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

VOLUME II

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

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(Compiled from the records of
Financial Reporting Review Board)

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Foreword

Since its formation in year 2002, Financial Reporting Review Board (FRRB) of ICAI has been working towards improving and strengthening of financial reporting practices in the Country by way of conducting reviews of general-purpose financial statements and auditor's report thereon, of various enterprises to determine the compliances with the generally accepted accounting principles, auditors reporting obligations, disclosure requirements of applicable rules and regulations relevant to the reporting enterprise.

I am happy to note that FRRB has come out with its new publication on *'Study on Compliance of Financial Reporting Requirements (Ind AS Framework) – Volume II'* for the benefit of members and stakeholders at large. The publication includes instances of non-compliances with respect to financial reporting requirements such as Ind AS, Standards on Auditing, Schedule III to the Companies Act, 2013, CARO etc., observed by the FRRB during the course of review of general-purpose financial statements of various enterprises.

I congratulate CA. Durgesh Kumar Kabra, Chairman, FRRB, CA. Abhay Chhajed, Vice-Chairman and all the members of the Board for their efforts in bringing out this publication.

I am sure that this study would be extremely useful for the members of the Institute as well as other stakeholders.

Date: September 20, 2022 **CA. (Dr.) Debashis Mitra**
Place: New Delhi **President, ICAI**

Preface

Effective and efficient financial reporting is indispensable for the growth of an enterprise and plays decisive role in boosting the confidence of stakeholders in the financial statements. Financial Reporting Review Board (FRRB), since its formation in year 2002, has been endeavoring towards one key objective which is strengthening of financial reporting practices in the country.

Apart from carrying the review of general-purpose financial statements to determine the compliance with financial reporting standards, rules and regulations issued by relevant regulatory authorities, Board also ventures towards spreading awareness amongst the members as well as other stakeholders about the pertinent issues in the areas of reporting as well as to appraise them about the common non-compliances observed by the Board during the review. The compilation of the findings of the Board during the course of review of general-purpose financial statements and its release by way of publication is an important step towards dissemination of knowledge. Till now, the Board has released four such publications under the name of 'Study on Compliance of Financial Reporting Requirements'. The previous publication was released in January 2021 pertaining to the financial statements prepared under Ind AS framework. In the same line, this publication also contains the findings of the Board from the review of general-purpose financial statements prepared under Ind AS framework. I am of firm belief that this publication will be of great help not only to the auditors but for the preparers of the financial statements also.

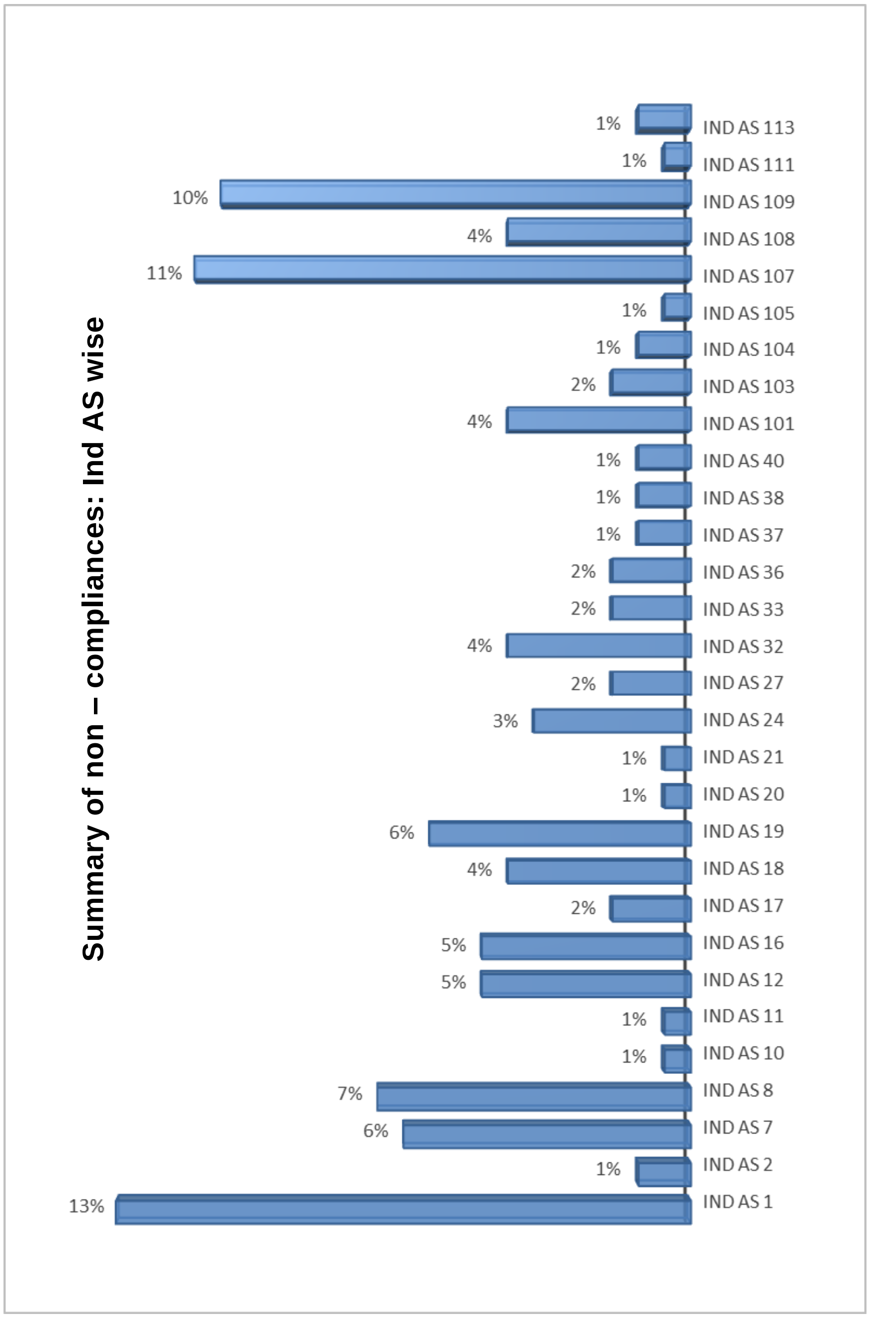
I am very grateful to CA. (Dr.) Debashis Mitra, President, ICAI and CA. Aniket S. Talati, Vice-President, ICAI for their guidance and support. I would also place on record my sincere thanks to Council colleagues and special invitee on the Board for their continuing support, CA. Abhay Chhajed, Vice-Chairman, FRRB, CA.(Dr.) Sanjeev Kumar Singhal, CA. Chandrashekhar Vasant Chitale, CA. Purushottamlal Khandelwal, CA. Dayaniwas Sharma, CA. Kemisha Soni, CA. Sanjay Kumar Agarwal, CA. Hans Raj Chugh, CA. Pramod Jain, Advocate Vijay Kumar Jhalani –Government Nominee, Shri Sanjay Kumar – Government Nominee (MCA), Ms. Ritika Bhatia – Government Nominee (C&AG), and Shri Sanjay Purao from SEBI, Shri K. S. Narsimha Prasad from C&AG, Shri Amit Samdariya from CBIC and Shri Vipul Agarwal from CBDT.

