COMPANY AUDIT

2025-26

All you need to know

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Impacting Factors

- Statutory Framework

- Professional Pronouncements

- Specific Reporting Requirements

Back drop

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

Take note ...

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

Take note ...

- CARO 2020 – Quite Onerous
- Companies (AS) Rules 2021
- Mandatory Nature of Auditing Standards

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 …

Accounting Standards

ASs to be applied for recognition, measurement and presentation.

Companies (AS) Rules 2021.

Audit Process

- ✓ Opening Balance Checking
- ✓ IC Evaluation
- ✓ Vouching
- ✓ Ledger Analysis
- ✓ Verification
- ✓ Analytical Review
- ✓ Comparing FS with Books
- ✓ AS Compliance
- ✓ Schedule III Compliance - Info for Notes
- ✓ CARO Points –Informed Reporting

SCHEDULE III

to

THE COMPANIES ACT 2013

The Ministry of Corporate Affairs (MCA) has amended Schedule III of the Companies Act, 2013

Applicable from 01st April 2021

The Schedule III is divided into 3 divisions as given below

Division I - Financial Statements for a company whose Financial Statements are required to comply with Companies (Accounting Standards) Rules, 2006	Division II – Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015	Division III - Financial Statements for Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015

Balance Sheet Items

Particulars	Amendments
Compulsory Rounding off figures based on Total Income instead of Turnover. ('May' substituted with 'Shall')	Total Income less than Rs. 100 crores – Nearest hundreds, thousands, lakhs or millions Total Income more than Rs. 100 crores – Nearest lakhs, millions or crores. Now companies have to round off the figures appearing in the financial statements, hitherto it was optional. Once selected it 'Should' apply consistently Total Income – Not defined
Changes Part I Balance Sheet	-Addition/Deletion under sub head Non-Current Assets II. ASSETS Non-current assets (1)(a) Property, Plant and Equipment and Intangible assets (i) Tangible assets PPE

Balance Sheet Items

Share Capital

Shareholding of Promoters at the end of the Year in tabular form containing :

- Name
- No of Shares (separately for each class of shares)
- % of Total Shares (separately for each class of shares)
- % change during the year (computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue)

Promoters – means as defined u/s 2(69) "promoter" means a person—

who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or

who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act:

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity;

Balance Sheet Items

<u>Short-term borrowings</u>

Current maturities of Long-term borrowings shall be disclosed separately under STB

Trade payables due for payment and the Ageing Schedule

Trade Payables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment#				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
(i)MSME (ii)Others (iii) Disputed dues – MSME (iv) Disputed dues - Others					

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately;

Balance Sheet Items

Property, Plant and Equipment & Intangible Assets

A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations.

Amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

Balance Sheet Items

Security Deposits

Omitted from Long Term Loans Advances added under Other Non-Current Assets

Utilisation of Borrowings

Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Balance Sheet Items

Trade Receivables - Ageing Schedule

Trade Receivables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment#					
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) Undisputed Trade receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

similar information shall be given where no due date of payment is specified, in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately.";

Balance Sheet Items

Title deeds of Immovable Property not held in name of the Company

i) Details of all the Immovable Property (other than under lease and the agreement is in the name of the Co) whose title deeds are not held in name of the Company. If the same is held jointly with others, details to the extent of the company's shares shall be disclosed.

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative# of promoter*/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company**
PPE - Investment property - PPE retired from active use and held for disposal - others	Land Building Land Building Land Building	-	-	-	-	**also indicate if in dispute

#Relative here means relative as defined in the Companies Act, 2013.

*Promoter here means promoter as defined in the Companies Act, 2013.

Balance Sheet Items

- Disclosure of revaluation of Property, Plant and Equipment – whether based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

- In case of Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties either severally or jointly with any other person, that are: (a) repayable on demand or (b) without specifying any terms or period of repayment.

Type of Borrower	Amt of Loan or Adv o/s	% of total L & A
Promoters/ Directors/ KMPs/RP		

Balance Sheet Items

Capital Work In Progress (CWIP) & Intangible Assets-

Ageing schedule

CWIP	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in progress Projects temporarily suspended					

*Total shall tally with CWIP amount in the balance sheet.

For CWIP/ Intangible Assets, whose completion is overdue or has exceeded its cost compared to its original plan, CWIP completion schedule mandatory – (Projects where activity is Suspended to be given separately:

Intangible assets under development	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1 Project 2				

Balance Sheet Items

Details of Benami Property Held

Disclosure of any proceedings initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 with all details like Details of such property, including year of acquisition, Amount, Beneficiaries, reference to the item in the Balance Sheet (if it is in Books of account).

If property is not in the books, then the fact shall be stated with reasons, any proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided, Nature of proceedings, status of same and company's view on same.

