income, expenses and cash flows;
- related goodwill/ capital reserve and non-controlling interest is determined as per Ind As 103;
- adjustments like elimination of intra group transactions, balances, unrealised profitsand deferred tax etc. are made in accordance with the requirements of Ind AS 110.
- Investments in associates and joint ventures are accounted for using the Equity Methodas prescribed in Indian Accounting Standard (Ind AS) 28, "Investments in Associatesand Joint Ventures". Interests in assets, liabilities, revenues and expenses in a jointoperation are accounted for as part of separate financial statements of the entity inaccordance with Indian accounting Standard(Ind AS-111,"JointArrangements".)

The auditor should verify that the adjustments warranted by the relevant accountingstandards under theapplicable financial reporting framework have been made whereverrequired and have been properly approved by the management of the parent. Thepreparation of consolidated financial statements gives rise to permanent consolidationadjustments and current period consolidation adjustments. No adjustments, other thanthose envisaged in this Guidance Note, can be carried out in the preparation of CFS atthe group level.

6. PERMANENT CONSOLIDATION ADJUSTMENTS

Definition

Permanent consolidation adjustments are those adjustments that are made only on the firstoccasion or subsequent occasions in which there is a change in the shareholding of aparticular entity which is consolidated. Permanent consolidation adjustments are:

(a) Determination of goodwill or capital reserve as per applicable accounting standards.

(b) Determination of amount of equity attributable to minority/ noncontrolling interests

Pre-acquisition Reserves

The auditor should verify that the above calculations have been made appropriately. Theauditor should pay particular attention to the determination of pre-acquisition reservesof the components.Date(s) of investment in components assumes importance in thisregard. The auditor should also examine whether the pre-acquisition reserves have beenallocated appropriately between the parent and the minority interests/ non-controllinginterests of the subsidiary. The auditor should also verify the changes that might havetaken place in these permanent consolidation adjustments on account ofsubsequentacquisition of shares in the components, disposal of the components in the subsequentyears.

Netting off of Goodwill & Capital Reserves

It may happen that while working out the permanent consolidation adjustments, in thecase of onesubsidiary, goodwill arises and in the case of another subsidiary a capitalreserve arises. The parent may choose to net off these amounts to disclose a singleamount in the consolidated balance sheet where permitted by the applicable financialreporting framework. In such cases, the auditor should verify that the gross amounts ofgoodwill and capital reserves arising on acquisition of various subsidiaries have been

disclosed in the notes to the consolidated financial statements to reflect theexcess/shortage over the parents' portion of the subsidiary's equity.

7. CURRENT PERIOD CONSOLIDATION ADJUSTMENTS

Current period adjustments are those adjustments that are made in the accounting period forwhich the consolidation of financial statements is done. Current period consolidationadjustments primarily relate to elimination of intra-group transactions and account balancesincluding:

(Intra group income / expense)

(a) intra-group interest paid and received, or management fees, etc.;

(Stock Reserve)

(b) unrealised intra-group profits on assets acquired/ transferred from/ to othersubsidiaries;

(Intra group balances)

(c) intra-group indebtedness;

(Harmonising accounting policy)

(d) adjustments related to harmonising the different accounting policies being followed by the parent andits components;

(Subsequent Events)

(e) adjustments to the financial statements (of the parent and the components beingconsolidated) for recognized subsequent events or transactions that occur betweenthe balance sheet date and the date of the auditor's report on the consolidatedfinancial statements of the group.

There are two types of subsequent events:

1. The first type of subsequent events consist of events or transactions that provideadditional evidence about conditions that existed at the date of the financialstatements, including the estimates inherent in the process of preparing financialstatements (i.e. adjusting events).

2. The second type of subsequent events consist of events that provide evidenceabout conditions that didnot exist at the date of the financial statements but arosesubsequent to that date (i.e. non-adjusting events).

Events occurring after balance sheet date which do not require adjustments would notnormally require disclosure, although they may be of such significance that they mayrequire a disclosure in the report of approving authority in the case of accountingstandards and in the financial statements in case of Ind AS. For such events, thefollowing shall be disclosed:

(a). The nature of the event; and

(b) An estimate of its financial effect or a statement that such an estimate cannot bemade.

(f) adjustments for the effects of significant transactions or other events that occurbetween the date of the components balance sheet and not already recognised in itsfinancial statements and the date of the auditor's report on the group's consolidatedfinancial statements when the financial statements of the component to be used forconsolidation are not drawn upto the same balance sheet date as thatoftheparent;

(Foreign Component)

(g) In case of a foreign component, adjustments to convert a component's auditedfinancial statements prepared under the component's local GAAP to the GAAP underwhich the consolidated financial statements are prepared.

(Minority Interest)

(h) determination of movement in equity attributable to the minorities interest/noncontrolling interest sincethe date of acquisition of the subsidiary.

(Deferred Tax)

(i) adjustments of deferred tax on account of temporary differences arising out ofelimination of profit and losses resulting from intragroup transactions andundistributed profits of the component in case of consolidated financial statementsprepared under Ind AS.

Memorandum Records

The adjustments required for preparation of consolidated financial statements are madein memorandum records kept for the purpose by the parent. The auditor should reviewthe memorandum records to verify the adjustment entries made in the preparation ofconsolidated financial statements. Apart from reviewing the memorandum records, theauditor should inter alia:

(a) verify that the <u>intra group transactions and account balances</u> have been eliminated;

(b) verify that the consolidated financial statements have been prepared using <u>uniformaccounting policies</u> for like transactions and other events in similar circumstances;

(c) verify that adequate disclosures have been made in the consolidated financialstatements of applicationof different accounting policies in case, it was<u>impracticable to harmonize them</u>. Applying a requirement is impracticable when theentity cannot apply it after making every reasonable effort to do so.

(d) verify the <u>adjustments made to harmonise the different accounting policiesincluding adjustments made by management to convert a component's financialstatements prepared under the component's GAAP to the GAAP under which theconsolidated financial statements are prepared</u>;

(e) verify the <u>calculation of minorities/non-controlling interest;</u>

(f) verify adjustments relating to <u>deferred tax on account of temporary differences</u>arising out of elimination of profit and losses resulting from Intergroup transactions(where the parent's accounts are maintained in Ind AS);

(g) verify that <u>income and expenses</u> of the subsidiary are included in consolidatedfinancial statements from the <u>date it gains control until the date when the entity ceasesto control</u> the subsidiary and further such income and expenses are based on theamounts of the assets and liabilities recognised in consolidated financial statements at the acquisition date.

The auditor should gain an understanding of the procedures adopted by the managementof the enterprise to make the above-mentioned adjustments. This helps the auditor inreducing the audit risk to an acceptably low level.One of the important adjustment that may be required in the current period isdetermination of impairment loss that might exist for goodwill arising on consolidation.Goodwill arising on consolidation is carried at the value determined at the date ofacquisition of the component, and the same is to be tested for impairment loss at everybalance sheet date.

