Enhancing Audit Quality

Given below are some of the common non-compliances observed by the Financial Reporting Review Board (FRRB) during review of general purpose financial statements of certain enterprises and auditors' reports thereon:

Accounting Standards (AS)

AS 18, Related Party Disclosures

1. ASI 23 'Remuneration Paid to Key Management Personnel – Whether a related party transaction' (Re: AS – 18 'Related Party Disclosures') requires that since key management personnel are related parties as per the provisions of AS 18, remuneration paid to key management personnel is a related party transaction requiring disclosures under AS 18. Some enterprises do not disclose Remuneration to key management personnel in related party disclosure as required by ASI-23, which is not as per the requirements of ASI-23.

AS 19, Leases

2. As per Paragraph 22(f) of AS-19, Leases, enterprises have to give the following:

   "A general description of the lessee's significant leasing arrangements including, but not limited to, the following:

   (i) The basis on which contingent rent payments are determined;

   (ii) The existence and terms of renewal or purchase options and escalation clauses; and

   (iii) Restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing."

   Some enterprises do not disclose general description of lessee's significant leasing arrangements as required by Paragraph 22(f) of AS-19.

AS 20, Earnings Per Share

3. AS 20, Earnings Per Share, read with Accounting Standards Interpretation (ASI) 12 on 'Applicability of AS 20' (Re. AS 20, Earnings Per Share), requires that the enterprises has to disclose the basic as well as diluted Earnings Per Share on the face of the statement of profit and loss. Some enterprises do not disclose Earnings Per Share as per the requirements of AS 20.
4. As per paragraph 48 of AS 20, Earnings Per Share, the nominal value of shares is required to be disclosed alongwith the earning per share figures. However, some enterprises do not comply with this requirement of AS 20.

AS 22, Accounting for Taxes on Income

5. Accounting Standards Interpretation (ASI) 7 on 'Disclosure of deferred tax assets and deferred tax liabilities in the balance sheet of a company' (Re. AS 22, Accounting for Taxes on Income) requires that deferred tax liabilities should be disclosed on the face of the balance sheet separately after the head Unsecured Loans. In few cases, the enterprises present deferred tax liability after the heading 'Shareholder's Funds' and above the heading 'Loan Funds' or present deferred tax liability as a deduction on the 'Net Assets employed' side, after the heading 'Net Current Assets', which is contrary to ASI 7.
6. Accounting Standards Interpretation (ASI) 7 on 'Disclosure of deferred tax assets and deferred tax liabilities in the balance sheet of a company' (Re. AS 22, Accounting for Taxes on Income) requires that deferred tax assets should be disclosed on the face of the balance sheet separately after the head Investments. Some enterprises disclose deferred tax asset after the Net current assets as last item on asset side and not after the head Investments on the face of the Balance sheet, which is contrary to ASI 7.

AS 26, Intangible Assets

7. As per AS 26, Intangible Assets, expenditure on research and development should be classified into expenditure on research phase and on development phase. Expenditures on research should be recognised as an expense immediately and expenditure incurred in development phase should be recognised as an intangible asset, if the recognition criteria given in paragraph 44 of AS 26 are satisfied. Some enterprises do not bifurcate between expenditure incurred on research phase and development phase and all revenue expenses incurred, including expenditure incurred on development phase are written off in the year in which it is incurred, which is contrary to AS 26. In some cases the enterprises do not give the accounting policy regarding the 'Research and Development' in clear manner.

AS 28, Impairment of Assets

8. In few cases, the enterprises club amortisation; diminution in the value of assets and write down of assets, which are in the nature of impairment of assets with the depreciation. Impairment losses are distinct from depreciation and, therefore, should be recognised separately and it is not appropriate to club the same with the depreciation charge.

(to be continued………)