

STUDY ON COMPLIANCE OF FINANCIAL REPORTING REQUIREMENTS (IND AS FRAMEWORK)



Financial Reporting Review Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Study on Compliance of Financial Reporting Requirements (Ind AS Frame work)

(Compiled from the records of
Financial Reporting Review Board)



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Foreword

Taking the ICAI's legacy forward in regulating and developing the trusted and independent professionals, I am glad to note that Financial Reporting Review Board (FRRB) of ICAI has come out with its first publication *Study on Compliance of Financial Reporting Requirements (Ind AS Framework)*. As of today most of our public interest entities present their financial statements under Ind AS framework. This publication by FRRB brings out the instances of common non-compliances for information of members and various other stakeholders to enable them to move towards better quality financial reporting. This publication also covers non-compliances observed relating to Schedule II and Schedule III of the Companies Act, 2013, Engagement and Quality Control Standards (Standards on Auditing) and Companies Auditors Report Order (CARO), 2016.

The FRRB was constituted by ICAI in 2002 as a proactive mechanism to improve financial reporting practices in the country. FRRB reviews general purpose financial statements of various enterprises for compliance with the generally accepted accounting principles, compliance with the reporting obligations of the auditor and compliance with disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise.

I am sure that this publication will be of tremendous help to the entire community of Chartered Accountants globally in discharging their duties more efficiently. I compliment all the members of the Board, particularly, CA. Aniket Sunil Talati, Chairman of FRRB for their efforts in bringing out this publication.

January 13, 2021
New Delhi

CA. Atul Kumar Gupta
President

Preface

I have great pleasure in presenting the first ever publication on the commonly observed non-compliances in Financial Statements prepared under Indian Accounting Standards (Ind AS) framework. I am sure that not only members in practice and industry, but various other professionals involved in the preparation of Financial Statements globally would find this publication of great utility.

The adoption of Ind AS is a welcome change and will play a key role in enhancing the comparability of financial statements of Indian companies with global standards. It has improved the quality of financial reporting and brought financial statements closer to economic reality. Keeping in line with the ongoing transition from Indian GAAP to Ind AS, the Board had initiated the review of financial statements prepared under Ind AS framework under the able leadership of my preceding Chairman, CA. Shrinivas Yeshwant Joshi in Council Year 2019-20 which was carried forward by the existing Board in the current council year. The FRRB has compiled such non-compliances in financial reporting requirements and brought up this publication to educate the members of the Institute. This publication would also be useful across the globe for all preparers of financial statements who are using IFRS framework. I also wish to place on record my sincere thanks to all the past Chairmen as well as the past members of the Board for their valuable inputs based on which we laid the foundation of this publication.

I take this opportunity to thank CA. Atul Kumar Gupta, President of ICAI and CA. Nihar N Jambusaria, Vice President of ICAI for their continued support and guidance. I am thankful to my Council colleagues who have been constant support to the Board during the year CA. Babu Abraham Kallivayalil, Vice Chairman, CA. Shrinivas Yeshwant Joshi, CA. Charanjot Singh Nanda, Adv. Vijay Kumar Jhalani (Government Nominee), CA. Ranjeet Kumar Agarwal, CA. Dheeraj Kumar Khandelwal, CA. Hans Raj Chugh. I am also thankful to special invitees to the Board Shri. Anil Gupta from C&AG and Shri. Balaji Venkataramanan from IRDA, who represent their organizations in our Board.

My special thanks to CA. (Dr.) Sanjeev Kumar Singhal, Central Council Member, ICAI for reviewing this publication and providing his valuable inputs.

I would also like to place on record my sincere thanks to CA. Achal Jain who has assisted in preparation of the publication based on the content provided by the Board for sparing his time from his pressing preoccupations.

I am also thankful to our Technical Reviewers (TRs) and members of Financial Reporting Review Groups (FRRGs) who continually support the Board in the review of Financial Statements.

I would also wish to express my gratitude to CA. Aakanksha Khanna Kapoor, Secretary FRRB, CA. Ankita Mangla, CA. Chetna Gupta, CA. Rohit Ahuja, CA. Ashish Tiwari and the team of FRRB Secretariat for their efforts in bringing out this publication.

Date: January 13, 2021
Place: New Delhi

CA. Aniket S Talati
Chairman, FRRB

Introduction

The Council of the Institute of Chartered Accountants of India (ICAI), at its 226th meeting, held in July 2002, constituted the Financial Reporting Review Board (FRRB) as its non-standing committee. Since then, the ICAI is continuing with its efforts to improve financial reporting practice in the country through Financial Reporting Review Board (FRRB).

The Board reviews the general purpose financial statements of certain enterprises and auditor's report thereon with a view to determine, to the extent possible:

- (i) Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements;
- (ii) Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- (iii) Compliance with the reporting obligations of the auditor.

The Board may take any of the following actions based on the review of the financial statement with respect to:

- (i) Auditors:

In case of material non-compliance, which affects the true & fair view of the financial statements, such cases are referred to the Director (Discipline) of the ICAI for initiating appropriate action against the auditor.

If the non-compliance is not of a material nature, the Board issues advisory to the auditor to help/guide auditors towards best practices & transparency in reporting of financial statements.

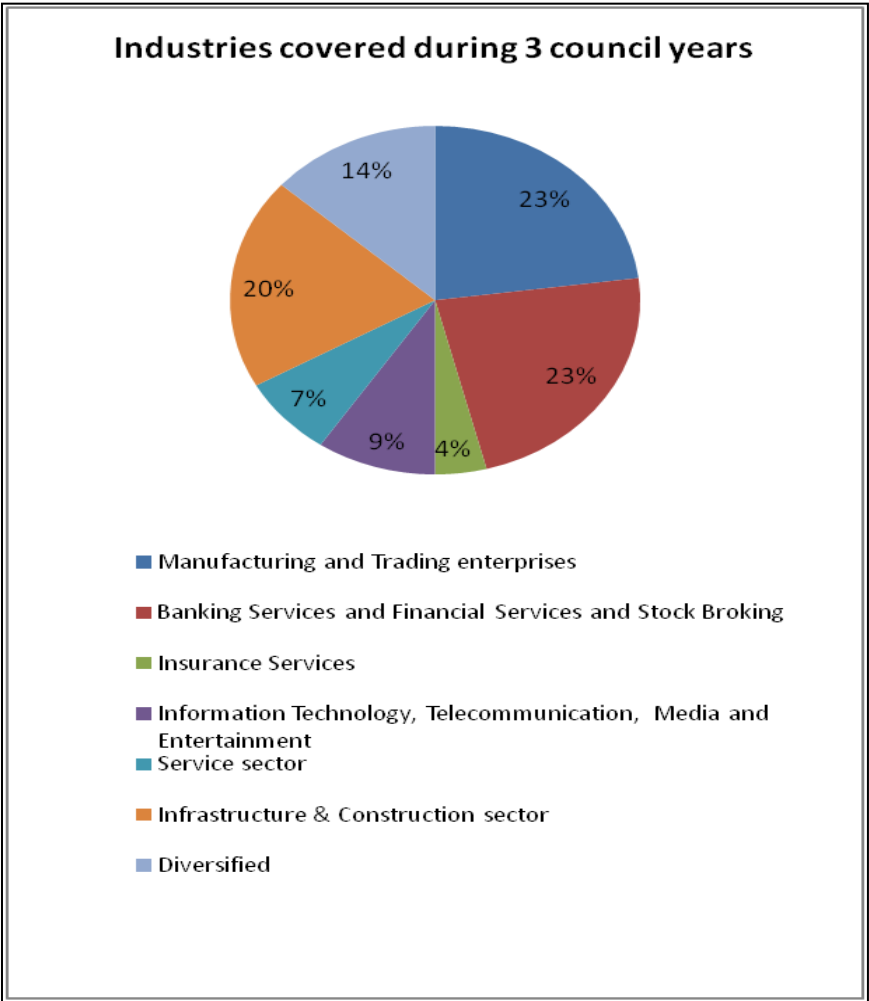
(It also informs Peer Review Board (PRB-ICAI) about the advisory letters issued so that it may accordingly be considered during the Peer Review.)

- (ii) Management of the Enterprises:

Notifies irregularity to the regulatory body Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Election

Commission of India (ECI) etc. relevant to the enterprise for appropriate action.

In the last three council years, the Board has covered the review of the financial statements of the entities pertaining to various sectors, which has been summarized as follow -



The Board, as per its Term of Reference (TOR), also carries out the task of spreading awareness amongst the members by conducting various seminars/ webinars, releasing the publication, articles in the Journal etc. To further enhance its outreach among the preparers and auditors of financial

statements, FRRB is also regularly publishing its observations on twitter platform (<https://twitter.com/frbical>).

Significant features of this publication

This publication has been compiled from the records of FRRB and contains relevant observations on the compliance aspects of Financial Reporting with an objective to enhance the quality of the reporting in the financial statements

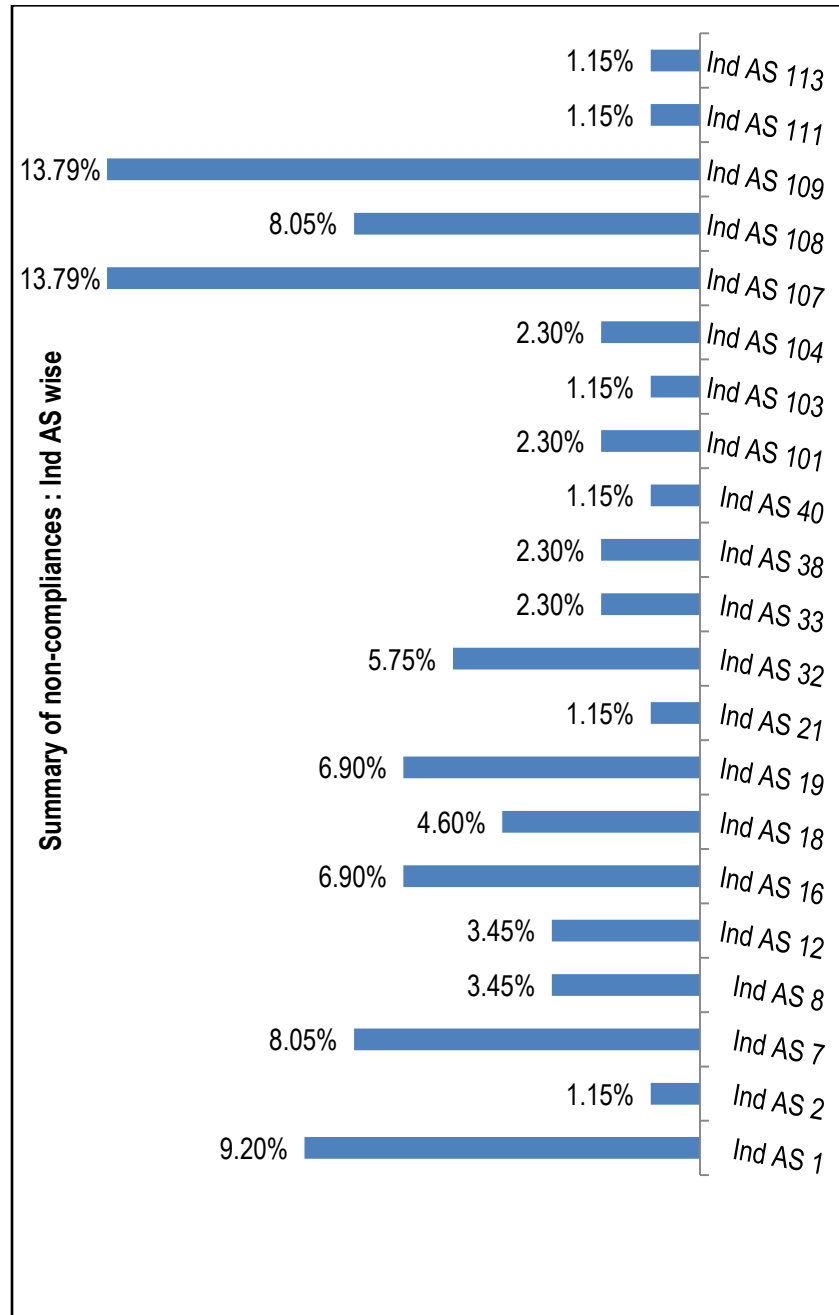
It contains common non-compliances in reporting requirements of various applicable Statutes, Indian Accounting Standards (Ind AS), Standards on Auditing, Companies (Auditor's Report) Order (CARO), Schedule III to Companies Act, 2013 (Schedule III) and Sections of the Companies Act, 2013 as observed by the Board during the review proceedings.

For easy reference, it is written in simple and easy to understand language. The observations have been classified on the basis of elements of financial statements and further each observation is divided into three parts viz. "Matter contained in Financial Statement, Principle (Abstract) and Observation".

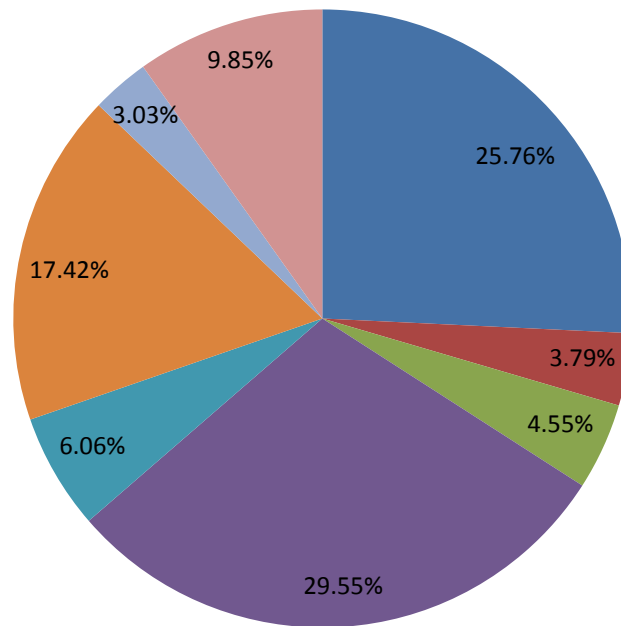
It contains graphical presentation on 'Deficiencies Observed: At a Glance'. It summarizes the non-compliances observed Ind AS wise and basis the elements of financial statement as well.

This publication is intended for general guidance only. These observations must be read in the light of any subsequent amendments and /or other developments. Readers are presumed to have a thorough understanding of the relevant pronouncements and should refer to the text of the pronouncements, as necessary, in considering particular observations. It is not a substitute for an understanding of the relevant pronouncements themselves and the exercise of judgement. It is stressed that the original pronouncements must be referred to for the exact and complete requirements. The Institute does not accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material contained in this publication.

Deficiencies Observed: At a Glance



Deficiency observed : Elements of Financial Statements



- 1 Observations related to Assets
- 2 Observations related to Equity
- 3 Observations related to Liabilities
- 4 Observations related to Components of Profit and Loss
- 5 Observations related to Statement of Cash Flows
- 6 Observations related to Other Disclosures
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Observations related to Assets

1. Property, Plant and Equipment

Matter contained in the Financial Statements

The accounting policy for Property, Plant and Equipment read as follows:

“Subsequent expenditure related to an item of PPE is added to its carrying value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.”

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 7 – Recognition

The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

Paragraph 13 –Subsequent Cost

...Under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.

Observation:

It was viewed that as per paragraph 13 of Ind AS 16, subsequent expenditure would be recognized in the carrying amount of PPE when that cost/ expense would meet the recognition criteria given in paragraph 7 of Ind AS 16 i.e., *it is*

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probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. There is no criterion that capitalisation should be done only if there is increase of future benefits from the existing asset beyond previously assessed standard of performance’.

Accordingly, it was viewed that the language of the stated policy is not in line with the component accounting concepts given in Ind AS 16.

2. Property, Plant and Equipment

Matter contained in the Financial Statements

A company presented Property, Plant and Equipment and Capital Work-in-Progress as separate line items on the face of its balance sheet and there was a movement in the balances of Property, plant and equipment and Capital work-in-progress in the reporting year and the comparative years. The company had disclosed details of various items of property, plant and equipment in the notes to the accounts; however, no disclosure regarding movement in the capital work-in-progress was given.

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 74 – Disclosure

“The financial statements shall also disclose:

(a)

(b) the amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction.”

Observation:

It was noted from the notes to the accounts that although the details of various items of property, plant and equipment have been disclosed by the company by way of a note, however, no disclosures regarding movement in the capital work-in-progress were given.

It was viewed that since the capital work in progress is also the part of property, plant and equipment and therefore the amount of expenditures

recognized in the carrying amount of capital-work-in-progress should have been disclosed by the company in line with the above-stated requirement of Ind AS 16.

Accordingly, it was viewed that requirement of paragraph 74(b) of Ind AS 16 was not complied with in preparation and presentation of the financial statements.

Similar view was taken by the ITFG, ICAI under issue 33 given in the Compendium of ITFG Clarification Bulletins, December 2018 edition.

3. Property, Plant and Equipment

Matter contained in the Financial Statements

The accounting policy for Property, Plant and Equipment reads as follows:-

“ ...

Depreciation on Leasehold improvements is provided over the primary period of lease or over the useful lives of the respective fixed assets, whichever is shorter.”

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 50 – Depreciable Amount

“The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.”

Paragraph 56 – Depreciable Amount and Depreciation Period

“The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

...

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.”

Observation:

It was viewed from the stated accounting policy of a company that depreciation on leasehold improvements is provided over the primary period of lease or over the useful lives of the respective fixed assets, whichever is shorter.

As per paragraph 56 of Ind AS 16, various factors are considered in determining the useful life of an asset which, inter alia, includes legal limits on the use of asset such as the expiry dates of related asset. Accordingly, it was viewed that **for providing depreciation on leasehold improvement, lease term should have been considered instead of considering primary period of lease.**

Accordingly, it was viewed that the stated accounting policy is not in line with the above-stated requirement of Ind AS 16.

4. Property, Plant and Equipment

Matter contained in the Financial Statements

A company classified "Toll Equipment" as an intangible asset in the note to its financial statements on Intangible Assets. Further, in the accounting policy on property, plant and equipment, it was noted that depreciation on Toll Equipment is calculated on a WDV basis over useful life of 7 years.

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 6 – Definition

"The following terms are used in this Standard with the meanings specified:

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period."

Observation:

It was viewed from the note on Intangible Assets that asset “Toll Equipment” has been classified under Intangible Assets. However, as per the note regarding accounting policy on property, plant and equipment, it was noted that depreciation on Toll Equipment is calculated on a WDV basis over useful life of 7 years.

Considering the stated accounting policy on Property, Plant and Equipment as well as the fact that ‘*Toll Equipment*’ is a tangible asset, it was viewed that classification of Toll Equipment under Intangible asset is not correct.

Accordingly, it was viewed that the given treatment is not in line with the above-stated requirement of Ind AS 16.

5. Property, Plant and Equipment

Matter contained in the in the Financial Statements

Abstract of an accounting policy on Property, Plant and Equipment reads as follows:

“Property, Plant and Equipment (PPE)

...

(ii) All project related expenses viz. civil works, machinery under erection, construction and erection materials, pre-operative expenditure net of revenue incidental/attribution to the construction of project, borrowing cost incurred prior to the date of commercial operations are shown under Capital Work in Progress (CWIP).”

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 20 – Measurement at Recognition

“20. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity; initial operating losses, such as those incurred while demand for the item's output builds up; and
- b) costs of relocating or reorganising part or all of an entity's operations.”

Observation:

It was noted that all the project related expenses which have been incurred prior to the date of commercial operations have been capitalised.

As per paragraph 20 of Ind AS 16, recognition of costs in the carrying amount of PPE ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Hence capitalising expenses incurred upto the date of commercial operations is not in line with Ind AS 16.

Accordingly, it was viewed that the above-statement requirement of Ind AS 16 has not been complied with.

6. Property, Plant and Equipment

Matter contained in the Financial Statements

In the note to the financial statements on Property, plant and equipment, previous year figures were not provided for all the items.

Principle: General Instructions for the Preparation of Financial Statement of a Company required to comply with Ind AS

Paragraph 6

“Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes except in the case of first Financial Statements laid before the company after incorporation.”

Observation:

It was noted that the previous year figures have not been provided for all the items of Property, plant and equipments which was not in line with the above stated requirements of Schedule III to Companies Act, 2013.

Accordingly, it was viewed that the above stated requirements of Schedule III to Companies Act, 2013 have not been complied with.

7. Property, Plant and Equipment

Matter contained in the Financial Statements

Abstract of accounting policy on Borrowing Cost read as follows:

“Borrowing Costs directly attributed to the acquisition of fixed assets are capitalized as a part of the cost of asset up to the date the asset is put to use. Other Borrowing Costs are charged to the statement of profit and loss account in the year in which they are incurred.”