Impairment Loss

The auditor should examine whether any <u>impairment loss</u> has been determined by theparent. If yes, the auditor should examine the procedure followed for determination ofimpairment loss. The auditor should satisfy himself that the amount of impairment lossdetermined is fair. In case the impairment loss in goodwill of a component has beendetermined in foreign currency, the auditor should verify if any amount of loss in localcurrency need to be adjusted from currency translation reserve on account of movementin the exchange rate from the date when the goodwill was first accounted for in theconsolidated financial statement of parent, to the date of determination of impairmentloss.The auditor should also perform audit procedures to understand and verify whetherIntragroup losses are indicating an impairment loss that requires recognition in theconsolidated financial statements.

Loss Adjustment with Minority Interest

Apart from verifying that the calculation and disclosures regarding minorities/noncontrolling interest havebeen made appropriately, the auditor also determines, in caseswhere the minority interests' share of the losses exceed the minority /non-controllinginterests' share of the equity, the excess, and any further losses applicable to theminority interest, have been accounted for in accordance with the relevant accounting
standards.

Same Reporting Date

The financial statements of the components used in the consolidation should be drawnup to the same reporting date as that of the parent. If it is not practicable to draw up thefinancial statements of one or more components to such date and, accordingly, thosefinancial statements are drawn up to different reporting dates, adjustments should bemade for the effects of significant transactions or other events that occur between thosedates and the date of the parent's financial statements. In any case, the differencebetween reporting dates should not be more than six months in case of financialstatements under AS and three months in case of financial statements under Ind AS. Theauditor of the consolidated financial statements should review other components' resultsbetween its financial reporting date and that of the parent for significant transactions orother events that have taken place during the period and, therefore, need to be reflectedin the consolidated financial statements. Recognition should be given by disclosure orotherwise to the effect of intervening events which materially affect the financial position,results of operations or cash flows.

Consistency

The fundamental accounting assumption of "consistency" requires the auditor of theconsolidated financial statements to consider whether the length of the reporting periodsand any difference in financial year-ends are the same from period to period. If there havebeen any changes in the respective reporting periods of the components included in theconsolidated financial statements that have a material effect on the financial statements,the auditor should ensure that the entity discloses such changes and the manner of
treatment in the financial statements.

8. DISCLOSURES NOT MADE IN CONSOLIDATED FINANCIAL STATEMENTS

Sch III- Intention is not to repeat but to disclose what is relevant

The Ministry of Corporate Affairs has issued a Circular number 39/2014 dated October 14,2014 stating that Schedule III to the Act read with the applicable Accounting Standardsdoes not envisage that a company while preparing its consolidated financial statementsmerely repeats the disclosures made by it underseparate financial statements beingconsolidated. In the consolidated financial statements, the company would need to giveall disclosures relevant to consolidated financial statements only.

AS-21

Further, Accounting Standard (AS) 21 also lays down certain principles that should beobserved while giving the information which is part of the separate financial statementsof the Components but that need not be reported in the notes and other explanatorymaterial of the consolidated financial statements. The auditor should:

(a) examine that the notes required by the applicable standards which are necessary forpresenting a trueand fair view of the consolidated financial statements have beenincluded in the consolidated financialstatements as an integral part thereof; and

(b) examine that additional statutory information disclosed in the separate financialstatements of the subsidiary and/or a parent having bearing on the true and fair viewof the consolidated financial statements have been disclosed in the consolidatedfinancial statements.

Percentage Contribution

In addition, the information required pursuant to Schedule III to the Companies Act, 2013('general instructions for the preparation of consolidated financial statements') shouldbe disclosed. For example,following information is also required to be disclosed in theconsolidated financial statements separately for the parent and each of its components(including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as apercentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

As regards consolidation adjustments (including elimination of intra group transactions),it should be ensured that these are either disclosed as a single line item separately oradjusted in theinformation (e.g.net assets) disclosed for the parent and its eachcomponent.

Ind AS 110

The Ind AS 110 does not give a list of information which is part of the separate financialstatement of the components but that need not be reported in the notes and otherexplanatory material of the consolidated financial statements, however, based on section129(4) and MCA circular 39/2014 as referred above, it can be construed that, even inconsolidated financial statements under Ind AS, only those disclosures should be givenwhich are relevant to consolidated financial statements.

Examples of information not included in consolidated financial statements

Based on the above discussion, in case of companies, the information such as thefollowing given in the notes to the separate financial statements of the parent and/or thesubsidiary, need not be included in the consolidated financial statements.

(i) Source from which bonus shares are issued, e.g., capitalisation of profits orReserves or from Securities Premium Account.

(ii) Disclosure of all unutilised monies out of the issue indicating the form in which suchunutilised funds have been invested.

(iii) Disclosure required under Micro, Small and Medium Enterprises Development Act,2006.

(iv) A statement of investments (whether shown under "financial assets or non-financialassets as stock-in-trade) separately classifying trade investments and otherinvestments, showing the names of the bodies corporate (indicating separately thenames of the bodies corporate under the same management) in whose sharesordebentures, investments have been made (including all investments, whetherexisting or not, made subsequent to the date as at which the previous balance sheetwas made out) and the nature and extent of the investment so made in each suchbody corporate.

(v) Value of imports calculated on C.I.F. basis by the company during the financial yearin respect of:

- **(a)** raw materials;
- **(b)** components and spare parts;
- **(c)** capital goods.

(vi) Expenditure in foreign currency during the financial year on account of royalty,know-how, professional and consultation fees, interest, and other matters.

(vii) Value of all imported raw materials, spare parts and components consumed duringthe financial yearand the value of all indigenous raw materials, spare parts andcomponents similarly consumed and the percentage of each to the totalconsumption.

(viii) The amount remitted during the year in foreign currencieson account of dividends,with a specific mention of the number of non-resident shareholders, the number ofshares held by them on which the dividends were due and the year to which thedividends related.

(ix) Earnings in foreign exchange classified under the following heads, namely: -

- **(a)** export of goods calculated on F.O.B. basis;
- **(b)** royalty, know-how, professional and consultation fees;
- **(c)** interest and dividend;
- **(d)** other income, indicating the nature thereof.

However, notwithstanding the above, the auditor needs to ensure compliance withdisclosure requirements of applicable accounting standards and other applicable lawsfor consolidated financial statements.

9. MANAGEMENT REPRESENTATIONS

SA 580, "Written Representations" requires the auditor to obtain written representations frommanagementand, where appropriate, those charged with governance. The auditor of theconsolidated financial statements should obtain evidence that the management of the parentacknowledges its responsibility for a true and fair presentation of the consolidated financialstatements in accordance with the financial reporting framework applicable to the parent andthat parent management has approved the consolidated financial statements. In addition, theauditor of the consolidated financial statements obtains written representations from parentmanagement on matters material to the consolidated financial statements. Examples of suchrepresentations include:

(a) Completeness of components included in the consolidated financial statements;
(b) Identification of reportable segments for segmental reporting;
(c) Identification of related parties and related party transactions for reporting;
(d) Appropriateness and completeness of permanent and current period consolidationadjustments, including the elimination of intra-group transactions.