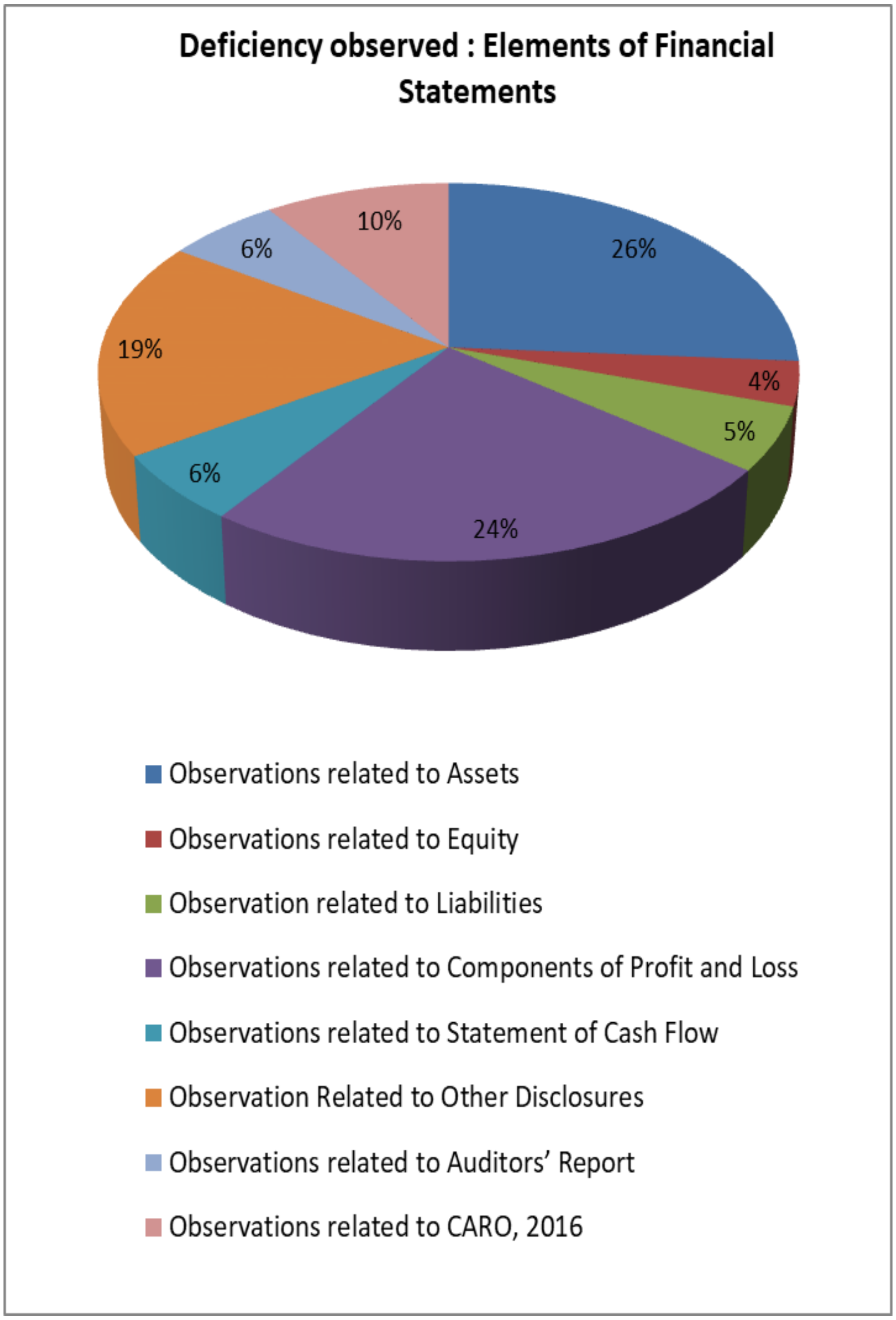
My special thanks to CA. Vishal Doshi, Central Council Member for reviewing this publication and providing his valuable support and guidance. My sincere thanks to CA. Yagnesh Desai, CA. Zubin Billimoria, CA. Achal Jain and CA. Viren Shah for sparing their time and providing valuable technical inputs. I would also like to thank our Technical Reviewers (TRs) and Financial Reporting Review Groups (FRRGs) for their supports.

My gratitude to CA. Aakanksha Kapoor, Secretary FRRB, CA. Ankita Mangla, Deputy Secretary, CA. Ashish Tiwari, Assistant Secretary and CA. Avni Sharma, Project Associate for their efforts in bringing out the publication.

Date: September 15, 2022	**CA. Durgesh Kumar Kabra**
Place: New Delhi	**Chairman, FRRB**

Deficiencies Observed: At a Glance




Deficiency observed : Elements of Financial Statements
26%
4%
5%
24%
6%
19%
6%
10%
Observations related to Assets
Observations related to Equity
Observation related to Liabilities
Observations related to Components of Profit and Loss
Observations related to Statement of Cash Flow
Observation Related to Other Disclosures
Observations related to Auditors' Report
Observations related to CARO, 2016

Contents

Summary of non-compliances: Elements of Financial statement wise

Chapter No	Chapter	Topic Addressed	Observation no	Reference	Page No
1	Assets	Property, Plant and Equipment	1-3	Ind AS 1 Ind AS 16 Schedule III	1
1	Assets	Investment Property	4	Ind AS 40	4
1	Assets	Intangible Assets	5-8	Ind AS 36 Schedule III	5
1	Assets	Financial Assets	9-11	Ind AS 32 Ind AS 109 Schedule III	11
1	Assets	Investment	12-19	Ind AS 27 Ind AS 101 Ind AS 107 Schedule III	15
1	Assets	Loans to Subsidiaries	20	Companies Act, 2013	29
1	Assets	Deferred Tax Assets	21-22	Ind AS 12 Schedule III	29
1	Assets	Inventories	23	Ind AS 2	32
1	Assets	Trade Receivables and Other Current Assets	24-25	Schedule III	33

Chapter-1

Observations related to Assets

1. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of accounting policy on Property, Plant and Equipment reads as follows:

“Property, Plant and Equipment

On transition to Ind AS, the Company has elected to continue with the carrying value of all of its property, plant and equipment recognized as at 1 April 2015 measured as per the previous GAAP and use that carrying value as the deemed cost of the property, plant and equipment.

Observation

The Board noted from the financial statements that the company did not have Property, Plant and Equipment. However, in the accounting policy on PPE, it was stated that on transition to Ind AS the company has elected to continue PPE at carrying value as deemed cost of PPE. Accordingly, it was viewed that presentation of ambiguous facts by way of accounting policy is not correct and should be avoided.

2. Property, Plant and Equipment

Matter contained in Financial Statements

Under a note to the financial statements on Non- Current Assets (Net), closing balance of previous year and opening balance of current year were different. The relevant abstract of the Note is given below:

Note 4: Non-Current Assets (Net)

(Rs. in Lakhs)

Particulars	As at March 31, 20XX	As at March 31, 20YY
Opening Balance Add: Current tax Payable for the year Less: taxes paid	19.06 --- ---	 --- ---
Closing Balance	**---**	**0.93"**

Principle: Ind AS 1: Presentation of financial statements

Paragraph 45"An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or

(b) An Ind AS requires a change in presentation."

Observation

It was noted that the closing balance of 'non-current assets' of previous year was disclosed at Rs 0.93 Lakh. Further, it was noted that the current year's opening balance of non-current assets was stated at Rs 19.06 Lakh. It was viewed that the closing balance of previous year and opening balance of current year of same item cannot be different keeping in view the above stated requirement of Ind AS 1. Accordingly, it was viewed that incorrect balance has been disclosed by the company.

3. Property, Plant and Equipment

Matter contained in Financial Statements

In Notes to the financial statements, term 'Tangible Assets' has been used to refer Property, Plant and Equipment.

Principle: Ind AS 16: Property, Plant and Equipment read with Ind AS 1: Presentation of financial statements and Format of Balance Sheet given under Division - II Ind AS Schedule III to the Companies Act, 2013

Paragraph 54 of Ind AS 1

"As a minimum, the balance sheet shall include line items that present the following amounts:

(a) property, plant and equipment;

…"

Format of Balance Sheet as per Division II – Ind AS Schedule III to Companies Act, 2013

Part I: Balance Sheet

Name of the Company…

Balance Sheet as

(Rupees in….)

	Particulars	Note no.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
(1)	Non-Current Assets			
	(a) Property, Plant and Equipment …			

Observation

The Board noted that the heading 'tangible assets' has been used by the company instead of using the correct nomenclature, i.e. "Property, Plant and

Equipment" which is suggested by Ind AS 1, Ind AS 16 as well as Division II Ind AS Schedule III to Companies Act, 2013.

Accordingly, the Board viewed that such mistakes should be avoided by the preparers of the financial statements.

4. Investment Property

Matter contained in Financial Statements

The relevant abstract of Accounting Policy on Investment Property reads as follows:

"**3.7 Investment Property**

Investment property is measured at cost less impairment, if any. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in Statement of Profit and Loss. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the straight-line method over their estimated useful lives."

Principle: **Ind AS 40: Investment Property**

Paragraph 79(b)

"In addition to the disclosures required by paragraph 75, an entity shall disclose:

……………

(b) the useful lives or the depreciation rates used;"

Observation

The Board noted from the stated policy on investment property that **although the method used for charging depreciation on such properties was disclosed, however, the rate of depreciation or useful life of investment property was not disclosed** in line with paragraph 79(b), as mentioned above.

Accordingly, it was viewed that the requirements of paragraph 79(b) of Ind AS 40 have not been complied with in preparation and presentation of the financial statements**.**

5. Intangible Assets

Matter contained in Financial Statements

Under a note to the financial statements, the company has disclosed goodwill. It was further noted that goodwill constituted more than 50% of the total assets of the Company.

Note 2: Property, Plant and Equipment

(Amount in Rs.)

Description	Gross Block				Depreciation				Net Block	
	Value at the Beginning	Addition During The year	Deletion during The year	Value At the End	Value At the Beginning	Addition during the year	Deletion during the year	Value At the end	Value As On 31-03-20XX	Value As On 31-03-20YY
Goodwill	---	---	---	---	---	---	---	---	---	---"

Principle: **Ind AS 38: Intangible Assets and Ind AS 36: Impairment of Assets**

Paragraph 48 of Ind AS 38

" Internally generated goodwill shall not be recognized as an asset."

Paragraph 9 of Ind AS 36

"An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

Paragraph 10 of Ind AS 36

"Irrespective of whether there is any indication of impairment, an entity shall also:

(a) ….

(b) test goodwill acquired in a business combination for impairment annually in accordance with paragraphs 80–99."