Principle: Ind AS 23, Borrowing Costs

Paragraph 8– Recognition

“An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.”

Paragraph 22 – Cessation of Capitalisation

“An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.”

Observation:

It was noted from the stated accounting policy of the company that borrowing costs directly attributable to the acquisition of fixed assets are capitalised. As per paragraph 8 of Ind AS 23, borrowing costs that are directly attributable to the acquisition, construction or production **of a qualifying asset** shall be capitalised.

In addition, it was noted that borrowing costs were capitalized which were incurred upto the date the asset is *put to use*. As per paragraph 22 of Ind AS 23, **borrowing costs should be capitalized till the asset is ready for its intended use or sale**. Hence, capitalization of expenses incurred upto the date the asset is put to use is not in line with Ind AS 23.

Accordingly, it was viewed that the requirements of paragraph 8 & 22 of Ind AS 23 have not been complied with.

8. Property, Plant and Equipment

Matter contained in the Financial Statements

In the note to the financial statements of a company on Tangible Assets, leasehold land was shown having same amounts in the reporting year and the comparative periods.

Principle: Ind AS 16, Property, Plant and Equipment

Paragraph 43 – Depreciation

“Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.”

Paragraph 50 – Depreciable amount and depreciation period

“The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.”

Observation:

It was noted that leasehold land has not been amortised. As per the requirements of Ind AS 16, a depreciable asset should essentially have a limited useful life. Leasehold land by its nature has a limited useful life and as such, it should be amortised as required under paragraph 43 and 50 of Ind AS 16.

It was noted that in the given case, the enterprise holds leasehold land, however, its cost was not amortised. It was viewed that non-amortisation of leasehold land is against the requirements of Ind AS 16.

Accordingly, it was viewed that the requirements of Ind AS 16 have not been complied with.

9. Leasehold Land

Matter contained in the Financial Statements

An abstract of the note to the financial statements of a company reads as follows:

“The lease term in respect of leasehold land is 97 years. The lease term in respect of land acquired under finance lease is up to 97 years with ability to opt for renewal of lease term on fulfillment of certain conditions.”

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Principle: Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 7– Selection and application of accounting policies

“When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.”

Observation:

It was noted from footnote given under a note to the financial statements of a company that the company has acquired a land under finance lease. However, no accounting policy was disclosed for the same. **In the absence of accounting policy, principles, bases, conventions, rules and practices applied by the company in preparing and presenting the disclosures related to finance lease is not clear.**

It was viewed that the accounting policy should have been disclosed for the understanding of the users of the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 8 have not been complied with.

10. Assets Not Owned by the Company

Matter contained in the Financial Statements

Abstract of Accounting Policy on Property, Plant and Equipment read as follows:

“Property, Plant and Equipment

.....

(iv) Assets not owned by the Company are amortized over a period of ten years.”

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7– Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and

the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted from the above stated abstract of policy on Property, Plant and Equipment that the company amortizes, in ten years, the assets which are not owned by the company. It was noted that no disclosure was made in the financial statements as to which are these assets that are not owned by the company.

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It was viewed that accounting policy are disclosed for each of the material items disclosed in the financial statements, however, in the given case, even though the policy has been disclosed for amortization of assets not owned by the company, yet, no disclosure was made regarding nature and details of such assets anywhere in the notes to accounts. Further, the 'basis for ten years period of amortisation' has also not been disclosed.

Accordingly, it was viewed that appropriate disclosures have not been made by the company with regards to "Assets not owned by the company".

11. Intangible Assets

Matter contained in the Financial Statements

The accounting policies on Research and Development read as follows:

"Research and Development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred. Research and Development expenditure on property, plant and equipment is treated in the same way as expenditure on other property, plant and equipment."

"Revenue expenditure on research and development is charged to the statement of profit and loss in the year in which it is incurred. Capital expenditure on research and development is treated as fixed assets."

Principle: Ind AS 38, Intangible Assets

Paragraph 54 – Research Phase

"No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred."

Paragraph 57 – Development Phase

"An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

Observations related to Assets

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b) its intention to complete the intangible asset and use or sell it.
- c) its ability to use or sell the intangible asset.
- d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.”
- f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.”

Observation:

It was noted from the accounting policy of the company that the expenditure on research and development is not being classified between research phase and development phase.

As per Ind AS 38, the expenditure on research and development is classified into the expenditure on research phase and development phase. **As per paragraph 54 of Ind AS 38, any expenditure on research phase should be recognised as an expense immediately. Any expenditure on development phase should be recognised as an intangible asset, if the recognition criteria given in paragraph 57 of Ind AS 38 are satisfied.** Hence, it was viewed that accounting policy of the company was not in line with Ind AS 38.

Accordingly, it was viewed that the requirements of Ind AS 38 have not been complied with.

12. Intangible Assets

Matter contained in the Financial Statements

In note to the financial statements on 'Intangible Assets', the company had taken the carrying value as on the date of transition to Ind AS as deemed cost by opting for the deemed cost exemption as per Ind AS 101.

Principle: Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013

Paragraph 8.1.1.2 of Guidance Note on Division II of Schedule III to the Companies Act, 2013

"As per Ind AS 101, para D5 and D6, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value or use a previous GAAP revaluation as deemed cost. Further, as per para D7AA of Ind AS 101, an entity may also consider previous GAAP carrying amount of all its property, plant and equipment as its deemed cost on the date of transition. In case when a company applies para D5 or para D7AA, the deemed cost considered on the date of transition shall become the new 'gross block' and accordingly presented in the reconciliation statement as required by Ind AS Schedule III."

Paragraph 8.1.1.3 of Guidance Note on Division II of Schedule III to the Companies Act, 2013

"In case if the company wants to disclose information regarding gross block of assets, accumulated depreciation and provision for impairment under previous GAAP, the same may only be disclosed as an additional information by way of a note forming part of the financial statements."

Observation:

It was noted that the company had taken the deemed cost exemption as permitted under paragraph D7AA of Ind AS 101 and taken the carrying value

Observations related to Assets

as on the date of transition to Ind AS as deemed cost. However, in case of Toll Collection Rights under Intangible Assets, the accumulated depreciation as on the date of transition was not reduced from Gross Block as per the above stated requirement of the Guidance Note on Division II of Schedule III to the Companies Act 2013.

Accordingly, it was viewed that the presentation of Toll Collection Rights was not in line with the above stated requirement of the Guidance Note on Division II of Schedule III to the Companies Act 2013.

13. Intangible Assets

Matter contained in the Financial Statements

In the note on Capital Work in Progress (CWIP), various expenses were shown, which were capitalized as CWIP and all of them were taken to "Intangible assets under development".

Further, company had disclosed leasehold land under Tangible Assets.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 117– Disclosure of accounting policies

"An entity shall disclose its significant accounting policies comprising:

- (a) the measurement basis (or bases) used in preparing the financial statements, and
- (b) the other accounting policies used that are relevant to an understanding of the financial statements"

Observation:

It was noted that the company had leasehold land however; **the accounting policy related to the leasehold land was not disclosed by the Company**.

It was further observed from note to the financial statements of the company on Capital Work in Progress (CWIP) that the total CWIP was stated as "Total intangible assets under development". However, **no policy was disclosed or explanation was given regarding capitalisation of such internally generated intangible assets**.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been

complied with.

14. Investment Property

Matter contained in the Financial Statements

“In the note to the financial statements of a company on Investment Properties, disclosure of investment properties was given. Depreciation on investment properties was not charged in the reporting year but the depreciation on such investments properties was charged during the comparative year.”

Principle: Ind AS 40, Investment Property

Paragraph 79 – Disclosure

“79. In addition to the disclosures required by paragraph 75, an entity shall disclose:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - (ii) additions resulting from acquisitions through business combinations;
 - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;”

Observation:

It was noted that the company has investment properties but the depreciation has not been charged on these properties during the reporting year.

It was viewed that as per the principles of Ind AS 40, an investment property is measured initially at cost. Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses and Fair value is disclosed in notes to accounts. Accordingly, depreciation should have been charged on these properties and debited to Statement to Profit and Loss.

Accordingly, it was viewed that the requirements of Ind AS 40 have not been complied with.

15. Investments

Matter contained in the Financial Statements

In one company under the note to the financial statements on Investments unquoted investments were disclosed.

While in the note to the financial statements of another company, classification of investments was not made into quoted or unquoted investments. Further, fixed deposits with banks having maturity period of more than 12 months was classified as investments.

In another case, fixed deposits with banks having maturity period of more than 12 months were classified as investments.

Principle: General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013

Paragraph 6A (VI) and (IX) of General Instructions for preparation of Balance Sheet given under Part I, Division II – Ind AS Schedule III to the Companies Act, 2013

“VI. Investments:

(ii) The following shall also be disclosed:

(a) Aggregate amount of quoted investment and market value thereof:

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(b) Aggregate amount of unquoted investment: and
(c) Aggregate amount of impairment in value of investment.”
“IX. Bank deposits with more than 12 months maturity shall be disclosed under ‘Other financial assets’;”

Observation:

It was noted from note to the financial statements on Investments that the investments were classified as unquoted investments; however, as per the above stated requirement of Schedule III, aggregate amount of unquoted investments was not disclosed.

Further, it was noted from another note to the financial statements that the investments were not classified into quoted or unquoted investments and disclosures as required under Schedule III to the Companies Act, 2013 were also not made.

Further, it was viewed that the fixed deposits with banks having maturity period of more than 12 months should have been classified as other bank balance under financial assets instead of investments.

Accordingly, it was viewed that the requirements of Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

16. Non-Current Investments

Matter contained in the Financial Statements

In the note to the financial statements on Non-Current Investments, cost of investment in equity shares of a company was same as at the end of reporting year and previous year. However, it was noted that the number of shares in such investment held at the end of reporting year was more as compared to the number of shares in such investment held at the end of the comparative year.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was observed from the note to the financial statements on Non-Current Investments that the value of investments in equity shares of a company was same as at the end of reporting year and previous year. However, the number of shares in such investment held at the end of reporting year had increased as compared to the number of shares in such investment held at the end of previous year.

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Further, it was noted that the face value of shares in such investment was Rs.10 per share as at the end of the reporting year as compared to its face value of Rs. 5 per share as at the end of the previous year.

It was viewed that such investment increased in terms of number of shares as well as in face value without any change in value of investments and no explanatory note was provided for the same.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with.

17. Non-Current Investments

Matter contained in the Financial Statements

In the note to the financial statements of a company on Non-Current Investments, quoted investments in equity shares of a company and unquoted investments in equity shares of two companies were disclosed.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and

- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.“

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted that under note regarding disclosure of Categories of Financial Instruments, amount of Level 1: Listed Equity Investments and the amount of Level 3: Unquoted equity instruments was made.

However, it was noted that the total of Financial Assets given under the notes was less than the amount of total financial assets shown under disclosure of Categories of Financial Instruments. This difference was due to double counting of the amount of Unquoted Equity Shares in the total of financial assets included under disclosure of Categories of Financial Instruments.

Accordingly, it was viewed that the amount of Financial Assets as given under note of Categories of Financial Instruments and in the Balance Sheet was different which gives incorrect picture to the readers of the financial statements.

18. Investments in Subsidiaries, Associates and Joint ventures

Matter contained in the Financial Statements

Abstract of the Balance Sheet of a company read as below:

“NONCURRENT ASSETS

Property, plant and equipment

Capital work in progress

Intangible assets

Investment property

,

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Investment in subsidiaries, associates & Joint Venture

Financial assets

Investments

Other financial assets

Other current assets”

Principle: Guidance Note on Division II – IND AS Schedule III to the Companies Act, 2013

Paragraph 8.1.8.4

“Investments in Subsidiaries / Associates / Joint Ventures

The terms ‘subsidiary’, ‘associate’ and ‘joint venture’ shall be as defined in the respective Ind AS. Ind AS 32, Ind AS 107 and Ind AS 109 scope out those interests in subsidiaries, associates, joint ventures that are accounted for in accordance with Ind AS 110 Consolidated Financial Statements, Ind AS 27 Separate Financial Statements or Ind AS 28 Investments in Associates and Joint Ventures. However, such investments still meet the definition of financial instruments and may be presented as a separate line item on the face of a company’s standalone balance sheet. In any case, the disclosure requirements of Ind AS 107 would not apply to such investments.”

Observation:

It was noted that the investments in Subsidiaries, Associates and Joint ventures have been disclosed separately from other than financial assets. However, as per the above stated para of Guidance Note, **it was viewed that such investment may be shown under the head of financial assets as a separate line item on the face of the Balance Sheet.**

Accordingly, it was viewed that the requirements of Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

19. Financial Assets

Matter contained in the Financial Statements

The following disclosures have been made in the notes to accounts:

- Interest accrued was disclosed under the head of Non-financial Assets.
- Prepaid expenses and Balances with revenue authorities were shown as Financial Assets.

Principle: Ind AS 32, Financial Instruments Presentation

Paragraph 11 – Definitions

“The following terms are used in this Standard with the meanings specified:

A financial asset is any asset that is:

- a) cash;
- b) an equity instrument of another entity;
- c) a contractual right:
 - i. to receive cash or another financial asset from another entity or
 - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity or
- d) a contract that will or may be settled in the entity’s own equity instruments and is:
 - i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or
 - ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a

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rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments."

Observation:

It was noted that the interest accrued has been shown under "non-financial assets" whereas prepaid expenses and balances with revenue authorities have been shown under "Financial Assets" in the Financial Statements of the company.

As per the requirements of paragraph 11 of Ind AS 32, it was viewed that interest accrued is in the nature of financial asset and hence should be disclosed under the head of non- financial assets.

Further, prepaid expenses and balances with revenue authorities are in the nature of non-financial assets and hence it should be shown under the head of non- financial assets.

Accordingly, it was viewed that the requirements of Division II to the Schedule III to the Companies Act, 2013 and Ind AS 32 have not been complied with.

20. Financial Assets - Shares of Other Companies

Matter contained in the Financial Statements

It was noted that investment in shares of listed and unlisted companies have been shown by the company under 'Inventories' in its financial statements. It was further noted that this company is not an investment company.

Principle: Ind AS 32, Financial Instruments Presentation

Paragraph 11– Definitions

"The following terms are used in this Standard with the meanings specified:

A financial asset is any asset that is:

(a) cash;

- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset

Observation:

It was viewed that **investment in shares of other companies are in nature of financial assets and hence they should be shown under the head 'Financial Assets' and should have been accounted for accordingly.**

It was viewed that due to incorrect disclosure of investment in shares, inventories have been overstated and investments have been understated which does not give true picture of financial position of the company.

Accordingly, it was viewed that the requirements of Division II to the Schedule III to the Companies Act, 2013 and Ind AS 32 have not been complied in preparation and presentation of the financial statements.

21. Financial Assets - Joint Operation

Matter contained in the Financial Statements

An abstract of a footnote in the note to the financial statements of a company on Non-Current Financial Assets read as follows:

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“Expenses under Joint operation agreement

The Company along with another company has entered into a ‘Production Sharing Contract’, with a Ministry, Government of India. They executed a ‘Joint Operation Agreement’ whereby the rights and obligations of either party vis-à-vis the above mentioned ‘Production Sharing Contract’ were ascertained. Further in the footnote, the company had disclosed the details of arrangements and share of assets.

Principle: Ind AS 111, Joint Arrangements

Paragraph 20 – Joint Operations

“A joint operator shall recognise in relation to its interest in a joint operation:

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.”

Observation

It was noted from the footnote under note to the financial statements on Non-Current Financial Assets that the company had entered into a joint operation with another company and has disclosed the details of arrangements and share of assets. However, **the company did not recognise the obligation for liabilities, expenses and did not account for revenue pertaining to its joint operations.**

Accordingly, it was viewed that the requirements of Ind AS 111 have not been complied with.

22. Financial Assets - Loans

Matter contained in the Financial Statements

In the notes to the financial statements on Financial Assets (Loans), certain loans were disclosed.

Principle: General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013

Paragraph 6A (VIII) of General Instructions for preparation of Balance Sheet given under Part I, Division II – Ind AS Schedule III to the Companies Act, 2013

“Loans

- (i) Loans shall be classified as:
 - (a) Security deposits;
 - (b) Loans to related parties (giving details thereof); and
 - (c) Others (specify nature).
- (ii) The above shall also be sub-classified as-
 - (a) Secured, considered good;
 - (b) Unsecured, considered good; and
 - (c) Doubtful.”

Observation

It was noted from the note to the financial statements on Financial Assets (Loans) that the loans were not classified as per the above stated requirement specifying whether these loans were secured, unsecured or doubtful. Further, the nature of other advances was also not specified as the amount shown under this head was material, consisting of 86% of total loans and advances.

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Accordingly, it was viewed that the above stated requirements of General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

23. Financial assets

Matter contained in the Financial Statements

In note to the financial statements on 'Financial Asset', two receivables - 'Receivable from Authority' and 'Toll Collection Receivable' were presented under "Financial Asset- Others".

Principle: Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013

Paragraph 8.1.9

"... A receivable shall be classified as 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business and the company has a right to an amount of consideration that is unconditional (i.e. if only the passage of time is required before payment of that consideration is due). Hence, amounts due under contractual rights, other than arising out of sale of goods or rendering of services, cannot be included within Trade Receivables. Such items may include dues in respect of insurance claims, sale of Property, Plant and Equipment, contractually reimbursable expenses, etc. Such receivables should be classified as "other financial assets" and each such item should be disclosed nature-wise."

Observation:

It was noted that "Receivable from Authority" and "Toll Collection Receivable" were disclosed under "Financial Asset- Others".

It was viewed that "Toll Collection Receivable" and "Receivable from Authority" is in respect of the amount due on account of services rendered in the normal course of business and the company had an unconditional right to these amounts of consideration. Accordingly, Receivable from Authority and

Toll collection receivable were in the nature of trade receivables and should have been classified as "Financial Assets -Trade Receivables" instead of "Financial Asset – Others".

Accordingly, it was viewed that the requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013 have not been complied with.

24. Financial Assets- Non-Current Loans

Matter contained in the Financial Statements

In the Related Party Disclosure, Receivables from redeemable preference share pertaining to an enterprise controlled by the company (i.e. a related party) were disclosed.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 and Ind AS 107, Financial Instruments: Disclosures

Paragraph 8.1.10 of Guidance Note on Division II

"Non-current Loans

- (i) Loans shall be classified as:
 - a) Security Deposits;
 - b) Loans to related parties (giving details thereof);
 - c) Other loans (specify nature)."

Paragraph 20 of Ind AS 107 – Statement of profit and loss

"An entity shall disclose the following items of income, expense, gains or losses either in the statement of profit and loss or in the notes:

...

- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;"

Observation:

It was noted from Related Party Disclosure, that Receivable from redeemable preference share pertains to an enterprise controlled by the company and it is a related party. **However, under note to the financial statements on Non-Current Loans, 'Receivable from redeemable preference shares' were not classified as from related party, which is not in line with the requirement of paragraph 8.1.10 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.**

Further, it was noted that closing balance shown under 'Non-Current Loans' as at the end of the year was different from the outstanding balance with regard to same line item appearing under another note to the financial statements on 'Balance outstanding of Related Parties'. However, the balances of this line item in the previous years were same under both the notes - 'Non-Current Loans' and 'Balance outstanding of Related Parties'. **Accordingly, it was viewed that there is mismatch in closing balance of receivable from redeemable preference shares as given under two different notes in the same financial statements.**

Further, it was noted that the Non-Cumulative Redeemable Preference Shares have been recognized at amortized cost. However, **interest received on investments valued at amortised cost has not been shown separately**, which is not in line with the requirement of paragraph 20 of Ind AS 107.

Further, it was viewed that the **nature of line item "Receivable from Redeemable Preference Shares" is not clear**. For better understanding, it should have been clearly stated.

Accordingly, it was viewed that requirements of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 as well as Ind AS 107 have not been complied with.

25. Financial Assets -Non-Current Investments

Matter contained in the Financial Statements

In the note to the financial statements of a company on Non-Current Investments, the Company had designated three investments in equity shares at fair value through OCI (FVTOCI). However, the disclosure as required by Ind AS 107 has not been given.

Principle: Ind AS 107, Financial Instruments: Disclosures

Paragraph 11A of Ind AS 107 – Investments in equity instruments designated at fair value through other comprehensive income

“If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of Ind AS 109, it shall disclose:

- a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
- b) the reasons for using this presentation alternative.
- c)”

Observation:

It was noted that the Company had designated three investments in equity shares which were fair valued through OCI (FVTOCI). However, the reason for using the FVTOCI alternative was not disclosed which is not in line with the requirement of paragraph 11A(b) of Ind AS 107.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

**26. Financial Assets: Investment in Equity Shares
(Subsidiary Company)**

Matter contained in the Financial Statements

From the notes to the financial statements on Related Party Disclosures and Exceptions items, it was noted that an investment in the equity shares of a company was disclosed as “subsidiary company”.