REPORTING

Parents Auditor = Auditor of all Components	If principles / procedures for preparation / presentation is as per accounting standard then --> Unmodified Report Otherwise modify as appropriate.
Parents Auditor not Same as component auditor	Immaterial Component May put OMP as per SA 706 Material Component Compulsory to put OMP indicating total profits / revenue / cashflow of such components in aggregate
FRF of component is different	E.g. Subsidiary --> IFRS | Parent --> AS

from FRF of Parent	2 Options are available. 1st Parent will adjust financial statements of component and such adjustments will be audited by parent auditor. 2nd Component will prepare one more financial statement as per parent / group policies & FRF, such financial statements will be audited by components auditor. In such case work of principle auditor is reduced
Auditing Framework used by component auditor is different from parent's auditor	Principle auditor should ask management to get audit report as per Indian GAAS, if report obtained is unacceptable then such component can be treated as unaudited (personal opinion)
Financial Statements of component not audited.	<u>Immaterial Component</u> May put OMP as per SA 706 <u>Material Component</u> Qualify or Disclaimer as per SA 705

AUDIT UNDER FISCAL LAWS

1. SECTION 44AB

Section 44AB

Every person –

Business

(a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds 1 crore rupees in any previous year.

Profession

(b) carrying on profession shall, if his gross receipts, in profession exceed 50 lakhs rupees in any previous year,

Deemed Profits 44AE / 44BB / 44 BBB

(c) carrying on the business shall, if the profits and gains from the business are deemed to be the profits and gains of such person under section 44AE or section 44BB or section 44BBB as the case may be, and he has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, as the case may be, in any previous year,

44AE- Plying / Hiring / Leasing Goods Carriage (For Small Transporters)
44BB- Business of Exploration etc. of Mineral Oils (For Non-Resident Mineral Oil Explorers)
44BBB-Foreign Companies Engaged in Business of Civil Constructions

Deemed Profits 44ADA

(d) carrying on the profession shall, if the profits and gains from the profession are deemed to be the profits and gains of such person under section 44ADA, and he has claimed such income to be lower than the profits and gains so deemed to be the profits and gains of his profession and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, or *(For professionals where gross receipts doesn't exceed 50 lakhs, they can pay tax on presumptive profit of 50% under 44ADA)*

Deemed Profits 44AD

(e)carrying on the business shall, if the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year,*(For assesses where business turnover is not exceeding 2 crores, they can pay tax on presumptive basis of 8% / 6% if receipt through banking channels under 44AD)*

- *What if turnover is above 1 crore up to 2 crores?*

  Individual / HUF / Partnership (Excluding LLP) – either go on presumptive basis or get your books auditedunder clause (e), (Interpretation rule specific overrides general, not using presumptive when eligible will be covered in 44AD.

  Others-- Company / Co-Operative etc. – Tax Audit under clause (a)

- *Continuity Concept*
  From FY 15-16
  If assesse wants to claim presumptive income under Sec 44AD then, he should do it for next 5 years continuously also, if he doesn't do it for next 5 years, and go for actual any basis in these 5

years then he will be banned from using option of deemed profits for next 5 years from year in which actual basis was adopted.

Business V/S Profession

(Definition of Profession)

- Whether a particular activity can be classified as `business' or `profession' will depend on the facts and circumstances of each case. The expression "profession" involves the idea of an occupation requiring purely intellectual skill or manual skill controlled by the intellectual skill of the operator, as distinguished from an operation which is substantially the production or sale or arrangement for the production or sale, of commodities. - CIT Vs. Manmohan Das (Deceased) [1966] 59 ITR 699(SC).

(Nursing home – Business or Profession?)

- When nursing-home income should be treated as professional income?
  If the doctors are carrying on the activities of a nursing home (polyclinic) for the purpose of treating their own patients, the income from the nursing home must be treated as their professional income. But if any business activity is carried on by the nursing home such as running of a drug store for selling drugs to patients or others, admitting patients and charging fee such as room fees, etc. it may be considered to be a business and that part of the income would be in the nature of business income [CIT v K.K. Shah (1982) 135 ITR 146(Guj)].

(Can company perform profession?)

Q. Mr. A is architect working as a proprietor with annual collection of 10 lakhs in FY 14-15, then he converted his business in company. Now in financial year 15-16 it increased to 75 lakhs.Whether tax audit is applicable to both the years?

Answer

In FY 14-15 he is operating as proprietor and proprietor can perform profession for Sec 44AB so limit applicable will be 50 lakhs, as turnover is within 50 lakhs tax audit is not applicable.

In FY 15-16 business is operated in the form of company, and company cannot be said to be engaged in profession for Sec 44AB, so it will not be considered as profession but it will be considered as business so limit applicable will be 1 crore, and again it is within limit so tax audit not applicable.

2. COMPUTATION OF SALES / TURNOVER / GROSS RECEIPTS

Q. Doctor is running clinic on ground floor, he has nursing home on 1st floor with 50 beds open for patients of other doctors also and there is a medical in basement. Money Collection during the year at Clinic 15 lakhs Nursing Home 60 lakhs Medical 30 lakhs Business whose income is charged on presumptive basis 20 lakhs Is Tax Audit applicable to him?	**Ans** Professional Receipts 15 lakhs Business Turnover 60 + 30 = 90 Lakhs As professional receipts is not exceeding 25 lakhs and business turnover is not exceeding 1 crore. Tax Audit is not applicable.

Important Learnings

- We cannot add professional receipts & business turnover.

- We have to add turnover of all business to see applicability.
- Turnover from business where tax is paid on presumptive basis will be excluded.
- If covered under business or profession clause tax audit will be applicable to assessee and all its activities.

Inclusions / Exclusions

1. Advance Received
The amount received by way of advance for which services are yet to be rendered will not form part of the receipts, as such advances are the liabilities of the assessee and cannot be treated as his receipts till the services are rendered.

   But if advance is forfeited and there is no liability to return it then it will be included in turnover.

2. Insurance Claim
Insurance claims - except for fixed assets will be included

3. Discount: - Trade Discount / Cash Discount "Appearing in Sales Invoice", it is given at the time of sale, so from start we know it will never be received so it is not counted in turnover. It can be name of bulk discount / turnover discount / loyalty discount / referral discount etc.

4. Reimbursement of expenses: - (Packing / Transporting etc.) If it is shown separately on bill and accounted separately and not included in sales account then exclude it from turnover.

   C&B A/c Dr 120
   To Sale A/c 100
   Transport Charges Payable A/c 20

   Similarly, Reimbursement of customs duty and other charges collected by a clearing agent will be excluded.

