



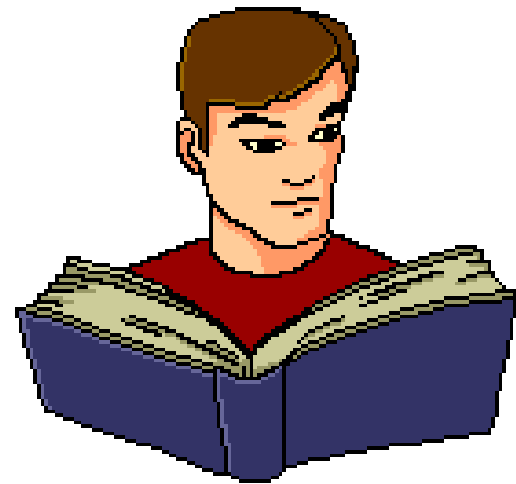
# “5 Days Virtual Refresher Course on Company Law”



**CA. CHANDRASHEKHAR V. CHITALE**

Chairman, CL&CGC  
CENTRAL COUNCIL MEMBER, ICAI





- Pitfalls in  
Private Company Audit



# Subject Expanse

## Pitfalls in Private Company Audit

- ✓ Pitfalls
- ✓ Appointment
- ✓ Audit
- ✓ Adherence



- Private Company Audit
- Pitfalls





Where a certificate issued by a CA U/R 7 of Part I of First Schedule to the Insurance Act, 1938 was not correct, as the Co had granted loans on policies already lapsed for non-payment of premia and also the claims in respect of 2 policies that matured were not included in estimated liability for outstanding claims shown in the Balance Sheet.

-Held he was guilty of professional misconduct

(Controller of Insurance vs. H.C. Das - Page 240 of Vol.III of the DC and page 422-429 of March, 1957 issue of the ICAI Journal - Judgement delivered on 4th January, 1957).



Where a CA, an auditor of the Madras branch of a Co at Bombay, was charged with failure to report that some entries in the bank pass book are not been passed in books of the branch. - Held he was guilty of gross negligence.

**HC observed:** a small fee paid to the Respondent should not come in the way of his doing his duty without fear or favour.

(The Fairdeal Corporation Ltd. Bombay vs. K. Gopalakrishna Rao

- Page 361 of Vol. III of the DC and pages 196-203 of Oct. 1957 issue of the ICAI Journal - Judgement delivered on 23rd August, 1957).



A certificate issued by a CA to a proprietor of a firm in respect of the turnover of betelnuts to enable the firm, which was not dealing in betel nuts, to obtain import licence without checking the books and documents himself, but relying on his articled clerk for its correctness.

- **Held he was guilty of gross negligence.**

(Sunderlal Fatehpuria in Re:- Page 591 of Vol.III of the DC and page 224 of January, 1959 issue of the ICAI Journal - Judgement delivered on 14th November, 1958).





Where a Chartered Accountant failed to report on the overpayment of remuneration to the managing agents of a Company, which contravened Section 18(2) and Section 87CC, of the Indian Companies Act, 1913 and was, therefore, not in accordance with law.

- Held he was guilty under Clauses (5), (7) and (9).

(B.K.Ray in Re:- Page 300 of Vol.IV of the DC and pages 521-523 of June, 1963 of the ICAI Journal - Judgement delivered on 30th November, 1962).



