

EXECUTIVE PROGRAMME

SUPPLEMENT FOR COMPANY ACCOUNTS AND AUDITING PRACTICES

(Relevant for students appearing in December, 2015 Examination)

MODULE 2 - PAPER 5

Disclaimer-

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COMPANY ACCOUNTS AND AUDITING PRACTICES

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TYPES OF COMPANY AUDIT
COMPANIES (AUDITOR'S REPORT) ORDER, 2015

Section 143(11) of the Companies Act 2013, provides that the Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

In order to specify the matters to be included in the auditor's report and in exercise of the powers conferred by sub-section (11) of section 143 of the Companies Act, 2013 and in supersession of the Companies (Auditor's Report) Order, 2003, the Central Government, after consultation with the Institute of Chartered Accountants of India issued Companies (Auditor's Report) Order, 2015 on 10th April 2015 which shall come into force on the date of its publication in the Official Gazette.

Applicability

Every report made by the auditor under section 143 of the Companies Act for the financial year commencing on or after 1st April, 2014 will be made according to the Companies (Auditor's Report) Order, 2015. The order applies to every company except the companies which are excluded, including a foreign company as defined in section 2(42) of the Companies Act, 2013.

Companies excluded from Companies (Auditor's Report) Order, 2015

- (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
- (ii) an insurance company as defined under the Insurance Act, 1938 ;
- (iii) a company licensed to operate under section 8 of the Companies Act;
- (iv) a One Person Company as defined under section 2(62) of the Companies Act and a small company as defined under section 2(85) of the Companies Act;
- (v) a private limited company –
 - with a paid up capital and reserves not more than rupees fifty lakh and
 - which does not have loan outstanding exceeding rupees twenty five lakh from any bank or financial institution and
 - does not having a turnover exceeding rupees five crore at any point of time during the financial year.

Matters to be included in the auditor's report

As per the Companies (Auditor's Report) Order, 2015, an auditor should include a statement on the following matters in the auditor's report on the account of companies covered under this order-

(i) Fixed assets

- (a) Whether the company is maintaining proper records, showing full particulars, including quantitative details and situation of fixed assets?
- (b) Whether these fixed assets have been physically verified by the management at reasonable intervals?
- (c) Whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account?

(ii) Inventory

- (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management?
- (b) Are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business? If not, the inadequacies in such procedures should be reported.
- (c) Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account?

(iii) Granting of loans to certain parties

Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the 2013 Act. If so:

- (a) whether receipt of the principal amount and interest are also regular, and
- (b) If overdue amount is more than Rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest?

(iv) Internal control system

- (a) Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services?
- (b) Whether there is a continuing failure to correct major weaknesses in internal control system?

(v) Acceptance of deposits

- (a) In case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed there under, where applicable, have been complied with?
- (b) If not, the nature of contraventions should be stated.

- (c) If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

(vi) Maintenance of cost records

- (a) Where maintenance of cost records has been specified by the Central Government under section 148(1) of the 2013 Act?
- (b) Whether such accounts and records have been made and maintained?

(vii) Deposit of statutory dues

- (a) is the company regular in depositing undisputed statutory dues (which includes following) with the appropriate authorities:

- provident fund,
- employees' state insurance,
- income-tax,
- sales-tax,
- wealth tax,
- service tax,
- duty of customs,
- duty of excise,
- value added tax,
- cess and
- any other statutory dues.

- (b) If not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

- (c) If dues have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned in case of following dues:

- income tax,
- sales tax,
- wealth tax,
- service tax,
- duty of customs,
- duty of excise,
- value added tax and cess.

(A mere representation to the concerned Department shall not constitute a dispute).

(d) Whether the amount required to be transferred to Investor Education and Protection Fund (IEPF) in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made there under has been transferred to such fund within time.

(viii) Accumulated Losses and Cash Losses

(a) Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth?

(b) Whether it has incurred cash losses in such financial year and in the immediately preceding financial year?

(ix) Default in repayment of dues

(a) Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders?

(b) If yes, the period and amount of default to be reported.

(x) Guarantee for loans taken by others from bank or financial institutions

(a) Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

(xi) Application of term loans

(a) Whether term loans were applied for the purpose for which the loans were obtained?

(xii) Fraud Reporting

(a) Whether any fraud on or by the company has been noticed or reported during the year?

(b) If yes, the nature and the amount involved is to be indicated.

The auditor is also required to give reasons in the auditor's report:

- If the response to any of the reporting matters is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified response.
- Where the auditor is unable to express any opinion in response to a particular question, the audit report should indicate such fact together with the reasons why it was not possible to provide a response to such a question.