However, in the Form MGT - 9 given under Director's Report the same investment was disclosed as 'Associate'.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material“.

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted that the contradictory information has been disclosed regarding nature of the relationship in respect of such investment in the same set of financial statements.

It was further noted that the same entity, under Related party disclosure was disclosed as fellow subsidiary as well as jointly controlled entity, both. **It was**

viewed that either an entity can either be a jointly controlled entity or fellow subsidiary therefore, disclosure of one entity as both is incorrect.

It was further noted that under Related party disclosure, this investment was disclosed as fellow subsidiary and under note on Exceptional items, the same investment was mentioned as wholly owned subsidiary which is ambiguous.

Accordingly, it was viewed that contradictory disclosures have been made in same set of accounts regarding the nature of relationship with that company, as to whether it is a fellow subsidiary or a jointly controlled entity or an associate. It was viewed that such ambiguous and incorrect disclosures should be avoided.

27. Financial Assets: Balances Subject to Confirmation and/or Reconciliation

Matter contained in the Financial Statements

The abstract of note to the financial statements read as follows:

“Certain balances of trade receivable, loan and advances, trade payable and other liabilities are subject to confirmation and / or reconciliation.”

Principle: SA 705, Modification to the Opinion in the Independent Auditor's Report

Paragraph 7 of, provides as follows:

“7. The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.”

Observation:

It was noted from the above stated note to the financial statements that certain balances pertaining to trade receivable, loan and advances, trade payable and other liabilities were disclosed as subject to confirmation and reconciliation.

It was viewed that information disclosed as above, is ambiguous. If such balance confirmations/ reconciliations are not material and does not affect the true and fair view of the financial statements of the company, then such information shall not be disclosed in the financial statement as disclosure of such facts may create doubts in the mind of readers of the financial statements. However, on the other hand, **if such balances are material and do affect the true and fair view of the financial statements of the entity, then the auditor should have adequately incorporated these facts in his report by way of giving a modified opinion.**

Further, it was viewed that as per paragraphs 7, 8 and 9 of SA 505, External Confirmation, the auditor shall maintain control over external confirmation requests, and in case management refuses the auditor to send a confirmation request, the auditor shall, inter alia, perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

Accordingly, it was viewed that the requirements of SA 705 and SA 505 have not been complied with.

28. Financial Assets

Matter contained in the Financial Statements

From the accounting policy of Financial Assets, it was noted that Policy on Effective Interest Method is included as part of Classification of Financial Assets.

Observation:

It was viewed that instead of the nomenclature '**Classification of Financial Assets**', correct nomenclature should have been '**Classification and measurement of financial assets**'.

29. Financial Assets

Matter contained in the Financial Statements

Abstract of accounting policy of Financial Instruments stated as follows:

“Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1) Financial Assets

Initial recognition and measurement

.....”

Principle:-Ind AS 107, Financial Instruments: Disclosures

Paragraph B5– Other disclosure – accounting policies

“Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

...

- e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.”

Observation:

The stated accounting policy did not disclose about the treatment of interest income as to whether it presents interest income on financial assets measured at FVTPL (Fair Value Through Profit and Loss) as a part of fair value changes or such interest is presented separately.

It was viewed that the accounting policy as required under Ind AS 107 para B5(e) has not been disclosed.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

30. Receivables from Related Parties

Matter contained in the Financial Statements

In the notes to the financial statements on Other Non-Current Financial Assets and Other Current Assets, 'interest receivable from related party' and 'advances to related party' were disclosed respectively.

Principle: General Instructions for preparation of Financial Statements of a Company required to comply with Ind AS Division II – Ind AS Schedule III to the Companies Act 2013

Paragraph 4(ii)

"4(ii) Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation."

Observation:

It was noted that in the notes to the financial statements on Other Non-Current Financial Assets, 'interest receivable from related party' was disclosed. Similarly, in the notes to the financial statements on Other Current Assets, 'advances to related party' were disclosed. However, it was noted from the disclosure of related party transactions made in another note to the financial statements that no cross-referencing of the interest receivable and advances to related parties disclosed in respective notes was made by the company.

It was viewed that for the ease of understanding of the users and better presentation of the financial statement the cross referencing of the items of assets and liabilities should be made with the relevant note for the related party disclosures.

31. Receivables from Related Parties

Matter contained in the Financial Statements

Under the note to the financial statements on 'Other Financial Assets', dues from related parties were disclosed.

Principle: General Instructions for Preparation of Balance Sheet of Division II Schedule III to the Companies Act, 2013

Paragraph 6(B)

Current Assets

"V. Loans:

- (i) Loans shall be classified as:
 - (a) Security deposits;
 - (b) Loans to related parties (giving details thereof); and
 - (c) Others (specify nature).
- (ii) The above shall also be sub-classified as-
 - (a) Secured, considered good;
 - (b) Unsecured, considered good; and
 - (c) Doubtful."

Observation:

It was noted from note to the financial statements on Other Financial Assets that dues from related parties were not classified into secured, unsecured and doubtful as per the above stated requirement of 'General Instructions for preparation of Balance Sheet' of Division II, Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Division II, Schedule III to the Companies Act, 2013 have not been complied with.

32. Inventories

Matter contained in the Financial Statements

The value of finished goods as well as stock in trade were given under note to the financial statements on 'Inventories' and note to the financial statements on 'Changes in inventories of finished goods, work-in-progress' and the values were different in both these notes.

Principle: General Instructions For Preparation of Financial Statements of a Company required to comply with Ind As Division II – Ind AS Schedule III to the Companies Act 2013

Paragraph 4(ii)

“4(ii) Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.”

Observation:

It was noted that the value of finished goods as well as stock in trade as given under note to the financial statements on 'Inventories' and note to the financial statements on 'Changes in inventories of finished goods, work-in-progress' were different although it was a compensating error.

It was viewed that information presented in Notes to Accounts was not consistent and this type of inconsistency should be avoided.

33. Inventories

Matter contained in the Financial Statements

The accounting policy for Inventories read as follows:

“Inventories are stated at lower of cost and fair value (except scrap / waste which are valued at net realizable value)”

Principle: Ind AS 2, Inventories

Paragraph 9 – Measurement

Inventories shall be measured at the lower of cost and net realisable value.

Paragraph 6–Definition

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.

Observation:

Paragraph 9 of Ind AS 2 required that inventories should be valued at lower of cost and net realisable value. Paragraph 6 of Ind AS 2 gives definition of net realizable value (NRV) and paragraph 9 of Ind AS 113 defines fair value. The net realizable value is in nature different from the fair value of inventories. The net realizable value is entity-specific value and may not be similar to the fair value of the inventory as fair value is not entity-specific.

It was viewed that net realisable value of inventory refers to the net amount (estimated selling price less estimated cost of completion and estimated cost of sale) that an entity expects to realise from the sale of inventory in the ordinary course of business whereas the fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date.

The inventories ought to be valued at lower of the cost or net realisable value and not the fair value.

Accordingly, it was viewed that the above stated policy on inventory valuation is not in line with the requirements of Ind AS 2.

34. Cash and Cash Equivalents

Matter contained in the Financial Statements

Under the note to the financial statements on Cash and cash equivalents substantial amount was disclosed under the line item of other Bank Balance”.

Principle: General Instructions for preparation of Balance Sheet of Division II – IND AS Schedule III to the Companies Act, 2013

Paragraph 6B IV

“A company shall disclose the following in the Notes:

B. Current Assets

IV. Cash and cash equivalents: Cash and cash equivalents shall be classified as

- a. Balances with Banks (of the nature of cash and cash equivalents);
- b. Cheques, drafts on hand;
- c. Cash on hand; and
- d. Others (specify nature).”

Observation:

It was noted that other bank balances were disclosed under the head of ‘Balance with Banks’. However, the nature of these bank balances had not been specified as per the above stated requirements.

Further, it was also noted that the amount was material; therefore, the nature should have been disclosed appropriately for the understanding of the users of the financial statements.

Accordingly, it was viewed that the above stated requirements of General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

Observations related to Equity

1. Treasury Shares

Matter contained in the Financial Statements

An abstract of the note to the financial statements of a company read as follows:

“Beneficial Interest in a Trust represent investments in company's shares, associates and other unlisted companies net off borrowings and liabilities pertaining to investment division of a company transferred to the said trust in terms of the scheme of amalgamation. Considering that the company's shares are held by an independent trust and are meant for sale in terms of the High Court order, the beneficial interest (including company's shares) has been treated as financial asset and fair valuation as required in terms of Ind AS 109 has been carried out by an independent firm of chartered accountant and the resultant decrease in value thereof, has been adjusted from other comprehensive income.”

Principle: Ind AS 32, Financial Instruments Presentation

Paragraph 33– Treasury shares

“If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.”

Paragraph AG 36– Treasury shares

“An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 33 requires an entity that reacquires its own equity instruments to deduct those equity instruments from equity. However, when an entity holds its

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own equity on behalf of others, eg a financial institution holding its own equity on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's balance sheet."

Observation:

It was noted that the company has beneficial interest in a Trust which represents investments in company's own shares, associates and other unlisted companies net off borrowings and liabilities. This beneficial interest was treated as financial asset, and accordingly, fair valued as per Ind AS 109 by the company. The impact was taken to other comprehensive income.

It was viewed that effectively the beneficial interest in Trust which represents investments in company's own shares, is nothing but 'treasury shares', and hence should not have been recognized as financial asset rather be deducted from equity in line with the requirements of paragraph AG 36 of Ind AS 32.

Accordingly, it was viewed that the requirements of Ind AS 32 have not been complied with.

2. Statement of Changes in Equity

Matter contained in the Financial Statements

Financial Statements of the company comprised of Balance Sheet, Statement of Profit and Loss, Statement of Cash Flow and Notes to Accounts but Statement of Changes in Equity was not there.

Further, there was a reference given in the auditor's report that the statement of changes in equity has been audited by them although it was not forming part of the annual report.

Principle: Companies Act, 2013

Section 2(40)

"Financial Statement" in relation to a company, includes—

- i) a balance sheet as at the end of the financial year;
- ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

Observations related to Equity

- iii) cash flow statement for the financial year;
- iv) a statement of changes in equity, if applicable; and
- v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement;

Observation:

It was noted that the company, which is preparing financial statements as per Ind AS, interalia, is required to prepare and present the Statement of Changes in Equity.

However, in the abovementioned case, the Statement of Changes in Equity was not prepared which is a mandatory requirement. Further, there was a reference given in the auditor's report that the statement of changes in equity has been audited by them although it was not forming part of the annual report.

Accordingly, it was viewed that non-preparation of Statement of Changes in Equity is a non-compliance of Section 2 (40) of Companies Act, 2013.

3. Statement of Changes in Equity

Matter contained in Financial Statements

In the note to the financial statements on 'Other equity', 'Re-measurement gains/(losses) on defined benefit plans' adjusted/ recognized during the year were taken to Other comprehensive income.

Principle: Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013

Paragraph 8.2.2.3

"Reconciliation of items in Other Equity

Reconciliations for each component of other equity are required to be made in the following manner (to the extent applicable):

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(i) ...

Apart from the above items, Ind AS Schedule III states that:

- Re-measurement of defined benefit plans; and ...

...Ind AS Schedule III requires 're-measurements of defined benefit plans' during the reporting period to be shown as a separate line item in other comprehensive income.

As per Ind AS Schedule III requirement mentioned above, such re-measurements of defined benefit plans, when accumulated at the end of every reporting period, shall be recognized as a part of retained earnings with separate disclosure of such item along with the relevant amounts in the Notes to Accounts. Accordingly, a company shall present the accumulated re-measurements of defined benefit plans at the end of each reporting period as a part of retained earnings."

Observation:

It was noted from note to the financial statements on 'Other equity' that 'Re-measurement gains/(losses) on defined benefit plans' as adjusted/recognized during the year were taken to OCI (Other comprehensive income).

However, the accumulated re-measurements of defined benefit plans at the end of each reporting period were not disclosed. Also, a reconciliation of 'Re-measurement gains (losses) on defined benefit plans' was not made, as per the above stated requirement of the Guidance Note.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013 have not been complied with.

4. Other Equity

Matter contained in the Financial Statements

In the notes to the financial statements of a company on Other equity, various reserves were disclosed like Capital Redemption Reserve, Securities Premium, General Reserve and Retained Earnings.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 79

“An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

...

(b) a description of the nature and purpose of each reserve within equity.”

Paragraph 8.2.2.1 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013

“Reserves & Surplus:

...

(c) Other Reserves (specify the nature and purpose of reserve and the amount in respect thereof):

Every other reserve which is not covered in above paragraphs is to be reflected as ‘Other Reserves’. However, since the nature, purpose and the amount are to be shown, each reserve under ‘Other Reserves’ is to be shown separately in Notes to Accounts.....”

Observation:

It was noted from the note to the financial statements on Other Equity that there are various reserves with the company however; the nature and purpose of these reserves were not disclosed by the company in the notes to accounts.

As per the above stated requirements of Ind AS 1 and Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, the nature and purpose of each reserve is required to be disclosed which was not given by the company.

Accordingly, it was viewed that the requirements of Ind AS 1 and the Companies Act, 2013 have not been complied with.

5. Authorized Share Capital

Matter contained in the Financial Statements

Abstract of Note to the financial statements on Equity Share Capital read as follows:

“Equity Share Capital

(Amount in Lakhs)

	Current year	Previous year
Authorised:		
550,000,000 Equity Shares of Rs. 10/- each	55,000	55,000
Add:17,250,000 Equity shares of Rs. 10/- each on account of Amalgamation	1,725	1,725
	56,725	56,725

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions

“... Material:

...

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- information regarding a material item, transaction or other event is scattered throughout the financial statements;
- dissimilar items, transactions or other events are inappropriately aggregated;

Observations related to Equity

- d) similar items, transactions or other events are in appropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material...”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted that in previous year, the opening balance of Authorised Share Capital was Rs.55,000 Lakhs. During the previous year, an amount of Rs. 1,725 lakhs was added on account of amalgamation, and accordingly, the closing balance of authorized share capital as at the end of the previous year was Rs. 56,725 Lakhs. However, the opening balance of Authorised Share Capital for current year was reported at Rs. 55,000 Lakhs and instead of reporting at Rs. 56,725 Lakhs and same additions have been shown under current year as well.

It was observed that movement shown in the authorized capital in the previous year has again been shown in the current year, which is not correct.

Observations related to Liabilities

1. Financial guarantees

Matter contained in the Financial Statements

The contingent liabilities of a company included letter of comfort to banks against credit facilities / financial assistance availed by subsidiaries and corporate guarantee given to banks against credit facilities/ financial assistance availed by its associate company.

Principle: Ind AS 109, Financial Instruments

Appendix A – Defined terms

...

Financial guarantee contract

“A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument...”

Appendix B – Application guidance

...

Para B2.5 ...

“Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form...”

Observation:

In accordance with the above, it may be noted that a significant feature of a letter of comfort and corporate guarantee contract is the contractual obligation to make specified payment in case of default by the credit holder. As such, the contract may not necessarily be called as financial guarantee contract and it may take any name or legal form, however, the accounting will be same as that of a financial guarantee contract. If a contract legally meets these requirements, then it would be accounted for as the financial guarantee contract as per Ind AS 109.

Accordingly, in the given case, it was viewed that both the letter of comfort and corporate guarantee by their nature, are financial guarantees and therefore, the same should have been recognized as financial guarantee as per the requirement of Ind AS 109.

Similar view was taken by the ITFG, ICAI under issue 64 given in the Compendium of ITFG Clarification Bulletins, December 2018 edition.

2. Corporate Guarantees

Matter contained in the Financial Statements

From the note to financial statements it was noted that the company had given corporate guarantees to several banks in respect of funded and non-funded limits availed by its foreign subsidiary and its associate company.

Principle: Ind AS 32, Financial Instruments: Presentation

...Paragraph AG8 of Appendix A – Application Guidance - Ind AS 32 – Financial assets and financial liabilities

“The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender’s ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the

financial statements. Some of these contingent rights and obligations may be insurance contracts within the scope of Ind AS 104.”...

Guidance Note on Division II – IND AS Schedule III to the Companies Act, 2013

Paragraph 8.2.5.1 - Non-current other financial liabilities

“Ind AS Schedule III requires presenting ‘Other Financial Liabilities’ as a separate line item on the face of the Balance Sheet under ‘Financial Liabilities’. Items which meet the definition of financial liabilities as per Ind AS 32, like contingent consideration, derivative contracts, financial guarantee contracts issued, contractually reimbursable expenses etc., should be presented under other financial liabilities.”

Ind AS 109 – Financial Instruments

Paragraph 4.2.1 – Classification of financial liabilities

“An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

...

- c. financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:
 - i. the amount of the loss allowance determined in accordance with Section 5.5; and
 - ii. the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115”

Paragraph 5.5.1 – Impairment

“An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).”

Observation:

As per paragraph 8.2.5.1 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, Other financial liabilities are required to be presented as a separate line item on the face of the Balance Sheet under 'Financial Liabilities'. Items like financial guarantees meet the definition of financial liabilities as per Ind AS 32 and should be presented under other financial liabilities.

It was viewed that the aforesaid corporate guarantees were in the nature of financial guarantees and as per the above stated requirements, such corporate guarantees should have been recognized, measured, presented and disclosed in line with the above stated requirements of Ind AS 109, Ind AS 32 and Division II – Ind AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Ind AS 109, Ind AS 32, as well as disclosure requirements given under paragraph 8.2.5.1 of Guidance note on Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

3. Non-Current Borrowings

Matter contained in the Financial Statements

In the note to the financial statements of a company on Non-Current Borrowings, Loans from related parties were classified as non-current. These loans from related parties were interest free and repayment terms were not stipulated.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 60

An entity shall present current and non-current assets, current and non-current liabilities, as separate classifications in its balance sheet in accordance with paragraphs 66-76 ...

Paragraph 69

An entity shall classify a liability as current when:

...

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d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Observation:

It was noted from the notes to the financial statements on Non-Current Borrowings that loans from related parties were classified as non-current. It was viewed that since loans from related parties are interest free and **repayment terms have not been stipulated, such loans are callable on demand. Accordingly, the classification of such loans as non-current was not in line with the above stated requirements of Ind AS 1.**

Accordingly, it was viewed that the requirement of Ind AS 1 has not been complied with.

4. Financial Liabilities

Matter contained in the Financial Statements

Abstract of an accounting policy on Financial Assets and Liabilities read as follows:

“Financial assets and liabilities

...

(v) Financial assets and liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial instruments which do not meet the criteria of amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss.”

Principle: Ind AS 109, Financial Instruments

Paragraphs 4.2.1

“An entity shall classify all financial liabilities as subsequently measured at amortised cost...”

Paragraphs 4.2.2

“An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information...”

Observation:

It was viewed that the stated accounting policy gives an erroneous impression that the financial instruments (including financial liabilities) can be classified as either valued at Amortised Cost or Fair Value through Other Comprehensive Income (FVOCI). However, the FVOCI classification category is not available for Financial Liabilities under Ind AS 109.

Accordingly, it was viewed that the requirements of Ind AS 109 has not been complied with in the stated policy.

5. Financial Liabilities

Matter contained in the Financial Statements

In the note to the financial statements on Borrowings, various defaults in the repayment of loans were given.

Further, under paragraph (viii) of Annexure to the Auditor's Report, the auditor had reported that there has been delay in timely repayment of dues. Further, he had reported the status of payment made for these defaults, before the approval date of the financial statement.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 and Ind AS 107, Financial Instruments: Disclosures

Paragraph 8.2.3.16

“Ind AS Schedule III requires separate disclosure for default, as on the balance sheet date, in repayment of borrowings and interest but does not require any disclosure of breaches. However, para 18 of Ind AS 107 would require an entity to disclose only those breaches made during the reporting period, which permitted the lender to demand accelerated repayment and, were not remedied on or before the end of the reporting period.”

Paragraph 8.2.10

“The amounts shall be classified as:

(a) Current maturities of long-term debt;

(b) ...

...

Current maturities of long-term debt

Ind AS Schedule III requires presenting ‘current maturities of long-term debt’ under ‘Other Financial Liabilities’ grouped under ‘Current Liabilities’. Long term debt is specified in Ind AS Schedule III as a borrowing having a period of more than twelve months at the time of origination. However, current maturities of long-term debt are of the nature of a ‘Borrowings’ but since Ind AS Schedule III specifically provides a separate line item for presenting current maturities of long-term debt under Other Financial Liabilities, it is recommended that companies follow the presentation requirements of Ind AS Schedule III.”