5. Indirect Taxes: -
(Inclusive Method of Accounting)
If indirect taxes are not separately accounted and included in sales account, latter they are segregated and tax paid then it will be counted in turnover.

   Sale Entry
   C&B A/c Dr 112
   To Sales 112

   Tax Payable Entry
   Sales Dr 12
   To IDT Payable 12

   (Exclusive Method of Accounting)
   If Indirect Taxes are accounted separately at the time of sale. Then IDT won't be counted.

   Sales Entry
   C&B A/c Dr 112
   To Sales A/c 100
   IDT Payable A/c 112

6. Scrap Sale – Included even if shown under miscellaneous income

7. Post Sales Receipts

   (Cash Assistance)

Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India will be included

(Exchange Rate Difference)
The net exchange rate difference on export sales will be included

(Sale of Import License)
Profits on sale of a licence granted (import) will be included.

8. Different Business

(Speculative Business)
Q Mr. A trader in share market to take benefit of price movements (Speculation). He bought shares for 30 lakhs and sold them for 50 lakhs. Then he purchased shares for 80 lakhs and sold them for 20 lakhs. How his turnover will be computed?

Answer: -
We should compute profits or losses in the speculative transactions. Add these profits & losses to determine total turnover.
1st Trade 50 – 30 = 20 lakhs profit
2nd Trade 20 – 80 = (60) lakhs loss.
Turnover = 20 + 60 = 80 lakhs

(Commission Agents)
- Only commission will be counted in turnover
- Similarly, in case of brokers only brokerage will be counted
  In case of personal sale of Broker "Sale value" will be counted in turnover
- In the case of a travelling agent, air fare, railway ticket etc. incurred on behalf of the client will be excluded if shown separately on invoice. If, however, the travel agent is conducting a package tour and charges a consolidated sum then the amount received from the members.

(Hire Purchase)
Hire charges and instalments received in the course of hire purchase will be included.

9. Following shall not be included because this is not regular business income

- Sale Proceeds of Fixed Assets / Investment Property (It is not business)
- Profit / Loss on sale of investments (Include sale value if it is a business)
- Interest / Dividend / Rent if it is not business

  (Tax Already Paid)
- Share of profit of a partner of a firm in the total income of the firm excluded from his total income under section 10(2A) of the Income Tax Act, 1961.

3. QUALIFICATIONS & DISQUALIFICATIONS OF TAX AUDITOR

INDIVIDUAL
→Assesses Himself***

HUF
→Family member of HUF***

AOP
→Member of AOP***

TRUST /INSITITUTION
→Author / Founder / Substantial Contributor i.e. exceeding Rs 50,000 / Trustee or Manager***
→If author / founder is HUF then members of HUF***

Firm

→Partner of firm***

Company

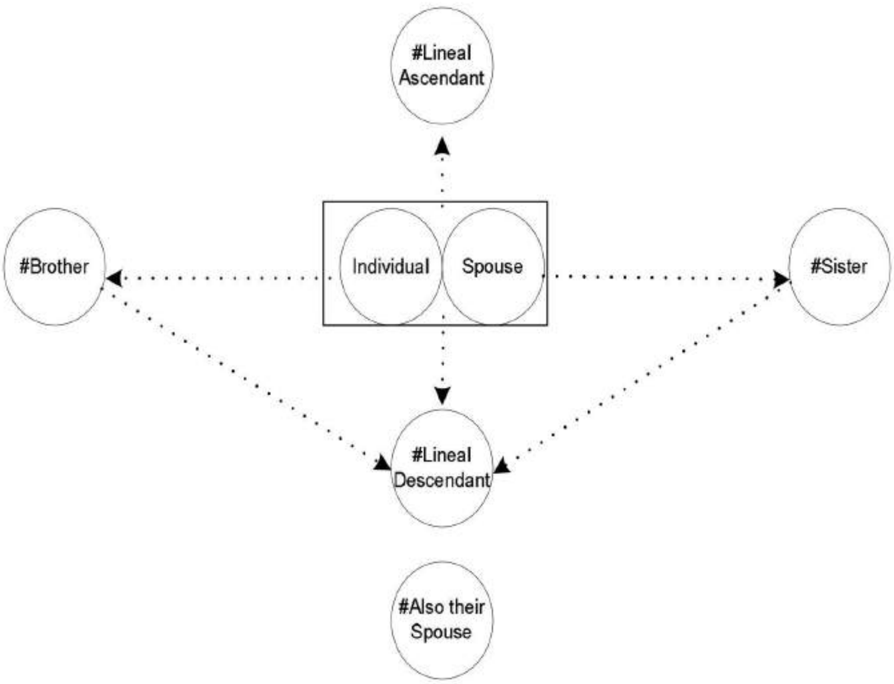
→Who is disqualified to do statutory audit under Sec 141 (3)?

All Assesses (Other than Company)

→Who can verify return u/s 139*** (Mentally Ill – Guardian, Political Party- CEO, Other- Power of Attorney Holder etc.)

(All points below are similar to company audit disqualifications but there are changes so be careful)

→Officer or employee of Assessee →Partner or Employee of Employee or Officer →Direct / Indirect Business Relationship with assessee →Convicted by court for fraud, 10 years from date of conviction
→@Holding any Security or Interest in assessee (Only Relative exempt up to FV 1,00,000) →@Indebted to assessee for any amount (Only Relative exempt up to Rs 1,00,000) →@Guarantee or Security of assessee for third party for any amount (Only Relative exempt up to Rs 1,00,000)
*** Including Relatives @By individual or His partner or His Relative



4. AUDIT REPORT UNDER TAX AUDIT

Audit report*:* Section 44AB requires the tax auditor to submit the audit report in the prescribed form and setting forth the prescribed particulars. Sub-rule 1 of rule 6G provides that the report of audit of accounts of a person required to be furnished under Section 44AB shall –

Applicability of Form 3CA / 3CB / 3CD

(a) in the case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited, be in Form No. 3CA;*(Companies Act / Banking Act / Insurance Act / Co-Operative Society Act etc.)*

(b) in the case of a person who carries on business or profession, but not being a person referred to in clause (a), be in Form No. 3CB.

Sub-rule (2) of Rule 6G further provides that the particulars which are required to be furnished under Section 44AB shall be in Form No. 3CD.

Details of Form 3CB

It may be noted that the audit report in Form No.3CB is in two parts.

(First Part on Financial Statements)

The first part requires the tax auditor to give his opinion as to whether or not the accounts audited by him give a true and fair view:

(i) in the case of the balance sheet, of the state of affairs as at the last date of the accounting year.

(ii) in the case of the profit and loss account, of the profit or loss of the assessee for the relevant accounting year.

(Second Part on Statement of Particulars in Form 3CD)

The second part of the report states that the statement of particulars required to be furnished under section 44AB is annexed to the audit report in Form No. 3CD. The tax auditor is required to give his opinion whether the prescribed particulars furnished by the assessee are true and correct subject to observations and qualifications, if any.