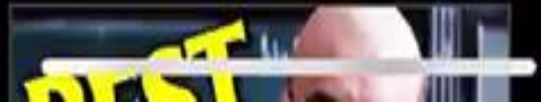
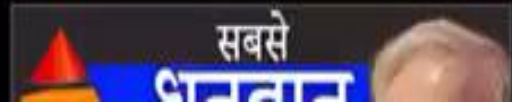
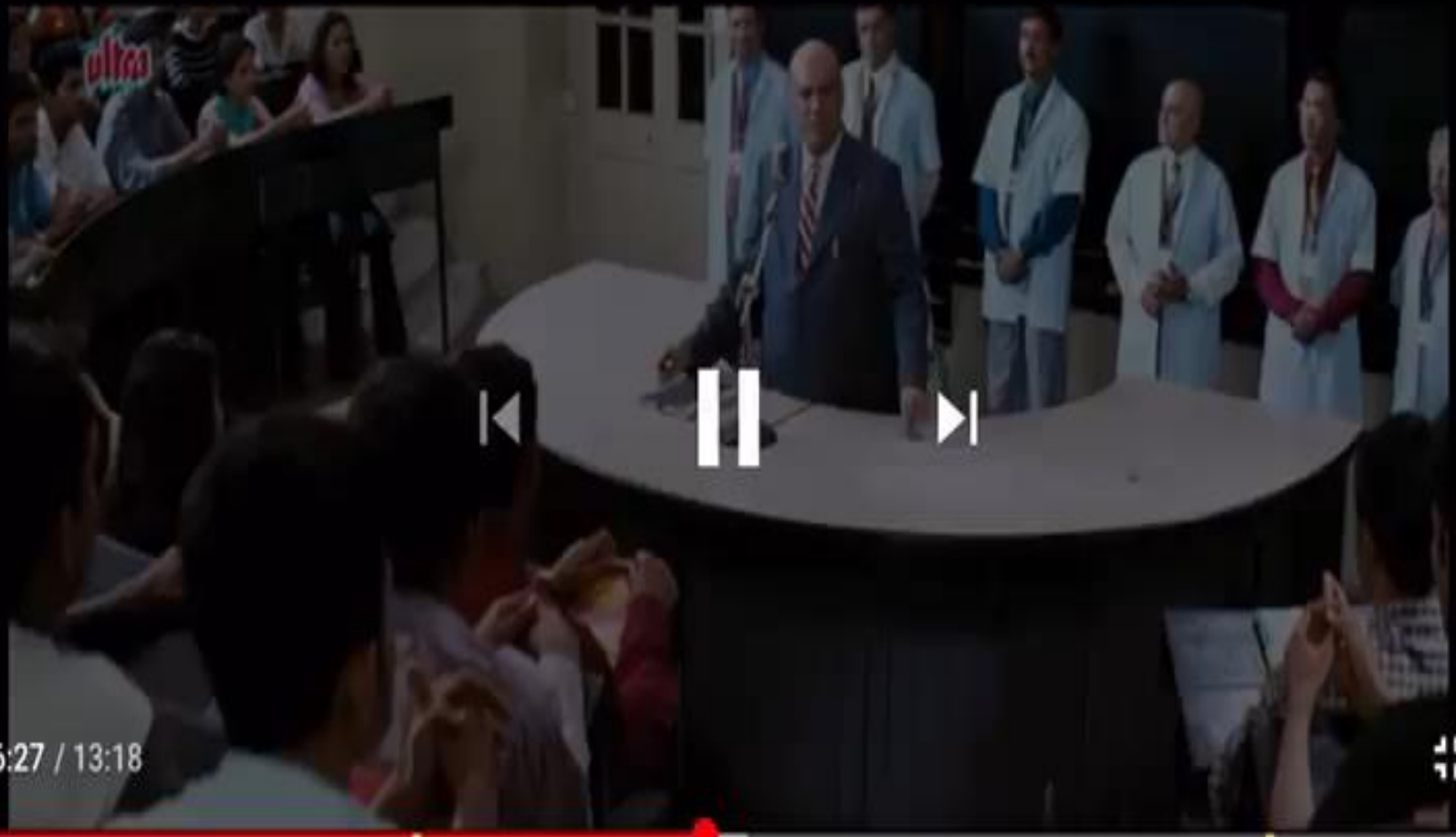
# a Good natured Gentleman



- CA contended that he did not obtain the balance confirmation of a Bank.
- Submitted that he had placed reliance on bank statement given to him by the company, which was ultimately found to be fake.

Report also showed that when the Auditor's clerk counted the cash on March 24, 1954, it was Rs 15,712-13-2, whereas the Day Book written thereafter showed a closing balance of Rs 3,07,555-2-10. It appears that cooking up of accounts and presentation of false balance-sheets were the usual practice of the Bank. [Official Liquidator, Supreme Bank Ltd. v. P.A Tendolkar (Dead)]





## COMPANIES & SECTORS

### **XYZ's Arm ABC 'Illegally' Appointed IFIN Auditor: NFRA Review**

IANIS / 17 August 2020

"The non-audit services provided technically by the XYZ-labelled entities of the network are clearly services indirectly provided by the ABC entities, and thus result in gross violations of the independence requirements for auditors laid down under the Act, as well as the Code of Ethics mandated by the Institute of Chartered Accountants of India,"

The firm was not eligible to be appointed as an auditor due to violation of Section 141(3)(e) for subsisting business relationships on the date of appointment, and Section 141(3)(i) for provision of non-audit services directly or indirectly, of the Companies Act, 2013.



## COMPANIES & SECTORS

### **XYZ's Arm ABC 'Illegally' Appointed IFIN Auditor: NFRA Review**

143(3) (e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed

**CoE: R400.31** ~~the firm shall determine whether any threats to independence are created by:~~

(b) Previous services provided to the audit client by the firm or a network firm.





