

Impacting Factors

- Statutory Framework
- Professional Pronouncement
- Specific Reporting Requirements



Back drop

-
- The Companies Act 2013 - Chapter X (139-148)
 - Consequential Changes in Audit function
 - Heavy Penalties

Company Audit 2017-18 In a New Light



Ministry of Corporate Affairs

Government of India

The Companies Act, 2013

Companies Act, 2013

Companies Rules

Effective Dates

Notifications/Circulars

Section [Chapter X Audit and Auditors]

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139 Appointment of Auditors

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141 Eligibility, Qualifications and Disqualifications of Auditors

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143 Powers and Duties of Auditors and Auditing Standards

144 Auditor not to Render Certain Services

145 Auditor to Sign Audit Reports, etc.

146 Auditors to Attend General Meeting

147 Punishment for Contravention

148 Central Government to Specify Audit of Items of Cost in Respect of Certain Companies

Bigger... Better... Bolder

What's New

- Cash Flow Statement included in FS.
- Schedule III - The new format
- Depreciation to be based on Useful lives

What's New

- New Format of Auditors Report
- New Reporting Requirements
- CARO 2016
- Fraud Reporting - Penalties for Failure

What's New

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- Companies AS (Amendment) Rules 2016.
 - ICDS ... Applicable from FY 16-17
 - Auditing Standards made mandatory

Are we doing Audits properly ? .. FRRB Findings

AS Non-Compliance (76%)

CA 2013 - Schedule III Non Compliance (18%)

CARO - Non Compliance (6%)

SAs - Scant Regard Very passive

Blr/Chi

Cash Flow Statement

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

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

Depreciation

Schedule II with detailed list of assets and useful lives.
Residual Value Percentage fixed @ 5%

Component Accounting introduced ...

For Intangible Assets, AS 26 to apply...

Depreciation

For Double shift, 50% extra

For Triple shift, 100% extra to be charged

NESD for certain assets ...

No 100% depreciation for less than 5000 items

Accounting Standards

All ASs will continue to apply.

Companies (AS) Rules 2006.

Companies (AS) Amendment Rules 2016.

Accounting Standards



AS 2

Recognises Absorption Costing only

Only FIFO, WAC allowed

Allows exclusive method of **GST** only

AS 4

All paragraphs dealing with Contingencies withdrawn.

AS 6

Withdrawn Fully.

AS 7

Recognises “Percentage of Completion” method only.

AS 8

Withdrawn fully

AS 9

Disclosure of Turnover & ED

AS 10 (Renamed as PPE)

Paras dealing with patents, Designs etc. withdrawn

AS 22

“Virtual Certainty” clarified

AS 26

Recognition Criteria Concept...

DRE & PE Dead.

Misc. Expenditure Gone



Changes made by MCA Notification *G.S.R.*
364(E) dated 30.03.2016

The Companies (Accounting Standards)
Amendment Rules 2016.

AS 2 - Valuations of Inventories

Changes in the inclusion of Machinery Spares

Now, the use and irregularity is not a factor for treating machinery spares as inventory or fixed asset. If machinery spare meets the definition of PPE as per AS 10 (i.e. used for more than 12 months), then not covered in AS 2.

AS 2 - Valuations of Inventories

Changes in classification of Inventory

- ✓ Raw materials and components
 - ✓ Work-in-progress
 - ✓ Finished goods
 - ✓ Stock-in-trade (in respect of goods acquired for trading)
 - ✓ Stores and spares
 - ✓ Loose tools
 - ✓ Others (specify nature).
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Contingencies and Events occurring after the balance sheet date

Change in treatment of dividend declared after balance sheet date but before the date financial statements are approved

- ✓ Earlier the dividend declared after the balance sheet date but before the approval of financial statement was required to be treated as liability. Now after the amendment no need to treat the same as liability (unless a statute requires otherwise).
 - ✓ *However disclosure in the notes is to be given.*
-

AS 10 – Property, Plant and Equipment

- Name changed from Fixed Assets to Property, Plant and Equipment
- Fresh Guidance to the apply judgment to determine unit of measurement (Para 9) :

Example : 'unit of measure' can be a 'project' of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. However disclosure in the notes is to be given.