Observation

It was noted that the company has disclosed substantial amount of goodwill in its financial statements which is acquired goodwill since paragraph 48 of Ind AS 38 prohibits the recognition of internally generated goodwill. However, no accounting policy for Goodwill and its impairment was disclosed in the Financial Statements. It was noted that Goodwill is mandatorily required to be tested for impairment annually in line with the above stated requirement, however, no disclosure with regards to same was made in the financial statements.

Further, as per requirements of Division II of Schedule III, Company should present Goodwill as a separate line item on the face of the balance sheet apart from 'Other Intangible Assets'. Hence, including "Goodwill" under note on Property, Plant and Equipment is an incorrect disclosure.

Accordingly, it was viewed that the requirements of Ind AS 36 and Division II, Schedule III of Companies Act 2013 have not been complied with.

6. Intangible Assets

Matter contained in Financial Statements

Notes to the financial statements of one of the entities has mentioned following about the intangible assets, which consist of 'goodwill' and 'trademark'. The relevant paragraph of the policy on amortization of intangible assets is reproduced below:

"Intangible Assets and Amortization

…………….

(c) Goodwill and trademark are amortized over its estimated useful life of 20 years and as allowed under the approved scheme."

"Note 43c) Further, in keeping with the Scheme the Company has:

Accounted for the excess of fair value of equity shares issued and cancellation of investment in Transferor Company, over fair value of net assets of Transferor Company amounting to Rs. XXX Crores so acquired, being XXX Crores as Goodwill, representing underlying intangible assets, acquired on amalgamation as on ……. 20XX."

Principle: **Ind AS 36: Impairment of Assets**

Paragraph 10(b)

"Irrespective of whether there is any indication of impairment, an entity shall also:

"(b) test goodwill acquired in a business combination for impairment annually in accordance with paragraphs 80–99."

Observation

It was noted from the adopted policy on amortization of goodwill and trademark that the same are amortized over an estimated useful life of 20 years. It was further noted that the goodwill disclosed under Note 3(c) has been acquired by the company on account of amalgamation.

It was viewed that the goodwill cannot be amortised but has to be tested for impairment at least once annually, regardless of the indicator of impairment. On plain reading of the stated policy, it appears that the Company is treating the goodwill as having finite life of 20 years, as a result it is being amortised over a period of 20 years.

Accordingly, it was viewed that the requirements of Ind AS 36 have not been complied with.

7. Intangible Assets

Matter contained in Financial Statements

Under financial statements, Intangible assets have been disclosed after Intangible Assets under development and their nature has also not been disclosed. The relevant abstract of Balance Sheet is reproduced below:

(Amount in Rs.)

ASSETS	**31 March 20XX**	**31 March 20YY**	**31 March 20ZZ**
Non-Current Assets			
Intangible assets under development	---	---	---
Intangible Assets	---	---	---"

Principle: **Format of Balance Sheet given under Division -II Ind AS Schedule III to the Companies Act, 2013**

Part I: Balance Sheet

Name of the Company…

Balance Sheet as at …

	Particulars	Note no.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
(1)	Non-Current Assets			
	(e) Other Intangible assets (f) Intangible assets under development			

Paragraph 8.1.5 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

8.1.5. Other Intangible assets

The company shall disclose the following in the Notes to Accounts:

(i) Classification shall be given as:

(a) Brands / trademarks;

(b) Computer software;

(c) Mastheads and publishing titles;

(d) Mining rights;

(e) Copyrights, patents, other intellectual property rights, services and operating rights;

(f) Recipes, formulae, models, designs and prototypes;

(g) Licenses and franchise;

(h) Others (specify nature)

Observation

The Board viewed that as per prescribed format the 'intangible assets under development' should be disclosed after 'Intangible Assets'. However, in the given case the order of presentation of intangible assets was not as per the prescribed format under Division-II of Ind AS Schedule III. **Further, it was noted that the nature of intangible assets has also not been disclosed by the company** in line with paragraph 8.1.5 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.

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

8. Intangible Assets

Matter contained in Financial Statements

In one of the Financial Statements the Intangible Assets under Development were disclosed as part of Property, Plant and Equipment as a footnote. The relevant abstract of Note on Property, Plant and Equipment reads as follows:

Note No. 3. Property Plant Equipment

(Rs. In Millions)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
……….	---	---
Total	**---**	**---**

Intangible Assets under Development Rs. 437.5 (March 31, 2017 Rs. 286.7)

Principle: Format of Balance Sheet given under Division II – Ind AS Schedule III to Companies Act, 2013

Part I: Balance Sheet

Name of the Company…

Balance Sheet as at …

(Rupees in….)	Particulars	Note no.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
(1)	Non-Current Assets			
	(a) Property, Plant and Equipment … (e)Other Intangible assets (f)Intangible assets under development			

Observation

The Board noted from the Note on Property Plant Equipment that Intangible Assets under development has been shown as a part of the Property, Plant and Equipment whereas it should have been shown separately on the face of the balance sheet.

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

9. Financial Assets

Matter contained in Financial Statements

In one of the reviews, it was noted from the accounting policy on financial assets that measurement principle was not mentioned which was adopted at the time of initial recognition of the financial assets. The relevant abstract of Note on Accounting Policy on Investment and Other financial assets read as follows:

Investment and Other financial assets:

(i) Classification

The company reclassifies debt investments when and only when the business model of those assets' changes.

(ii) Measurement

- Amortised Cost

…

- Fair Value through Other Comprehensive Income (FVOCI)

…

- Fair Value through Profit or Loss

…"

> **Principle**: **Ind AS 109: Financial Instruments**
>
> **Paragraph 5.1**
>
> 5.1 Initial Measurement
>
> 5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
>
> 5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.

Observation

The Board noted from the accounting policy on Financial Assets that, although, it states about measurement of Financial Assets at Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit and loss (FVTPL) however, the policy does not mention anything about the initial measurement of financial assets which is to be done at fair value. It was viewed that as per paragraph 5.1 of Ind AS 109, the financial assets are initially to be measured at their fair value and the subsequently to be measured on the basis of Business Model and contractual cash flow characteristics of the financial assets. Accordingly, Board viewed that accounting policy should have clearly stated about the measurement principle at which financial assets were initially measured in the books.

Accordingly, it was viewed that the accounting policy on financial assets is not complete considering the requirements of Ind AS 109.

10. Financial Assets

Matter contained in Financial Statements

In the note on Current Financials Assets, Loans to Related Parties have not been sub-classified into secured or unsecured and considered good or doubtful. The relevant abstract of the note is reproduced below:

"Note 6: Current Financials Assets

(Amount in Rs.)

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
Current Loans to related parties (refer note 24)	---	---
Total	---	---"

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

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

(V) Loans

(i) Loans shall be classified as:

  (a) …

  (b) Loans to related parties (giving details thereof);

  (c) Others (specify nature).

(ii) The above shall also be sub-classified as:

  (a) Secured, considered good,

  (b) Unsecured, considered good,

  (c) Doubtful."

Observation

It was noted from the Note on Current Financial Assets that it includes Loans to Related Parties, however, the same was not classified into secured or unsecured and considered good or doubtful in line with the paragraph 6(B) (V) (ii) of General Instructions for preparation of Balance Sheet, Part I, Division-II of Schedule III to the Companies Act, 2013 as reproduced above.

Accordingly, it was viewed that the requirement of Division II of Schedule III to the Companies Act, 2013 has not been complied with in preparation and presentation of the financial statements.

11. Financial Assets

Matter contained in the Financial Statements

Under the note to the financial statements on Other Non- Current Assets, rent deposit has been disclosed under Security Deposits. The relevant abstract of the Note reads as follows

"Note No. 5: Other non – Current Assets

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Security Deposits			
Rent Deposit	---	---	---"

Principles: **Ind AS 32: Financial Instruments: Presentations**

Paragraph 11

"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 favourable 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 put table 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 pro 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:

The Board noted from the Note on 'Other Non-current Assets' that 'rent deposit' was disclosed thereat as security deposit. **The Board viewed that the 'rent deposit' is financial asset, in terms of paragraph 11 of Ind AS 32, as reproduced above. Therefore, it was viewed by the Board that rent deposit should have been disclosed under the head 'Other Financial Asset' in line with the requirements of Ind AS 32.**

Accordingly, it was viewed that the requirements of Ind AS 32 has not been complied with in preparation and presentation of the financial assets.

12. Investments

Matter contained in Financial Statements

Under a note to the financial statements, for investments in subsidiaries and joint ventures, place of incorporation and the proportion of ownership interest has not been disclosed. The relevant abstract of the Note is given as under:

"Investments

(A) Non-current Investments

(Rs. in Millions)

Particulars	**Face Value**	**As on 31.3.20XX**	**As on 31.3.20YY**
Investment in unquoted equity shares (fully paid, carried at cost, unless otherwise stated)			
In Subsidiaries			
……….	---	---	---
……….	---	---	---

In joint ventures			
……….	---	---	---
Investment in unquoted optionally convertible debentures (fully paid, carried at cost, unless otherwise stated)			
In joint ventures			
……….	---	---	---"

Principle: **Ind AS 27: Separate Financial Statements**

Paragraph 17 (b)

"When a parent (other than a parent covered by paragraphs 16 – 16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with Ind AS 110, Ind AS 111 or Ind AS 28 to which they relate. The parent or investor shall also disclose in its separate financial statements:

……….