Paragraph 18 of Ind AS 107 – Defaults and breaches

“For loans payable recognised at the end of the reporting period, an entity shall disclose:

...

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were approved for issue.”

Observation:

It was noted from the note to the financial statements on Borrowings that there were various defaults in the repayment of loans. Further, under paragraph (viii) of Annexure to the Auditor’s Report, the auditor had reported that there has been delay in timely repayment of dues to banks for External Commercial Borrowings (ECB) and to financial institutions for debentures. In respect of working capital facilities from Banks there has been over drawings in the accounts during the year as well as at year end. Under ‘Remark’

Observations related to Liabilities

column, the auditor had reported the status of payment made for these defaults, before the approval date of the financial statement.

It was viewed that the details of defaults remedied before the date of the financial statement was not disclosed, which is not in line with the above stated requirements of paragraph 18 (c) of Ind AS 107 and paragraph 8.2.3.16 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.

It was further noted from the note on Borrowings that certain amount of ECB was due in the next 12 months, however, no disclosure was given for current maturities of long-term debts under current liabilities which is not in line with the above stated requirement of paragraph 8.2.10 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Ind AS 107 and Schedule III to the Companies Act, 2013 have not been complied with.

6. Financial Liabilities

Matter contained in the Financial Statements

Abstract of accounting policy of the company regarding Financial Guarantee Contracts read as follows:

“Financial guarantee contracts other than those which are in the nature of insurance are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms of a debt instruments. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind AS 109 and the amount recognized less cumulative amortization. **Corporate guarantees are in the nature of insurance contracts.**”

Principle: Ind AS 104, Insurance Contracts

Paragraph 15– Liability adequacy test

“An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets, such as those discussed in paragraphs 31 and 32) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.”

Observation:

It was noted that the corporate guarantees given by the company are in the nature of insurance contracts. However, the given policy regarding Corporate Guarantee omits to disclose about liquidity adequacy test. From the information available in financial statements, it appeared that no liability adequacy test was conducted. Accordingly, it was not found to be in line with the requirement of paragraph 15 of Ind AS 104, Insurance Contracts.

Accordingly, it was viewed that the requirements of Ind AS 104 have not been complied with.

Chapter-4

Observations Related to Components of Statement of Profit & Loss

1. Revenue Recognition

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Revenue recognition read as follows:

“No element of financing is deemed present as the sales are made with a credit term which is consistent with market practice.”

Principle: Ind AS 18, Revenue

Paragraph 9 – Measurement

“Revenue shall be measured at the fair value of the consideration received or receivable”

Paragraph 11– Measurement

“In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest....”

Observation:

It was noted from the accounting policy of revenue that the element of financing has not been considered if the credit term is consistent with market practices.

As per above stated paragraph of Ind AS 18¹, it was viewed that when consideration for sale of goods constitutes financing element, the fair value is determined by discounting all future receipts using the imputed rate of interest. Hence existence of financing component is determined as per Ind AS 18 and not by comparing the market practices.

Accordingly, it was viewed that the requirements of Ind AS 18 have not been complied with.

2. Revenue Recognition

Matter contained in the Financial Statements

Abstract note to the financial statements of a company read as follows:

“The company has sold Fully and Compulsorily Convertible Debenture (FCCD) to a Trust along with encumbrances for which necessary approvals need to be obtained.....”.

No investment was shown towards FCCD in the annual report of the company.

No further disclosure was given in the financial statements of the company regarding the encumbrances taken over.

¹ Observations still relevant under Paragraph 61 read with paragraph 63 of Ind AS 115(Revenue from contracts with Customers)

Observations Related to Components of Statement of Profit & Loss

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 15 – Presentation of True and Fair View and compliance with Ind ASs

“Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.”

Paragraph 82 – Statement of Profit and Loss

“In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss shall include line items that present the following amounts for the period:

(a) ...

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;”

Paragraph 97– Other comprehensive income for the period

“When items of income or expense are material, an entity shall disclose their nature and amount separately.”

Observation:

It was noted from the notes to the financial statements that consideration towards sale of FCCD was higher against the investment value. On perusal of the annual report of the company, no additional investment was found towards FCCD during the year. Hence, it indicated that the difference should be an income, however, the same was not reflected in the Statement of Profit and Loss as well as the notes to the financial statements. Further, it was viewed that had the gain been recognised in the Statement of Profit and Loss, the profit for the year would have increased significantly. Accordingly,

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the profit was understated and hence, it was viewed that requirements of paragraphs 15, 82 (aa) and 97 of Ind AS 1 are not complied with.

Further, it was also noted that adequate disclosure in respect of encumbrances taken over were not provided.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with in preparation and presentation of the financial statements.

3. Revenue Recognition

Matter contained in the Financial Statements

The company had shown an interest income in its financial statements under Exceptional Item. Such interest income was recognized during the reporting year and the comparative year. The receivables corresponding to the same amount were written off as not recoverable during the reporting year.

Principle: Ind AS 18, Revenue

Paragraph 29 – Interest and Royalties

“Revenue arising from the use by others of entity assets yielding interest and royalties shall be recognised on the bases set out in paragraph 30 when:

- a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- b) the amount of the revenue can be measured reliably.

Paragraph 30 – Interest and Royalties

“Revenue shall be recognised on the following bases:

- a) interest shall be recognised using the effective interest method as set out in Ind AS 109; and
- b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.”

Observations Related to Components of Statement of Profit & Loss

Observation:

It was noted from notes to the financial statements on exceptional item that an interest income was recognized during the reporting year and the comparative year. Further, the receivables corresponding to the same amount were written off as not recoverable during the reporting year. As per Ind AS 18² revenue should be recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. The measurement principle is guided by Ind AS 109.

Therefore, it was viewed that when the recoverability of interest income was not certain, the recognition of the same during the reporting year should not have been done, as per the recognition principle of Ind AS 18. Further, the said principle was found to be neglected during the comparative year as well and no Expected Credit Loss (ECL) was recognized in the previous year as required by Para 5.5.1 of Ind AS 109.

Accordingly, it was viewed that the requirements of Ind AS 18 and 109 have not been complied with.

4. Revenue Recognition

Matter contained in the Financial Statements

One of the Company which is engaged in power generation, has disclosed “contribution from consumers towards service lines” as “capital reserve” under “other equity”.

Abstract of ‘sub note on “Other Equity” reads as follows:

“Based on expert opinion obtained, considering that capital contribution from consumers toward service lines are not refundable to the consumers, even after they cease to be consumers, and the underlying assets there against being under ownership of the Company, such contributions are being treated as capital reserve.”

²Observation is still relevant under Paragraph 9(e) read with definition of Income given under Appendix of Ind AS 115 (Revenue from Contracts with Customers)

Principle: Ind AS 18, Revenue

Paragraph 21 of Appendix C to Ind AS 18, Transfer of Assets from Customers – How should the entity account for a transfer of cash from its customer?

“When an entity receives a transfer of cash from a customer, it shall assess whether the agreement is within the scope of this Appendix in accordance with paragraph 6. If it is, the entity shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset in accordance with paragraphs 9 and 10. If the definition of an asset is met, the entity shall recognise the item of property, plant and equipment at its cost in accordance with Ind AS 16 and shall recognise revenue in accordance with paragraphs 13–20 at the amount of cash received from the customer.”

Observation:

It was noted that contribution from consumers towards service lines have been treated as capital reserve instead of revenue.

As per paragraph 21 of Appendix C of Ind AS 18³, it was viewed that the entity shall recognise revenue at the amount of cash received from the customers. Accordingly, the accounting treatment followed by the company is incorrect.

Accordingly, it was viewed that the requirement of Ind AS 18 has not been complied with.

³Observation is still relevant under Paragraph 15 of Ind AS 115 (Revenue from Contracts with Customers)

5. Presentation of Revenue on Net Basis

Matter contained in the Financial Statements of a company

In the note to the financial statements on revenue recognition, the company presented purchase of traded power after netting it off from revenue from traded power.

Principle: Ind AS 18, Revenue and Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

Paragraph 7 of Ind AS 18, Revenue – Definitions

“**Revenue** is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.”

Paragraph 9.2 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

“....For other non-operating income, income should be disclosed under this head net off expenses directly attributable to such income. However, the expenses so netted off should be separately disclosed.”

Observation:

It was noted that purchase of traded power has been netted off from revenue from traded power.

As per Paragraph 9.2 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013, it was viewed that there is no provision for netting expenses from revenue. This kind of presentation is available for ‘Other Non-operating income’ as per the Guidance Note and ‘when entity acts as an agent’ as per Ind AS 18’. Therefore, netting off purchase of traded power against the income from traded power is not correct.

Accordingly, it was viewed that the above stated presentation by the company has resulted in understatement of revenue and purchases of stock in trade.

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Accordingly, it was viewed that the requirements of Ind AS 18⁴ and Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

6. Interest Income

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Interest income read as follows:

“Interest income is recognized on time proportion basis taking into account the amount outstanding and the applicable interest rates and is disclosed in other income. Interest income earned in the course of the Merchanting Trade undertaken by the company is classified under 'operating income' since the underlying bank deposits are in-extricable linked with such trade and the interest Income from such deposits are as much part of the margin from such trade.”

Principle: Ind AS 18, Revenue

Paragraph 30 – Interest

“Revenue shall be recognised on the following bases:

- (a) interest shall be recognised using the effective interest method as set out in Ind AS 109;
- (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
- (c) dividends shall be recognised when the shareholder's right to receive payment is established.”

Observation:

It was noted from the stated accounting policy of interest income that the effective interest rate method has not been applied. Paragraph 30 of Ind AS

⁴ Observation is still relevant under Appendix A read with Para B36 of Ind AS 115

Observations Related to Components of Statement of Profit & Loss

18⁵ required recognition of interest income using the effective interest rate method as per the details in Ind AS 109 which was viewed as not being applied by the company.

Accordingly, it was viewed that the requirements of Ind AS 18 have not been complied with.

7. Other Operating Revenue

Matter contained in the Financial Statements

In the note to the financial statements on 'Revenue from operations', out of total "Other Operating Revenue", a material amount was disclosed as 'Others' for which no details were furnished.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 9.1.8

"The term "other operating revenue" is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities."

Observation:

It was noted from the note to the financial statements on 'Revenue from operations' that out of total "Other Operating Revenue", a substantial amount was disclosed as "Others" for which no details were furnished. **It was viewed that nature of such 'Other operating revenue' should have been disclosed.**

⁵Observation is still relevant under Paragraph 9(e) read with definition of income given under Appendix of Ind AS 115 (Revenue from Contracts with Customers) and as per Ind AS 109

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Accordingly, it was viewed that the requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

8. Gain on Foreign Currency Transaction

Matter contained in the Financial Statements

In the note to the financial statements on Other Expenses, gain on foreign currency transaction was deducted from other expenses.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observations Related to Components of Statement of Profit & Loss

Observation:

It was noted that under note to the financial statements on Other Expenses, gain on foreign currency transaction has been deducted from other expenses. **It was viewed that since it is an income, it should be shown under other income instead of deducting gain on foreign currency transaction from other expenses.**

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with.

9. Fair Value Changes in Financial Instruments

Matter contained in the Financial Statements

An abstract of note to the financial statements on Other income reads as follows:

“Other Income

	Current year	Previous year
Dividend Income	xxx	Xxx
Gain on Mutual Funds	xxx	Xxx
Gain on fair valuation of derivatives	xxx	Xxx
Exchange Difference Gain	xxx	Xxx
Service Tax Refund Received	xxx	Xxx
Miscellaneous Income	xxx	Xxx
Total	xxx	Xxx

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 9.2

“Other income: The aggregate of ‘Other income’ is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss ‘Other Income’ shall be classified as:

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- a) *Interest Income;*
- b) *Dividend Income;*
- c) *Other non-operating income (net of expenses directly attributable to such income).*

...Presentation and disclosure of 'net gains (losses) on fair value changes' should be made as below:

Net gains (losses) on fair value changes

	Figures at current reporting period end	Figures at previous reporting period end
Investments classified at FVTPL		
Investments designated at FVTPL		
Derivatives at FVTPL		
Other Financial Instruments classified as FVTPL		
Other Financial Instruments designated at FVTPL		
Reclassification adjustments		
Realised gain on debt investments classified as FVOCI		

Observation:

It was noted that the Company did not disclose gain on fair valuation of derivatives as from instruments categorized as FVTPL.

It was viewed that "gain on fair valuation of derivatives" should be explicitly disclosed as "gain on fair valuation of derivatives at FVTPL"

Observations Related to Components of Statement of Profit & Loss

under the sub-head Non-Operating Income as per the above stated requirement of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

10. Presentation of Finance Cost

Matter contained in the Financial Statements

The Company had shown the interest expense netted off with interest income in the financial statements.

Principle: Ind AS 107, Financial Instruments: Disclosures, Ind AS 1, Presentation of Financial Statements and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 20 of Ind AS 107 – Statement of Profit and Loss

“20. An entity shall disclose the following items of income, expense, gains or losses either in the statement of profit and loss or in the notes: ...

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;”

Paragraph 32 of Ind AS 1 – Offsetting

“An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.”

Paragraph 9.2 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 – Other income

“The aggregate of ‘Other income’ is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss ‘Other Income’ shall be classified as:

(a) Interest Income; ...

Paragraph 9.5.5 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 – Finance costs

“As per Note 4 of the General Instructions for the Preparation of the Statement of Profit and Loss, disclosure of Finance costs is to be bifurcated under the following:

(A) Interest;

...

(A) Interest expense

This would present the following types of finance charges incurred by the Company:

(a) Interest cost on financial liabilities measured at amortized cost such as borrowings from banks and others, on debentures, bonds or similar instruments etc. calculated as per the effective interest method;.”

Observation:

It was noted that interest expense has been netted off with interest income. It was viewed that considering the provision stated under Ind AS 1, Ind AS 107 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 interest expense should not have been netted off against the interest income.

Accordingly, it was viewed that the requirements of Ind AS 107, Ind AS 1 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

11. Interest on Fixed Deposits

Matter contained in the Financial Statements

An abstract of CARO read as below:

“viii) In our opinion and according to the information and explanations given to us company has not defaulted in repayment of dues to a financial Institution of bank. During the year under consideration, the bank has charged the company on account of deduction of interest on prematurity of

Observations Related to Components of Statement of Profit & Loss

FDRs, which stands included under interest expense. The company has not issued debentures.”

Principle:(Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013)

Paragraph 9.1.8 of Guidance Note on Division II – IND AS Schedule III to the Companies Act, 2013

“The term “other operating revenue” is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. **Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detailed understanding of the company’s activities.”**

Observation:

It was noted from CARO report of the company that deduction of interest on pre-maturity of fixed deposits was included in the finance cost. **It was viewed that the deduction of interest income on prematurity of fixed deposits should not have been accounted as finance cost rather the interest income should not be recognized to the extent of the deduction.**

It was viewed that interest income on fixed deposits should have been shown under other income or other operating income based on the related facts of the entity.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

12. Functional Classification of Expenditures

Matter contained in the Financial Statements

In the Statement of Profit and Loss of a company, expenses include the head “Administrative Expenses”.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 99 of Ind AS 1 –Other comprehensive income for the period

“An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.”

Observation:

It was noted from the Statement of Profit and Loss that expenses includes the head “Administrative Expenses”. Accordingly, it was observed that the company has classified the expenses based on functional classification instead of nature-wise classification as required by paragraph 99 of Ind AS 1.

Accordingly, it was viewed that the requirements of Ind AS 1 has not been complied with.

13. Cost of Material Consumed

Matter contained in the Financial Statements

In the abstract of the Statement of Profit and Loss, the company, engaged in the business of trading and manufacturing of certain goods and having its own manufacturing facility, **clubbed cost of material consumed under ‘Purchases of Stock in Trade and Raw Material’ and ‘Changes in Inventories of Finished goods and Stock-in-trade’** in the Statement of Profit and Loss.

Principle: Part II, Division II- Ind AS Schedule III to the Companies Act, 2013 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

REVENUE

Revenue from operations

Other Income

Total Revenue

Observations Related to Components of Statement of Profit & Loss

EXPENSES

Cost of Material Consumed

Purchases of Stock in Trade and Raw Material

Changes in Inventories of Finished goods and Stock-in-trade

....”

Paragraph 9.5.1 of Guidance Note on Division II-Ind AS Schedule III To The Companies Act, 2013:

“Cost of materials consumed

This disclosure is applicable for manufacturing companies. Materials consumed would consist of raw materials, packing materials (where classified by the company as raw materials) and other materials such as purchased intermediates and components which are ‘consumed’ in the manufacturing activities of the company.”

Observation:

It was noted from note to the financial statements on ‘Purchase of Stock in Trade and Raw Material’ that the company is engaged in the business of trading of certain goods and it has its own manufacturing facility. **However, in the Statement of Profit and Loss, the cost of material consumed has not been disclosed separately instead it has been clubbed under ‘Purchases of Stock in Trade and Raw Material’ and ‘Changes in Inventories of Finished goods and Stock-in-trade’.**

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

14. Purchases

Matter contained in the Financial Statements

From the accounting policy of Revenue Recognition, it was noted that the accounting policy of purchases has been disclosed thereat.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was viewed that the purpose and relevance of disclosure of policy on ‘Purchases’ under the head of Revenue Recognition is not clear. Also there is no such requirement under Ind AS 18 as well.

Accordingly, it was viewed that policy for Purchases under Revenue Recognition is not correct.

15. Excise Duty

Matter contained in the Financial Statements

In the note to the financial statements on Other expenses, ‘Excise duty’ was presented.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 9.1.4

“On the other hand, recovery of excise duty is an inflow that the entity receives on its own account. For the manufacturer it is a part of the cost of production, irrespective of whether the goods are sold or not. The manufacturer acts as a principal in collecting excise duty and therefore, revenue should be grossed up to include excise duty. **Excise duty paid should be presented as a separate line item under the ‘Expenses’ head on the face of Statement of Profit and Loss.**”

Observation:

It was noted that the excise duty expense was presented under the head ‘Other Expenses’. Considering paragraph 9.1.4 read with Illustrative Format given under Annexure F of the Guidance Note, it was viewed that excised duty paid should have been disclosed on the face of Statement of Profit and Loss under the head ‘Expenses’ as a separate line item.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

16. Employee Benefits

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Employee benefits read as follows:

“Defined Contribution Plans such as Provident Fund etc., are charged to the Statement of Profit and Loss Account as incurred. Further for certain employees, the monthly contribution for Provident Fund is made to a Trust administered by the Company. The interest payable by the Trust is notified by the Government. The Company has an obligation to make good the shortfall, if any.”

Principle: Ind AS 19, Employee Benefits

Paragraph 8 – Definitions

“**Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.”

Observation:

It was noted from the accounting policy of the company on employee benefits that under defined contribution plans such as provident fund, the company has an obligation to make good the shortfall, if any.

As per the definition of defined contribution plans, it was viewed that employer's liability to the employee is limited to the amount of contribution & has no further obligation to pay beyond agreed contribution. Further, as per the definition of defined benefit plans, it was viewed that employer's liability to the employee is not limited to the amount of contribution and may extend further to pay beyond agreed contribution.

Accordingly, it was viewed that if the company has an obligation to make good any shortfall, the said plan cannot be considered as defined contribution plan as per Ind AS 19.

Accordingly, it was viewed that the requirements of Ind AS 19 have not been complied with in preparation and presentation of the financial statements.

17. Employee benefits

Matter contained in the Financial Statements

Abstract of footnote given under note to the financial statements of a company on Employee benefits read as follows:

“The company does not contributed to any Gratuity Fund Scheme. The provision in respect of the defined benefit plan is however made by the

Observations Related to Components of Statement of Profit & Loss

company and carried as a liability, to be paid out of the regular cash flows of the company. The provision is made in respect of every employee who has completed at least five years of service, as 15 days' salary for every completed year of service. The present value of the obligation is based on actuarial valuation report"

Principle: Ind AS 19, Employee Benefits

Paragraph 56 – Recognition and measurement

"Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period."

Paragraph 57 – Recognition and measurement

"Accounting by an entity for defined benefit plans involves the following steps:

- a) determining the deficit or surplus. This involves:
 - i. using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).
 - ii. ...

Paragraph 135 of Ind AS 19, Employee Benefits – Disclosures

“An entity shall disclose information that:

- a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);
- b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and
- c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity’s future cash flows (see paragraphs 145–147).”

Observation:

It was noted from the footnote that provision for gratuity has been made only in respect of those employees who have completed at least five years of service as 15 days’ salary for every year completed year of service. However, the liability arises when the employee has started providing the services.