Balance Sheet Items

Enhanced Disclosure for borrowings from banks or financial institutions on the basis of security of current assets:

- **Whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.**

- **if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed**

Balance Sheet Items

Where a company is a declared wilful defaulter by any bank or financial Institution or other lender or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India :

- Date of declaration as wilful defaulter

- Details of defaults (amount and nature of defaults)

Balance Sheet Items

Disclosure of any transactions with struck off Companies u/s 248 or 560

Name of struck off Company	Nature of transactions with struck-off Company	Balance outstanding	Relationship with the Struck off company, if any, to be disclosed
	Investments in securities		
	Receivables		
	Payables		
	Shares held by stuck off company		
	Other outstanding balances (to be specified)		

Balance Sheet Items

- Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

- Where Company has not complied with the no. of layers prescribed u/s 2(87) read with Rules, name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies shall be disclosed.

Balance Sheet Items

- Ratios with explanation for items included in numerator & denominator - 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	

Balance Sheet Items

In case Scheme of Arrangements has been approved in terms of sections 230 to 237, the Company shall disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the Company ‘in accordance with the Scheme’ and ‘in accordance with accounting standards’ and deviation in this regard shall be explained.

Balance Sheet Items

In case the company has advanced/loaned/invested or received funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall **directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries; the company shall disclose the following :**

Balance Sheet Items

- date and amount of fund advanced /loaned /invested/received with complete details of each Intermediary.
- date and amount of fund further advanced or loaned or invested by such Intermediaries to ther intermediaries or Ultimate Beneficiaries alongwith complete details
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- declaration that relevant provisions of the FEMA, Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act, 2002

Statement of Profit & Loss

Particulars	Amendments
Changes - Part 2 Statement Profit & Loss	a. Addition / Deletion under III is as below I. Revenue from Operations II. Other Income III. Total ~~Revenue~~ Income (I+II)
Additional disclosure under Notes Statement of Profit and Loss	1. Revenue from Operations Grants or donations received (relevant in case of section 8 companies only) 2. Undisclosed Income Co. shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under 11 any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Statement of Profit & Loss

Corporate Social Responsibility (CSR)

When the company is covered under section 135 :

a. Amount required to be spent during the year
b. Amount of expenditure incurred
c. shortfall at the end of the year
d. total of previous years shortfall
e. reason for shortfall
f. nature of CSR activities
g. details of related party transactions, - contribution to trust controlled by Co as per AS
h. Where a provision is made w.r.t liability incurred, the movement in provision during the year should be shown separately.

Statement of Profit & Loss

Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed :-

- profit or loss on transactions involving Crypto currency or Virtual Currency

- amount of currency held as at the reporting date,

- deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

Accounting Standards

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).

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 7

Recognises "Percentage of Completion" method only.

AS 6 & AS 8

Withdrawn fully

AS 10 (Renamed as PPE)

Paras dealing with patents, Designs etc. withdrawn

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.

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 -18 Related Party Transactions

Sec 188 Companies Act

Sec 189 Register

40(A)(2)(b) IT Act

SA 550 (MRL)

AS-21- Consolidated Financial Statements

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 CFS

AS 27 : Financial Reporting of Interests in Joint Ventures.

AS - 22 Taxes on Income

Timing Vs Permanent difference

DTA/DTL – Netting

Reasonable Vs Virtual Certainty

Disclosures

AS 26 – Intangible Assets

Recognition Criteria Concept…

DRE & PE …. Dead.

Misc. Expenditure …. Gone

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.

Ind AS – Applicability

- All Listed companies
- All unlisted companies with net worth of 250 Crs or more
- Holding/Subsidiary/JV/Associate of above.

Auditing Standards

Mandatory u/s 143 (9)

Total compliance to be ensured

A cultural change required

Exemption to Pvt Co.s from IFC Reporting

- ✓ OPCs & Small Companies

- ✓ Private Company

  whose turnover does not exceed Rs. 50 Crs as per latest AFS.

OR

Borrowing does not exceed Rs. 25 Cr at anytime during the year.

Certain procedural aspects

Appointment :

Ensure compliance with Sec 139, 140,141.

Insist on Appointment Letter & Resolution

File form ADT 1 with RoC.

Send Letter of Engagement to Board (SA 210)