(b) a list of significant investments in subsidiaries, joint ventures, and associates, including:

(i) the name of those investees.

(ii) the principal place of business (and country of incorporation, if different) of those investees.

(iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees."

Observation

The Board noted that there are investments in subsidiaries and joint ventures. **However, the place of incorporation and the proportion of ownership interest in respect of investments in subsidiaries and joint ventures has not been disclosed anywhere in the Notes** in line with the paragraph 17 (b) of Ind AS 27.

Accordingly, it was viewed that the requirements of Ind AS 27 have not been complied with in preparation and presentation of the financial statements.

13. Investments

Matter contained in Financial Statements

Under the notes to the financial statements, effect of transition to Ind AS on the value of investments and measurement of Investments have not been disclosed. The relevant abstracts of Note on 'Reconciliation of equity and P&L as previously reported under Indian GAAP to Ind AS' and Note on 'Investments' are as follows:

"Note on Reconciliation of equity and P&L as previously reported under Indian GAAP to Ind AS

Particulars	As on 01/04/20ZZ (Date of Transition)			As on 31/3/20YY (End of last period presented under previous GAAP)		
	Previous GAAP	Effect of transition to Ind AS	Opening Ind AS balance Sheet	Previous GAAP	Effect of transition to Ind AS	Opening Ind AS balance sheet
Current Assets						
(a) Financial Assets						
(i) Investments						
…	xx	**Nil**	xx	yy	**Nil**	yy

"Note 3: Investments

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Current Investments		
Liquid Mutual Fund (Refer Note 3.1)	---	---
Total	---	---

Note 3.1: Details of Investments in Liquid Mutual Fund

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Investments carried at fair value through profit or loss		
Liquid Mutual Fund		
XXX Bond Fund	---	---"

Principle: **Ind AS 101: First Time adoption of Indian Accounting Standards**

Paragraph 29

"An entity is permitted to designate a previously recognized financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements."

Observation

It was noted from the Note on Investments that the company has elected to measure its financial asset, comprised of current investments, at Fair Value through Profit or Loss (FVTPL). Accordingly, since company valued its investments at FVTPL it is required to restate the carrying amount of such investment at Fair Value.

However, as disclosed in the Note on 'Reconciliation of equity and P&L' as previously reported under Indian GAAP to Ind AS', no effect is given there, on account of transition to Ind AS, on the value of investments as on the date of transition i.e., 1st April 20ZZ (date of transition) as well as on 31st March 20YY. It was viewed that if the carrying value of investments was same as their fair value, then such disclosure should have been made in the notes to accounts.

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

14. Investments

Matter contained in Financial Statements

From the notes to the financial statements, it was noted that equity investment designated at Fair value through Other Comprehensive Income (FVOCI) has been derecognized during the year. The relevant abstracts of Note 13: Other Equity and Note 23: Other Income read as follows:

“Note 13 Other Equity

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
……………	---	---	---
Gain on sale of FVOCI equity investments, net of tax transferred to retained earnings	---	---	---"

“Note 23 Other Income

…………….

(a) All dividends from equity investments designated at FVOCI relate to investments held at the end of the reporting period except dividend income amounting to Rs. 4.43 Lacs (31.03.20YY Rs. 0.02 Lacs) pertaining to investments derecognized during the year.”

Principle: **Ind AS 107: Financial Instruments: Disclosures**

Paragraph 11B

“If an entity derecognized investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments.

(b) the fair value of the investments at the date of de-recognition.

(c) the cumulative gain or loss on disposal.”

Observation

It was noted from the Note on other equity read with the Note on other income that equity investments designated at FVOCI have been derecognized during the year. However, no disclosure as to reasons for de-recognition, fair value of investments at the date of de-recognition and cumulative gains and loss on disposal was made by the company anywhere in the financial statements, in line with the paragraph 11B of Ind AS 107.

Accordingly, it was viewed that the requirements of paragraph 11B of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

15. Investments

Matter contained in Financial Statements

At various places in the financial statements the term 'provision for diminution, other than temporary, has been used to refer the ECL/Impairment in long-term investments. The relevant abstracts of the Statement of Cash Flows and Note on Other Expenses read as follows:

"**Statement of Cash Flow**

(Rs. in million)

Particulars	**For the year ended 31 March, 20XX**	**For the year ended 31 March, 20YY**
…………….	---	---
Provision for other than temporary diminution in long-term investments	---	---"

"**Note 24. Other Expenses**

(Rs. in million)

Particulars **Administrative Expenses**	**For the year ended 31 March, 20XX**	**For the year ended 31 March, 20YY**
…………….	---	---
Provision for other than temporary diminution in long-term investments	---	---"

Observation

The Board noted from the Statement of Cash Flows that a line item has been reported thereat as 'provision for other than temporary diminution in long-term investments' as an adjustment of non-cash items, to determine cash flows from operating activities. The similar line item was disclosed under note on administrative expenses. The Board viewed that the term 'provision for other than temporary diminution in long-term investments' was used in erstwhile AS 13. Since the company prepared its financial statements using the principles of Ind AS and nowhere in the relevant Ind AS such term has been used. Accordingly, it was viewed that **use of such terms may give the impression to the readers of the financial statements that company has been following erstwhile AS 13 for valuation of investments since under Ind AS framework valuation of investment is done in accordance with the provisions of Ind AS 109 or Ind AS 27, 28, 36, as the case may be, which do not use the term 'provision for diminution in value of long-term investments.'**

Accordingly, it was viewed that incorrect terminology has been used by the company to disclose the expected credit losses on investments.

16. Investments

Matter contained in the Financial Statements

Under the note to the financial statements on Investments, Investments have not been bifurcated into "quoted or unquoted" and the "market value" has also not been disclosed. The relevant abstract of the note is reproduced below:

"Note 3: Investments

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Current Investments:		
Liquid Mutual Fund (Refer Note 3.1)	XXX	XXX
Total	XXX	XXX"

Note 3.1: Details of Investments in Liquid Mutual Fund

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Investments carried at fair value through profit or loss		
Liquid Mutual Fund		
Franklin India Ultra Short Bond Fund	XXX	XXX

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

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

"Non-Current Assets

"VI. Investments:

(ii) The following shall also be disclosed:

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

(b) Aggregate amount of unquoted investment: and

(c) Aggregate amount of impairment in value of investment."

Observation:

The Board noted from the financial statements that investments have not been categorized as "quoted" or "unquoted". Further, "market value" of investments has also not been disclosed. It is not in line with the requirements of paragraph 6A(VI) of General Instructions for preparation of Balance Sheet given under Part I, Division II – Ind AS Schedule III to the Companies Act, 2013.

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

17. Investments

Matter contained in the Financial Statements

The Note on Investments and Related Parties disclosed that company had investments in subsidiaries. Accounting policy on investments in subsidiaries was not in line with Ind AS 27. The relevant abstracts of the Notes on Investments, Related Parties and Accounting Policy are reproduced below:

"Note No. 1.8: Accounting Policy on Investments:

"Trade investments are the investments made to enhance the Company's business interests. Investments are either classified as current or long-term based on Management's intention. Current investments are carried at the lower of cost and fair value of investment."

"Note No 3: Investments

(Amount in Rs.)

Particulars	**Year ended 31.03.20XX**	**Year ended 31.03.20YY**	**Year ended 31.03.20ZZ**
ABC Infotech Pvt. Ltd.	-	XXXX	XXXX
XYZ Global Services Ltd.	XXXX	XXXX	-
LMN Global Services Ltd.	XXXX	XXXX	-
Total	**XXXX**	**XXXX**	**XXXX"**

"Note No. 30 Related Parties

Particulars	**Nature of Relationship**
Mr. OPQ	Managing Director
XYZ Global Services Ltd.	Wholly Owned Subsidiary
LMN Global Services Ltd.	Wholly Owned Subsidiary"

Principle: Ind AS 27: Separate Financial Statements and General Instructions for preparation of Balance Sheet of Division II – IND AS Schedule III to the Companies Act, 2013

Paragraph 10 of Ind AS 27

"When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures, and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances."

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

"VI. Investments:

(i) Investments shall be classified as:

- (a) Investments in Equity Instruments,
- (b) Investments in Preference Shares,
- (c) Investments in Government or trust securities,
- (d) Investments in debentures or bonds,
- (e) Investments in Mutual Funds,
- (f) Investments in partnership firms, or
- (g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

- (i) subsidiaries,
- (ii) associates,

(ii) The following shall also be disclosed:

- (a) Aggregate amount of quoted investment and market value thereof,
- (b) Aggregate amount of unquoted investment, and
- (c) Aggregate amount of impairment in value of investment."