As per the requirements of Ind AS 19, provision for gratuity should be made for all employees irrespective of whether they have completed at least five years of service or not. The company has not made any provision for gratuity for those employees who have not completed at least five years of service which is incorrect.

Further, the disclosures as required under Paragraph 135 of Ind AS 19 have not been disclosed in respect of the same.

Accordingly, it was viewed that the requirements of Ind AS 19 have not been complied in preparation and presentation of the financial statements.

18. Employee Benefits

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Employee benefits read as follows:

“Voluntary Retirement Scheme (VRS)

Expenditure on VRS is being charged to Statement of Profit and Loss Account as incurred.”

Observations Related to Components of Statement of Profit & Loss

Principle: Ind AS 19, Employee Benefits

Paragraph 165 – Recognition

“An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

- a) when the entity can no longer withdraw the offer of those benefits; and
- b) when the entity recognises costs for a restructuring that is within the scope of Ind AS 37 and involves the payment of termination benefits.”

Observation:

It was noted from the accounting policy on VRS that expense on VRS is charged to the Statement of Profit and Loss as incurred.

As per the requirements of Ind AS 19, it was viewed that these expenses should be recognised when the entity can no longer withdraw the offer of those benefits or when the entity recognises costs for a restructuring that is within the scope of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits, whichever is earlier.

Accordingly, it was viewed that the requirements of Ind AS 19 and Ind AS 37 effective have not been complied with in preparation and presentation of the financial statements.

19. Employee Benefits

Matter contained in the Financial Statements

In the notes to the financial statements of a company on Employee benefits, certain disclosures were given.

Principle: Ind AS 19, Employee Benefits

Paragraph 147 of Ind AS 19, Employee Benefits – Disclosure

“To provide an indication of the effect of the defined benefit plan on the entity’s future cash flows, an entity shall disclose:

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- a) a description of any funding arrangements and funding policy that affect future contributions.
- b) the expected contributions to the plan for the next annual reporting period.
- c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.”

Observation:

It was noted that although certain disclosures were given with regard to employee benefits, however, **expected contribution to the defined benefit plan for the next financial year has not been disclosed** as required by paragraph 147 of Ind AS 19.

Accordingly, it was viewed that the requirement of Ind AS 19 has not been complied with.

20. Employee Benefits

Matter contained in the Financial Statements

In the notes to the financial statements of a company on Employee benefits under Actuarial assumptions, disclosure of mortality rate was not found.

Principle: Ind AS 19, Employee Benefits

Paragraph 144– Disclosure

“An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables).

....”

Observations Related to Components of Statement of Profit & Loss

Paragraph 57(a)(i)– Recognition and measurement

“Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

- i. **using an actuarial technique**, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). **This requires an entity to determine** how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as **employee turnover and mortality**) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98)..”

Observation:

It was viewed that the **disclosure of mortality rate constitutes a part of the actuarial assumptions, however, the same has not been given, which is required to be disclosed as per paragraph 147 read with para 57 (a) (i) of Ind AS 19.**

Accordingly, it was viewed that the requirements of Ind AS 19 have not been complied with.

21. Employee Benefits

Matter contained in the Financial Statements

An abstract of note to the financial statements on Gratuity and Other Post-Employment benefits plans was as under:

“Amounts for the Current and previous four period are as follows”

Particulars	Current year Rs.	Previous year Rs.
Gratuity
...		

”

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Principle: Ind AS 1, Presentation of financial statements

Paragraph 7– Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted from the note to the financial statements on Gratuity and Other Post-Employment benefits plans that heading was mentioned as “**Amounts for the Current and previous four period**” whereas disclosure was made only for current and previous year.

22. Borrowing Cost

Matter contained in the Financial Statements

Note to the financial statements of a company on Fair Value reads as follows:

“Amount due to/from related companies, approximate their fair values as the interest rates charged to / by related companies are approximately equivalent to interest rate prevailing in the market or re-priced regularly.”

From the Related Party Disclosure, it was noted that the amount due to related party pertaining to loan was disclosed in current year as well as in previous year.

Principle: Ind AS 32, Financial Instruments

Paragraph 31-32 of Ind AS 32:

“31.

...when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. ...The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.”

32.

... first determine the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.”

Observation:

It was observed that the company has not accounted for any borrowing cost (whether expensed or capitalised) in current year as well as in previous year. In such case, there may be two possibilities:

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(a) Borrowing from Related Party is Interest bearing:

In this case, the company has not accounted for the **borrowing cost** on such borrowing availed throughout the current year as well as previous year.

(b) Borrowing from Related Party is Interest free:

In this case, the company has not classified borrowing as **Compound Financial Instrument** in accordance with Ind AS 32. Further, according to paragraphs 31 & 32 of Ind AS 32, loan would include components of both Equity and Financial liability. These components should be separately recognised and accounted for in the financial statements.

Considering the above, it was viewed that the requirements of Ind AS 32 have not been complied with.

23. Provision for Expected Credit Loss

Matter contained in the Financial Statements

In the note to the financial statements of a company on Trade Receivables, no provision for doubtful trade receivables was created.

Principle:-Ind AS 109, Financial Instruments

Paragraph 5.5.7 of Ind AS 109, Financial Instruments – Recognition of Expected Credit Losses

“If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 5.5.3 is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Paragraph 5.5.8 of Ind AS 109, Financial Instruments – Recognition of Expected Credit Losses

“An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.”

Observations Related to Components of Statement of Profit & Loss

Division II to the Schedule III to the Companies Act

Paragraph 6B III (ii) of General Instruction for the Preparation of Balance Sheet:

“(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.””

Observation:

It was noted from the note on trade receivables that the trade receivables have been shown as doubtful. It was viewed that when trade receivables are shown as doubtful, the company shall disclose the amount of credit loss that is expected on those receivables.

As per Ind AS 109, the company is required to recognize a loss allowance (i.e. Impairment) for expected credit losses on financial assets including trade receivables. Loss allowance is presented as separate line item as deduction from gross carrying amount of trade receivable. It was noted that the provision for expected credit loss has not been created for doubtful trade receivables.

Accordingly, it was viewed that the requirements of Division II to the Schedule III to the Companies Act, 2013 as well as Ind AS 109 have not been complied with.

24. Depreciation

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Depreciation of Property, Plant and Equipment read as follows:

“Depreciation on property, plant & equipment (PPE) is provided on Straight Line Method over their useful lives and in the manner specified in Schedule II to the Companies Act, 2013. **However, in respect of certain Plant & Machineries and Electric Installations, depreciation is provided as per their useful lives assessed on the basis of technical evaluation by the external valuer, ranging from 20 to 40 years.**”

Principle: Schedule II to the Companies Act, 2013

Note 3 given under Schedule II to the Companies Act, 2013 provides as follows:

“The following information shall also be disclosed in the accounts, namely –

- i. depreciation methods used; and
- ii. the useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.”

Observation:

It was noted from the stated policy on depreciation of Property, Plant and Equipment (PPE) that although the company has used the useful lives given under Schedule II to the Companies Act, 2013 for the purpose of charging depreciation on PPE, however, in respect of certain plant & machineries and electric installations, the useful lives as determined by external valuer have been used.

As per the requirements of Schedule II to the Companies Act, 2013, it was viewed that when different useful lives have been used by the company for the purpose of charging depreciation on PPEs, such useful lives shall be specifically disclosed by the company by way of notes to the accounts.

In the above stated disclosure, the company has stated that useful lives range from 20 years to 40 years. It was viewed that **proper disclosures regarding the useful lives of plant & machineries and electrical installations should have been made identifying the items of plant & machineries and electrical installations with their respective useful lives as estimated by the external valuer.**

Accordingly, it was viewed that the requirements of Schedule II regarding disclosure of useful lives have not been complied with.

25. Corporate Social Responsibility Expenditure

Matter contained in the Financial Statements

In the financial statements, no disclosure was made about the CSR activities.

Principle:- (General Instructions for preparation of Statement of Profit and Loss given under Part II, Division II – Ind AS Schedule III to the Companies Act, 2013 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013)

Paragraph 7 (j) of General Instructions for preparation of Statement of Profit and Loss given under Part II, Division II – Ind AS Schedule III to the Companies Act, 2013

“Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:

1. in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and”.

Paragraph 11.5 of Guidance Note of Division II – Ind AS Schedule III to the Companies Act, 2013

- a) “From the perspective of better financial reporting and in line with the requirements of Schedule III in this regard, it is recommended that all expenditure on CSR activities, that qualify to be recognized as expense should be recognised as a separate line item as ‘CSR expenditure’ in the statement of profit and loss. Further, the relevant note should disclose the break-up of various heads of expenses included in the line item ‘CSR expenditure’.
- b) The notes to accounts relating to CSR expenditure should also contain the following:
 1. Gross amount required to be spent by the company during the year.
 2. Amount spent during the year on:
 - i. Construction/acquisition of any asset
 - ii. On purposes other than (i) above

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The above disclosure, to the extent relevant, may also be made in the notes to the cash flow statement, where applicable.

- c) Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per Ind AS 24, Related Party Disclosures.
- d) Where a provision is made in accordance with paragraph above the same should be presented as per the requirements of Schedule III to the Act. Further, movements in the provision during the year should be shown separately.”

Observation:

It was noted from the financial statements that no disclosure was made about the CSR activities. It was viewed that neither the amount spent as per the above stated requirements nor other details as required under Paragraph 11.5 of Guidance Note of Division II – Ind AS Schedule III to the Companies Act, 2013 were disclosed.

Accordingly, it was viewed that the above stated requirements of General Instructions for preparation of Statement of Profit and Loss of Division II – Ind AS Schedule III to the Companies Act, 2013 read with Paragraph 11.5 of Guidance Note of Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

26. Income Taxes

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Taxation read as follows:

“The income tax expense or credit for the period is tax payable on the taxable income of the current period based on the applicable income tax rates at the balance sheet date adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.”

Principle: Ind AS 12, Income Taxes

Paragraph 5 – Definitions

“Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- a) deductible temporary differences;
- b) the carry forward of unused tax losses; and
- c) the carry forward of unused tax credits.”

Observation:

It was noted that the accounting policy **erroneously mentions that both deferred tax assets and liabilities are attributable to temporary differences and unused tax losses.**

As per the definitions of deferred tax assets and deferred tax liabilities given under Ind AS 12, it was noted that deferred tax liabilities are recognised for taxable temporary differences and deferred tax assets are recognised for:

- (a) deductible temporary differences;
- (b) the carry forward of unused tax losses; and
- (c) the carry forward of unused tax credits.

Accordingly, it was viewed that the stated policy of the company is not in line with requirements of Ind AS 12.

27. Items of Other Comprehensive Income and Tax Effect Thereon

Matter contained in the Financial Statements

In the Statement of Profit and Loss of a company “re-measurement of defined benefits plans not reclassified to profit or loss in subsequent periods”, was shown under Other Comprehensive Income (OCI). However,

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no tax impact was shown in the statement of profit and loss in respect of such re-measurement of defined benefits plans under OCI.

Principle: Ind AS 1, Presentation of Financial Statement and Ind AS 12, Income Taxes

Paragraph 96 Ind AS 1 – Other comprehensive income for the period

“Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with Ind AS 16 or Ind AS 38 or on remeasurements of defined benefits plans recognized in accordance with Ind AS 19. These components are recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods...”

Paragraph 61A of Ind AS 12, Income Taxes – Items recognized outside profit or loss

“Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

- a) in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).
- b) directly in equity, shall be recognised directly in equity (see paragraph 62A).”

Observation:

As per the requirements of paragraph 61A of Ind AS 12, current tax and deferred tax, relating to items that are recognized in other comprehensive income, shall be recognized in other comprehensive income. In other words, as re-measurement of defined benefit plans has been recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods, therefore, its tax impact should also be disclosed under the same head i.e., OCI.

Accordingly, it was viewed that the requirements of Ind AS 12 have not been complied with.

28. Acquisition Related Cost

Matter contained in the Financial Statements

Abstract of accounting policy on business combinations read as follows:

“Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are **generally** recognised in statement of profit or loss as incurred.”

Principle: Ind AS 103, Business Combinations

Paragraph 53 – Acquisition-related costs

“Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder’s fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.”

Observation:

It was noted from the adopted policy on business combinations that the acquisition related costs are **generally** recognized in statement of profit or loss as incurred.

As per paragraph 53 of Ind AS 103, it was viewed that the acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. Accordingly, it was viewed that the wordings generally should not have been used.

Accordingly, it was viewed that the adopted policy is not in line with the requirements of Ind AS 103.

29. Foreign Exchange Difference

Matter contained in the Financial Statements

Amount of exchange rate difference realized during the current year was negative and shown under the sub-head 'Sale of products' under the main head 'Revenue from Operations'.

Further, in the previous year, amount of exchange difference realized was positive and shown under the sub-head 'Sale of products' under the main head 'Revenue from Operations'.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 9.1.1

"Note 3 of General Instructions for the Preparation of Statement of Profit and Loss require that revenue from operations is to be separately disclosed in the notes, showing revenue from:

- a) Sale of products (including Excise Duty);
- b) Sale of services; and
- c) Other operating revenues"

Paragraph 9.1.2

"As per the definition of Revenue in Ind AS 18, "revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants."

Observation:

It was noted that the Exchange rate difference realised was deducted from the head 'Revenue from Operations'. It was viewed that being an expense item, loss on exchange rate difference should have been shown under the head 'Other expenses' instead of reducing it from revenue.

Observations Related to Components of Statement of Profit & Loss

It was further noted that in previous year, there was income from exchange difference realized and the same was presented under the head 'Sale of products' as Revenue from Operations. It was viewed that the same should have been classified under the head 'Other income' instead of 'Revenue from Operation'.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

30. Foreign Exchange Difference

Matter contained in the Financial Statements

Abstract accounting policy of a company on Employee benefits read as follows:

"Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the investment in the foreign operation), are recognised initially in other comprehensive income (OCI) and reclassified from equity to the statement of profit and loss on repayment of the monetary items."

Principle: Ind AS 21, The Effects of Changes in Foreign Exchange Rates

Paragraph 32 – Recognition

"..... In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 48."

Observation:

It was noted from the stated accounting policy that the exchange difference on monetary items related to foreign operations are initially recognised in OCI and reclassified from equity to Statement of Profit and Loss on repayment of monetary items.

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It was viewed that as per paragraph 32 of Ind AS 21, reclassification from equity to statement of Profit and Loss should have been made on disposal of net investment instead of reclassifying the same on repayment of the monetary items.

Accordingly, it was viewed that the requirements of Ind AS 21 have not been complied with.

31. Sale of Securities

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Sale of securities read as follows:

“The premium or discount arising at the inception of forward exchange contracts (other than contracts against firm commitments) is amortised and recognised as an expense/income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the period in which the exchange rates changes. Any profit or loss arising on cancelation or renewal of such forward exchange contract is also recognised as income or expense for the period.”

Principle: Ind AS 109, Financial Instruments

Paragraph 4.1.4– Classification of financial assets

“A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.”

Observation:

It was noted from the stated policy on Sale of Securities that company was still following the requirements of Accounting Standard 11 notified under Companies (Accounting Standards) Rules, 2006 to recognize foreign exchange contracts and hedging contracts. **It was viewed that company should have followed the hedge accounting principles of Chapter 6**

Observations Related to Components of Statement of Profit & Loss

(Hedge Accounting) of Ind AS 109 or else such contracts should have been accounted for as per the policy applicable for derivatives.

Accordingly, it was viewed that the requirements of Ind AS 109 have not been complied with.

32. Fair Value Changes in Financial Instruments

Matter contained in the Financial Statements

In the note to the financial statements on Other income, 'Fair value changes of investments designated as FVTPL' was presented.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013

Paragraph 9.2

"Other income

The aggregate of 'Other income' is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss 'Other Income' shall be classified as:

- a) Interest Income;
- b) Dividend Income;
- c) Other non-operating income (net of expenses directly attributable to such income).

...

Presentation and disclosure of 'net gains (losses) on fair value changes' should be made as below:

Net gains (losses) on fair value changes

As per Ind AS 107 para 20(a), the fair value gains or losses (net) on financial assets which are measured at FVTPL should be present under 'Other non-operating income' ...

Observation:

It was noted that 'Fair value changes of investments designated as FVTPL' was disclosed as a constituent of 'Other income'.

It was viewed that it should have been disclosed under the sub-head 'Non-Operating Income' as per the above stated requirement of paragraph 9.2 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the above stated requirements of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

33. Foreign Exchange Contracts

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Sale of securities read as follows:

"Gain/loss from trading in derivatives has been recognised only upon settlement of trade. The Mark to Market margins have not been charged to revenue."

Principle: Ind AS 109, Financial Instruments

Paragraph 4.1.4– Classification of financial assets

"A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income."

Observations Related to Components of Statement of Profit & Loss

Observation:

It was noted from the stated policy that any gain/ loss from trading in derivatives was recognized only upto settlement. Any gain/ loss on MTM (Marked to market) transactions was also not charged to the Statement of Profit and loss.

As per the requirements of Ind AS 109, all derivatives, other than those parts of hedging, which do not meet the criteria for classification as subsequently measured at Amortised Cost or Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value at each reporting date and all gains and losses are recognised in the Statement of Profit or Loss.

Accordingly, it was viewed that the stated policy of the company is not in line with Ind AS 109.

34. Exceptional Items

Matter contained in the Financial Statements

The Abstract of note to the financial statements on Exceptional items read as follows:

- “(a) Exceptional items includes Gain / (Loss) (net) on translation / segment of foreign currency monetary items (including borrowing), gain / (loss) upon marked to market of derivatives contracts, gain / (loss) on forward cover cancellation.
- (b) Exceptional items include amount written off / provided (including provision) being non recoverable from certain parties.
- (c) Exceptional items include on account of written-off of interest receivable on loans to two subsidiary companies.
- (d) Exceptional items include on account of provision against FSA charges for earlier periods provided in view of the decision of Hon’ble Supreme Court.”

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013, Ind AS 1: Presentation of Financial Statements

Paragraph 9.6

“The term ‘Exceptional items’ is neither defined in Ind AS Schedule III nor in Ind AS. However, Ind AS 1 has reference to such items in paras 85, 86, 97 and 98.

Para 85 states that additional line items, headings and subtotals in the statement of profit and loss shall be presented, when such presentation is relevant to an understanding of the entity’s financial performance.

Further, para 86 states that disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense.

Para 97 states that when items of income or expense are material, an entity shall disclose their nature and amount separately.

Para 98 gives certain circumstances that would give rise to the separate disclosure of items of income and expense:

- a) *write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;*
- b) *restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;*
- c) *disposals of items of property, plant and equipment;*
- d) *disposals of investments;*
- e) *discontinued operations;*
- f) *litigation settlements; and*
- g) *other reversals of provisions.”*

Paragraph 7 of Ind AS 1: Presentation of Financial Statements

7. Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Observations Related to Components of Statement of Profit & Loss

Observation:

It was noted from the note to the financial statements on Exceptional items that following items were disclosed as exceptional items by the company:

- foreign currency gain / loss;
- recoverable written off;
- interest receivable written off etc.

It was further noted that the **amount of above items was not material**.

It was viewed that, as per the above stated requirement of the Guidance Note on Schedule III (Division – II), in order to categorize an item of income or expense as exceptional item and disclose as such in the financial statement, **size as well as the nature of such item should be considered**.

It was further noted that the question number 32 of Educational Material on Ind AS 1 issued by the ICAI, also addresses the issues on exceptional items.

In light of the above, it was viewed that, in the given case, none of the items disclosed under the note on Exceptional items qualifies to be reported as exceptional item considering the size and nature of given items.

35. Earnings Per Share

Matter contained in the Financial Statements

In the notes to the financial statements of a company, the disclosure related to Earnings Per Share was given as under:

- a. Number of shares that were issued during the year were considered as the weighted average number of shares while calculating the EPS.
- b. Net profit after tax was considered for the calculation of EPS.

Principle: Ind AS 33, Earnings Per Share

Paragraph 10– Measurement

“Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.”

Paragraph 19– Shares

“For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.”

Paragraph 70 – Disclosures

“An entity shall disclose the following:

- a. the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.
- b. the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.”

Observation:

The following observations were noted from the note to the financial statements on Earnings Per Share (EPS):

1. Number of shares that were issued during the year were considered as the weighted average number of shares while calculating the EPS and not the weighted average number of ordinary shares outstanding during the period. Hence, the calculation of EPS was incorrect.
2. Net profit after tax was considered for the calculation of EPS. However, as per the requirements of paragraph 10 of Ind AS 33, profit attributable to ordinary equity holders shall be considered for the calculation of EPS.