# Liability under Consumer Protection Act

- The following points should be borne in mind:
  - (a) The auditor gives his opinion or advice on payment of fees. Therefore, they come under the purview of Consumer Protection Act.
  - (b) If any CA gives opinion or advice contrary to the provisions of law or not supported by any judicial decisions, he may be called upon to compensate by paying damages for the loss suffered as a result of his opinion or advice.



- ✓ Private Company Audit
- ✓ Appointment



# Appointment

- ✓ Qualifications & Disqualifications
  - ❑ Companies Act, 2013
  - ❑ ICAI Code of Ethics
- ✓ Appointment
- ✓ NoC
- ✓ Letters – Eligibility & Acceptance
- ✓ Form ADT-1

# Appointment



# Appointment

❑ Companies Act, 2013 - Section 141

**Eligibility, qualifications and disqualifications of auditors.** (1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant:

Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

Check each clause of Sub-section (2)



# Appointment

❑ Companies Act, 2013 - Section **141**

Check each clause of Sub-section (2)

- (i) Employment
- (ii) Indebtedness
- (iii) Security holding
- (iv) Association
- (v) Business Connection
- (vi) Independence

# Appointment

- ✓ Qualifications & Disqualifications
  - ❑ Companies Act, 2013  
Section 141
  
  - ❑ ICAI Code of Ethics

# Appointment

- ICAI Code of Ethics**
- Relative of any of Directors, TCG
- Officer or employee of Company;
- Who is in employment, of an officer or employee
- Directly or indirectly, has business relationship

Except: as customer, in the ordinary course of business, by companies engaged in business of telecommunications, airlines, hospitals, hotels & such other similar businesses, etc.

# Appointment

- An individual who, or his relative or partner: holding any security of or interest face value indebted to Co, given a guarantee /provided security – Limit Rs. 1 Lakh
- Relative:**
- Spouse
- Brother or sister of the individual; or of the individual or spouse of the individual;
- Any lineal ascendant or descendant of the individual or of the spouse of the individual;
- Spouse of a persons referred above;

# Ethics

## □ OBJECTIVITY

- Should not allow bias, conflict of interest or undue influence of others to override professional judgments.
- Example - CA should not accept gift of significant value from a client in exchange of changing his opinion on financial statements.



# Ethics

## AUDIT CLIENTS THAT ARE NOT PUBLIC INTEREST ENTITIES

Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat. The significance of the threat will depend on:

- (a) The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;
- (b) The level of tax expertise of the client's personnel; and
- (c) The materiality of the amounts to the financial statements.

# Holding - Subsidiary

CA in practice can not engage (unless expressly permitted) in any business or occupation other than the profession of CA but he can be a director of a Company (not MD or whole time director) wherein he or any of his partners is not interested in such Company as an auditor. Public conscience is expected to be ahead of the law. It would either compromise or jeopardise their independence. Therefore, the Committee has decided that Auditor of a Subsidiary Company can't be a Director of its Holding Company, as it will affect the independence of an auditor.



# NoC

**Whether a CA in practice can accept a position as auditor previously held by another CA without first communicating with him in writing?**

**No, a CA in practice cannot accept a position as auditor previously held by another CA without first communicating with him in writing. It will be in violation of Clause (8) of Part I of First Schedule to the Act.**

# Ready for Audit?

- ✓ Audit Objectives Listing

  - Companies Act, 2013

  - Other Law

- ✓ Companies Act, 2013

  - Section 143 (2), 143 (3)

  - Section 143 (1)

  - CARO, 2016

# Ready for Audit?

- ✓ Audit Objectives Listing

  - Companies Act, 2013

  - Other Law

- ✓ Companies Act, 2013

  - Section 143 (2), 143 (3)

  - Section 143 (1)

  - CARO, 2016

# Ready for Audit?

The Companies (Audit and Auditors) Rules, 2014

11. Other matters in auditors report-

(a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement; (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts; (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.



# Ready for Audit?

- ✓ Other Law

  - MSMED Act, 2006

  - Section 22 Requirement to specify unpaid amount with interest in the annual statement of accounts

- ✓ Companies Act, 2013

  - Section 143 (4)

  - Section 143 (9)

# Ready for Audit?

- ✓ Articles, Memorandum
- ✓ Method of Accounting
- ✓ List of Books of Account
- ✓ Last Year Signed Set of Accounts, Audit Report
- ✓ List of AE, Relatives, etc.
- ✓ List of Those Charged with Governance, KMP
- ✓ Registers Maintained – FA Register
- ✓ Applicable Accounting Standards
- ✓ Information in Public Domain