ACCOUNTING STANDARDS

CONVERGENCE OF INDIAN ACCOUNTING STANDARDS WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Consistent with its January 2015 announcement, the Ministry of Corporate Affairs (MCA) has moved quite swiftly and notified its phase-wise roadmap for adoption of the Indian Accounting Standards (Ind AS) – India's accounting standards converged with the IFRS. After lingering skepticism regarding Ind AS getting notified, this positive development positions India well at the center of high quality financial reporting. The MCA has issued a notification dated 16 February 2015 announcing the Companies (Indian Accounting Standards) Rules, 2015 for applicability of Ind AS.

Applicability

Companies which are not required to follow Ind AS shall continue to comply with Accounting Standards ('AS') as prescribed in Companies (Accounting Standards) Rules, 2006.

Highlights the Companies (Indian Accounting Standard) Rules, 2015 notified is provided below:

Applicability of Ind AS:

The Companies and their Auditors shall comply with the Ind AS specified in the Annexure to the Rules in preparation of their Financial Statements (FS) and Audit respectively, in the following manner:

1. Voluntary adoption (for FY 2015-16):

Any company may comply with the Ind AS for Financial Statements for accounting periods beginning on or after 1st April 2015, with the comparatives for the periods ending on 31st March 2015, or thereafter. This option is also available to companies whose securities are listed or are in the process of being listed on Small and Medium Enterprises ('SME') exchange.

2. Mandatory adoption:

(i) From FY 2016-17: Companies satisfying following criteria are required to comply with the Ind AS for or the accounting periods beginning on or after 1st April 2016, with the comparatives for the periods ending on 31st March 2016, or thereafter.

- (a) Companies whose Equity or Debt Securities are listed or are in the process of being listed on any stock exchange in India or outside India and having Net Worth (NW) of Rs 500 crore or more.
- (b) Unlisted Companies (i.e. other than those mentioned in (a) above) having NW of Rs 500 crore or more.
- (c) Holding, Subsidiary, Joint Venture/ Associate Companies of Companies covered in (a) and (b) above.

(ii) *From FY 2017-18:* Companies satisfying following criteria are required to comply with the Ind AS for or the accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017, or thereafter:

- (a) Companies whose Equity or Debt Securities are listed or are in the process of being listed on any stock exchange in India or outside India and having NW of less than Rs 500 crore.
- (b) Unlisted Companies having NW of Rs 250 crore or more but less than Rs 500 crore.
- (c) Holding, Subsidiary, Joint Venture/ Associate Companies of Companies covered in (a) and (b) above.

Ind AS once required to be complied with in accordance with these rules, shall apply to both standalone financial statements (SFS) and consolidated financial statements (CFS).

Companies preparing Financial Statements applying the Ind AS for the accounting period beginning on 1st April 2016 shall apply the Ind AS effective for the FY ending on 31st March 2017.

Any company opting to apply the Ind AS voluntarily as specified above for its Financial Statements shall prepare its Financial Statements as per the Ind AS consistently and such companies shall not be required to prepare another set of Financial Statements in accordance with AS specified in the Companies (Accounting Standards) Rules, 2006.

Once a company starts following the Ind AS either voluntarily or mandatorily on the basis of criteria specified above, it shall be required to follow the Ind AS for all the subsequent FS even if any of the criteria specified in this rule does not subsequently apply to it.

Applicability in case of Companies having subsidiary, associate, joint venture or other similar entities:

Indian companies

Indian companies having overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction.

Provided that such Indian company shall prepare its consolidated financial statements in accordance with the Ind AS either voluntarily or mandatorily if it meets the criteria as specified above.

Foreign companies

Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with Ind AS either voluntarily or mandatorily if it meets the criteria as specified above.

Computation of NW

NW shall be calculated in accordance with the standalone financial statements of the company as on 31st March 2014 or the first audited financial statements for accounting period which ends after 31st March 2014.

Companies incorporated after 31st March 2014 or an existing company falling under any of thresholds specified above for the first time after 31st March 2014 – Companies shall apply Ind AS from the immediate next accounting year (i.e. FY 2015-16) in the manner specified above, based on the NW calculated on the basis of the first audited FS ending after 31st March 2014 (i.e. Financial Statements of FY 2014-15) in respect of which it meets the thresholds specified above.

Exemptions

The Insurance Companies, Banking Companies and Non-Banking Finance Companies shall not be required to apply Ind AS for preparation of their FS either voluntarily or mandatorily as specified above.

