

*ICAI Kottayam - 14.08.20*



## Company Audit & An Update on AS & SA

CA. Jomon K George

### Company Audit – Special Considerations

We do not expect auditors to find a needle in a haystack but they must see the elephant in the room.

Former MCA Secretary

Company Audit – Special Considerations

Clinging on to the Judgement in Kingston Cotton Mills Case (1896) as an Insurance Policy is not advisable anymore.

Mohan R Lavi in BL

Company Audit – Special Considerations

Auditors cannot just be watchdogs.....

At least be Barking Dogs.

If we do not blow the whistle, it might be taken away

CA Amarjit Chopra

Company Audit – Special Considerations

What's New

Accounting & Auditing Advisory - Impact of Corona Virus on Financial Reporting & the Auditors Consideration. (27.03.20)

Going Concern - Key Considerations for Auditors amid Covid 19. (10.05.20)

Physical Inventory Verification - Key Audit Considerations amid Covid 19 (13.05.20).

Company Audit – Special Considerations

What's New

Auditors Reporting - Key Audit Considerations amid Covid 19. (17.05.20)

Subsequent Events - Key Audit Considerations amid Covid 19 (23.05.20).



## What's New

- Cash Flow Statement included in FS.
- Schedule III - The new format (AS & Ind AS)
- Depreciation to be based on Useful lives
- Companies AS (Amendment) Rules 2016.



## What's New

- Ind AS - applicable for certain companies
- Auditing Standards made mandatory
- CARO 2016
- ICDS ... Applicable from FY 16-17

Company Audit – Special Considerations

**What's New**

- **New Format of Auditors Report (SA 700)**
- **New Reporting Requirements (SA 701 - KAM)**
- **Fraud Reporting - Penalties for Failure**

Company Audit – Special Considerations

**Audit Process**

- ✓ **Opening Balance Checking**
- ✓ **IC Evaluation & Communicating to TCWG**
- ✓ **Vouching**
- ✓ **Ledger Analysis**
- ✓ **Verification of Assets, Stock, Docs etc..**

## Audit Process

- ✓ Comparing FS with Books – Signed TB.
- ✓ Analytical Review
- ✓ AS Compliance
- ✓ Schedule III Compliance - Info for Notes
- ✓ CARO Points – Informed Reporting

## Accounting Standards

All ASs (29-2) will continue to apply.

Companies (AS) Amendment Rules 2016.

Company Audit – Special Considerations

Major Changes in AS

No proposed dividend (AS 4)

Depreciation Standard withdrawn. Now in AS 10

Associates/JVs not to be consolidated.

Company Audit – Special Considerations

AS 15

Actuarial valuation mandatory

Funding not .....

Value depletion of Plan assets to be provided for

Company Audit – Special Considerations

AS 26

Recognition Criteria Concept...

DRE & PE .... Dead.

Misc. Expenditure .... Gone

Company Audit – Special Considerations

Ind AS - Phase II

Accounting periods beg. on or after 01.04.17 with comparatives

- All listed companies
- Unlisted companies with net worth of 250 Cr or more
- Holding/Subsidiary/JV/Associate of above ..
- All NBFCs



Company Audit – Special Considerations

## Cash Flow Statement

All companies **except** Small, Start Ups, Dormant & OPCs must prepare Cash Flow Statements

Auditor to report on the CF statements too....

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Company Audit – Special Considerations

## Depreciation

Schedule II with detailed list of assets and useful lives

Residual Value Percentage fixed @ 5%

For Intangible Assets, AS 26 to apply...

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### 1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any. Costs directly attributable to acquisition are capitalized until the property, plant and equipment are ready for use, as intended by the Management. The Company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

Building <sup>(1)</sup>	22-25 years
Plant and machinery <sup>(1)</sup>	5 years
Office equipment	5 years
Computer equipment <sup>(1)</sup>	3-5 years
Furniture and fixtures <sup>(1)</sup>	5 years
Vehicles <sup>(1)</sup>	5 years

<sup>(1)</sup> Based on technical evaluation, the Management believes that the useful lives as given above best represent the period over which the Management expects to use these assets. Hence, the useful lives for these assets is different from the useful lives as prescribed under Part C of Schedule II of the Companies Act, 2013.

Depreciation methods, useful lives and residual values are reviewed periodically, including at each financial year end.

### Company Audit – Special Considerations

## Auditing Standards

Mandatory u/s 143 (9)

Total compliance to be ensured

**NFRA has started flexing its muscle**

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**Company Audit – Special Considerations**

## Auditing Standards

Professional Skepticism

LoE

Audit Programme

LoR

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**Company Audit – Special Considerations**

## Auditors Report- A Comparison

SA 700 (Revised)	SA 700 (Old)
Title	Title
Addressee	Addressee
Opinion	Introductory Paragraph
Basis for Opinion	Management Responsibility
Going Concern	Auditors Responsibility
Key Audit Matters	Auditors Opinion
Management Responsibility	Other Reporting Responsibilities
Auditors Responsibility	Signature
Other Reporting Responsibilities	Date, Place
Signature	
Date, Place	

# Covid Pronouncements

## Expounded

### Going Concern Assessment

- AS-1, Disclosure of Accounting Policies & AS-4 - Contingencies and Events occurring after the Balance Sheet Date.
- Management should assess the impact of covid-19 and the measures taken on its ability to continue as a going concern.
- The impact of covid-19 after the BS date should also be considered.



## Company Audit – Special Considerations

### Inventory Measurement - Considerations

- Write down of inventories to NRV due to reduced movement, decline in Selling Prices, Inventory Obsolescence due to lower expected Sales.
- Normal production capacity to be reviewed for allocation of fixed production overheads.

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## Company Audit – Special Considerations

### Impairment - Considerations

- In the case of financial assets such as loans, trade receivables etc, AS-4 applicability should be looked into.
- **In the case of investments within the scope of AS-13, provisions for decline in the value, which is other than temporary to be carefully considered.**
- Fair value of Current Investments to be carefully considered

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## Company Audit – Special Considerations

### Revenue - Considerations

- Entities may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of Covid-19.
- AS-9, requires the entities to disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

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## Company Audit – Special Considerations

### AS-10, PPE

- Useful life and residual life of PPE needs revision on annual basis.  
This should be reviewed considering the covid impact.
- If expectations differ from previous estimates, it is appropriate to account for the change as an accounting estimate.
- Due to covid-19, PPE can remain under-utilised or not utilised for a period of time. It may be noted that the standard requires depreciation charge even if
- the PPE remains idle.



## Company Audit – Special Considerations

### AS-16, Borrowing Costs

- Capitalisation of interest is suspended when development of an asset is suspended.
- The management may consider this aspect while evaluating the impact of covid-19.



## Company Audit – Special Considerations

### Accounting for Taxes on Income – AS 22


- Covid-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional timing differences due to various factors.
- Entities with DTA should reassess forecast profits and the recoverability of DTA in accordance with AS-22 considering the additional uncertainty arising from Covid-19.



## Let us **EMPOWER.....** Let us change

- ✓ Infrastructure & Technology
- ✓ **People & Processes**
- ✓ Billing & Collection
- ✓ **Financial Planning**
- ✓ Cut down on Social Media
- ✓ Student friendly... Academic Culture .
- ✓ A Happy Organisation 

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# *With Gratitude*

Jomon K George