Observation:

It was noted from the notes to accounts that company has made investments in subsidiaries. It was viewed that **as per paragraph 10 of Ind AS 27, the company has a choice to opt either 'cost' or 'fair value', in line with the Ind AS 109, for recognition & measurement of investments in subsidiaries. However, in the given case, the company has not disclosed the accounting policy for investment in subsidiaries in line with Ind AS 27 as mentioned above**. Further, from the given policy, it was viewed by the Board that the same is in line with the principles enumerated in AS 13 of the previous GAAP. Accordingly, it was viewed that the adopted policy on investments in subsidiaries is not in line with Ind AS 27.

It was further noted from the Note on Investments, that **although the companies XYZ Global Services Ltd. and LMN Global Services Ltd. are the wholly owned subsidiaries, as disclosed in Note on 'Related Parties', however, under Note on Investments the same were not classified as 'investments in subsidiaries'** in line with paragraph 6(A) (VI) of General Instructions for preparation of Balance Sheet given under Part I, Division II – IND AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that requirements of Paragraph 6 A (VI) of General Instructions for preparation of Balance Sheet given under Part I, Division II – IND AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

18. Investments

Matter contained in the Financial Statements

In one of the reviews of financial statements, Board noted that proper disclosures were not made by the company regarding adoption of deemed cost in line with Ind AS 101. Also, accounting policy of investments in subsidiaries was not in line with Ind AS 27. The relevant abstracts of various Notes pertaining to Investments, Adoption of Deemed Cost, and Accounting Policy on Investments in Subsidiaries are reproduced below:

"Note 2.14: Accounting policy on Investments in Subsidiaries

Investment in subsidiaries is carried at cost in the separate financial statements."

"Note 6: Non-current Investments

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Investments in equity instruments of wholly owned Subsidiary Companies ((Unquoted, at cost, unless otherwise stated, fully paid up):		
ABC Limited, (ordinary shares of Rs. 1 each [Refer note 41]	XXXX	XXXX
Less: Provision for diminution in the value of investments	XXXX	XXXX
XYZ Ltd. (ordinary shares on Rs. 1 each) [Refer note 40]	XXXX	XXXX
Less: Provision for diminution in the value of investments	XXXX	XXXX"

"Note 47: Exemptions and Exceptions Availed

……………

Deemed cost for property, plant and equipment and intangible assets.

Ind AS 101 permits a first-time adopter to elect to continue with the carrying value for all its property, plant and equipment and intangible assets as recognized in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments for de-commissioning liabilities. Accordingly, the Company has elected to measure all its property, plant, and equipment (PPE) and intangible assets at their previous GAAP carrying value."

Principle: Ind AS 27: Separate Financial Statements and Ind AS 101: First time adoption of Indian Accounting Standards

Ind AS 27: Separate Financial Statements prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements.

Paragraph 10 of Ind AS 27

"When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures, and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

Paragraph D15 of the Ind AS 101 provides the following optional exemption

"If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

(a) cost determined in accordance with Ind AS 27; or

(b) deemed cost. The deemed cost of such an investment shall be its:

  (i) fair value at the entity's date of transition to Ind ASs in its separate financial statements; or

  (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture, or associate that it elects to measure using a deemed cost."

Observation

It was observed by the Board that Ind AS 101 provides an option to the entity that, at the time of transition, it can use the carrying value of asset as per the previous GAAP as the deemed cost for the purpose of the preparation of financial statements under Ind AS framework, however, the transition note, given in the Notes to the Financial Statements, does not provide disclosure of the option being exercised by the company for investments. It was, therefore, viewed that when the option to use the deemed cost is not taken, it implies that the relevant Ind AS is retrospectively being applied by the entity to relevant items of the financial statements. The Board viewed that non-exercise of the option, in case of investments, implies that company has measured the investments in subsidiaries at cost, in line with the requirement of Ind AS 27 (the same has been mentioned in the Note on accounting policy on Investments in Subsidiaries reproduced above). **Accordingly, in the given case the provision for diminution in the value of investment does not arise, and therefore, any existing provision regarding such investment should have been reversed on the date of transition with a**

corresponding impact on retained earnings (or if appropriate another category of equity).

Accordingly, it was viewed that the requirements of Ind AS 27 and Ind AS 101 have not been complied with.

19. Investments

Matter contained in Financial Statements

From the financial statements of a company, it was noted that incorrect term has been used in Balance Sheet to refer 'Deferred Tax Assets'. Further, 'Investment in Subsidiaries' has been incorrectly disclosed as 'Investment in Associates'. The relevant abstracts of Balance Sheet and Note on Non-current Investments are given below:

"**Balance Sheet as at ……….**

(Rs. in million)

Particulars	**Note**	**As at 31 March, 20XX**	**As at 31 March, 20YY**
……………		---	---
Income tax assets (net)	(7a)	---	---"

"**Note 5. Non-current Investments**

(Rs. in million)

Particulars	**As at 31 March, 20XX**	**As at 31 March, 20YY**
Unquoted Equity Instruments		
Investment in equity Shares		
Investment in Subsidiary Company		
……………	---	---
In Associates		
Fair Value of Guarantee in Subsidiaries	---	---
Total	**---**	**---"**

Observation

It was noted from the Balance Sheet that 'Deferred Tax Assets' has been wrongly mentioned as 'Income Tax Asset'. Board viewed that correct terminology should have been used by the company to disclose deferred tax assets in the Balance Sheet.

Similarly, it was noted from the Note on Investment that 'Fair Value of Guarantee in **Subsidiaries**' has been disclosed under sub-head 'Investment in **Associates**'. Accordingly, the Board viewed that the line item 'fair value of guarantee in subsidiaries' should be disclosed under the correct sub-head i.e., Investments in Subsidiaries.

20. Loans to Subsidiaries

Matter contained in Financial Statements

From the Notes to the Financial Statements of one of the entities it was noted that loans to subsidiary companies were disclosed, however, the purpose for which such loans were extended was not disclosed.

Principle: Section 186(4) of 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 utilized by the recipient of the loan or guarantee or security."

Observation

The Board noted that loans have been granted to three of the subsidiary companies, however, the purpose for which such loans were given has not been disclosed by the company anywhere in the financial statements.

Accordingly, it was viewed that the requirements of section 186(4) of Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

21. Deferred Tax Assets

Matter contained in the Financial Statements

In one of the Financial Statements, the Note on 'Other Non-current Assets' contained MAT credit entitlement. The relevant abstract of the Note is reproduced below:

"**Note 11 Other Assets**

Non – Current

(Rs. In Lacs)

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
MAT Credit Entitlement	XXXX	XXXX"

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

Paragraph 9.7.2:

"Ind AS 12 has the concept of temporary differences as against AS 22 which had a concept of timing differences. Moreover, deferred tax asset is defined in Ind AS 12 to include amounts of income taxes recoverable in future periods in respect of the carry forward of unused tax credits. MAT Credits are in the form of unused tax credits that are carried forward by the company for a specified period of time. **Accordingly, MAT Credit Entitlement should be grouped with Deferred Tax Asset (net) in the Balance Sheet of an entity and a separate note should be provided specifying the nature and amount of MAT Credit included as a part of deferred tax.**" **(emphasis supplied)**

Observation:

The Board viewed that the MAT credit entitlement should have been disclosed under the head 'Deferred Tax Assets' in line with the paragraph 9.7.2 of Guidance Note and not as a separate line item of 'other non-current assets.'

Accordingly, it was viewed that the disclosure of MAT credit entitlement is not in line with the requirements of the Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.

22. Deferred Tax Assets

Matter contained in Financial Statements

The company has presented Deferred Tax Asset & Deferred Tax Liability separately on the face of the balance sheet and details thereof have been disclosed under separate notes. The relevant abstract of the Notes is given below:

Note No 4(a): Deferred Tax Assets (net)

(Amount in Rs.)

Particulars	***As at 31st March 20XX***	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Deferred Tax Assets (Net)	---	---	---
Total	---	---	---"

Note No 4(b): Deferred Tax Liabilities (net)

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Deferred Tax Liabilities (Net)	---	---	---
Total	---	---	---"

Principle: **Ind AS 12: Income Taxes**

Paragraph 74

"An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered."

Observation

It was noted from the Standalone Financial Statements that the company has presented deferred tax asset (DTA) & deferred tax liability (DTL) separately on the face of the Balance Sheet. The Board viewed that as per the requirements of paragraph 74 of Ind AS 12, **deferred tax should be presented on net basis on the face of Balance Sheet after offsetting the DTA and DTL**.

Accordingly, it was viewed that the requirements of paragraph 74 of Ind AS 12 have not been complied with.

23. Inventories

Matter contained in Financial Statements

Under a note to the Financial Statements on 'Other Current Assets', Capital Work in Progress Revenue A/c was disclosed. The relevant abstract of the Note is reproduced below:

"Note 11 Other Current Assets

(Amount in Rs.)