(Wordings for Financial Statements& Form 3 CD)

In paragraph 3 of Form No. 3CB the auditor has to report that the financial statements audited by him give a 'true' and fair view.

The requirement in paragraph 3 of Form No. 3CA and paragraph 5 of Form No. 3CB relating to particulars in Form No. 3CD is that the auditor should report that these particulars in Form No. 3CD are "true and correct". The terminology "true and fair" is widely understood though not defined even under the Companies Act, 2013. On the other hand, the words "true and correct" lay emphasis on factual accuracy of the information.

(Relevance of Materiality)

In this context reference is invited to AS-1 and OLD AS(IT)-I relating to disclosure of accounting policies. These standards recognize that the major considerations governing the selection and application of accounting policies are (i) prudence, (ii) substance over form and (iii) materiality. Therefore, while giving particulars in Form No.3 CD these aspects should be kept in view. In particular, considering the nature of particulars to be given in Form No. 3CD, the aspect of materiality should be considered. In other words, particulars should be given in the respect of material items and the auditors should ensure factual accuracy relating to these particulars.

Details of Form 3CA

Inthe case of a person whose accounts of the business or profession have been audited under any other law, it is not required for the tax auditor appointed under section 44AB to give his opinion, as to whether or not the accounts give a true and fair view as indicated herein above.

It would only be necessary for him to annex a copy of the audited accounts as well as a copy of the audit report given by the statutory auditor with his report in Form No. 3CA along with Form No. 3CD.

In the case of a person who carries on business and also renders professional services butwho is not required by or under any other law to get his accounts audited, report should begiven in Form No. 3CB. The statement of particulars should be given in Form No. 3CD.

Different Accounting Year

In the case of "person" having their accounting year which is different from the financial year,accounts of the financial year are required to be prepared and audited. The audit report shallbe in Form 3CB.

Report Vs Certificate

State with reasons whether an auditor conducting tax audit 'certifies' or 'reports' on information contained in the statement of particulars attached to the tax audit report under Section 44AB of Income-tax Act, 1961.

Answer

(Reporting Requirement)

Section 44AB of the Income-tax Act, 1961 requires the auditor to submit the audit report in the prescribed form and setting forth prescribed particulars. The statement of particulars as required in Form 3CD are required to be annexed to the main audit report. The audit report is in two parts. The first part requires the auditor to give his opinion as to whether or not the accounts audited by him give a true and fair view and the second part of the report is in the form of an "Annexure" containing statement of particulars in respect of certain specified matters. The tax auditor has to report whether particulars are true and correct.

(Report Vs Certificate)

In this context, it is important to appreciate the distinction between the terms "report" and "certificate". Briefly speaking, the term "certificate" is used where the auditor verifies the accuracy of facts while the term "report" is used in case the auditor is expressing an opinion. Strictly speaking, having regard to the usage of the word true and correct, these particulars require definitive information compiled from the books of account. Hence, it can be said that an auditor conducting tax audit 'certifies" the information contained in the statement of particulars. However, having regard to the distinction, it is significant to examine whether all41 clauses included in the statement of particulars are capable of being simply certified on the basis of books of account or there are some clauses in respect of which different auditor(s) may hold different opinion.

(Examples of Some clauses in Form 3CD where is judgment is applied and opinion is given)

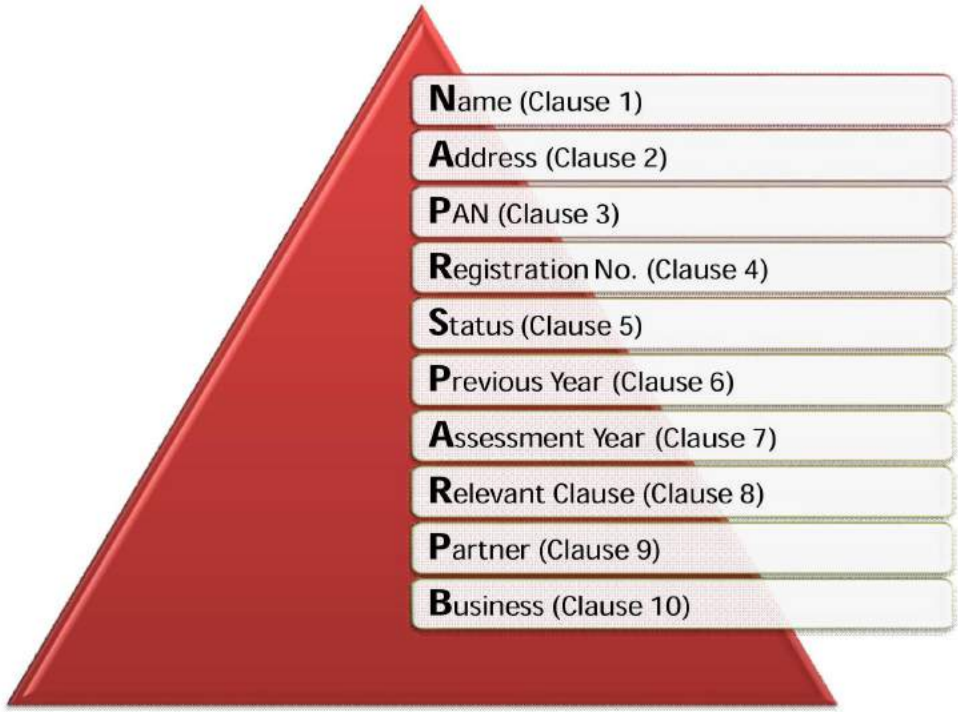
For instance, Clause 14 dealing with valuation of closing stock would require the auditor to examine and opine on the basis adopted for ascertaining the cost and, thus, to ensure that method followed for valuation of stock results in disclosure of correct profits and gains. Similarly, Clause 18 relating to depreciation would require the auditor to exercise judgment having regard to the facts and circumstances of the case, etc.Thus, there are several matters on which the auditor is required to exercise judgments while giving his report on various amounts included in the statement of particulars. No doubt that the auditor obtains the statement of particulars in Form No. 3CD duly authenticated by the assessee, it does not merely involve checking the corresponding figures with the documents and books of account but requires the auditor to exercise his judgement which may at times lead to different figures by different persons reporting thereon. There can also be situations leading to difference of opinion between the tax auditor and the assessee.

(Conclusion)

Therefore, it can be said that an auditor conducting tax audit "reports" on certain information, apart from certifying certain factual information contained in the statement of particulars annexed to the tax audit report under section 44AB of the Income-tax Act, 1961.