# Before You Start

- ✓ Engagement Letter - SA 210
- ✓ Audit Files
- ✓ Audit Plan
- ✓ Audit Team
- ✓ Meeting – Internal
- ✓ Meeting – CFO and Team Accounts
- ✓ Minutes of Meetings
- ✓ Finalise Audit Plan
- ✓ **GIVE ORAL & WRITTEN COVID - 19 INSTRUCTIONS**

# Private Company Audit

✓ Audit



Presenter Media



# Audit



- Law for Accounts
- SA
- AS
- Materiality
- Documentation

# Accounts

128	<b>Accrual Basis, Double Entry System</b>
128	To be kept at Registered office
128	To be kept for 8 FY's
129	<b>FS – Comply AS, In Schedule III format</b>
133	<b>Central Govt. to prescribe AS as recommended by ICAI and NFRA</b>
134	<b>Approval &amp; signing of financial statement (FS), Board Report (BR)</b>





## Schedule II to Companies Act, 2013

(See section 123)

### Useful Lives To Compute Depreciation

What if useful life of a part of asset is significant and different from useful life of the remaining asset? A. In that case, useful life of the significant part shall be determined separately.

The useful life

**Shall not be less than prescribed**      **Part A – Clause (2)**

The residual value of any specific asset

**Shall not be more than 5%**      **Part C – Note (5)**

# Accounts



- Intangible Assets –
- Accounting Standard (AS) 26

63. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

*Title in FA Schedule and P&L – 'Dep & Amortisation'*



## DEPRECIATION

- Explanations
- Disclosure Requirements

Note (3)

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# Financial Statements



# Accounts



- **Schedule III to Companies Act, 2013**
  - *See section 129*
- **GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A COMPANY**
- **PART I — BALANCE SHEET**
  - *General instructions for preparation*
- **PART II — STATEMENT OF PROFIT AND LOSS**
  - *General instructions for preparation*



# FINANCIAL STATEMENTS

➤ **Financial Year – 31<sup>st</sup> March**

**Cash Flow for all except:**

➤ **OPC, SC, DC**

➤ **Start up Company w.e.f. 13<sup>th</sup> June 2017**

➤ **FS to be in Schedule III**

➤ **Amended to include MSMED details under Trade Payable**



# BASICS – CURRENT VS. NON-CURRENT

- × **Current Asset - satisfies any of following criteria:**
  - + **In the company's normal operating cycle it is;**
  - × **Intended for sale; or**
  - × **Intended to be consumed; or**
  - × **Expected to be realized.**
  - + **Held primarily for the purpose of being traded; or**
  - + **Expected to be realized within 12 months after reporting date; or**
  - + **Cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.**

# BASICS - CURRENT LIABILITY

- ✘ Current liability if it satisfies any of the following criteria it is :
  - + Expected to be settled in the company's normal operating cycle; or
  - + Held primarily for the purpose of being traded; or
  - + Due to be settled within 12 months after reporting date; or
  - + The company does not have an unconditional right to defer settlement of liability for at least 12 months after reporting date. Terms of a liability that could, at option of counterparty, result in its settlement by issue of equity do not affect its classification.

# GENERAL

- ✘ **Balance Sheet Title – ‘as on’ or ‘as at’ 31st March?**
- ✘ **PL Title - Statement of Profit & Loss / I & E**
- ✘ **Rounding off based on turnover.**
  - + < Rs. 100 Crores - To the nearest hundreds, thousands, lakhs or millions or decimal thereof
  - + Rs. 100 Crores or more - To the nearest lakhs or millions or crores or decimal thereof
- ✘ **Comparative figures required to be disclosed for the last reporting period**

# GENERAL

- × Linking of notes with B/S & PL
- × B/s & PL on letterhead of Auditors ??
- × Date of signing
- × Payment to shareholders for 2(22)(e)
- × Issues in Proprietorship / Partnership:
  - + Significant Accounting Policies
  - + Accounting Standards

***IMPORTANT GENERAL NOTES***

# FORM OF BALANCE SHEET (PART 1)

<i>Particulars</i>	<i>Note No.</i>	<i>Figures as at the end of the CRP</i>	<i>Figures as at the end of the PRP</i>
<b>I. EQUITY AND LIABILITIES</b>			
<b>(1) Shareholders' Funds</b>			
(a) Share capital	1		
(b) Reserve and Surplus	2		
(c) Money received against share warrants			
<b>(2) Share application money pending allotment</b>	3		
<b>(3) Non-current Liabilities</b>			
(a) Long term borrowings	4		
(b) Deferred tax liabilities (net)	5		
(c) Other long term liabilities	6		
(d) Long term provisions	7		
<b>(4) Current Liabilities</b>			
(a) Short term borrowings	8		
(b) Trade payables			
(c) Other current liabilities	9		
(d) Short term provisions	10		
<b>TOTAL</b>			

# SHARE CAPITAL & RESERVES

- Authorized / Paid up Capital – Check with
- Master Data
- Reconciliation of no of shares outstanding  
at beginning & at end of reporting period.
- Rights, preference & restrictions attaching to each class of shares etc.
- Is conversion of loans into shares in event of default in repayment – Non-cash?
- Share Premium A/c??