AS 10 – Property, Plant and Equipment

Model for subsequent Revaluation

- ✓ Revaluations should be made with sufficient regularity. The entire class to be revalued and revaluation not on ad hoc basis (earlier permitted by AS 10)
 - ✓ If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16.
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AS 10 – Property, Plant and Equipment

- Adjustments to be made in case of changes in initial estimates of amounts provided for dismantling, removing, restoration and similar factors and included in the cost of the asset.

- AS on Depreciation merged with Accounting Standard 10 : Property plant and Equipment.

- Residual value and useful life to be reviewed at least annually. Earlier the review was required periodically.

AS 13 - Accounting for Investments

- Only Cost Model to be applied for Investment Property (Land and building other than related to operations) - (Para 20 & 30)

AS 21 – Consolidated Financial Statements

Change in the scope of the consolidated financial statements to make consolidation mandatory in the absence of subsidiary company

- ✓ Amendment in accordance with Companies Act, 2013 which require the consolidation of Associate/ JV even if subsidiary is not there.
- ✓ Consolidation to be done in accordance with AS 23 : Accounting for Associates in Consolidated Financial Statements & Accounting Standard (AS) 27: Financial Reporting of Interests in Joint Ventures.

Provisions, Contingent Liabilities and Contingent Assets

Discounting of Provisions permitted in case of decommissioning, restoration etc.

- ✓ Earlier discounting of provisioning was not permitted.
 - ✓ The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.
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Ind. AS - The game is on..... Phased Implementation

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- The Companies (Ind AS) Rules 2015 notified.
 - Ind AS 101- 115 & Ind AS 1-41 notified (40 No.s)
 - Amendment Rules issued in 2016/2017/2018.

Ind AS - Timelines

Phase I

Accounting periods beg. on or after 01.04.16 with comparatives

- All companies with net worth of 500 Cr or more
- Holding/Subsidiary/JV/Associate of above.

Ind AS - Timelines

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 ..

Balance Sheet

Particulars	Note	in ₹ crore		
		As at March 31,		As at April 1,
		2017	2016	2015
ASSETS				
Non-current assets				
Property, plant and equipment	2.3	8,605	8,248	7,347
Capital work-in-progress		1,247	934	769
Intangible assets	2.4	–	–	–
Financial assets				
Investments	2.5	15,334	11,076	6,108
Loans	2.6	5	5	4
Other financial assets	2.7	216	192	110
Deferred tax assets (net)	2.17	346	405	433
Other non-current assets	2.10	996	755	349
Income tax assets (net)	2.17	5,454	5,020	3,941
Total non-current assets		32,203	26,635	19,061
Current assets				
Financial assets				
Investments	2.5	9,643	2	749
Trade receivables	2.8	10,960	9,798	8,627
Cash and cash equivalents	2.9	19,153	29,176	27,722
Loans	2.6	310	355	225
Other financial assets	2.7	5,403	4,801	4,045
Other current assets	2.10	2,213	1,965	1,384
Total current assets		47,682	46,097	42,752
Total assets		79,885	72,732	61,813

EQUITY AND LIABILITIES				
Equity				
Equity share capital	2.12	1,148	1,148	574
Other equity		66,869	59,934	51,617
Total equity		68,017	61,082	52,191
Liabilities				
Non-current liabilities				
Financial liabilities				
Other financial liabilities	2.13	40	62	27
Other non-current liabilities	2.15	42	–	–
Deferred tax liabilities (net)	2.17	–	–	–
Total non-current liabilities		82	62	27
Current liabilities				
Financial liabilities				
Trade payables	2.14	269	623	124
Other financial liabilities	2.13	5,056	5,132	4,847
Other current liabilities	2.15	2,349	2,093	1,564
Provisions	2.16	350	436	382
Income tax liabilities (net)	2.17	3,762	3,304	2,678
Total current liabilities		11,786	11,588	9,595
Total equity and liabilities		79,885	72,732	61,813