Particulars	**Year ended 31.03.20XX**	**Year ended 31.03.20YY**	**Year ended 31.03.20ZZ**
……….	---	---	---
Capital Work in progress Revenue a/c	---	---	---
Total	**---**	**---**	**---"**

Principle: **Ind AS 2: Inventories**

Paragraph 6

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

Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

…"

Observation

It was noted from Note on 'other current assets' that the company had 'Capital work in progress revenue account' which was disclosed thereat. **The Board viewed that this balance relates to stock in progress, and asset in the process of production for sale are treated as inventories as per definition of inventory given in Paragraph 6 of Ind AS 2 and therefore, should be disclosed as such rather than disclosing under the head of Other Current Assets.**

Accordingly, it was viewed that the requirements of paragraph 6 of Ind AS 2 have not been complied with.

24. Trade Receivables

Matter contained in Financial Statements

The previous year's closing balance of Trade Receivables has been disclosed at different amounts in different notes.

Observation

It was noted that a certain amount was disclosed in the Note on 'Trade Receivables' as closing balance of previous year. However, in another Note to the same financial statement the previous year's balance of 'trade receivable' was disclosed at different amount. The Board viewed that the disclosure of two different amount of 'trade receivable' under two notes of the same financial statements may create doubts to the readers of financial statements, and therefore, such contradictions should be avoided.

25. Other Current Assets

Matter contained in the Financial Statements

Under the note to the financial statements on Short-term loans and advances, salary advance and advance to creditors have been disclosed. The relevant abstract of the Note is reproduced below:

Note No 9: Short Term Loans and Advances

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Other Short-Term Loans and Advances			
Salary Advance	---	---	---
Advance to Creditors	---	---	---
	---	---	---"

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

Paragraph 6B VI of General Instructions for preparation of Balance Sheet given under Part I of Division II - Ind AS Schedule III to the Companies Act, 2013

VI. Other current assets (specify nature):

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as-

(i) Advances other than capital advances

(1) Advances other than capital advances shall be classified as:

(a) Security Deposits;

(b) Advances to related parties (giving details thereof);

(c) Other advances (specify nature).

Observation

It was viewed by the Board that salary advance and advance to creditors should be presented under other current assets in line with the paragraph 6A VI of General Instructions for preparation of Balance Sheet given under Division II- Ind AS Schedule III to the Companies Act, 2013.

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

26. Cash and Cash Equivalents

Matter contained in the Financial Statements

In one of the cases, the term 'Cash and Bank Balances' was used to refer the 'Cash and Cash Equivalents' in notes to the accounts. Relevant abstract of the note is reproduced below:

"Note 7. Cash and Bank Balances

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Balance with banks	---	---
Cash in hand	---	---"

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

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

"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

d. Others (specify nature)."

Observation

The Board noted that the heading 'Cash and Bank Balances' has wrongly been used to refer the items of cash and cash equivalents. The Board viewed that the correct heading i.e., "Cash and Cash equivalents" should have been used in line with Note 6(B)(IV) of General Instructions for preparation of Balance Sheet, Part I, Division II of Schedule III to the Companies Act, 2013.

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

27. Cash and Cash Equivalents

Matter contained in Financial Statements

Under the notes to the financial statements, fixed deposits held as margin money have been included and classified as Cash and Cash Equivalents. The relevant abstracts of Cash Flow Statement read with Note 8: Cash and Cash Equivalents and Note 9: Other Bank Balance given in the Annual Report, read as follows:

"Cash Flow Statement for the year ended 31st March 20XX

(Rs. in Lacs)

Particulars	As at 31st March, 20XX	As at| 31st March, 20YY
……….	---	---
Cash and Cash Equivalents at the end of the year	---	---"

"Note 8 Cash and Cash Equivalents

(Rs. in Lacs)

Particulars	As at 31st March, 20XX	As at 31st March, 20YY
Balance with Banks in current account	---	---
Cash in Hand	---	---
Total	---	---"

"Note 9 Other Bank Balance

(Rs. in Lacs)

Particulars	As at 31st March, 20XX	As at 31st March, 20YY
Amount held as margin money	---	---
Fixed Deposits with banks	---	---
Total	---	---"

9.1 *Fixed Deposits held as margin money or security against guarantees, letter of credits and other commitments."*

Principle: **Ind AS 7: Cash Flow Statement**

Paragraph 6

"Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value."

Observation

It was noted that the balance of cash and cash equivalents reported at Cash Flow Statement was sum-total of the closing balances of 'Cash and Cash Equivalents' disclosed by way of Note on 'Cash and Cash Equivalents' and 'Other Bank Balances' disclosed by way of Note on "Other Bank Balance". It was, further, noted from the Notes that the year - end balance of cash and cash equivalents includes fixed deposit which has been held as margin money or security against guarantees, letter of credits and other commitments. **It was viewed that fixed deposits held with banks as margin money should not be classified as cash and cash equivalents in Cash Flow Statement.**

Accordingly, it was viewed that the requirements of paragraph 6 of Ind AS 7 regarding reporting of cash and cash equivalents have not been complied with in preparation and presentation of the Statement of Cash Flows.

28. Assets held for Sale

Matter contained in Financial Statements

Under the notes to the financial statements, land & building has been classified as assets held for sale but required disclosures have not been made. The relevant abstracts of the Notes read as follows:

"Note 6 Assets classified as held for sale

(Amount in Rs.)

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**	**As at March 31, 20ZZ**
Land and Building	---	---	---
Total	**---**	**---**	**---"**

"Note 12 Other Income

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
Continuing Operations		
Profit on sale of Assets held for disposal	---	---
Interest Income	---	---
Total	**---**	**---"**

Principle: Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations

Paragraph 41

"An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) a description of the non-current asset (or disposal group).

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal.

(c) the gain or loss recognized in accordance with paragraphs 20–22 and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss.

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, Operating Segments."

Observation

It was noted from the Note on Assets classified as held for sale that land and building has been classified as 'assets held for sale' and its profit has been disclosed under Note on other income. However, the Board noted that the company has not made the disclosures as required under the paragraph 41 (b) of Ind AS 105, anywhere in the financial statements.

Accordingly, it was viewed that the requirements of paragraph 41(b) of Ind AS 105 have not been complied with in preparation and presentation of the financial statements.

Chapter-2

Observations related to Equity

1. Statement of Changes in Equity

Matter contained in the Financial Statements

In the financial statements, the Note on Equity Share Capital and Other Equity have been shown by way of two separate notes instead of disclosing the same under the heading "Statement of Changes in Equity".

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

Paragraph 4.2

"4.2. Financial Statements include Balance Sheet, Statement of Changes in Equity for the period, Statement of Profit and Loss for the period and Notes. Cash Flow Statement shall be prepared in accordance with the requirements of the relevant Ind AS."

Paragraph 8.2

"8.2. Equity and Liabilities

Equity

Under this head, following line items are to be disclosed on the face of the Balance Sheet:• Equity Share Capital;

• Other Equity;

Ind AS Schedule III, Part I – Format of Balance Sheet includes not only the format of Balance Sheet but also includes a 'Statement of Changes in Equity' comprising (A) Equity Share Capital and (B) Other Equity.

…"

Observation

It was noted that the Note on Equity Share Capital and the Note on Other Equity have been shown separately instead of disclosing them as sub-head under 'Statement of Changes in Equity' in line with Paragraphs 4.2 and 8.2 of

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

Accordingly, it was viewed that the requirements 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.

2. Share Capital

Matter contained in Financial Statements

Under the note on Share Capital, only the amount of authorized, issued, subscribed & paid-up capital has been disclosed, number of shares were not disclosed.

Relevant abstract of note on Share Capital read as follows:

Share Capital

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Authorized			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
Issued			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
Subscribed & Paid Up			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
Less: Calls in Arrears	-	-	
	XXX	XXX	XXX
Subscribed but not fully Paid Up			
Equity Shares Not Fully Paid Up	-	-	-
Total	**XXX**	**XXX**	**XXX”**

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

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

"D. Equity

I. Equity Share Capital:

…

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;"

Observation

It was noted from the note on share capital that amount of authorized, issued, subscribed & paid-up capital has been disclosed thereat, however, the details of the number of shares for Current and Previous year have not been disclosed. Accordingly, reconciliation of the number of shares outstanding at the beginning and at the end of the period has also not been provided. Further, the rights, preferences & restrictions attached to equity shares have also not been disclosed.

Accordingly, it was viewed that the requirements of Paragraph 6 D (I) (d) and (e) of Part I, Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

3. Other Equity

Matter contained in Financial Statements

Under a Note on Other Equity, Securities Premium Account and FCMITDA have been disclosed.

Abstract of Note 12: Other Equity given in the Annual Report reads as below:

Note 12:

“**Other Equity**

(Amount in Rs.)

Particulars	**31 March 20XX**	**31 March 20YY**	**1 April 20ZZ**
…	…	…	…
Foreign currency monetary items translation difference account (FCMITDA)	XXX	XXX	XXX
Deficit in statement of profit and loss	XXX	XXX	XXX
	XXX	XXX	XXX”

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

Paragraph 79(b) of Ind AS 1

“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 and Surplus:

…

(a) Capital Reserves

(b) Securities Premium

(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 on 'Other Equity' that Foreign Currency Monetary Items Translation Difference Account has been disclosed under the head of Other Equity, however, nature and purpose of FCMITDA has not been disclosed in line with paragraph 79(b) of Ind AS 1 read with paragraph 8.2.2.1 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 1 and Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of financial statements.