Observations Related to Components of Statement of Profit & Loss

In the given case, net profit after tax including impact of OCI, was divided by number of shares issued during the year. Both numerator as well as denominator used for EPS calculation was incorrect.

3. Further, the disclosures as required under paragraph 70 (a) and (b) of Ind AS 33 were also not given in the notes to the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 33 have not been complied with.

36. Earnings Per Share

Matter contained in the Financial Statements

In the notes to the financial statements of a company, from the disclosure related to Earnings Per Share it was noted that the company has disclosed two Earnings Per Share (EPS) i.e. including Regulatory income/ expense and excluding Regulatory income/ expense.”

Principle: Ind AS 33, Earnings Per Share

Paragraph 9– Measurement

“An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.”

Paragraph 10– Measurement

“Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.”

Paragraph 73

“If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of profit and loss other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed

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with equal per share are before tax or after tax. If a component of the statement of profit and loss is used that is not reported as a line item in the statement of profit and loss, a reconciliation shall be provided between the component used and a line item that is reported in the statement of profit and loss.”

Observation:

It was noted that the company has disclosed two Earnings Per Share (EPS) i.e. including Regulatory income (expense) and excluding Regulatory income (expense). It was observed that EPS [including Regulatory income (expense)] was computed by using numerator after considering Other Comprehensive Income. It was viewed that other comprehensive income should not be included while computing EPS.

EPS excluding Regulatory income (expense) was computed by using a numerator which is not a line item in the Statement of Profit and Loss. Accordingly, as per the above stated paragraph 73 of Ind AS 33, a reconciliation statement should have been given, but such reconciliation statement was not given by the company.

Accordingly, it was viewed that the requirement of Ind AS 33 has not been complied with.

37. Prior Period Items

Matter contained in the Financial Statements

In the note to the financial statements of a company on Other Expenses, Prior period items were shown during the current year and comparative year. Further, the disclosures regarding prior periods were not found in the financial statements. It was further noted that this is entity's first Ind AS financial statement.

Principle: Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 42 – Errors

“Subject to paragraph 43, an entity shall correct material prior period

Observations Related to Components of Statement of Profit & Loss

retrospectively in the first set of financial statements approved for issue after their discovery by:

- a. restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b. if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”

Paragraph 49 – Disclosure of prior period errors

“In applying paragraph 42, an entity shall disclose the following:

- a. the nature of the prior period error;
- b. for each prior period presented, to the extent practicable, the amount of the correction:
 - (i) for each financial statement line item affected; and
 - (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;
- c. the amount of the correction at the beginning of the earliest prior period presented; and
- d. if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.”

Observation:

It was noted that the Prior period items have been disclosed under the head of 'Other expenses'. It was viewed that as per Ind AS, prior period items should be adjusted either by restating the comparative amounts for the period in which error occurred or restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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In given case, it was viewed that the company has not corrected the prior period errors retrospectively in its first set of Ind AS financial statements. Further, the disclosures as required under paragraph 49 have also not been made by the company.

Accordingly, it was viewed that the requirements of Ind AS 8 have not been complied with.

Chapter-5

Observations related to Statement of Cash Flows

1. Increase in Trade Receivable

Matter contained in the Financial Statements

In the cash flow statement of a company, certain amount was reported as a change in working capital due to “increase in trade receivables”. The difference between the outstanding balances of trade receivables, shown in the note to the financial statements of the company on Trade Receivables, as at the end of the current year and previous year showed an amount different from what was reported in the cash flow statement.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 20 – Reporting cash flows from operating activities

“Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

- a) changes during the period in inventories and operating receivables and payables;”

Observation:

It was noted from the note to the financial statements of the company on Trade Receivables that there is an increase in trade receivables while comparing the outstanding balance as at the end of the previous year and the current year. However, **in the Cash Flow Statement of the company, reported amount of ‘increase in trade receivables’ did not match with the figures reported under the note of Trade Receivable.** It was viewed that the difference in amounts reported raises doubt on correctness of Cash Flow Statement of the company.

2. Repayment of External Commercial Borrowings

Matter contained in the Financial Statements

In the cash flow statement of a company, certain amount was reported as repayments of External Commercial Borrowings under the head 'Cash Flow from Financing Activities'. It was noted that the balances of 'External Commercial Borrowings' reduced from previous year to current year.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 43– Non-cash transactions

“Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.”

Observation:

It was noted from notes to the financial statements of a company on 'Non-Current Borrowings' and 'Other Current Financial Liabilities' that balances of 'External Commercial Borrowings' shown under both Non-current borrowings and Other current financial liabilities reduced from previous year to current year. As per the notes, the reduction indicated repayment during the year.

However, in the Cash Flow Statement under the head 'Cash Flow from Financing Activities', the amount of repayments of External Commercial Borrowings reported was different from what should have been done as compared to the reduction disclosed in the notes to the financial statements.

It was viewed that if the difference in the amounts reported in the cash flow statement and what should have been reported as per the notes to the financial statements were due to any repayment in a mode other than cash then the same should have been disclosed separately as required in paragraph 43 of Ind AS 7 but no such disclosure was made.

Observations related to Statement of Cash Flows

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

3. Taxes on Income

Matter contained in the Financial Statements

In the Statement of Profit and Loss of a company, income tax expense relating to current year and tax adjusted for earlier years was shown. Exact amount was disclosed by the company as income tax paid in its cash flow statement.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 35 – Taxes on income

“Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.”

Paragraph 36

“Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.”

Observation:

It was noted that the income tax expense as disclosed under Statement of Profit and Loss was same as disclosed in cash flow statement as income tax paid.

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Considering the balances of provision for taxation and advance tax appearing in balance sheet, it was viewed that both the amounts could not be same. In the Statement of Cash Flow, actual amount of income tax paid by the company should have been disclosed.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

4. Gratuity in Other Comprehensive Income

Matter contained in the Financial Statements

In the Cash Flow Statement of a company, adjustment was made in the profit or loss in respect of gratuity, which was part of other comprehensive income, while reporting net cash flows from operating activities.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 20 – Reporting cash flows from operating activities

“Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- a) changes during the period in inventories and operating receivables and payables;
- b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits of associates; and
- c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.”

Observation:

It was noted from the Cash Flow Statement that the net cash flow from operating activities was derived by adjusting profit or loss for the effects of

Observations related to Statement of Cash Flows

non-cash items which includes gratuity under other comprehensive income (OCI).

It was viewed that **while determining the net cash flow from operating activities, profit before tax has been taken and therefore, the adjustment made in OCI should not be considered.**

Accordingly, it was viewed that adjustment of provision of gratuity made through OCI in Profit before Tax is not in accordance with the requirements of Ind AS 7.

5. Re-Measurement of Defined Benefit Plan

Matter contained in the Financial Statements

In the Cash Flow Statement of a company, the net profit before tax was used to derive cash flow from operating activities. The re-measurement of the defined benefit plan was deducted under "Other Comprehensive Income".

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 20 – Reporting cash flows from operating activities

"Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- a) changes during the period in inventories and operating receivables and payables;
- b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits of associates; and
- c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables."

Observation:

It was noted that re-measurement of the defined benefit plan has been deducted under "Other Comprehensive Income (OCI)".

It was further noted that **under Cash Flow Statement, the net profit before tax has been used to derive cash flow from operating activities, however, "re-measurement of the defined benefit plan" has been adjusted here. It was viewed that since it is part of OCI, so it should not be adjusted to the net profit before tax while calculating the cash flow from operating activities.**

Accordingly, it was viewed that the requirement of Ind AS 7 has not been complied with.

6. Foreign Exchange Fluctuation (Net)

Matter contained in the Financial Statements

Contradictory figures were reported for Foreign Exchange Fluctuation in the cash flow statement vis a vis Notes forming part of accounts.

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 of Ind AS 1 – Definitions*

..."Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and
- (e) the understandability of the financial statements is reduced as a

Observations related to Statement of Cash Flows

result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

...

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted that under note to the financial statements on Other Expenses, amount of Net gain on foreign currency transactions reported (deducted) was different from the amount of Foreign Exchange Fluctuation (Net) adjusted in the Cash Flow Statement under the heading of Cash flows from Operating Activities.

Accordingly, it was viewed that the figures of items should be same across the financial statements, else it would be construed as a non-compliance under Ind AS 1.

7. Adjustments in Cash Flow Statement

Matter contained in the Financial Statements

In the Cash Flow Statement of a company various adjustments were made which were not in line with the requirements of Ind AS 7.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 10– Presentation

“The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.”

Paragraph 11

“An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.”

Paragraph 44A to 44 E of Ind AS 7 – Changes in liabilities arising from financing activities

“44A- An entity shall provide disclosures that enable users of financial

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statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- a) changes from financing cash flows;
- b) changes arising from obtaining or losing control of subsidiaries or other businesses;
- c) the effect of changes in foreign exchange rates;
- d) changes in fair values; and
- e) other changes.

44C Liabilities arising from financing activities are liabilities for which cashflows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.”

Observations related to Statement of Cash Flows

Observation:

Following discrepancies were observed relating to the statement of Cash Flow:

- a) There was no depreciation debited to Statement of Profit and Loss, however, the same was erroneously adjusted in cash flow statement.
- b) The fair value adjustment on interest free ICD received from holding company were shown under cash flow from financing activities as repayment.
- c) The proceeds from long term borrowings – Financial institution which was shown under cash flow from financing activities was contrary to its presentation under note on the Financial liabilities where it was classified as short-term borrowing. Thus, contrary information was provided in the financial statements.
- d) The Company did not disclose changes in the financing activities arising from cash and non-cash changes as required by paragraph 44 A to 44E of Ind AS 7.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

8. Capital Expenditure

Matter contained in the Financial Statements

In the cash flow statement of a company, a cash outflow was reported as 'capital expenditure' under Cash Flows from Investing Activities.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 16– Presentation

"The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. Example of cash flows arising from investing activities are:

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- a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development cost and self-constructed property, plant and equipment.”

Observation:

It was noted from the cash flow statement that a cash outflow has been reported as ‘capital expenditure’. The capital expenditure was on account of cash paid to acquire property, plant and equipment. **It was viewed that such cash outflow should have been reported using the proper description of the line item viz. ‘acquisition of property, plant and equipment’ rather than as ‘capital expenditure’** in line with the above mentioned requirements of paragraph 16(a) of Ind AS 7.

Accordingly, it was viewed that the description given while presenting the cash outflow on acquisition of property, plant and equipment was not in line with the above-stated requirement of Ind AS 7.

Chapter-6

Observations related to Other Disclosures

1. Basis of Preparation of Financial Statements

Matter contained in the Financial Statements

The Abstract of an accounting policy on the basis of preparation of the financial statements read as follows:

“ ...

- ii) The Financial Statements have been prepared on a historical cost basis, except the following:
 - Certain financial liabilities that are measured at fair value,
 - Defined benefits plans- plant assets measured at fair value.”

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 of Ind AS 1 – Definitions*

...“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;

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(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

...

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted from the disclosure given under basis of preparation that in exception to historical cost basis, it was stated that certain financial liabilities are measured at fair value. However, it was noted from the disclosure regarding financial instruments by category, that all financial liabilities have been measured at amortised cost. It was further noted that certain financial assets viz. equity instruments and mutual funds have been measured at fair value.

Accordingly, it was viewed that accounting policy on “Basis of Preparation” should have been stated correctly.

2. Reference of Companies (Indian Accounting Standards) Rules

Matter contained in the Financial Statements

In the notes to the financial statements of a company on Segment reporting and Employee benefits, following disclosures were given:

Segment reporting

“... under Ind AS 108 on Segment Reporting specified in **Companies (Accounting Standard) Rules, 2006** as the Company is having the income from license fees received for the usage of its domain name, trademark etc.”

Employee benefits

“The requirements of IND AS 19 on Employee Benefits specified in **Companies (Accounting Standard) Rules, 2006** are not applicable on the company since there was no employee employed by the company during the year.”

Principle: Companies (Indian Accounting Standards) Rules, 2015

4. Obligation to comply with Indian Accounting Standards (Ind AS)

1. The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-
 - i. any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;
 - ii. the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-
 - a. companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;
 - b. companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;
 - c. holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be; and..."

The Companies (Indian Accounting Standards) Rules, 2015 were amended by the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, which were issued by the MCA (Ministry of Corporate Affairs) by way of notification G.S.R. 365 (E) dated 30th March, 2016.

Observation:

It was noted from the notes to the financial statements that while describing the applicability and disclosure requirements of Ind AS 108, Operating Segment and Ind AS 19, Employee Benefits, respectively, a reference has been made to Companies (Accounting Standards) Rules, 2006.

It was viewed that in the given case the applicable rules on the company are Companies (Indian Accounting Standards) (Amendment) Rules, 2016. **It was viewed that the Companies (Accounting Standards) Rules, 2006 are not applicable on company and therefore, their reference in the given notes is incorrect.**

3. Non-disclosure of Accounting Policy

Matter contained in the Financial Statements

A company has given a note regarding mining operation which read as follows:

“The company’s mining operations at the lease mine remained suspended during the year owing to the ban imposed by the regulatory authority. The company’s investments in the said cash generating unit consists of Trucks, Trippers, material handling equipment, and similar movable assets and also a long-term lease premium was paid in respect of the said land and the mine development expenses were incurred by the company. These assets continue to be carried at cost less accumulated depreciation and amortization, and depreciation/amortization expense for the current year has been charged to the Statement of Profit and Loss. The said treatment is owing to the management expectation of re-starting with the mining activity and the fact that the transportation vehicles are otherwise being used for other business purposes of the company”.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 117– Disclosure of accounting policies

“An entity shall disclose its significant accounting policies comprising:

- (a) the measurement basis (or bases) used in preparing the financial statements, and
- (b) the other accounting policies used that are relevant to an understanding of the financial statements.”

Observations related to Other Disclosures

Observation:

It was noted from the financial statements of the company that the accounting policies of impairment of assets and segment reporting, being significant accounting policies, have not been disclosed.

It was noted from note to the financial statements regarding mining disclosures that the company's mining operation was suspended. It was viewed that the management was required to make judgment whether it is discontinued operation of major component of an entity as per Ind AS 105 or there is indication about the impairment of assets as per Ind AS 38. Accordingly, it was viewed that the accounting policy of the same should have been disclosed. With regard to segment reporting, it was noted that the company is in diversified business. Accordingly, the accounting policy for the same is also significant.

Both accounting policies have been considered as significant accounting policies which are relevant to the understanding of the financial statements and hence, should have been disclosed as per the above stated requirements of Ind AS 1.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with.

4. Reconciliation – Indian GAAP Vs Ind AS

Matter contained in the Financial Statements

In the financial Statements of a company, Statement of Ind AS Adjustments showing Reconciliation of Indian GAAP Vs Ind AS was not given. It was further noted that this is entity's first Ind AS financial statements.

Principle: Ind AS 101, First Time Adoption of Ind AS

Paragraph 25– Reconciliations

“The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the Balance Sheet and Statement of profit and loss. If an entity presented a Statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the Statement of cash flows.”

Observation:

It was noted that the Ind AS Adjustments reconciliation of Indian GAAP Vs Ind AS were not given for all the items reported in Balance Sheet, which is not in line with the requirements of paragraph 25 of Ind AS 101.

Accordingly, it was viewed that the requirements of Ind AS 101 have not been appropriately complied with.

5. Reconciliation – Indian GAAP Vs Ind AS

Matter contained in the Financial Statements

In the financial Statements of a company, the explanatory note for reconciliation as per previous GAAP and the Ind AS was given by disclosing gain on fair value measurement. It was further noted that this is entity's first Ind AS financial statement.

Principle: Ind AS 101, First Time Adoption of Ind AS

Paragraph 23– Explanation of transition to Ind AS

“An entity shall explain how the transition from previous GAAP to Ind-ASs affected its reported Balance Sheet, financial performance and cash flows.

Paragraph 24– Explanation of transition to Ind AS

“To comply with paragraph 23, an entity's first Ind-AS financial statements shall include:

Reconciliation of its equity reported in accordance with Ind AS to its equity in accordance with previous GAAP on the date of transition to IND-AS.

- a. significant differences between previous GAAP and Ind-AS in respect of its total comprehensive income (or if it did not report such a total, profit or loss).
- b. if the entity recognised or reversed any impairment losses for the first-time in preparing its opening Ind-AS Balance Sheet, the disclosures that Ind AS 36 Impairment of Assets would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind-ASs.
- c. where however, an entity decides to provide one year comparative information in accordance with paragraph 21(b) of this Ind-AS then instead of disclosures in (b) above such an entity shall provide-

Observations related to Other Disclosures

- i. a reconciliation of its equity in accordance with Ind AS as at deemed date of transition, i.e, beginning of the comparative financial year for which an entity presents financial information under Ind-ASs to its equity reported in accordance with previous GAAP;
- ii. a reconciliation of its equity in accordance with Ind AS as at the end of the comparative period presented to its equity reported in accordance with previous GAAP; and
- iii. a reconciliation of its total comprehensive income in accordance with Ind-AS compiled on a memorandum basis to its total comprehensive income (or if it did not report such a total, profit or loss) in accordance with previous GAAP for the comparative period.”

Observation:

It was noted that although the explanatory note for reconciliation as per previous GAAP and the Ind AS by disclosing gain on fair value was given. However, these **explanatory notes are silent as to how the transition from previous GAAP to Ind AS affected the reported Balance Sheet, financial performance and cash flows which was also required as per the above stated requirement.**

Accordingly, it was viewed that the requirements of Ind AS 101 have not been appropriately complied with.

6. Related Party Disclosure

Matter contained in the Financial Statements

In the disclosure related to Related Party transactions, holding company gave following disclosure:

“Holding company has issued Corporate Guarantees as a security for loan availed by subsidiary company.”

Principle: Ind AS 24, Related Party Disclosures

Paragraph 18– Disclosures

“If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- a) the amount of the transactions;
- b) the amount of outstanding balances, including commitments, and:
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) provisions for doubtful debts related to the amount of outstanding balances; and
- d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.”

Observation:

It was noted that a subsidiary company had received borrowings from financial institutions but the details and terms of the borrowings were not available in the financial statements of that subsidiary company. Further, financial statements of the holding company were referred for additional details.

As per the financial statements of holding company, it was noted that holding company had issued corporate guarantees as a security for loan availed by the subsidiary company from financial institutions.

However, **neither the guarantee commission was recognised as per Ind AS 109 nor the disclosures required by Ind AS 24 were made in the financial statements of subsidiary company.**

Accordingly, it was viewed that the requirements of Ind AS 24 read with Ind AS 109 have not been complied with by the subsidiary company.

7. Related Party Disclosure

Matter contained in the Financial Statements

In the note to the financial statements of a company on Exceptional Items, the exceptional items included waiver of interest receivables from a related party. No disclosure in this regard was given under related party disclosures.

Further, the items reported under exceptional items included expense on account of waiver of regulatory accrual, however, the nature of such expense was not clear.

Principle: Ind AS 24, Related Party Disclosures

Paragraph 18– Disclosures

“If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- a) the amount of the transactions;
- b) the amount of outstanding balances, including commitments, and:
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) provisions for doubtful debts related to the amount of outstanding balances; and
- d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.”

Observation:

It was viewed that expense on account of waiver of an interest receivable is a bad debt. **As the expense pertains to a related party, it requires disclosure under Related Party Disclosure as per paragraph 18 (d) of Ind AS 24.** However, under related party disclosure, no disclosure was given in this regard.

Further, an item can be classified as an exceptional item only if the criteria mentioned in paragraphs 97 and 98 of Ind AS 1 has been met.

Accordingly, it was viewed that the requirements of Ind AS 24 have not been complied with.

8. Contingent Liabilities - Corporate Guarantee

Matter contained in the Financial Statements

In the note to the financial statements on 'Contingent Liabilities and Commitments', the company showed a corporate guarantee given to bank for credit facility availed by its subsidiary company. **It was further noted that the amount of corporate guarantee was more than the previous year's net worth of parent company. Such Corporate guarantees were treated as insurance contracts by the entity.**

Further, the company did not disclose the purpose for which guarantee was proposed to be utilised by the recipient of the guarantee.

Observations related to Other Disclosures

Principle: Companies Act, 2013 and Ind AS 109: Financial Instruments

Section 186 (4) of the Companies Act, 2013

“The company shall disclose to the members in the financial statement the full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security.”

Paragraph 2.1 (e) of Ind AS 109: Financial Instruments

... Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or Ind AS104 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable...”

Observation:

It was noted from the note to the financial statements on 'Contingent Liabilities and Commitments' that the company had given a corporate guarantee to bank for credit facility availed by its subsidiary company.