Statement of Profit and Loss

in ₹ crore, except equity share and per equity share data

Particulars	Note	Year ended March 31,	
		2017	2016
Revenue from operations	2.18	59,289	53,983
Other income, net	2.19	3,062	3,006
Total income		62,351	56,989
Expenses			
Employee benefit expenses	2.20	30,944	28,207
Deferred consideration pertaining to acquisition		–	149
Cost of technical sub-contractors		4,809	4,417
Travel expenses		1,638	1,655
Cost of software packages and others	2.20	1,235	1,049
Communication expenses		372	311
Consultancy and professional charges		538	563
Depreciation and amortization expense	2.3 & 2.4	1,331	1,115
Other expenses	2.20	2,546	1,923
Total expenses		43,413	39,389
Profit before tax		18,938	17,600
Tax expense			
Current tax	2.17	5,068	4,898
Deferred tax	2.17	52	9
Profit for the period		13,818	12,693
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit liability / asset		(42)	(2)
Equity instruments through other comprehensive income	2.5 & 2.17	(5)	–
		(47)	(2)
Items that will be reclassified subsequently to profit or loss			
Fair value changes on cash flow hedges, net		39	–
Fair value changes on investments, net	2.5	(10)	–
		29	–
Total other comprehensive income, net of tax		(18)	(2)
Total comprehensive income for the period		13,800	12,691

1.2 Basis of preparation of financial statements

These financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) under the historical cost convention on the accrual basis except for certain financial instruments which are measured at fair values, the provisions of the Companies Act, 2013 ('the Act') (to the extent notified) and guidelines issued by the Securities and Exchange Board of India (SEBI). The Ind AS are prescribed under Section 133 of the Act read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) Amendment Rules, 2016.

The Company has adopted all the Ind AS standards and the adoption was carried out in accordance with Ind AS 101, *First-Time Adoption of Indian Accounting Standards*. The transition was carried out from Indian Accounting Principles generally accepted in India as prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (IGAAP), which was the previous GAAP. Reconciliations and descriptions of the effect of the transition have been summarized in Note 2.1.

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 ⁽¹⁾	22-25 years
Plant and machinery ⁽¹⁾	5 years
Office equipment	5 years
Computer equipment ⁽¹⁾	3-5 years
Furniture and fixtures ⁽¹⁾	5 years
Vehicles ⁽¹⁾	5 years

⁽¹⁾ 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.

Auditing Standards

Mandatory u/s 143 (9)

Total compliance to be ensured

A cultural change required

SRS 4410

New Reporting Requirements 143 (3) (f) & (h)

Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.

Observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company..

IFC Reporting (Relaxed ... SC, T/o < 50 Cr. Borr. <25 Cr)

New Reporting Requirements contd..

Impact of Pending Litigations on Financial Position

Provision as required by AS for material foreseeable losses on long term contracts including derivative contracts have been made.

Delay if any in transferring funds to IEPF.

New format of Auditors Report

Given as Appendix to :

SA 700

SA 705

SA 706

SA 701 - KAMs & Consequential changes in
700, 705 & 706 deferred to 2018

ICDS

-
- 10 Standards as on date
 - Applies to Business Income/IoS.
 - To be complied with while computing IT.

In Form 3CD, from AY 17-18

Clause 13 :-

- (d) Whether any adjustment is required to be made to the profit or loss for complying with the provisions of ICDSs notified u/s. 145 (2).
- (e) If answer to (d) above is affirmative, give details of such adjustment.

Guiding Pronouncements of ICAI

GN on Fraud Reporting u/s 143 (12)

GN on reporting u/s 143 (3) (f) & (h)

AG on Depreciation

GN on CARO 2016.

Audit Process

- ✓ Opening Balance Checking
 - ✓ IC Evaluation & Communicating Findings to TCWG
 - ✓ Vouching
 - ✓ Ledger Analysis
 - ✓ Verification
 - ✓ Analytical Review
 - ✓ Comparing FS with Books - Signed TB.
 - ✓ AS Compliance
 - ✓ Schedule III Compliance - Info for Notes
 - ✓ CARO Points - Informed Reporting
-

The Companies Act 2013.. Current Status... A Snapshot

430 Sections Have been notified.

39 Sections, viz. Sec. 253-269, 289, 304-323 and 325 dealing with Sick companies, Insolvency, Revival, Rehabilitation and Voluntary winding up have been omitted as these are now part of Insolvency and Bankruptcy Law.

38 sets of Rules..

Read the e-Book

Emp

Let us  **EMPOWER** **Let us change**

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



Bigger... Better... Bolder

**CHANGE IS
HARD AT FIRST,
MESSY IN THE
MIDDLE AND
GORGEOUS AT
THE END**

ROBIN SHARMA



Jomon