4. Retained Earnings

Matter contained in Financial Statements

In the financial statements, Retained Earnings have been disclosed on the face of balance sheet at Nil value. Abstract of Balance Sheet reads as under:

"Balance Sheet as at 31st March 20XX

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Equity and Liabilities		
Equity		
(a) Equity Share Capital	XXX	XXX
(b) Retained Earnings	NIL	NIL
(c) Other Equity	XXX	XXX
Total Equity	XXX	XXX"

Principle: Format of Balance Sheet as prescribed under Division II- Ind AS Schedule III to the Companies Act, 2013

Part I: Balance Sheet

Name of the Company…

Balance Sheet as at …

PARTICULARS	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
EQUITY AND LIABILITIES		
Equity		
(a) Equity Share Capital	XXX	XXX
(b) Other Equity	XXX	XXX"

Observation

It was noted that the company has disclosed Equity on the face of the Balance Sheet as follows:

a) Equity Share Capital

b) Retained Earnings

c) Other Equity

It was viewed that there is no requirement to disclose 'Retained Earnings' on the face of the Balance Sheet. The prescribed format of the Balance Sheet requires only two items to be disclosed as part of Equity which are 'equity share capital' and 'other equity'. It was viewed that as per the prescribed format of the Statement of Changes in Equity as prescribed under Division II – Ind AS Schedule III to the Companies Act, 2013, retained earnings are disclosed as part of the 'Statement of Changes in Equity'.

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

Chapter-3

Observations related to Liabilities

1. Borrowings

Matter contained in Financial Statements

In one of the financial statement loan repayable on demand was disclosed as term loan under the head 'Borrowings'.

The relevant abstract of note on borrowings reads as under:

"Borrowings

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
Term loan – (From Holding Company-X Ltd.)*	XXX	XXX
Total	XXX	XXX
* Repayable on demand		

*Repayable on demand

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

Paragraph 8.2.3.7

"…the phrase "term loan" has not been defined in the Schedule III. Term loans normally have a fixed or pre-determined maturity period or a repayment schedule."

Observation

The Board noted from the note on 'Borrowings' that the company has disclosed 'Loan Repayable on Demand' as a Term Loan. It was viewed that the loan repayable on demand shall not be classified as 'term loan' as the basic characteristics of a term loan is that it has a fixed or predetermined maturity period or a repayment schedule. However, loan payable on demand cannot be said to have a fixed or pre-determined maturity period. It is payable on demand. The same should have been disclosed as ''Loans repayable on demand'' in accordance with paragraph 6 F I (i) (a) of the General Instructions for the preparation of Balance Sheet under Division II-Schedule III.

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

2. Borrowings

Matter contained in Financial Statements

In the Note on Related Party Transactions, under disclosures about transactions with related parties during the year, it was disclosed that debentures were issued to holding company and ultimate holding company.

The relevant abstract of Note on Related Party Transactions given in the financial statement is reproduced below:

"Related Party Disclosures

B) Details of transactions with related party for the year ended March 31, 20XX:

Amount (Rs. 000)

Nature of transactions	**Nature of relationship**		**Total**
	Holding Company	**Ultimate Holding Company**	
4. Issue of Debenture to X Ltd.	XXX	XXX	XXX
5. Issue of Debenture to Y Ltd.	XXX	XXX	XXX"

Principle: Ind AS 24: Related Party Disclosures

Paragraph 18

"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;"

(Emphasis added)

Observation

It was noted from the note on 'Related Party Transactions' that debentures were issued to holding company and ultimate holding company and same was disclosed as transactions entered with them during the year. However, the amount outstanding towards these debentures was not disclosed. Board viewed that as per the paragraph 18(b) of Ind AS 24 the amount of outstanding balances are also required to be disclosed by the enterprises.

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

3. Trade Payables

Matter contained in Financial Statements

In the Balance Sheet of one of the Company, Trade Payables relating to MSME were not disclosed separately.

The relevant abstract of Balance Sheet is reproduced below:

"Trade Payables

(Amount in Rs.)

Particulars	Note	31 March 20XX	31 March 20YY	1 April 20ZZ
Trade payables	15	XXX	XXX	XXX"

Principle: Format of Balance Sheet prescribed under Part – I of the Division II – Ind AS Schedule III to the Companies Act, 2013

Part I – BALANCE SHEET

Name of the Company….

Balance Sheet as at….

(Rupees in….)

Particulars	**Note No.**	**Figures as at the end of current reporting period**	**Figures as at the end of the previous reporting period**
1	2	3	4
………..	---	---	---
Current liabilities			
(a) Financial Liabilities			
(ii) Trade Payables: -			
(A) total outstanding dues of micro enterprises and small enterprises; and			
(B) total outstanding dues of creditors other than micro enterprises and small enterprises."			

Observation

The Board noted from the disclosures made in the Balance Sheet that disclosure of trade payables was not made by the company in the format prescribed under Schedule III as mentioned above. It was noted that details of total outstanding dues of MSME were not disclosed separately 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 regarding disclosure of outstanding dues of MSME were not complied in preparation and presentation of the financial statement.

4. Trade Payables

Matter contained in Financial Statements

In the Note on Trade Payables, disclosures regarding MSMED enterprises were not given. The relevant abstract of the Note on Trade Payables is reproduced below

"Trade Payables

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Trade payable for goods & services	XXX	XXX
Trade payable for salaries and wages	XXX	XXX
Total	**XXX**	**XXX"**

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

Paragraph 6(FA) of General Instructions for preparation of Balance Sheet given under Part – I of Division II of Schedule III to the Companies Act, 2013, introduced by MCA Notification No. GSR 679(E) dated 4 September 2015, requires as follows:

"FA. Trade Payables

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes: -

a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year.

b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.

c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006.

d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006."

Observation

It was noted from the disclosure made in the note on 'Trade Payables' that trade payables were disclosed by way of two-line items viz. 'trade payables for goods and services' and 'trade payables for salaries and wages.' It was further noted that neither on the face of the balance sheet nor in the notes to the accounts the trade payables were segregated into two parts viz. 'total outstanding dues to micro enterprises and small enterprises' and 'others.' Also, the details required under paragraph 6(FA) of General Instructions for preparation of Balance Sheet, Part – I of Division II of Schedule III to the Companies Act, 2013, as mentioned above, were not disclosed by the company.

Accordingly, it was viewed that the requirements of Division II of Schedule III to the Companies Act, 2013 regarding disclosure of trade payables have not been complied with in preparation and presentation of the financial statements.

5. Provisions

Matter contained in Financial Statements

Under a Note on Provisions, provision for miscellaneous liabilities has been disclosed.

The relevant abstract of the Note on Provisions is reproduced below:

“Provisions

(Amount in Rs.)

Particulars	**For Year ended 31st March 20XX**	**For Year ended 31st March 20YY**
B. Provision-Current		
Provision for Miscellaneous Liabilities	XXX	XXX”

Principle: General Instructions for preparation of Balance Sheet of Division II -Ind AS Schedule III to the Companies Act, 2013 Paragraph 6(F)(IV) of General Instructions for preparation of Balance Sheet given under Part I of Division II -Ind AS Schedule III to the Companies Act, 2013

“IV. Provisions: The amounts shall be classified as-

(i) provision for employee benefits; and

(ii) Others (specify nature).”

Observation

It was noted from the financial statements that a line item ‘Provision for Miscellaneous Liabilities’ was given under the note on ‘Provisions’. It was viewed that in the given case, ‘Provision for miscellaneous liabilities’ may include provision for employee benefits and other provisions such as provision for warranties, provision for decommissioning liabilities etc. It was viewed that paragraph 6(F)(IV) of General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013 requires separate disclosure for provision for employee benefits and other provisions by specifying the nature of such other provisions.

Accordingly, it was viewed that the disclosure of provisions is not in line with the paragraph 6(F) (IV) of General Instructions for preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013.

6. Provisions

Matter contained in Financial Statements

The relevant abstract of the Accounting Policy on Provisions is reproduced below:

"A provision is recognized when the Company has a present obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates."

Principle: **Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets**

Paragraph 46

"Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material."

Observation

The Board noted from the adopted policy on 'Provisions' that provisions were not discounted to their present value. It was viewed that paragraph 46 of Ind AS 37 specifically provides that if the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Accordingly, an outright statement that no provision is discounted without giving accord to the time value of money and materiality of its effect, is not correct and not in line with the paragraph 46 of Ind AS 37.

Accordingly, it was viewed that the accounting policy on provisions is not in line with the requirements of paragraph 46 of Ind AS 37.

7. Other Current Liabilities

Matter contained in Financial Statements

In the financial statements of a company, under Note on Provisions, provident fund payable, profession tax payable is included.