# BORROWINGS

- Long Term vs. Short Term
- Directors??  CC Limits?? Demand Loans??
- Secured /unsecured – nature of security to be stated & guaranteed by directors to be shown separately.
- Term of repayment of term loans to be given
- Period of maturity with respect to B/S date
- Number of installments due; Amt of installments due
- Applicable rate of interest
- Period & amount of default in payment of principal & interest as on B/S date

# OTHER CURRENT LIABILITIES

The Current Liabilities shall be classified as:

- Current maturities of long term debts
- Current maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings
- Income received in advance
- Unpaid dividends

# OTHER CURRENT LIABILITIES

The Current Liabilities shall be classified as:

- Share Application money due for refund and interest
- accrued thereon (including advances for allotment of
- share Capital)
- Unpaid matured deposit and interest thereon
- Unpaid matured debentures and interest thereon
- Other payables

# OTHER CURRENT LIABILITIES

Others payable may include:

- Statutory obligations like, ESI, PF, VAT, CST, etc.
- Liability for purchase of fixed assets
- Contractually reimbursable expenses
- Interest accrued on trade payables
- Expenses Payable, TDS Payable
- Trade / Security Deposit
- Mark-to-market loss on forward and option contracts
- Retention Monies
- Accrued salaries and benefits

# LIABILITIES

- Share Application Money Pending allotment – Section 42
- Loans from Friends??
- Current / Non-Current Loans
- Advances from Customers
- Trade payables – Ageing

# FORM OF BALANCE SHEET (PART 2)

Particulars	Note No.	Figures as at the end of the CRP	Figures as at the end of the PRP
<b>II. ASSETS</b>			
<b>(1) Non-current assets</b>			
(a) Property, Plant & Equipment	11		
(i) Tangible assets	12		
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development	13		
(b) Non-current investments			
(c) Deferred tax assets (Net)	14		
(d) Long term loans and advances	15		
(e) Other non-current assets			
<b>(2) Current assets</b>			
(a) Current investments	16		
(b) Inventories	17		
(c) Trade receivables			
(d) Cash and cash equivalents	18		
(e) Short term loans and advances	19		
(f) Other current assets	20		
TOTAL			



# PROPERTY, PLANT AND EQUIPMENTS

PPE on the face of the BS - classify as:

- Tangible Assets
- Intangible Assets
  - Software
- Capital work-in-progress
- Intangible assets under development
- Capital advances to be grouped as:

Capital Work-in-Progress or loans and advances? Long term or short term?

# INVENTORY

Classification into:

- Raw Materials
- Work-in-progress
- Finished goods
- Stock-in-trade (trading goods)
- Stores and spares
- Loose tools
- Others (specifying nature)
- Finished goods should include all goods except acquired for trading purposes

Goods-in-transit -disclose under relevant sub-head

Mode of Valuation shall be stated

# ASSETS?

- Investment Property
- Inventories
- Cash
- Loans without interest
- Debtors – Ageing / Provisioning
- Miscellaneous Expenditure

# FORM OF STATEMENT OF PROFIT AND LOSS

Particulars	Note No.	Figures for the CRP	Figure for the PRP
I. Revenue from operations	21		
II. Other income	22		
<b>III Total Revenue (I + II)</b>			
IV. Expenses	23		
<b>V. Profit before exceptional and extraordinary items and tax (III - IV)</b>			
VI. Exceptional items	24		
<b>VII. Profit before extraordinary items and tax (V-VI)</b>			
VIII. Extraordinary items	25		
<b>IX. Profit before tax (VII-VIII)</b>			
X. Tax Expenses	26		
<b>XI. Profit (loss) for the period from continuing operations (IX-X)</b>			
XII Profit (Loss) from the discontinuing business	27		
XIII Tax expenses of discontinuing operations	28		
<b>XIV. Profit (Loss) from discontinuing operations (after tax) (XII-XIV)</b>			
<b>XV. Profit (Loss) for the period (XI+XIV)</b>	29		
XVI. Earnings per equity share			

# REVENUE FROM OPERATIONS

For companies other than finance company:

- Sale of Products
- Sale of Services
- Other Operating Revenues

For Finance company:

- Interest
- Other Financial services

Recognition of Revenue as per AS 9 / 7 for Service Contracts / Construction Contracts

# OTHER INCOME

- To be classified as:
- Interest income (not for finance company)
- Dividend
- Dividend from subsidiary company
- Net gain / loss on sale of investments
- Other non-operating income

Interest, dividend, etc. to be disclosed separately for Current as well as Non Current Investments



# EXPENSES

- Disclosure on face of the PL:
  - Cost of materials consumed
  - Purchase of stock-in-trade
  - Changes in inventories of finished goods, Work-in-progress and stock in trade
  - Employee benefit expenses
  - Finance costs
  - Depreciation and amortization expenses
  - Other expenses

# FINANCE COSTS

## Interest expense

- Interest on borrowings, debentures, bonds, etc.
- Finance charges on finance lease are in nature of interest
- Other borrowing costs
- Commitment charges
- Loan processing charges
- Guarantee charges
- Loan facilitation charges
- Discounts/ premium on borrowings
- Other ancillary costs
- Applicable net loss on foreign currency transactions

# OTHER EXPENSES

All other expenses will be grouped here. Following to be disclosed separately:

- Consumption of stores and spares
- Power and fuel
- Rent
- Repairs to buildings
- Repairs to machinery
- Insurance
- Rates and taxes, excluding taxes on income
- Miscellaneous expenses (Any expenditure which exceeds 1% of revenue from operations or Rs.1 L whichever is higher – separate)

# NOTES TO ACCOUNTS

Disclosure:

- SMC / Non- SMC
- AS 1
- FS to be prepared in compliance of AS
- FS has to be AS compliant:
- FS to disclose deviation from AS
- Reason for deviation
- Financial effect arising of deviation

# NOTES TO ACCOUNTS

Contingent Liabilities / Commitments (to the extent not provided for)

- Broad Heads – RM , Income, Purchases

Value of imports made during the year on CIF basis:-

- Raw Materials
  - Components (intermediaries & components) & Spare Parts (for capital equipment)
- Capital Goods

# NOTES TO ACCOUNTS

Expenses in foreign currency (accrual basis) on:

- Royalty
- Know-how
- Professional & consultation fee
- Interest
- Others

Dividend if paid in FC (cash Basis):

- Total amount remitted during the year in FC
- Total no. of non-resident shareholders
- No. of shares held by them on which dividend due
- Year to which dividend relates



# NOTES TO ACCOUNTS

## Foreign Exchange Earnings (Accrual basis):

- Export of goods (calculated on F.O.B. basis)
- Royalty, know how, professional and consultation fees
- Interest and dividends
- Other income (indicating the nature thereof)