5. AUDIT REPORT UNDER TAX AUDIT

BASIC INFORMATION



Bang Bang
Books of Accounts

PK
Presumptive Inc in P&L

Mary Kom
Method of Accounting

Vicky Donor
Valuation of Cl Stk

Conversion of Capital Asset into Stock in Trade

Pokemon
P&L incomes but not credited

Transfer of property below stamp act value

Doremon
Depreciation

Alladin
Admissible under various sections

Bheem
Bonus / Commission paid instead of dividend

Dead Pool
Debited to P&L but not allowed

Iron Man
Interest under MSMED act not allowed as deduction

Predators
Payment to relatives etc (excess)

Dr Strange
Deemed Income

Captain America
Chargeable under Sec 41

Prakash Singh Badal
Payment basis
deductions Sec 43B

Chidambaram
Cenvat Credit

Puntin
Property in Shares
Received

Sonia Gandhi
Shares issued at price
more than Fair Value

Hillary Clinton
Hundi

Lion
Loans & Deposit under
Sec 269SS & 269T

Langoor
Losses carried forward

Deduction under chapter
VI A

Tortoise
TDS

Goat
Goods Qunatity

Dollar
Dividend Distribution Tax

Canadian Dollar
Cost Audit Report

Euro
Excise Audit Report

Shilling
Service Tax Audit Report

Rupee
Ratio

Tax Law
Demands &
Refunds

Clause 13

(a) Method of accounting employed in the previous year.

(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.

(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

Serial number	Particulars	Increase in profit (₹)	Decrease in profit (₹)

(d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)

(e) If answer to (d) above is in the affirmative, give details of such adjustments:

		Increase in profit (₹)	*Decrease in profit (₹)*	*Net effect (₹)*
ICDS I	***Accounting Policies***			
ICDS II	***Valuation of Inventories***			
ICDS III	***Construction Contracts***			
ICDS IV	***Revenue Recognition***			
ICDS V	***Tangible Fixed Assets***			
ICDS VI	***Changes in Foreign Exchange Rates***			
ICDS VII	***Governments Grants***			
ICDS VIII	***Securities***			
ICDS IX	***Borrowing Costs***			
ICDS X	***Provisions, Contingent Liabilities and Contingent Assets***			
	Total			

Ajay devgan white colourki**V**an leke**C**onstruction site pepahuchthahai. Wahake labour logo se puchthahaikita**R**evenue kamate ho. Fir boltahaijinkepaas**F**ixed Assets nahihaiaur Foreign exchange nahiunki list banao. List lejaatahaiaur**G**overnment grant mangtahai, jab tak government grant nahidetikhudkaghar as **S**ecurity jamakaratahai, **B**orrowing cost aur**P**rovisions khud bear kartahai.

Ajay devgan white colourki(Accounting Policy)
Van leke(Valuation of Inventory)
Construction site pepahuchthahai. Wahake labour logo se puchthahaikita (Construction Contracts)
Revenue kamate ho. Fir boltahaijinkepaas (Revenue Recognition)
Fixed Assets nahihaiaur(Tangible Fixed Assets)
Foreign exchange nahiunki list banao. List lejaatahaiaur (Changes in Foreign Exchange Rate)
Government grant mangtahai, jab tak government grant nahidetikhudkagharas (Government Grants)
Security jamakaratahai (Securities),
Borrowing cost aur(Borrowing Cost)
Provisions khud bear kartahai. (Provisions, Contingent Liabilities and Contingent Assets)

(f) Disclosure as per ICDS:

(i)	***ICDS I-Accounting Policies***
(ii)	***ICDS II-Valuation of Inventories***
(iii)	***ICDS III-Construction Contracts***
(iv)	***ICDS IV-Revenue Recognition***
(v)	***ICDS V-Tangible Fixed Assets***
(vi)	***ICDS VII-Governments Grants***
(vii)	***ICDS IX Borrowing Costs***
(viii)	***ICDS X-Provisions, Contingent Liabilities and Contingent Assets".***

ICDS

Income Computation and Disclosure Standards (ICDS):

Section 145 of the Income Tax Act, 1961 deals with the method of accounting.
Under section 145(1), income chargeable under the heads "Profits and gains of business or profession" or "Income from other sources" shall be computed in accordance with either the cash or mercantile system of accounting regularly employed by the assessee.

Section 145(2) empowers the Central Government to notify in the Official Gazette from time to time, income computation and disclosure standards to be followed by any class of assessees or in respect of any class of income.

Accordingly, the Central Government has, in exercise of the powers conferred under section 145(2), notified ten income computation and disclosure standards (ICDSs) to be followed by all assesses (other than an individual or a HUF who is not required to get his accounts of one previous year audited in accordance with the provisions of section 44(AB)), following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profit and gains of business or profession" or " Income from other sources". from the A.Y. 2017-18.
All the notified ICDSs are applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent.

The Central Government has prescribed 10 Income Computation and Disclosure Standards (ICDSs) as under:

6. AUDIT OF PUBLIC TRUSTS

The audit Programme is outlined in the following paragraphs:

(a) Preliminary:

(i) Obtain a resolution from the trust specifying the appointment as also indicating the scope of audit. In particular, the resolution should specify the duties of the auditor in relation to the items specified in the annexure to the prescribed Form No. 10B.*(Audit Report & Statement of Particulars)*

(ii) Obtain a letter of appointment from the trust. Although the audit may have been conducted in the past by a person appointed as an auditor for the purpose of Section 12A, having regard to the spirit of the requirement contained in clause (8) of Part-I of Schedule I to the Chartered Accountants Act, 1949, it is suggested that the auditor appointed for the purpose of Section12A, should, before accepting the audit, communicate with such previous auditor.

(vii) Obtain from the trust a certified true copy of the Deed of Trust or any other scheme containing the objects and conditions of the trust as operative from time to time.

(vi) Obtain from the trust a list of the institutions/ activities run/carried out by the trust.

(v) Obtain a certificate from the trust as to the system of accounting and internal control.

(iv) Obtain a list of books of accounts which are maintained by the trust.

(iii) Obtain a certificate as to the opening balances of assets and liabilities and the fund.

(b) Routine Checking:

(i) Check the books of account and other records having regard to the system of accounting and internal control.

(ii) Vouch the transactions of the trust to satisfy that:

(a) all incomes due to the trust have been properly accounted for on the basis of the system of accounting followed by the trust;

(b) all expenses and outgoings appertaining to the trust have been recorded on the basis of the system of accounting followed by the trust; and

(i) the transaction falls within the ambit of the trust;

(ii) the transaction is properly authorized by the trustees or other delegated authority as may be permissible in law;

(c) amounts shown as applied towards the object of the trust are covered bythe objects of the trust as specified in the document governing the trust.

(iii) Obtain a trial balance on the closing date certified by the trustees.

(iv) Obtain the Balance Sheet and Profit & Loss Account of the trust authenticated by the trustees and check the same with the trial balance with which they should agree.

(c) Accounting Principles:

The auditor should follow, i.e., generally accepted accounting principles and ascertain the accuracy, truth and fairness of the Balance Sheet and Profit & Loss Account.