Audit Process

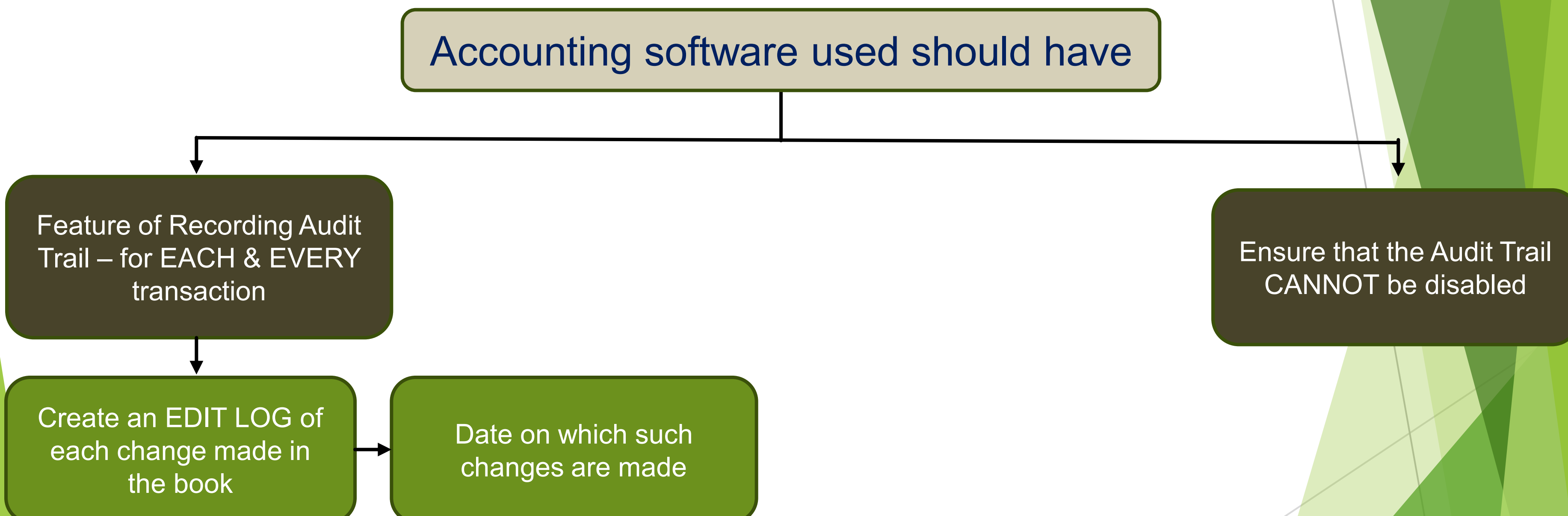
Be guided by an Audit Programme covering all the major aspects to be looked into in an audit. *(SA 300)*

Requirement of Audit Trail for companies?

- Proviso to Rule 3 (1) of the Companies (Accounts) Rules, 2014

- Provided that for the FY commencing on or after 1st day of April, 2023, every company which uses an accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

Audit Trail – Legal provision



Audit Trail Reporting-Provision

MCA Notification No. GSR 206 GSR 206(E) dated March 24, 2021

- Applicable for FYs commencing on or after 1st April, 2023 (FY 2023-24 onwards)

- *Rule 11 (g) reads as follows:*
  - "Whether the company, in respect of financial years commencing on or after the 1st April, 2022, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention."

Audit Trail Reporting

Key aspects to be reported

Whether the accounting software has a feature of "Recording Audit Trail" (edit log) facility?

Existence of Audit Trail Facility?

Whether the "Recording Audit Trail" (edit log) facility has been operated throughout the year – for all transactions?

Operation of Audit Trail throughout the year & covering all transactions

Whether the "Recording Audit Trail" (edit log) facility has been tampered during the year?

Tampering of audit trail, if any?

Whether the Audit Trail has been preserved – as per statutory requirements of "record retention"?

Retention of Audit Trail

The New Labour Codes

The Government of India notified the following codes to replace 29 prevailing labour laws :

- **Code on Wages, 2019**
- **Industrial Relations Code, 2020**
- **Code on Social Security, 2020**
- **Occupational Safety, Health and Working Conditions Code, 2020**

Key Changes to Definitions and Provisions

Wages

Includes Basic Salary + DA. Excludes HRA, OT, PF contributions, and an exhaustive list of items referred in Section 2(y) of the Code on Wages, 2019.

If exclusions exceed **50% of CTC**, the shortfall is added back to Basic + DA.

Employer

Includes any person who employs workers **directly, through an agency, or on behalf of someone else**.

Employee

Now explicitly includes **managerial and administrative personnel**.

Gratuity to Fixed Term Employees

Provides gratuity to fixed term employees if they work for **1 year** instead of 5 years as earlier.

Written Representations Under SA 580

Responsibility

Confirms responsibility for Labour Code compliance and related system/process changes.

Impact Assessment

Impact on processes, contributions, benefits, and disclosures assessed; gaps appropriately disclosed.

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Completeness

All known and reasonably estimable Labour Code impacts identified and considered. If not, then properly evaluated and disclosed in financial statements..

Written Representations Under SA 580

Accounting Treatment

The treatment adopted including recognition, measurement, presentation and disclosure is in accordance with the framework.

Legal Opinion

All information provided for obtaining legal opinion is accurate and no contradictory legal advice is withheld from the auditor.

Actuary

Data provided to actuary is accurate and complete. It reflect management's best estimates and free from bias.

Disclosures in Notes to FS

01 **Status of Applicability**
Implementation status and management's impact assessment

02 **Quantified Impact**
Known and reasonably estimable impact on benefits, contributions and liabilities

03 **Employee Benefit Obligations**
Effect on gratuity, leave encashment and actuarial valuations

04 **Financial Reporting Impacts**
Recognition, measurement, presentation and transition-related effects

05 **Incomplete Assessments**
Status, scope, reasons for incompleteness and expected areas of impact

06 **Judgements and Estimates**
Significant assumptions used in determining the impact

Auditor’s Reporting