It was observed that the amount of corporate guarantee was 2.63 times of previous year's net worth of the parent company. However, the company did not disclose the purpose for which guarantee is proposed to be utilised by the recipient of the guarantee, which was not in line with the above stated requirement of the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Companies Act, 2013 have not been complied with.

9. Contingent Liabilities

Matter contained in the Auditor's Report and Financial Statements

In the note to the financial statements on Contingent Liabilities, corporate guarantees, in the nature of counter guarantees, which were issued to banks and financial institutions were disclosed.

Principle: Guidance Note on Division II, Schedule III to the Companies Act, 2013 and Guidance Note on the Companies (Auditor's Report) Order, 2016

Paragraph 8.2.14.1 of Guidance Note on Division II, Schedule III to the Companies Act, 2013

"A contingent liability in respect of guarantees arises when a company issues guarantees to another person on behalf of a third party e.g. when it undertakes to guarantee the loan given to a subsidiary or to another company or gives a guarantee that another company will perform its contractual obligations. However, where a company undertakes to perform its own obligations, and for this purpose issues, what is called a "guarantee", it does not represent a contingent liability and it is misleading to show such items as contingent liabilities in the Balance Sheet..."

Observation:

It was noted from note to the financial statements on Contingent Liabilities that corporate guarantees, in the nature of counter-guarantees" issued to banks and financial institutions were disclosed, however, it was observed from the aforesaid requirement that such "counter-guarantee" is not really a guarantee at all, but is an undertaking to perform what is in any event the obligation of the company. Hence, such performance guarantees and counter guarantees should not have been disclosed as contingent liabilities.

Accordingly, it was viewed that the requirements of Division II, Schedule III to the Companies Act, 2013 have not been complied with.

10. Segment Reporting

Matter contained in the Financial Statements

Abstract of accounting policy of a company on Segment reporting read as follows:

“The company is primarily engaged in the business of Jewellery. This represents a primary segment”

Also, in the notes on disclosure of Segment reporting the company identified business segment as the primary segment.

Principle: Ind AS 108, Operating Segments

Paragraph 11 –Reportable segments

“An entity shall report separately information about each operating segment that:

- a) has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and
- b) exceeds the quantitative thresholds in paragraph 13. Paragraphs 14–19 specify other situations in which separate information about an operating segment shall be reported.”

Observation:

It was noted from accounting policy for segment reporting and notes to the financial statements on Segment disclosures that the company has identified business segment as primary segment which was required in Indian GAAP (AS 17). Also, the segment disclosure is given as per Indian GAAP (AS 17) and these are not in line with the requirement of Ind AS 108.

It was viewed that as per the above stated requirements of Ind AS 108, the company needs to identify operating segments and report information for each operating segment.

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Further, following discrepancies were noted in the disclosure of segments:

- a. For the comparative period, total amount of segment assets and unallocated assets as per the segment disclosure was not matching with the total of assets side of balance sheet.
- b. For the comparative period, total amount of segment liabilities and unallocated liabilities as per the segment disclosure was not matching with the total of liabilities side of balance sheet.
- c. The company has incorrectly labeled the un-allocated liabilities as unallocated assets.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

11. Segment Reporting

Matter contained in the Financial Statements

Abstract of note to the financial statements on Segment Reporting read as follows:

“Segment Reporting

As per Ind AS 108 Operating Segment, segment information has been provided in notes to consolidated financial statement.”

Principle:-Ind AS 108, Operating Segments

Paragraph 20 – Disclosure

“An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”

Paragraph 21

“To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of profit and loss is presented:

- (a) general information as described in paragraph 22.

.....”

Observations related to Other Disclosures

Paragraph 22

“An entity shall disclose the following general information:

- a) factors used to identify the entity’s reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated);
 - aa) the judgements made by management in applying the aggregation criteria in paragraph 12. This includes a brief description of the operating segments that have been aggregated in this way and the economic 237 indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and
- b) types of products and services from which each reportable segment derives its revenues.”

Observation:

It was noted that while giving disclosure for segment reporting the information required under paragraph 20 read with paragraph 21(a) and 22 of Ind AS 108 has not been given.

It was viewed that sufficient disclosures should have been made by the company in order to enable the users of the financial statement understand and evaluate the nature and financial effect of activities carried out by the company in various segments. In other words, **adequate disclosures of factors used to identify the reportable segment, judgments made by the managements in applying aggregation criteria etc. should have been clearly made by the company.**

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

12. Segment Reporting

Matter contained in the Financial Statements

Abstract of note to the financial statements on Segment Reporting read as follows:

“Segment Information

The Company is engaged in the business of Branding, Manufacturing, Processing, Selling and Distribution of “Consumer Products” which constitutes a single reporting segment. Hence there is no separate reportable segment under Indian Accounting Standard on Ind AS 108 ‘Operating Segment’.

Geographic Information

There are no revenues or non-current operating assets from external customers outside India.”

Principle:-Ind AS 108, Operating Segments

Paragraph 32 of Ind AS 108 – Information about products and services

“An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity’s financial statements.”

Observation:

It was noted that although the company is engaged in the single reporting segment but paragraph 32 of Ind AS 108 is applicable on single segment entities also, however, the required disclosures were not given by the Company.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

13. Segment Reporting

Matter contained in the Financial Statements

Abstract of note to the financial statements on Operating Segment read as follows:

“Operating Segment

The Company's business activity falls within a single primary business segment viz. "Readymade Garments and Accessories". The disclosure requirement of Ind AS 108 "Operating Segment" is not applicable. Further, the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required.”

Principle: Ind AS 108, Operating Segments

Paragraph 5 – Operating segments

“An operating segment is a component of an entity:

- (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) For which discrete financial information is available.

An Operating Segment may engage in business activities for which it has yet to earn revenues, for example, startup operations may be operating segments before earning revenues.”

Observation:

In the note on Operating Segments it was stated that the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required. **However, it was observed that the quantitative threshold is not the only criteria, rather three characteristics as described in paragraph 5 of Ind AS 108 should be considered to identify operating segments.**

Study on Compliance of Financial Reporting Requirements

Further, it was observed that the requirements of Paragraph 31-34 of Ind AS 108 should be complied with if the Company's business activity falls within a single reportable segment.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

14. Segment Reporting

Matter contained in the Financial Statements

Abstract of note to the financial statements on Segment Information read as follows:

"Segment Information:

The Company is engaged in both, domestic as well as overseas trade. In addition, the company has acquired wind mills for generation of power and is also undertaking prospecting and extraction of mineral and ores."

Abstract of footnote on Segment Information read as follows:

"1. The merchandise trading Segment facilities the Securities trading segment, hence separate results, assets, liabilities cannot be worked out..."

Further, the segment revenue, segment result, segment assets and segment liabilities were disclosed, however, certain details were not disclosed.

Principle: Ind AS 108, Operating Segments

Paragraph 21– Disclosure

"To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of profit and loss is presented:

- a) general information as described in paragraph 22;
- b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 23–27; and
- c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 28.

Observations related to Other Disclosures

Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30."

Observation:

It was noted that while giving disclosures for the segment revenue, segment result, segment assets and segment liabilities, the following details were omitted:

1. Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts.
2. Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented.

Further, it was also noted from footnote given under note on Segment Information that the merchandise trading segment facilitates the securities trading segment. However, it was viewed that the trading segment and securities segment were separate segments and segment results, assets and liabilities of both segments should be separable at least to the extent of revenue and therefore, should have been disclosed accordingly.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

15. Fair Value Measurement

Matter contained in the Financial Statements

From the note to the financial statements of a company on Fair Value Measurement, it was noted that all the financial assets and liabilities of the company were grouped under Level 2 hierarchy.

Principle: Ind AS 113, Fair Value Measurement

Paragraph 93 (d)– Disclosure

“To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Ind AS) in the balance sheet after initial recognition:

...

- d. for recurring and non-recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it....”

Observation:

As per paragraph 93 (d) of Ind AS 113, the information about the **valuation technique and the inputs used for the fair value measurement are required to be disclosed but the same was not found to be disclosed.** Therefore, the disclosure was not found to be in line with the requirement of paragraph 93 (d) of Ind AS 113.

Accordingly, it was viewed that the requirement of Ind AS 113 has not been complied with.

16. Fair Value Measurement

Matter contained in the Financial Statements

From the notes to the financial statements of a company on Non-current financial assets and Current financial assets, it was noted that the company has investments in mutual funds.

Principle: Ind AS 109, Financial Instruments

Paragraph 4.1.1– Classification of financial assets

“Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- a) the entity’s business model for managing the financial assets and
- b) the contractual cash flow characteristics of the financial asset.”

Paragraph 4.1.2– Classification of financial assets

“A financial asset shall be measured at amortised cost if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.”

Paragraph 4.1.2A– Classification of financial assets

“A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.”

Observation:

It was viewed that as per the requirements of Ind AS 109, financial assets are initially measured at fair value. Subsequent to initial recognition, these should be measured at amortised cost, fair value through other comprehensive income (FVOCI) or Fair Value through Profit and Loss (FVTPL). Amortised cost classification is permissible for debt instruments only if they meet both business model test and the contractual cash flow characteristics test. Similarly, in Ind AS 109, there are conditions for financial assets in case if they are valued at FVOCI or FVTPL.

However, in the given case, **it was viewed that the disclosure with respect to the fair value with regard to financial assets at amortized cost, financial assets valued at Fair value through profit and loss and financial assets valued at fair value through other comprehensive income has not been provided in the financial statements. Also, the measurement whether at cost or fair value through profit and loss or fair value through other comprehensive income has not been defined.**

Accordingly, it was viewed that the requirements of Ind AS 109 have not been complied with.

17. Financial Risk Management

Matter contained in the Financial Statements

In the note to the financial statements of a company on Financial Assets, trade receivables from related parties constituted significant amount with respect to total trade receivables.

From the disclosure regarding Financial Risk Management, it was noted that major amount of trade receivable pertains to its holding company, for which it was only stated that no credit risk is involved.

Principle: Ind AS 107, Financial Instruments: Disclosures

Paragraph 35M – Credit risk exposure

“To enable users of financial statements to assess an entity’s credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of

Observations related to Other Disclosures

financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

- a. for which the loss allowance is measured at an amount equal to 12-month expected credit losses;
- b. for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:
 - i. financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;
 - ii. financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit impaired); and
 - iii. trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of Ind AS 109.

that are purchased or originated credit-impaired financial assets.”

Observation:

It was noted from the above stated disclosure on Financial Risk Management that the trade receivables consisted of significant amount of receivable from the Holding company, for which it was only stated that no credit risk is involved.

It was viewed that information as required by paragraph 35M of Ind AS 107 regarding the 12-month expected credit losses or lifetime expected credit losses have not been disclosed.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

18. Financial Risk Management

Matter contained in the Financial Statements

In the note to the financial statements on Financial Risk Management, the disclosure with regard to credit risk, liquidity risk and market risk were made. However, disclosure for liquidity risk is not complete.

Further, the total of financial liabilities (except Financial Guarantee {Contingent Liability}) given under this note did not match with the total of the financial liabilities as per the Balance sheet.

Principle: Ind AS 107, Financial Instruments: Disclosures

Paragraph B11E – Quantitative liquidity risk disclosures

“Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). **An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk** (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.”

Observation:

The following discrepancies were noted with regard to disclosure of financial risk and financial liabilities:

- a) It was noted that the disclosure with regard to credit risk, liquidity risk and market risk were made. However, while giving “exposure to liquidity risk”, **maturity analysis of financial assets held by company for managing liquidity risk, was not disclosed**. It is, therefore, not in line with the requirement of paragraph B 11 E of Ind AS 107.
- b) It was further noted that under note to the financial statements on Financial Risk Management, the company’s financial liabilities at the reporting date were disclosed and classified on the basis of remaining contractual maturities of financial liabilities. However, the total of

Observations related to Other Disclosures

financial liabilities (except Financial Guarantee {Contingent Liability}) given under this note did not match with the total of the financial liabilities as per the Balance sheet for all the three years presented in the financial statements. Such difference in amount reported raised doubt regarding the correctness of the information given in the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

19. Financial Risk Management

Matter contained in the Financial Statements

The financial statements of a company included Trade Payables and Other Financial Liabilities, however, certain disclosures were not given in this regard.

Principle:-Ind AS 107, Financial Instruments: Disclosures

Paragraph 39 – Liquidity risk

“An entity shall disclose:

- a) a maturity analysis for non-derivative financial liabilities(including issued financial guarantee contracts) that shows the remaining contractual maturities.
- b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
- c) a description of how it manages the liquidity risk inherent in (a) and (b).”

Observation:

It was noted that **under Note on Financial Risk Management while giving disclosure of liquidity risk, the Company did not disclose the interest bearing and the average settlements days for each item of financial liabilities as required by paragraph 39 of Ind AS 107.**

Study on Compliance of Financial Reporting Requirements

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

20. Signing of Financial Statements

Matter contained in the Financial Statements

An abstract of Balance Sheet, Statement Profit & Loss, Statement of Changes in Equity and Cash Flow Statement was as follows:

“For and on behalf of the Board of Directors

Sd/-

Director

DIN:”

Principle: Companies Act, 2013

Section 158 of the Companies Act, 2013

“Every person or company, while furnishing any return, information or particulars as are required to be furnished under this Act, shall mention the Director Identification Number in such return, information or particulars in case such return, information or particulars relate to the director or contain any reference of any director.”

Observation:

It was noted from the financial statements that one of the directors of the company signed the Balance Sheet, Statement Profit and Loss, Statement of Changes in Equity and Cash Flow Statement without incorporating his full name and DIN (Director Identification Number).

It was viewed that the director should incorporate his full name and DIN, below his signature in order to identify his authentication.

Accordingly, it was viewed that the requirements of Section 134 read with section 158 of Companies Act, 2013 have not been complied with.

21. Non-Disclosure of Advances

Matter contained in the Financial Statements

Abstract of note to the financial statements on Investments reads:

“The Company with a view to consolidate the business model, appointed reputed firm of consultants to advise on future business model and restructuring of domestic and overseas subsidiaries. Based on the recommendations, as part of restructuring of overseas subsidiaries, the Holding company has plans of disinvestment in equity share of three of the foreign subsidiaries to its another overseas wholly owned subsidiary namely ABC Ltd. *As part consideration for restructuring, the company had received an advance in earlier year from ABC Ltd. The Company has not yet completed the restructuring process. The company is reconsidering the proposed restructuring which may include refunding the advance received.*”

Principle: Ind AS 1, Presentation of financial statements

Paragraph 7 – Definitions*

“Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:-

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and
- (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.”

*Notification no GSR 463E dated 24/7/2020

Observation:

It was noted from the above stated note that the company received advance in earlier year from ABC Limited as part of consideration for restructuring. However, the company did not specify under which heading the said amount has been reported.

To enhance the readability and understanding of financial statements, it was viewed that the company should have disclosed that under which note the said amount has been disclosed.

Chapter-7

Observations related to Auditor's Report

1. Going Concern

Matter contained in the Auditor's Report and Financial Statements

An abstract of Emphasis of Matter given in the auditor's report was as under:

"Emphasis of Matter

We draw attention to Note XX to the standalone financial statements which more fully describe that uncertainty faced by the company in signing PPA and various factors affecting the progress of the project resulted in stoppage of work. However, management is confident that current situation is temporary and does not have any going concern issue. Our opinion is not qualified in respect of the above matters."

An abstract of the related note to the financial statements on Going Concern reads as under:

"Going Concern

The company incorporated a SPV for developing Hydroelectric Power Project on BOOT basis. The project involved the development of a Hydroelectric Power Project on a river. Concession period for the project was 35 years from the date of COD (Commencement of Distribution). Though the project received all major clearances and approvals including environmental clearances and all major contracts for the project were awarded, but Power purchase agreement was yet to be signed. Over a period of time, the scenario in power sector changed substantially and in absence of financial closure funding of the project had been a major issue leading to frequent stoppages at work. The proposed Hydro Power Policy was eagerly awaited which will hopefully bring more opportunity in this sector. The company was hopeful that power purchase agreement would be signed under the new policy which will also enable the financial closure to be done. Policy initiatives taken by Government to address key concern facing the power sector will enable the sector to keep pace with the growing demand. The

Study on Compliance of Financial Reporting Requirements

management was of the view that the present situation in power business was temporary and does not foresee any need for impairment.”

Principle: SA 570(Revised), Going Concern and the Companies Act, 2013

Paragraph 22 – Use of Going Concern basis of accounting is appropriate but a Material Uncertainty exists

“If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern” to: (Ref: Para. A28–A31, A34)

- a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and
- b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter.”

Section 143(3)(f) of the Companies Act, 2013

“The auditor’s report shall also state:

(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company.”

Observation:

It was observed that the separate section on going concern was not reported by the auditor as required by SA 570 (Revised) although there were certain events as evident from the note on Going Concern given in financial statements of the company, which could cast material uncertainty about going concern.

It was further noted that the auditor did not comment as per section 143(3)(f) of the Companies Act, 2013 in his report.

Observations related to Auditor's Report

Accordingly, it was viewed that the requirements of SA 570(Revised) Going Concern as well as the Companies Act 2013 have not been complied with.

2. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in the Auditor's Report and Financial Statements

An abstract of Auditors' Report read as under:

"Introductory paragraph

We have audited the accompanying standalone Ind AS financial statement; of ABC Limited which comprise the Balance Sheet as at 31 March XX, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information...

Opinion paragraph

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone Ind AS financial statements give the information required by the Act in the manner so required and gives true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March XX, and its profit and its cash flows for the year ended or, that date."

Principle: SA 700 - Prescribed format of Auditor's Report given under Annexure I of Implementation Guide on Auditor's Report under IND AS for transition phase

Annexure I

Illustrative Format of Independent Auditor's Report on the First Standalone Ind AS Financial Statements of a Company under the Companies Act, 2013 and the Rules Thereunder

"INDEPENDENT AUDITOR'S REPORT

Report on the Standalone Ind AS Financial Statements

Study on Compliance of Financial Reporting Requirements

We have audited the accompanying standalone Ind AS financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at 31st March, 2017, and the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information, ...

Opinion

In our opinion and to the best of our information and according to the explanations given to us, ...and its profit/loss (financial performance including other comprehensive income), its cash flows and the changes in equity for the year ended on that date."

Observation:

It was noted from the introductory paragraph and opinion paragraph given in Auditor's Report that the auditor has commented on the Balance Sheet, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

However, it was noted that after the implementation of Ind AS in standalone financial statements, the financial statements included the Balance sheet, Statement of Profit and loss (*including the other comprehensive income*), statement of cash flow and *the statement of change in equity*. However, **the phrase "including the other comprehensive income" and "statement of change in equity" were not given by the auditor in his audit report.**

Accordingly, it was viewed that the Auditor's Report is not in line with the requirements of SA 700 Forming an Opinion and Reporting on Financial Statements read with Annexure I of Implementation Guide on Auditor's Report under Ind AS for transition phase.

3. Emphasis of Matter under Auditor's Report

Matter contained in the Auditor's Report and Financial Statements

An abstract of Auditors' Report read as under:

"Emphasis of Matter

We draw attention towards paragraphs 1, 2 and 3 to the relevant note describing:

- a) Paragraph 1; Estimation involved in determination and valuation of stock of metal owned by the company. The stocks of metal are lying with the company since earlier periods and hence included in the opening value of inventories and no addition to the same have been made and no evidence as to their non-marketability has been found.
- b) Paragraph 2: The fact that several balances (debit as well as credit balances) outstanding as at the year-end being subject to confirmation by parties.
- c) Paragraph 3: The fact that the company's mining operations stand suspended since last more than 12 months, owing to a statutory ban on mining activities in the State has been reported by the Company. The company is following the historical cost {less depreciation /amortization) in respect of the assets of the said segment.

Our opinion is not modified in respect of the above matters."

Principle: SA 705, Modifications to the Opinion in the Independent Auditor's Report

Paragraph 6 - Circumstances When a Modification to the Auditor's Opinion is Required

"The auditor shall modify the opinion in the auditor's report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8– A12)."

Study on Compliance of Financial Reporting Requirements

Paragraph 7 – Qualified opinion

“The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.”

