

Company Audit 2021-22



Accounting Standards

Key Aspects

- Statutory Framework (Chapter X - CA 2013)
- Professional Pronouncements
- Specific Reporting Requirements



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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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

Audit Process

- ✓ Opening Balance Checking
- ✓ IC Evaluation & Communicating to TCWG
- ✓ Vouching
- ✓ Ledger Analysis
- ✓ Verification

Audit Process

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

AS Compliance

Sec 133 - Makes it mandatory for preparers

Sec 143 - Auditor to report on compliance

Accounting Standards

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

Companies (AS) Rules 2006.

Companies (AS) Amendment Rules 2016.

Applicability of ASs. The CASR Impact ... From 2006

Emergence of the concept of

Small & Medium Companies

and non applicability of certain AS' s to them

An SMC is a company which meets all the following conditions :

- **Its equity/debt securities are not listed/ proposed to be listed.**
- **It is not a Bank, FI or Insurance Company.**
- **Its turnover does not exceed Rs.250 crores in the PY**
- **Its borrowings does not exceed Rs.50 crores at any time during the PY.**
- **It is not a holding/subsidiary of a non-SMC.**

ASs that are not applicable to SMCs

AS 3 - Cash Flow Statements .

AS 17 - Segment Reporting.

AS 23 - Inv in Associates in CFS

AS 27 - FR of Joint Ventures

AS 1 - Disclosure of Accounting Policies

All significant accounting Policies to be disclosed.

Any change in the Policy should also be disclosed.

AS 2

Recognises Absorption Costing only

Only FIFO, WAC allowed

Allows exclusive method of **GST** only

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).

AS 4

All paragraphs dealing with Contingencies withdrawn.

AS 4

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 6

Withdrawn Fully.

AS 7

Recognises “Percentage of Completion” method only.

AS 8

Withdrawn fully.



AS 10

Name changed from Fixed Assets to

Property, Plant and Equipment

Paras dealing with patents, Designs etc. withdrawn

AS 10

Model for subsequent Revaluation

- ✓ Revaluations should be made with sufficient regularity. The entire class to be revalued and revaluation not on ad hoc basis
- ✓ 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.

AS 11

All FE fluctuation effects to be expensed

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 15

Actuarial valuation mandatory

Funding not

Value depletion of Plan assets to be provided for

AS 16

Qualifying Assets.. Substantial Period ...

Capitalisation - Concept & Methodology.....

Expensing Situations

AS 21 - CFS

Consolidated Financial Statements **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 & AS 27 - Financial Reporting of Interests in Joint Ventures.

AS 22

“Virtual Certainty” clarified

AS 26

Recognition Criteria Concept...

DRE & PE Dead.

Misc. Expenditure Gone

What's New

- **Schedule III - Revised format (Section 129)**
- **CARO 2020**

Not a COPY..... PASTE year

Schedule III - Major Changes

- ❖ Rounding off made mandatory (00s to Crs).
- ❖ PPE in place of Tangible Assets.
- ❖ Disclosure of Promoters Shareholding.
- ❖ Ageing & date of Completion of CWiP/IAs under Development

Schedule III - Major Changes

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- ❖ **Current Maturities of LT borrowings to be under ST Borrowings.**
 - ❖ **Ageing of Trade Payables (MSME)**
(<1 yr, 1-2 yrs, 2-3 yrs, MT 3 yrs)
 - ❖ **Ageing of Trade Receivables (Disputed separately)**
(< 6 months, 6m-1 yr, 1-2 yrs, 2-3 yrs, MT 3 yrs)

Schedule III - Major Changes

- ❖ Details of Immovable Properties not held in the name of the company
- ❖ Whether revaluations if any has been done by a Registered Valuer u/s 247.
- ❖ Amount of change on Revaluation, if more than 10% of the NCV.

Schedule III - Major Changes

- ❖ Utilisation of Borrowings.
- ❖ Whether Quarterly Returns of Current assets filed with banks are in agreement with Books of Account
- ❖ Whether the company has been declared a Wilful Defaulter
- ❖ Whether registration/satisfaction of charges have been filed on time.