List of Indian Accounting Standards notified with their corresponding IFRS

| S.No. | Indian Accounting Standards (Ind AS) | | Corresponding International Financial Reporting Standards | |
|-------|--------------------------------------|--|---|--|
| | | | IFRS | IFRS |
| 1) | Ind AS 101 | First-time Adoption of Indian Accounting Standards | IFRS 1 | First-time Adoption of International Financial Reporting Standards |
| 2) | Ind AS 102 | Share-based Payment | IFRS 2 | Share-based Payment |
| 3) | Ind AS 103 | Business Combinations | IFRS 3 | Business Combinations |
| 4) | Ind AS 104 | Insurance Contracts | IFRS 4 | Insurance Contracts |
| 5) | Ind AS 105 | Non-current Assets Held for Sale and Discontinued Operations | IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| 6) | Ind AS 106 | Exploration for and Evaluation of Mineral Resources | IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| 7) | Ind AS 107 | Financial Instruments: Disclosures | IFRS 7 | Financial Instruments: Disclosures |
| 8) | Ind AS 108 | Operating Segments | IFRS 8 | Operating Segments |
| 9) | Ind AS 109 | Financial Instruments | IFRS 9 | Financial Instruments |
| 10) | Ind AS 110 | Consolidated Financial Statements | IFRS 10 | Consolidated Financial Statements |
| 11) | Ind AS 111 | Joint Arrangements | IFRS 11 | Joint Arrangements |
| 12) | Ind AS 112 | Disclosure of Interests in Other Entities | IFRS 12 | Disclosure of Interests in Other Entities |
| 13) | Ind AS 113 | Fair Value Measurement | IFRS 13 | Fair Value Measurement |
| 14) | Ind AS 114 | Regulatory Deferral Accounts | IFRS 14 | Regulatory Deferral Accounts |
| 15) | Ind AS 115 | Revenue from Contracts with Customers | IFRS 15 | Revenue from Contracts with Customers |
| 16) | Ind As 1 | Presentation of Financial Statements | IAS 1 | Presentation of Financial Statements |
| 17) | Ind As 2 | Inventories | IAS 2 | Inventories |

| | | | | |
|-----|-----------|--|--------|--|
| 18) | Ind As 7 | Statement of Cash Flows | IAS 7 | Statement of Cash Flows |
| 19) | Ind As 8 | Accounting Policies, Changes in Accounting Estimates and Errors | IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| 20) | Ind As 10 | Events after the Reporting Period | IAS 10 | Events after the Reporting Period |
| 21) | Ind As 12 | Income Taxes | IAS 12 | Income Taxes |
| 22) | Ind As 16 | Property, Plant and Equipment | IAS 16 | Property, Plant and Equipment |
| 23) | Ind As 17 | Leases | IAS 17 | Leases |
| 24) | Ind As 19 | Employee Benefits | IAS 19 | Employee Benefits |
| 25) | Ind As 20 | Accounting for Government Grants and Disclosure of Government Assistance | IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance |
| 26) | Ind As 21 | The Effects of Changes in Foreign Exchange Rates | IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| 27) | Ind As 23 | Borrowing Costs | IAS 23 | Borrowing Costs |
| 28) | Ind As 24 | Related Party Disclosures | IAS 24 | Related Party Disclosures |
| 29) | Ind As 27 | Separate Financial Statements | IAS 27 | Separate Financial Statements |
| 30) | Ind As 28 | Investments in Associates and Joint Ventures | IAS 28 | Investments in Associates and Joint Ventures |
| 31) | Ind As 29 | Financial Reporting in Hyperinflationary Economies | IAS 29 | Financial Reporting in Hyperinflationary Economies |
| 32) | Ind As 32 | Financial Instruments: Presentation | IAS 32 | Financial Instruments: Presentation |
| 33) | Ind As 33 | Earnings per Share | IAS 33 | Earnings per Share |
| 34) | Ind As 34 | Interim Financial Reporting | IAS 34 | Interim Financial Reporting |
| 35) | Ind As 36 | Impairment of Assets | IAS 36 | Impairment of Assets |
| 36) | Ind As 37 | Provisions, Contingent Liabilities and Contingent Assets | IAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| 37) | Ind As 38 | Intangible Assets | IAS 38 | Intangible Assets |
| 38) | Ind As 40 | Investment Property | IAS 40 | Investment Property |
| 39) | Ind As 41 | Agriculture | IAS 41 | Agriculture |