Observation:

The following non-compliances were observed:

1. With regard to paragraph (a) given under EOM (Emphasis of Matter) regarding valuation of metal, it was noted that that the value of stock is material. It was further noted that since sufficient information is not given under Note 1, the auditor cannot draw Emphasis of matter based on this note. Hence, it was viewed that if the effect is material, then the auditor should have qualified his report instead of giving EOM on the same.
2. With regard to paragraph (b) regarding the confirmation of outstanding balances, it was noted that with regard to debit balances (including trade receivables), the company had not recognized expected credit losses on financial assets including trade receivables. Further, it was stated that the balance of trade receivables which was disclosed as good was subject to confirmation from parties. Trade receivable would have material effect on the assets side of the balance sheet as it constituted more than 50% of total assets size. Further, with regard to credit balances, it was noted from another note to the financial statements that the amount of trade payables was 85% of total liabilities. As per the definition of trade payables, it is in respect of amount due on account of goods purchased or services rendered in the normal course of business and expected to be settled in the company's normal operating cycle or due to be settled within twelve months from the reporting date. However, in the given case, material items of trade receivable and credit balances have been stated to be “subject to confirmation of parties” which raises

Observations related to Auditor's Report

doubt on its timely settlement. Hence, considering the materiality of above stated items, auditor should have given the qualified opinion.

3. With regard to paragraph (c) regarding suspension of mining operations, it was viewed that the financial impact of such suspension in operation was not disclosed in the said note. Accordingly, it was viewed that the auditor cannot draw emphasis of matter as sufficient information was not disclosed in the financial statements. Therefore, the auditor should have expressed qualified opinion on the same in accordance with requirements of SA 705 instead of giving EOM.

Accordingly, it was viewed that the requirements of SA 705 Modifications to the Opinion in the Independent Auditor's Report and SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report have not been complied with.

4. Wrong Reference of Note in the Auditor's Report

Matter contained in the Auditor's Report and Financial Statements

An abstract of Independent Auditor's Report of a company read as follows:

"Report on Other Legal and Regulatory Requirements

8. As required by Section 143 (3) of the Act, we report that:

...

iv)The company has provided requisite disclosures in its Ind AS financial statements as to holdings as well as dealings in Specified Bank Notes (SBN) during the period from November 8,2016 to December 30,2016..."

Further, a reference to a note to the financial statements was given.

Principle: SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

Paragraph 71 –Supplementary information

“A71. SA explains that the auditor’s opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented. This evaluation is a matter of professional judgment. To illustrate:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor’s opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements...”

Observation:

It was noted that the auditor had given reference of Note 35 for the disclosure on SBNs.

It was observed that the disclosure of SBNs was given under Note 36, hence, reference to Note 36 of the financial statements should be drawn in the auditor’s report as against the currently drawn reference to Note 35. The references to the financial statements and the related information should be drawn appropriately so as to enable the reader of the financial statements understand the contents in an appropriate manner.

Accordingly, it was viewed that the reference in the auditor’s report was incorrect, such mistakes should be avoided.

Observations related to CARO, 2016

1. Reporting under CARO

Matter contained in the Auditor's Report

Abstract of paragraph (ii) and (iii) given under Annexure I to the Auditor's Report read as below:

"(ii)... As informed, no material discrepancies were noticed on physical verification carried out during the year.

(iii) As informed, the company...."

Principle: Guidance Note on the Companies (Auditor's Report) Order, 2016

Introduction - Paragraph 3

"... and the auditors should exercise their professional judgement and experience on various matters on which they are required to report under the Order."

Comments on Form of Report

...

"60. It is important to note that replies to many of the requirements of the Order will involve expression of opinion and not necessarily statement of facts. It is necessary, therefore, that this is indicated when making the report under the Order. This can be done in either of the following ways:

(a) By a general preface to the comments under the Order on the following lines: "In terms of the information and explanations sought by us and given by the company and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state that....."

or

(b) by a preface to individual comments, for example, "In our opinion" or "In our opinion and according to the information and explanations given to us during the course of the audit..."

Observation:

It was observed that while reporting in pursuance to the requirements of paragraph (ii) and (iii) of CARO, 2016, the auditor appears to have reported *based on information received from management only*. **As per the above stated guidance under CARO, 2016, the auditor should exercise his professional judgement and experience on various matters to be reported under CARO. However, from the given reporting it appears that the same has not been done by the auditor.**

Accordingly, it was viewed that the requirements of CARO, 2016 read with Guidance Note on the Companies (Auditor's Report) Order, 2016 have not been complied with.

2. Immovable Properties

Matter contained in the Auditor's Report

Abstract of Auditor's report under CARO read as follows:

According to the information and explanations given to us and the records examined by us, in case of properties earlier held by merged entity we report that the title deeds of immovable properties are yet to be transferred in the name of the reporting company. In respect of few land pieces procedure for transfer in the name of the company are yet to be completed. The company has clear title in respect of other immovable properties.

Principle:- Companies (Auditor's Report) Order, 2016 and Guidance Note on the Companies (Auditor's Report) Order, 2016

Paragraph 3 (i) (c)

"Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof."

Paragraph 36 (k) of Guidance Note on CARO 2016

"The reporting under this paragraph, where the title deeds of the immovable property are not held in the name of the Company, may be made incorporating following details, in the form of a table or otherwise:

a. In case of land:-

total number of cases,

whether leasehold / freehold,

gross block and net block, (as at Balance Sheet date), and

remarks, if any ..."

Observation:

The auditor reported that the title deeds of immovable properties of merged entity are yet to be transferred in the name of the reporting company, and in respect of few land pieces, procedure for transfer in the name of the company are yet to be completed.

It was observed that the **auditor has not reported the details of immovable properties where the title deeds are not in the name of the reporting company, i.e. total number of cases, whether leasehold / freehold, gross block and net block, (as at Balance Sheet date), and remarks, if any** which is required as per the above stated requirement.

Accordingly, it was viewed that the requirements of CARO, 2016 read with Guidance Note on the Companies (Auditor's Report) Order, 2016 have not been complied with.

3. Loans Granted

Matter contained in the Auditor's Report and Financial Statements

Paragraph (iii) and (viii) of auditors report under CARO read with Disclosure of Loans to Subsidiaries, Associates and Others, abstract of Balance Sheet and Note on Current Loans stated as follows:

“(iii) The Company has granted unsecured loans, to companies, firms, Limited Liability Partnership or other parties covered in the register maintained under Section 189 of the Companies Act, 2013. These loans are Interest free and there is no stipulation as to repayment of the loan. In our opinion and according to the information and explanation given to us, the terms and conditions of the loans given by company are prima facie not prejudicial to the interest of the company for the reasons fully explained in relevant notes to the standalone Ind AS financial statements.

“(viii) Based on our audit procedures and as per the information and explanation given to us by the management, during the year there has been delay in timely repayment of its dues to banks for ECB and to financial institution for debentures. In respect of working capital facilities from Banks there has been over drawings in the accounts during the year as well as at year end. Accounts were overdrawn as at end of the reporting year.”

Study on Compliance of Financial Reporting Requirements

Note: Disclosure of Loans to Subsidiaries, Associates and Others

“...Considering that the subsidiaries overseas and domestic have been formed for promoting company’s business, the above Loans to its various subsidiaries are interest free and carry no stipulation as to repayment.

The Company has not given loans for a term exceeding 7 years. Accordingly, the terms and conditions of these loans are not prejudicial to the interest of the company and the management is of the opinion that these are compliant with the provisions of sec 185 of the Companies Act 2013. Some of these loans were given under the provisions of Section 372 of the Companies Act 1956. These loans are not in conformity with the provision of Section 186 of the Companies Act 2013. In respect of few of its subsidiaries, efforts are being made to recover the loans, however due to financial weakness of those subsidiaries they are unable to repay and regularize the Loans.

Under the aforesaid circumstances, the holding company is looking at various options to regularize the loans.

Auditors have relied on the Management’s representation.”

Principle: Guidance Note on Division II, Schedule III to the Companies Act, 2013, Guidance Note on the Companies (Auditor’s Report) Order, 2016, Ind AS 109, Financial Instruments and SA 580, Written Representations

Paragraph 3 (iii) (a) of CARO 2016

“Whether the terms and conditions of the grant of such loans are not prejudicial to the company’s interest.”

Paragraph 38 (c) of Guidance Note on CARO 2016 - Audit procedures and reporting

“... In determining whether the terms of the loans are prejudicial, the auditor would have to give due consideration to the other factors connected with the loan, including its ability to lend, terms of its borrowings, borrower’s financial standing, credit rating, if available, the nature of the security, rate of interest and so on.

Further, for the purpose of reporting under this paragraph, the auditor may consider paragraph (7) of Section 186 of the Companies Act, 2013, wherein it is specified that no loan, covered under this section, shall be

given at a rate of interest lower than the prevailing yield of one year, three year, five year or ten year government security closest to the tenor of the loan.”

Paragraph 5.5.1 of Ind AS 109, Financial Instruments - Impairment

“.. An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).”

Paragraph 3 of SA 580, Written Representation

“Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management’s responsibilities, or about specific assertions.”

Observation:

The following discrepancies were noted with regard to auditor’s reporting under the paragraph3 (iii) (a):

- i) As per the Guidance Note on CARO, 2016, the auditor while providing his opinion about whether the terms and conditions of the loans are prejudicial or not to the interest of the Company, has to consider many factors such as borrower’s financial standing, nature of the security, rate of interest rate etc.

In the given case, it was noted that the company has provided loans to subsidiaries and associates without interest. Further, it was noted that under Note on Disclosure of Loans to Subsidiaries, Associates and Others, the Company had stated about financial weakness in few of its subsidiaries and that the company was exploring various options to regularize the said loans. It was also observed from the balance sheet that the company had borrowings towards which interest is being paid.

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Further, it was noted from Paragraph (viii) of CARO 2016 that the company had defaulted in repayment of principal and interest in respect of the borrowings.

It was viewed that providing interests free loans without repayment period read together with the facts stated in note on Disclosure of Loans to Subsidiaries, Associates and Others, it can reasonably be concluded that such loans are prejudicial to the interest of the company. Considering such facts and circumstances, it was also viewed that since section 186 of Companies Act, 2013 has not been complied with, it is incorrect to state that loans given by the company are prima facie not prejudicial to the interest of the company.

- ii) Further, as stated in note on Disclosure of Loans to Subsidiaries, Associates and Others, the financial condition of some of the subsidiaries is weak, which indicates that under Ind AS 109, loans to those entities are impaired and an expected credit loss should have been made in the books. However, no provision was made for expected credit loss on these financial assets. It was not in line with the requirement of paragraph 5.5.1 of Ind AS 109, Financial Instruments.”
- iii) It was noted that under note on Disclosure of Loans to Subsidiaries, Associates and Others, it was stated that ‘the auditors have relied on the Management’s representation’. It appears from this statement that the information reported under this note has been reported on the basis of the information provided by the company only and that the same have been relied upon by the auditor viz. name of subsidiaries and associates to whom the interest free loans have been provided, that the terms and conditions of these loans are not prejudicial to the interest of the company, these loans are in compliant with the provisions of Section 185 of the Companies Act 2013, the efforts are being made to recover the loans from subsidiaries and that the company is looking at various options to regularize the loans etc.

It was viewed that usage of the phrase ‘Auditors have relied on the Management’s representation’ may lead the users of financial statements to believe that the auditor has merely relied on the information provided by the management without applying appropriate audit procedures to verify the information with regard to loans given to subsidiary and associate companies. It was not in line with the requirements of SA 580.

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- iv) Further, it was noted that under the note on 'Current loans'; loans have been classified as considered good even though as per note on Disclosure of Loans to Subsidiaries, Associates and Others, some loans were not recoverable. Accordingly, it was viewed that classifying all the current loans as 'considered good' was not correct.

Accordingly, it was viewed that requirements of CARO 2016, Ind AS 109, Standards on Auditing and Companies Act, 2013 have not been complied with.

4. Loans Granted

Matter contained in the Auditor's Report

Abstract of Auditor's Report under CARO read as follows:

"(iii) The company has granted loans to 3 (Three nos.) parties covered in the register maintained under section 189 for some part of the year:

a....

b. There are no overdue more than rupees one lakh in respect of the loan granted to the bodies corporate listed in the register maintained under section 189 of the Companies Act, 2013."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (iii) (a)

"Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013, If so,

- a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;
- b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

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- c) If the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest.”

Observation:

It was noted that the auditor reported as “**there is no overdue for more than rupees one lakh in respect of the loan granted to the bodies corporate listed in the register maintained u/s 189 of the Act.**” However, as per the above stated requirement, it was viewed that the auditor is required to report on the amount overdue over 90 days. It was viewed that there is no monetary limit that has been stipulated under requirements of CARO, 2016.

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

5. Loans Granted

Matter contained in the Auditor’s Report

Abstract of CARO of a company read as follows:

“In our opinion and according to information and explanation given to us, the company has complied with the provision of Section 186 of the Act with respect to its Investments. The company has given guarantees and security in compliance with section 185 and 186 of the Act. The company has granted Loans and advances u/s. 185 and 186 of the Act which as per the information and explanations given by the company to us and as described in the financial statements are interest free and given to promote the interest of the company are not in conformity of the provision of Section 186 of the Companies Act 2013. We are informed that, due to bad financial position, some of these subsidiaries are unable to regularize the advances given earlier as described in the note to the standalone Ind AS financial statements.”

Principle: Companies (Auditor’s Report) Order, 2016

Paragraph 3 (iv)

“In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.”

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Paragraph 39 B (c) of Guidance Note on CARO 2016

“B. Compliance of Section 186 of the Companies Act 2013: Loan and investment by company

Relevant Provisions ...

c) ...

Non-compliance may be reported incorporating following details:-.”

S. No.	Non-compliance of Section 186				Remarks, if any
		Name of Company/ Party	Amount Involved	Balance as at Balance Sheet Date	
1.	Investment through more than two layers of investment companies				
2.	Loan given or guarantee given or security provided or acquisition of securities exceeding the limits without prior approval by means of a special resolution				
3.	Loan given at rate of interest lower than prescribed				
4.	Any other default				

Observation:

It was noted that the auditor has reported that section 186 of Companies Act, 2013 has not been complied with, however, the details of non-compliance of section 186 were not given which is not in line with the requirement of paragraph 39 (B) (c) of Guidance Note on CARO, 2016.

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Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

6. Statutory Dues

Matter contained in the Auditor's Report

Abstract of Auditor's report under CARO read as follows:

...

vii (a) The company is regular in depositing with appropriate authorities undisputed statutory dues including investor education protection fund ,income tax ,sales tax, wealth tax ,service tax & custom duty and other material statutory dues applicable to it. According to the information and explanations given to us , no undisputed amounts payable in respect of provident fund , income tax ,sales tax, wealth tax, custom duty, VAT, Cess and other material statutory dues were in arrears as at 31st March 20XX for a period of more than six months from the date they became payable.

(b) As the information and explanations given to us and on the basis of the verification of the records of the company, the details of statutory dues which have not been deposited on account of disputes are given in Annexure hereto.

...

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (vii) (a)

"Whether the company is regular in depositing undisputed statutory dues including Provident Fund, employees' State Insurance, Income-tax, Sales-tax, Service Tax, duty of customs, duty of excise, value added tax, Cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated."

Observation:

It was noted that the auditor did not report whether the company is regular in depositing dues of provident fund, employees state insurance, duties of excise, value added tax and cess. Further reporting included investor education and protection fund and wealth tax which was not in line with the requirements given under paragraph 3 (vii) (a) CARO 2016.

Further, it was noted that the annexure as stated above was not provided for reporting under paragraph 3 (vii) (b) with this report.

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

7. Undisputed Statutory Dues

Matter contained in the Auditor's Report

Abstract of Auditor's report under CARO read as follows:

"According to the information and explanation given to us and records of the company examined by us, in our opinion, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, employee's state insurance fund, wealth tax, custom duty, excise duty, cess and any other statutory dues with the appropriate authorities. There are no undisputed statutory dues payable for a period of more than six month from the date they become payable as at the year end."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (vii) (a)

"whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated"

Observation:

It was noted that the auditor reported about the regularity of undisputed dues namely Provident Fund, employee's state insurance fund, wealth tax, custom duty, excise duty and cess. However, **the auditor did not comment with respect to sales tax, service tax and value added tax while reporting in pursuance to the above stated requirement of CARO, 2016.**

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

8. Disputed Statutory Dues

Matter contained in the Auditor's Report

Abstract of Auditor's Report under CARO read as follows:

“(vii)...

(b) According to the Information and Explanations given to us, there are no dues of Sales Tax, Service Tax/GST and Value added tax which have not been deposited with the appropriate authorities on account of any dispute except for the following dues of Income Tax:

As informed to us, the Company does not have any dues on account of duty of Customs and duty of Excise.”

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (vii) (b)

“Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).”

Observation:

It was noted from Paragraph (vii) of CARO, 2016 wherein the auditor reported that there were no dues of Sales Tax, Service Tax/GST and Value

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added tax which have not been deposited with the appropriate authorities on account of any dispute “except for the following dues of Income Tax”. However, it was observed that no further details were reported by the auditor on income tax related disputes as per the above stated requirements of CARO 2016.

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

9. Contingent Liabilities

Matter contained in the Auditor's Report and Financial Statements

The Contingent Liabilities included a disputed income tax demand which remained the same for the last three years and same amount was reported by the auditor while reporting under paragraph 3(vii) (a) of CARO, 2016.

Principle: Guidance Note on the Companies (Auditor's Report) Order, 2016

Paragraph 42 (j)

“It may be noted that penalty and/or interest levied under the respective laws would be covered within the term “amounts payable”.

Observation:

It was noted from note on the Contingent Liabilities that there is a disputed income tax demand which remained same for the last three years. The same amount was reported by the auditor while reporting under paragraph 3(vii) (a) of CARO, 2016 which implies that interest component on the said amount was ignored.

As per the above stated requirements of Guidance Note on CARO 2016, penalty and/or interest levied under the respective laws gets covered within the term “amounts payable”.

Accordingly, it was viewed that the requirements of Guidance Note on CARO 2016 have not been complied with.

10. Fraud

Matter contained in the Auditor's Report

Abstract of the Auditor's Report stated as follows:

"During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph (x)

"Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated."

Observation:

It was noted that the nomenclature "Material Fraud" has been used by the Company instead of "any frauds". It was viewed that the auditor has to report on all frauds whether material or not as required by paragraph (x) of CARO, 2016.

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

11. Managerial Remuneration

Matter contained in the Auditor's Report and Financial Statements

Abstract of Auditor's report under CARO read as follows:

"xi. In our opinion and according to information and explanation given to us, the company has paid/provided Managerial remuneration during the year as

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per the Board resolution which is subject to approval by the shareholders in the forthcoming meeting, as fully explained in Note to the standalone Ind AS financial statements.”

In the Note to the financial statements on ‘Particulars of Remuneration to Managing Directors & Executive Director during the year’, information was given for Managing Director and Independent Directors as under:

The computation of Net profit under section 198 of the Companies Act 2013 was not given since no commission was paid or payable to any director during the current year. The Managing Director’s remuneration was approved by the Shareholders in the shareholders meeting for a period of five years. The Board of directors approved enhanced remuneration to Managing Director for the remaining period, keeping all other terms and conditions unchanged. For the current financial year, the remuneration was in excess. The increase in remuneration was subject to subsequent approval and ratification by the shareholders of the Company in the Next General Meeting.

Principle: Companies (Auditor’s Report) Order, 2016

Paragraph 3 (xi)

“Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the Company for securing refund of the same;”

Observation:

It was noted that in pursuance to the aforesaid requirement the auditor has reported that the company has paid/provided Managerial remuneration during the year as per the Board resolution which is subject to approval by the shareholders in the forthcoming meeting.

It was viewed that the auditor did not explicitly report as to whether the managerial remuneration is paid in accordance with the provision of section 197 read with Schedule V to the Companies Act, 2013. The auditor only gave reference to the Note explaining the managerial remuneration, without commenting about the compliance with the aforesaid provisions.

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Further, it was noted that under note to the financial statements on 'Particulars of Remuneration to Managing Directors & Executive Director during the year' it was reported that computation of net profit under section 198 of the Companies Act, 2013 was not given since no commission was paid or payable to any director during the year. **It was viewed that as section 198 of Companies Act, 2013 not only covers commission payable but include total managerial remuneration, therefore, the reporting under this note was not correct.**

Accordingly, it was viewed that requirements of paragraph CARO 2016 have not been complied with.

12. Preferential Placement of Preference Shares and Debentures

Matter contained in the Auditor's Report

Abstract of paragraph (xiv) of Annexure 'A' to the Independent Auditor's Report read as follows:

"According to the information and explanations given to us and based on our examination of the records of the Company, the Company has made preferential placement of preference shares and debentures."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph (xiv)

"whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance."

Observation:

It was noted that even though the auditor reported that preferential allotment of preference shares and debentures was made by the company yet he omitted to comment on compliance of section 42 of the Companies Act, 2013 as well as the utilization of amount raised for the purpose for which funds were raised.

Accordingly, it was viewed that incomplete reporting has been done by the auditor under paragraph (xiv) of CARO, 2016.