(Balance Sheet Related Items)

In particular, the auditor will scrutinize that:

(i) all assets of the trust are verified;

(ii) the assets of the trust have been properly valued and depreciation duly provided for;

(iii) all liabilities of the trust are properly accounted for;

(iv) the investments of the trust are properly classified and indicated and market values shown; and

(v) outstanding due to the trust are properly accounted for and their recoverability examined and provision made for irrecoverable.

(d) Annexure to the Audit Report:

(i) Obtain from the trustees, a certified list of persons covered by Section 13(3).

(ii) Obtain from the trustees, a statement enlisting the various items specified in the Annexure to Form No.10B and giving the information against each item together with explanatory or supporting schedules.

(iii) Verify the information supplied by the trustees in the statements specified above in the light of available material. Where a list of persons specified in Section 13(3) is not available, indicate against Sections II and III of the items specified in the annexure the appropriate qualifying remarks.

The audit report is required to be furnished to the relevant year. Failure to furnish the report will disentitle the trust or institution to the benefit of Sections 11 and 12. The Auditor can accept as correct the list of persons covered by Section 13(3) as given by the managing trustees.

7. AUDIT PROCEDURES FOR TAX AUDIT

Objectivewith respect to Financial Statements

In the case of an audit, the tax auditor is required to express his opinion as to whether the financial statements give a true and fair view of the state of affairs of the assessee in the case of the balance sheet and in the case of the profit and loss account/ income and expenditure account, of the profit/loss or income/expenditure.

Objective with respect to Statement of Particulars

As regards the statement of particulars to be annexed to the audit report, he is required to give his opinion as to whether the particulars are true and correct.

Use Skills / Expertise & Apply SA / GN

In giving his report, the tax auditor will have to use his professional skill and expertise and apply such audit tests as the circumstances of the case may require, considering the contents of the audit report. He will have to conduct the audit by applying the generally accepted auditing procedures which are applicable for any other audit. He would be well advised to refer to the Standards on Auditing (SAs) issued by ICAI, as well as the "Guidance Note on Audit Reports and Certificates for Special Purposes". If the statutory auditor of a person is also appointed to undertake tax audit, it is advisable to carry out both the audits concurrently.

No Powers in IT Act but Pre-Conditions& Engagement Letter as per SA 210 will give Powers

Section 143 of the Companies Act 2013 gives certain powers to the auditors to call for the books of account, information, documents, explanations, etc. and to have access to all books and records. No such powers are given to the tax auditor appointed under section44AB. Attention is invited to SA 210, *Agreeing the Terms of Audit Engagements*. The Standard requires an auditor to establish whether the pre-conditions for an audit are present so as to accept or continue an audit engagement. As per para 6(b) (iii) the auditor is required to obtain agreement of management that it acknowledges and understands its responsibilities to provide the auditor with;

(a) access to all information of which the management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters,

(b) additional information that the auditor may request the management for the purpose of the audit and

(c) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence. Moreover, since the appointment of the tax auditor is made by assessee, it will be in the interest of the assessee to furnish all the information and explanations and produce books of account and records required by the tax auditor.

Subsequent Refusal Can Affect Overall RMM & Opinion

If, however, after agreeing to the terms of the engagement, the assessee subsequently refuses to produce any particular record or to give any specific information or explanation in relation to the reporting requirement under section 44AB, the tax auditor should see the impact thereof from the perspective of "management integrity" vis-a-vis overall assessment of risk of misstatements in accordance with under SA 315, *Identifying and Assessing the risks of material misstatement through understanding the entity and its environment* and consequently on his/her opinion for reporting in Clause (3) of Form No. 3CAor Clause (5) of Form No. 3CB as the case may be.

Materiality

The tax auditor will also have to keep in mind the concept of materiality depending upon the circumstances of each case.

ICS / Sampling

He can apply the technique of test audit depending on the type of internal control procedures followed by the assessee.

SA 530 Sampling

Just in case of the conduct of a statutory audit for the purpose of expression of the auditor's opinion as to whether the financial statements depict a 'true and fair' view, the statutory auditor applies audit sampling, in case of tax audits also the tax auditor may apply audit sampling techniques as prescribed in SA 530, *Audit Sampling* on the information provided by the assessee to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.. The extent of check undertaken would have to be indicated by the tax auditor in his working papers and audit notes. The tax auditor would be well advised to so design his tax audit programme as would reveal the extent of checking and to ensure adequate documentation in support of the information being certified.

While test checks may suffice in the conduct of a statutory audit for the expression of the auditor's opinion as to whether the accounts depict a 'true and fair' view, the tax auditor may be required to apply reasonable tests on the total information to be prepared by the assessee in respect of certain items in the prescribed form, e.g., in verification of payments for purchases/expenses exceeding Rs 20,000/- in cash. While the entity may have to prepare the details for the entire year, the tax auditor may have to ensure that no items have been omitted in the information furnished and a reasonable test check would reveal whether or not the information furnished is correct. The extent of check undertaken would have to be indicated by the tax auditor in his working papers and audit notes. The tax auditor would be well advised to so design his tax audit programme as would reveal the extent of checking and to ensure adequate documentation in support of the information being certified.

SA 610 Internal Auditor

Where the assessee has been subjected to an internal audit and the tax auditor decides to use the work of the internal auditor for the purpose of the tax audit under section 44AB, the latter's procedures would be guided by the principles laid down in Standard on Auditing (SA)610, *Using the Work of Internal Auditors.*

SA 700 Audit Report

The ICAI had pursuant to the issuance of the Revised SA 700, *Forming an Opinion and Reporting on Financial Statements,* prescribed a revised format of the auditor's report on financial statements, which has been made effective in respect of audits of financial statements for periods beginning on or after 1st April 2012. Since Form No. 3CA and Form No. 3CB are required to be filed online in a preset form and the same are not in line with the requirements of SA 700, there is no specifically allocated field for providing information relating to the respective responsibilities of the assessee and the tax auditor as required in terms of the principles laid out in SA 700. However, having regard to the importance of these respective responsibility paragraphs from the perspective of the readers of the tax audit report, it is suggested that these respective responsibility paragraphs relating can be provided in the space provided for giving observations, etc., under Clause (3) of Form No. 3CA or Clause (5) of Form No. 3CB as the case may be.

Working Papers

The audit report given under section 44AB is to assist the income-tax department to assess the correct income of the assessee. In order that the tax auditor may be in a position to explain any question which may arise later on, it is necessary that he should keep necessary working papers about the evidence on which he has relied upon while conducting the audit and also maintain all his necessary working papers. Such working papers should include his notes on the following, amongst other matters:

(a) work done while conducting the audit and by whom;
(b) explanations and information given to him during the course of the audit and by whom;
(c) decision on the various points taken;
(d) the judicial pronouncements relied upon by him while making the audit report; and
(e) certificates issued by the client/management letters.