Schedule III - Major Changes

- ❖ Details of Loans & Advances to RPs..
- ❖ Whether any proceedings have been initiated against the company under The Benami Transactions (Prohibition) Act.
- ❖ Whether the company has acted as an intermediary in a Money Laundering Transaction

Schedule III - Major Changes

- ❖ Details of Transactions with Struck off Companies.
- ❖ Whether the provisions of Section 2(87) on No. of Layers have been complied with.
- ❖ Full details of CSR expenses .. Spent/Unspent etc..
- ❖ Details of Crypto Transactions, if any

Schedule III - Major Changes

- Ratios with explanation for items included in numerator & denominator and reasons for 25% or more variation as compared to Previous Year

Current Ratio

Trade payables turnover ratio

Debt-Equity Ratio

Net capital turnover ratio

Debt Service Coverage Ratio

Net profit ratio

Return on Equity Ratio

Return on Capital Employed

Inventory turnover Ratio

Return on Investment

Trade Receivables turnover Ratio

Schedule III - Major Changes

In the P/L,

- ❖ Total ~~Revenue~~ is replaced with Total Income.
- ❖ Grants/Donations received included (Sec 8 Cos).
- ❖ To give details of unrecorded transactions surrendered/disclosed in IT assessments.



CARO 2020

Notified on 25th February, 2020

Applicable from FY 2021-22

Overview of the Order

New Clauses (incl 2 re-introduced)	7
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Modified Clauses	7
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Retained Clauses	7
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Total	21
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Sub Clauses	47
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Summary of Changes

Newly Added (Clauses) (7)	Modified (Clauses) (7)	Retained (Clauses) (7)
Transaction Not recorded in Books	Fixed assets	Acceptance of deposits
Ability of Company to meet its Liabilities	Inventory	Maintenance of cost records
CSR - Transfer of Unspent Amount to Fund	Repayment of Loans granted by company	Loans ,Investments, securities & guarantee's - Sec 185 & 186
Statutory Auditor Resignation	Default in repayment of dues	Application of funds raised
CFS : reference to negative remarks in Subsidiary CARO	Reporting of frauds	Related Party Transactions
Internal Audit System (CARO 2003)	Nidhi Company	Non-Cash Transactions
Cash Loss (CARO 2003)	Registration with RBI	Payment of statutory dues

APPLICABLE FROM	APPLICABLE TO	NOT APPLICABLE TO
Financial year commencing on or after 1st April, 2021 .	Every company including a foreign company as defined in section 2(42) of the Companies Act, 2013.	Banking company
	Government Company	Insurance company
	Branches	Section 8 company
		One person company
		Small company under section 2(85) of Companies Act, 2013*

***Small Company under the Act shall be exempt even if it falls under any other eligible category.**

New Clause 1

Internal Audit System (xiv)

(a) whether the company has an internal audit system commensurate with the size and nature of its business; *(Re-introduced from CARO 2003)*

New*

(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor

New Clause 2

Cash Loss (xvii)

Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses *(Re-introduced from CARO 2003)*

New Clause 3

Unrecorded Income (viii)

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, **whether the previously unrecorded income has been properly recorded in the books of account during the year**

New Clause 4

Resignation of Statutory Auditor (xviii)

Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;

Document :

- Concerns raised by the Outgoing Auditor – In the Audit Report and otherwise, communication before accepting engagement, discussions and communication with TCWG.
- **Include specifically in MRL (LoR)** - All the material concerns/objections discussed by the outgoing auditor are shared by the Management/BOD/AC.

New Clause 5

CARO 2020

Capability of meeting its liabilities (xix)

On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that **no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;**

Action Points

Written representation from Management on

- Verify the realisability of Receivables and other financial assets
- Board's documentation of review of Liability position (payable within one year) and payment Plans
- **Include specifically** that all material events/transactions post balance sheet date but before Report date that could impact the **Paying Capacity** in the knowledge of the Management/Board has been communicated to the Auditor.

New Clause 6

Transfer of unspent CSR amounts to fund (xx)

(a) whether, in respect of **other than ongoing projects**, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act, **within a period of six months** of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;

(b) whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to **any ongoing project**, has been **transferred to special account** in compliance with the provision of sub-section (6) of section 135 of the said Act

New Clause 7

CARO remarks of other auditors – CFS (xxi)

Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the **companies included** in the **consolidated financial statements**, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

Cash Flow Statements

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...

Auditing Standards

Mandatory u/s 143 (9).

Total compliance to be ensured

210 , 220, 230, 300, 315, 500, 501, 505, 510, 570, 580 etc

Forming an Opinion & Reporting

SA 700, SA 705, SA 706



Jomon