# NOTES TO ACCOUNTS

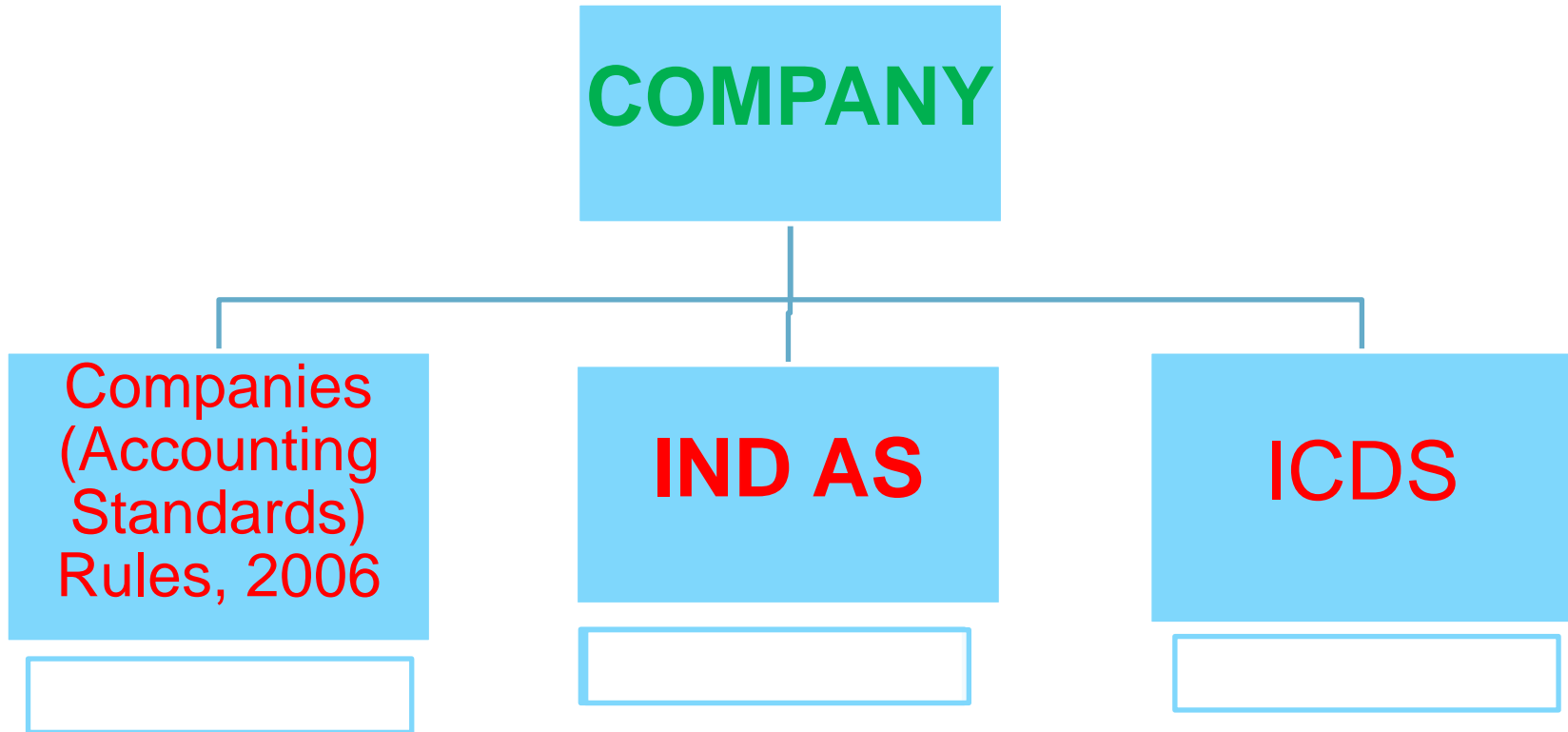
To disclose in FS full particulars of:

- Loan given;
- Investment made;
- Guarantee given; or
- Security Provided.
- Purpose for which loan or guarantee or security is proposed to be utilised by recipient of loan or guarantee or security [186(4)]
- Contribution during year to National Defense
- Fund

- Accounting Standards



# ACCOUNTING STANDARDS



# Applicable Standards

- 1. All listed / which are in process of listing inside or outside India on Stock Exchanges – Ind AS
- 2. Unlisted companies having net worth over INR 2.5 Billion – Ind AS
- 3. Parent, Subsidiary, Associate, and Joint Venture of above
- *Companies listed on SME Exchanges not required to apply IND AS*
- *Once IND AS are applicable, an entity should be required to follow IND AS for all the subsequent financial statements.*
- ***Companies not covered by the above shall apply AS notified in***

**Companies (Accounting Standards) Rules, 2006**



# ACCOUNTING STANDARDS

- AS 1 – Disclosure of Accounting Policy
- Reference to non-corporate entities





# AS -2 - Inventories

## Incorrect disclosure of valuation of Inventories

**Observations:** accounting policies for valuation of inventories as disclosed in the Annual Report of companies:

- Stocks of Cards are **valued at Cost** and on FIFO basis and include all applicable overheads in bringing the inventories to their present location and condition.
- Work -in -Progress is **valued at direct raw material cost** and appropriate cost of completed process.
- Raw materials are **valued at average cost**. Raw materials at bonded warehouse stores, spares, consumables, packing material, coal & fuel are valued at cost and Cost of finished goods & WIP are determined on **estimated cost basis**.

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# AS -2 - Inventories

## ***Principle:***

Paragraphs 3.2, 5 and 6 of AS 2

- ***3.2 Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.***
- ***5. Inventories should be valued at the lower of cost and net realizable value.***
- ***6. The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.***

# AS -2 - Inventories

- It was noted from the given accounting policies that inventories have been valued at cost or average cost. In other words **‘net realisable value’ has not been considered for the purpose of valuation of these inventories.**
- Further, in some of these cases given above, **it is not clear from the stated accounting policies whether all the applicable costs as per paragraph 6 of AS 2 have been considered or not.**
- Accordingly, it was viewed that the valuation of inventories in all these cases is not in line with the requirements of AS 2.