The requirements of documentation are applicable in respect of tax audit conducted by chartered accountants. For this purpose, attention is also invited to SA 230, *Audit Documentation*, which provides that the tax auditor should prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with SA's and applicable legal and regulatory requirements.

Audit Conducted under other Law

If the accounts of the business or profession of a person have been audited under any other law by the statutory auditor(s), it is not necessary for the tax auditor appointed undersection 44AB to conduct the audit once again in the matter of expression of "true and fair view" of the state of affairs of the entity and of its profit/loss for the period covered by the audit. However, the said section envisages the certification of the particulars in the prescribed form on which the tax auditor has to express his opinion as to whether these are `true and correct'. In other words, where an audit has already been conducted and the opinion of the auditor has been expressed on the accounts, it would not be necessary to repeat the entire
exercise to express similar opinion all over again. The tax auditor has only to annex a copy of the audited accounts and the auditor's report and other documents forming part of these accounts to his report and verify the particulars in the prescribed form for expressing hisopinion as to whether these are true and correct.

8. AUDIT OF INDIRECT TAXES:

The components of central indirect tax which form a part of the cost could be basic customs duty ,additional duty of customs, special additional duty, excise duty special excise duty, additional duties of excise, service tax etc. The various components have a relationship with each other and also with central and local sales tax. The audits in this area, are governed under sections 14A and 14AA of the Central Excise Act, 1944. All these audits are conducted by or on behalf of the Government.

The steps involved in conducting indirecttax audit are as under:

(iv) Ensure that the audit staff is knowledgeable in the law and the procedures governing the indirect taxes. The examination of the documents, physical verification, reconciliation tracing techniques, comparison of ratios, observation of the activities and discussions of the weaknesses observed should be part of an effective audit.

(ii) Obtains information about the company and the industry. Specific information on amount of imports, percentage of customs, amount of removals, and quantum of Cenvat proportion of credit could also be calculated. The walk through of the process from the point of ordering of materials till the receipt of the payment from the customer is advisable.

(iii) Formulating an audit programme to assist in the actual conduct of the audit. The actual extent of verification would be dependent on the results of the evaluation of the internal controls.

(i) Evaluate the internal control systems in general with specific weight given to the strength of the systems in aiming at the quantification and discharge of the indirect taxes. The auditor should ensure that the accounting system and related internal control in this area are covered appropriately. Internal control questionnaire may be designed specifically for the area of indirect taxation.

(v) Prepare a report on the indirect tax audit providing specific comments on the statutory information, material matters reported by way of an executive summary and the assertion/qualification that the acceptable accounting policies are in vogue.

9. AUDIT OF INDIRECT TAXES: AREAS OF CONCERN

Audit of Indirect Taxes: Some areas of concern in an audit of indirect taxes would be:

(Import Related)

(ii) Goods imported duty free or payment at concessional rates without properly complying with conditions.

(iii) Valuation Issues – valuation not in line with customs rules.

(viii) Passing on of duty suffered on imported goods and of locally manufactured goods in excess of actual.

(Export Related)

(iv) Applicability of the relevant export /excise exemptions.

(i) Non availment or short / excess availment of export incentives.

(v) Valuation of goods not removed in normal course using valuation methods not in line withCentral Excise Valuation Rules.

(Service Tax)

(vi) Ignoring Liability under Service Tax on services provided or availed.

(Procedural Problem)

(vii) Procedural non-compliance.

(ix) Utilization / Availability of credit of duty/ tax paid on inputs, capital goods of input services.

10. APPROACH TO TAX AUDIT UNDER VAT

The audit approach of the tax auditor under the value added tax system will be more or less similar to the approach, which is adopted by the auditor while conducting the tax audit under the provisions of section 44AB of the Income-tax Act, 1961. However, the reporting requirements vary to a considerable extent.

While the auditor has to apply the basic principles of audit he has to keep in mind that the requirements of VAT audit are different and accordingly he should design his audit programme. While designing the audit program the auditor has to ensure that the program includes the performance of such audit checks as would generate the information which would enable him to ensure the following and also to draw his audit reports.

(iv) The auditor is also required to give his report on the composition scheme. He should apply such compliance tests as will be enable him to ascertain that the auditee is eligible for composition, it has paid the requisite composition fee and all the procedural formalities in relation thereto have been complied with.

(i) The turnover of sales /purchases of goods has been properly determined keeping in view not only the generally accepted accounting policies but the definition of turnover of sales in the relevant VAT law. The sales turnover arrived at by applying the generally accepted accountingpolicies may not be the same as required under the VAT law. To take an example, the sale proceeds of a fixed asset will not form a part of turnover or sales as per the generally accepted accounting policies but will form a part of turnover or sales for the purpose of VAT law. Similarly, the price of goods returned is deducted from the turnover or sales even if the returns are from the sales effected in the previous years, while under VAT law, the goods returned are to be deducted only if they are made within the prescribed time, say six months from the date of sale. Thus, the results of the audit procedure adopted by the auditor should be such as will give him a reasonable assurance regarding the figures of sales reported in the returns. Not only that, he should also be able to get the exact quantum of the sales under reported or over reported duly classified for different tax rates and its impact on overall tax liability. The sales as per the financial statements may include the turnover or sales effected by all the branches, but for the purposes of VAT law the turnover or sales of only those branches will be included which are included in one registration certificate.

(ii) The turnover of purchases should be tested by applying audit checks as will enable the auditor to get the purchases eligible for grant of input tax credit segregated from other purchases. Further, the purchases on which the input tax credit is available in full and the purchases on which it is available partially should also be ascertained correctly. Thereafter, the auditor should get the exact amount of input tax credit available, compare the same with the credit claimed in the returns and report on the excess/short claim of the credit in the returns filed.

(v) The auditor has to give his report on the TDS. Therefore, such tests are to be applied as will enable him to report on the applicability of TDS provisions, the accuracy of the amount deducted and paid, timely issue of TDS certificate and filing of TDS returns.

(iii) The auditor is also required to comment on the timely filing of the returns under the VAT law. For this purpose, the auditor is expected to list out the due dates of filing of returns and find out the reasons for delay in filing the returns if any.

(vi) The auditor is also expected to check the consolidation of the returns filed for all the periods covered in the year under audit, both under the State-Level VAT law and the Central Sales-tax Act, 1956. These returns are to be compared with the books of account and the documentary evidences available. The auditor is expected to apply such substantive steps as would enable him to judge whether all the transactions relating to sale and purchase are entered in the books of account and have been taken into consideration while filing the returns. In case of any inconsistency a proper reconciliation of book figures and the returned figures should be made and also the correct quantification of tax liability is to be done.

The above are only the major areas which are to be tested by the auditor while conducting the tax audit under VAT laws. The auditor has to take a judgement of his own regarding the adequacy and appropriateness of the audit checks to be applied and the areas where the tests are to be applied, so as to give him all the information needed to form a view not only on the authenticity of the books of account, correctness of the returns filed but also in the quantification of tax liability.