

Enhancing Audit Quality

Non-Compliance with Reporting Obligations observed by the FRRB

In the June 2009 issue, some non-compliances observed by the Financial Reporting Review Board (FRRB) during the review of general-purpose financial statements of certain enterprises and auditors' reports thereon were published. Continuing the same, following are some of the common non-compliances observed by the Board during review for your information:

I Accounting Standards

AS 20, Earnings Per Share

1. As per paragraph 48 (ii) (b) of AS 20, *Earnings Per Share*, an enterprise alongwith other disclosures should also disclose "the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share and a reconciliation of these denominators to each other." Some enterprises disclose the numerators and denominators used in calculating basic and diluted earnings per share but do not disclose the reconciliation between the two denominators, which is not as per the requirement of AS 20.
2. In calculating the basic earning per share, the net profit for the year is used as the numerator and the number of equity shares as denominator. The policy indicates that apparently the enterprise is not considering weighted average number of equity shares outstanding during the period. This is not as per AS 20. Paragraph 15 of AS 20 requires that "for the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period."

3. In other cases, the enterprise determine the weighted average number of equity shares outstanding during the period considering the number of equity shares outstanding as at the beginning as well as at the end of the period but not adjusting the same for the effects of all dilutive potential equity shares. For instance, along with issue of equity shares during the period it has also issued the warrants which can be converted into certain number of equity shares. The enterprise has determined the weighted average number of equity shares with due consideration of the number of equity shares outstanding as at the beginning as well as at the end of the period but it has not considered the effects of additional equity shares which would have been outstanding assuming the conversion of all dilutive potential equity shares. This is not as per AS 20, Earnings Per Share. As per paragraph 26, AS 20, diluted earning per share is determined in the following manner:

"For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares"

II Schedule VI to the Companies Act, 1956

4. It has been observed, in case of the few enterprises, that auditors use the word 'the Act' in place of 'the Companies Act, 1956', without any prior reference in the report as to what does the word 'the Act' indicates. This practice of

preparing report has potential of being misinterpreted and therefore, it should be avoided.

III Auditing and Assurance Standard (AAS) 28, The Auditor's Report on Financial Statements

5. In contravention to AAS 28, *The Auditors' Report on Financial Statements*, in the auditors' report of some enterprises, the partner/proprietor, who has signed the audit report, does not mention his membership number in the report. AAS 28 requires that the report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report should be signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report should also mention the membership number assigned by the Institute of Chartered Accountants of India.

IV Companies (Auditor's Report) Order, 2003 (CARO 2003)

6. Paragraph 4(iv) of CARO, 2003 requires the auditor to comment on "Is there an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of fixed assets and for the sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system." In case of some enterprises, auditors comment only on the first aspect but omit to comment on the second aspect of this clause. It may be mentioned that these are two distinct aspects of the clause. The first requires the auditor to comment on the adequacy of the internal controls

in regard to purchase of inventories, purchase of fixed assets and sale of goods and services whereas the second aspect requires the auditor to comment whether there was a continuing failure to correct a major weakness in such internal controls. Since these two aspects are not related to each other, it cannot be concluded that if no major weakness was reported during the period covered by the audit report, the internal control system is adequate or vice versa.

Therefore, the auditor is required to comment on both aspects of the clause.

7. In case of few enterprises, the auditors address the Statement on the Companies (Auditor's Report) Order (CARO) to the directors instead of addressing the same to the members of the enterprise. It may be mentioned that CARO is prepared in pursuant to sub-section (4A) of Section 227 of the Companies Act, 1956 and as per Section 227(2) of Companies Act, 1956 "The Auditor

shall make a report to the members of the company on, the accounts examined by him and on every balance sheet and profit and loss account and on every other document declared by Act to be part of or annexed to the balance sheet or profit and loss account... ..". Therefore, the reports prepared in pursuance of Sec 227 of the Companies Act, 1956 should be addressed to the members of the enterprise.

CLASSIFIEDS

4724	Required CA firms for merger and partners to open branch anywhere in India. Retired/Lady members can apply. Contact to Sri. S. K. Sahoo, Plot No. N-3/56, IRC Village, Nayapalli, Bhubaneswar - 75015 or Email: ssahoo8998@gmail.com.
4725	A Delhi based CA firm invites expression of interest (EOI) for Partnership from professionals at Mumbai & Bangalore to handle its offices at respective locations. CAs in practice of profession for a period upto 4 years may send their EOI at manoj.sharma@snr.net.in
4726	Ludhiana based CA firm seeks work on assignment/subcontract basis in Northern India. Also interested for merger. Email at goyalgd@hotmail.com or contact on Mobile 09872970400.
4727	A CA network requires CA firms (affiliates) for subcontracting/assignment basis at all Metro's, State capitals class A B C towns from India. Contact: rsjcompany@yahoo.com
4728	Positions at Jaipur: We are looking for Chartered Accountants with good academic record, experience in audit/ project work and prepared to take challenges, particularly on corporate advisory services on employment and/or partnership basis. Apply to M/s. S. Bhandari & Co., Chartered Accountants, P-7, Tilak Marg, C-Scheme, Jaipur-302005, E-mail: bhandariss@hotmail.com/pppareek@hotmail.com. Phone: 0141-2385412, Fax-0141-2385241.
4729	Kolkata based firm requires young CAs with DISA/CISA and/ or retired CAs as Partner. Also interested for merger & networking. Please send your CV and proposals at: mampimana@yahoo.co.in.
4730	Bangalore based CA firm needs exclusive networking partnership with medium size firms in India and outside to form large networking group of Chartered Accountant Firms in India and abroad, seek to form new Indian multinational accounting firm formed by all Indian member firms to be expanded globally. Practical suggestion and contribution by participating senior firms are most welcome. Email: info@mktyagi.com.
4731	Kolkata based CA firm is looking for Merger. Contact s.chakravorti2k6@yahoo.co.uk/09831039746.
4732	Chandigarh based FCA seeks work on part time/fulltime/retainership/partnership/assignment basis. Contact: 9815636050, inboxca@gmail.com.
4733	CA Firm in Central Delhi is looking for Firms in Delhi/across India to join hands as networking partner for Internal Audit assignments of Large PSUs/MNC's or any other attestation/non attestation assignments on a subcontract basis. Contact :pankajca91@gmail.com