# AS -2 - Inventories

## **Incorrect disclosure of cost formula of Inventories**

**Observation:** From the Annual Reports of some companies following accounting policies have been noted:

- Inventories are stated at lower of cost and net realisable value. **Cost is determined on weighted average/ FIFO basis, as considered appropriate by the Company.**
- Cost of inventories is computed on **weighted average / FIFO basis.**



# AS -2 - Inventories

**Principle:** Paragraph 16 and 26 of AS 2

- **16. The cost of inventories, other than those dealt with in paragraph 14, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.**
- **26. The financial statements should disclose:**
  - (a) **the accounting policies adopted in measuring inventories, including the cost formula used; and**
  - (b) **the total carrying amount of inventories and its classification appropriate to the enterprise.**

# AS -2 - Inventories

## View

- It was viewed that although cost formula has been given in these cases, however, it would be more appropriate to disclose which cost formula has been used for which class of inventories.

# AS -10 Property, Plant and Equipment

- **Case:** The following has been noted
- a significant amount has been shown as “Site & Land Development” during the year however no depreciation has been charged in respect thereof.
- **Principle:**
- Paragraph 18 of AS 10 (Revised)
- **Observations:**
- Specified directly attributable cost would also be included into the cost of fixed assets. **It was viewed that costs should be suitably apportioned to land, building and plant and machinery and capitalized as part of the costs of the respective assets.**

# AS 16 –Borrowing Costs

- **Case:** Notes to accounts of a Company, reflects that certain borrowing cost has been incurred during the year, a portion of which has been capitalized to the value of fixed assets and rest of portion has been expensed.
- **Principle:**
- Paragraph 23 of AS 16
- **Observations:**
- It was observed that although the company had capitalized a significant portion of financial charges to the value of fixed assets but omitted to disclose the accounting policy as adopted by it for borrowing cost. It is not in line with the requirement of paragraph 23 of AS 16.

# AS 16 –Borrowing Cost

- **Case:**
- Treatment of debt restructuring charges/ external commercial borrowings upfront fees as follows:
- Restructuring charges which had been paid to extinguish high cost debts were written off over the tenure of fresh loans taken for refinancing such high cost debts.
- **Principle:**
- Paragraphs 3, 4(c) and 6 of AS16

# AS 16 –Borrowing Cost

- ***Observation:***
- It was noted that **debt restructuring charges paid to extinguish high cost debts were not incurred for the acquisition, construction or production of qualifying assets. In fact, it involves revision in the terms of borrowings. Therefore, such costs are not eligible for capitalisation with the cost of asset.**
- **Further, it was also viewed that, in any case, AS16 does not prescribe amortisation of such costs. As such, the treatment followed by the company to defer such expenses is not in accordance with the requirements of AS16.**

- Standards on Audit (SA)





# SA

- Companies Act, 2013
- Section 143 (9) Every auditor shall comply with the auditing standards.
- **Standards of Quality Control (SQC)** For all the services under Engagement Standards. These are applicable to all auditing firms which perform audits and reviews of historical financial information including assurance engagements.
- **Standards on Auditing (SAs)** For auditing historical financial information. These apply whenever any independent Audit is carried out.

# Documentation

- SA 230 Audit Documentation
- 5. The objective of the auditor is to prepare documentation that provides: (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

# Documentation

6. (a) Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).

6. (b) Audit file – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

# Why Documentation?

- Auditors increasingly hauled up before Courts of law
- *Self-Quality Improvement Process*:
  - Continuous self improvement
  - Self quality control
  - Inbuilt guard against complacency, with unawareness of danger, trouble, or controversy) and taking “anything for granted”.

# Materiality

## SA 320 Materiality in Planning & Performing an Audit

1. This Standard on Auditing (SA) deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. SA 4503 , explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements

8. The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit

# Materiality

## SA 320 Materiality in Planning & Performing an Audit

9. For purposes of the SAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures



# Materiality

## SA 4503 EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

11. The auditor shall determine whether uncorrected misstatements are material individually / in aggregate. In making determination, the auditor shall consider: (a) The size & nature of the misstatements, in relation to particular classes of transactions, account balances or disclosures and the FS as a whole, and circumstances of their occurrence; and (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.



# SA

- ICAI ACCOUNTING & AUDITING ADVISORY
- Impact of Coronavirus on Financial Reporting and the Auditors Consideration
- Going Concern
- Impairment
- Inventory
- Current Assets
- Balance Confirmations

# Private Company Audit

✓ Adherence



PresenterMedia



# Review

- ✓ Audit Programme
- ✓ Documentation
- ✓ Observations
- ✓ Completeness

# Covid – 19 Impact

- Going Concern
- Inventories
- Ratio Comparison
- MSME Compliance
- Notes
- AS
- SA

# Representation Letter

## ✓ SA 580 Written Representations

Management from Whom Written  
Representations Requested

8. The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.

Written Representations about Management's  
Responsibilities Preparation of the Financial  
Statements

# Report

- Listing of Issues
- Statutory Matters
- SA
- Language





*Thank you!*