The relevant abstract of the Note on Provisions is reproduced below:

“Provisions

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Provisions for Employee Benefit	XXX	XXX	XXX
Other provisions	XXX	XXX	XXX
Provident Fund Payable	XXX	XXX	XXX
Professional tax payable	XXX	XXX	XXX”

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

Paragraph 8.2.11

Other Current Liabilities

“The amounts shall be classified as: (a) revenue received in advance;

(b) other advances (specify nature);

(c) others (specify nature);

…Trade Deposits and Security Deposits, which do not meet the definition of financial instruments, should be classified as ‘Others’ grouped under this head. Others may also include liabilities in the nature of statutory dues such as Withholding taxes, Service Tax, VAT, Excise Duty, Goods and Services Tax (GST), etc.

Guidance on disclosure under this clause should be drawn from the guidance given under Other Non-Current Liabilities, to the extent applicable.”

Observation

The Board viewed that as per the above stated requirements, provident fund payable and professional tax payable should be included under sub head of statutory dues payable under other current liabilities rather than provisions.

Accordingly, it was viewed that the disclosure of ‘provident fund payable’ and ‘professional tax payable’ under the head of provisions is not correct and not in line with the Paragraph 8.2.11 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.

Chapter-4

Observations related to the Statement of Profit and Loss

1. Interest income

Matter contained in the Financial Statements

Interest income is not recognized on the basis of effective interest rate (EIR) method. The relevant abstract of the accounting policy on other income reads as follows:

"Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accounted on accrual basis. Dividend income is accounted for when the right to receive is established."

Principle: Ind AS 109: Financial Instruments

Paragraph 5.4.1

"Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods."

Observation:

The Board viewed that as per paragraph 5.4.1 of Ind AS 109 interest income is required to be measured using the effective interest rate method. However, it was noted from the accounting policy on Other Income that the interest income has not been recognised using EIR method.

Accordingly, it was viewed that the requirements of Ind AS 109 have not been complied with in preparation and presentation of the financial statements.

2. Lease income

Matter contained in the Financial Statements

Note on 'Other Income' disclosed that the company has earned significant rental income, however, no accounting policy was disclosed for lease income. The relevant abstract of Note on 'Other Income' is reproduced below:

"**Other Income**

Particulars	**31 March 20XX**	**31 March 20YY**
Rental income	XXX	XXX"

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 117

"An entity shall disclose in the summary of significant accounting policies:

(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:

The Board noted that the company has earned material rental income in current year and previous year, however, accounting policy for recognition and measurement of lease income has not been disclosed. Further no disclosures were made regarding leases as required by Ind AS 17.

Accordingly, it was viewed that the requirements of Ind AS 1 and Ind AS 17 have not been complied with.

3. Government Grant

Matter contained in the Financial Statements

From the Note on Capital and other commitments, it was noted that company has received exemption of custom duty under Software Technology Parks of India scheme. The relevant abstract of note on 'Capital and Other Commitments' is reproduced below:

"Capital and Other Commitments

…

Other Commitments

The Company has export obligations under the Software Technology Parks of India (STPI) scheme. In accordance with such scheme, the Company procures capital goods without payment of duties, for which, agreements and bonds are executed by the Company in favor of the Government. In case the Company does not fulfil the export obligation, it is liable to pay, on demand an amount equal to such duties saved including interest and liquidated damages. As at March 31, 20XX, the Company has availed duty benefits. The Company expects to meet its commitment to earn requisite revenue in foreign currency as stipulated by the STPI regulations."

Principle: Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

Paragraph 3

"Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity."

Paragraph 39(a)

"The following matters shall be disclosed:

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;"

Observation

The Board viewed that the exemption of custom duty under Software Technology Parks of India scheme is a government grant and should be accounted for as per the provisions of Ind AS 20. However, the company has not disclosed the policy on accounting for Government Grant as required by paragraph 39(a) of Ind AS 20.

Similar view was taken by the ITFG, ICAI under Issue 105 given in the Compendium of ITFG Clarification Bulletins, December 2018 edition.

Accordingly, it was viewed that the requirements of Ind AS 20 have not been complied with.

4. Director Sitting Fees

Matter contained in the Financial Statements

Directors' sitting fee was disclosed under the note on 'Other Expenses'. The relevant abstract of the note on 'Other Expenses' is reproduced below:

(Amount in Rs.)

Particulars	**For Year ended 31st March 20XX**	**For Year ended 31st March 20YY**
Director Sitting Fees	XXX	XXX"

Principle: Ind AS 19: Employee Benefits and Guidance Note on Division II-Ind AS Schedule III to the Companies Act 2013

Paragraph 7 of Ind AS 19: Employee Benefits

"An employee may provide services to an entity on a full -time, part time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel."

Paragraph 9.5.4.1 of Guidance Note on Division II-Ind AS Schedule III to the Companies Act 2013

…

The term employee should be deemed to include directors who are either in whole-time or part time employment of the company.

…

Observation

The Board noted from the note on 'Other Expenses' that directors' sitting fees was disclosed thereat. It was viewed that the directors' sitting fees should have been disclosed under the head employee benefit expenses in line with paragraph 7 of Ind AS 19 read with Paragraph 9.5.4.1 of Guidance Note on Division II-Ind AS Schedule III to the Companies Act 2013.

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

5. Employee Benefits

Matter contained in the Financial Statements

The accounting policy on employee benefits given in the financial statements, *inter alia*, states that the actuarial gain/loss are taken to the Statement of Profit and Loss. The relevant abstract of Note 1.10 on accounting policy on employee benefits is reproduced below:

"**1.10 Employee Benefits**

"…

Actuarial gains/losses are immediately taken to statement of profit and loss and are not deferred."

Principle: Ind AS 1: Presentation of Financial Statements and Ind AS 19: Employee Benefits

Paragraph 7 (b) of Ind AS 1: Presentation of Financial Statements

Definitions

"Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other Ind ASs.

The components of other comprehensive income include:

…

(b) remeasurements of defined benefit plans (see Ind AS 19, Employee Benefits);"

Paragraph 57 (d) and 135 of Ind AS 19: Employee Benefits

Paragraph 57 (d)

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

…

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately."

Paragraph 135

"135 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 stated accounting policy that the gain /loss on actuarial valuation has been transferred to the statement of profit and loss. However, the Board viewed that gain/ loss on actuarial valuation should be taken to the Other Comprehensive Income (OCI) as per the definition of OCI given under Paragraph 7 (b) of Ind AS 1 rather than Profit and Loss.

The Board, further, noted that disclosures as required under Paragraphs 57 (d) and 135 of Ind AS 19 have also not been given by the company.

Accordingly, it was viewed that the requirements of Ind AS 1 and 19 have not been complied with in preparation and presentation of the financial statements.

6. Employee Benefits

Matter contained in the Financial Statements

Under the Note on Provisions, the Provision for Employee Benefits pertaining to Compensated Absences, and Long Service Award were stated but the same were not measured using the actuarial method. The relevant abstract of Note on Provisions is reproduced below:

"Provisions

(Rs. in Lakhs)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Non-Current:		
Provision for employee benefits:		
Provision for compensated absences	XXX	XXX
Provision for gratuity [Refer note aa]	XXX	XXX
Provision for long service award	XXX	XXX"

Principle: Ind AS 19: Employee Benefits

Paragraph 8

"Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits."

Paragraph 153

"Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

(a) long-term paid absences such as long service or sabbatical leave;

(b) jubilee or other long service benefits;

(c) long-term disability benefits.

(d) profit-sharing and bonuses; and

(e) deferred remuneration."

Paragraph 155

"In recognising and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right."

Observation

It was viewed that as per the requirements of Paragraph 155, Other Long-term Employee Benefits (e.g. long term compensated absences and long service award) are required to be recognised and measured in a manner similar to defined benefit plans, i.e. using projected unit credit method to determine the present value of the defined benefit obligation (i.e. the actuarial method) except that the components of costs are not disaggregated and re-measurements are not recognised in statement of other comprehensive income and instead recognised with the statement of profit or loss.

However, in the given case, long term compensated absences and long service awards are not measured in line with the above-mentioned requirements as the same are not measured using the actuarial method.

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

7. Employee Benefits

Matter contained in the Financial Statements

An abstract of Accounting Policy on Employee Benefits reads as follows:

"Statement on Significant Accounting Policies:

Employee Benefits: All employee benefits payable wholly within twelve months rendering service are classified as short - term employee benefits. Benefits such as salaries, wages, short-term compensated absences, performance incentives etc., and the expected cost of bonus, ex-gratia are recognized during the period in which the employee renders related service."

Further it was stated by the Company that Gratuity liability for the year is determined on actuarial valuation by The Life insurance company of India with whom the company has taken a policy for settlement of future gratuity liability.

Principle: Ind AS 1: Presentation of Financial Statements and Ind AS 19: Employee Benefits

Paragraph 112(a) read with paragraph 117 of Ind AS 1: Presentation of Financial Statements:

"112. The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124"

"117. An entity shall disclose in the summary of significant accounting policies:

(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."

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 accounting policy on 'Employee Benefits' that a mere statement as to how employee benefits are classified as short-term employee benefits and description of constituents of employee benefits has been made. It was viewed that such statement is not an accounting policy as it does not state anything as to how the employee benefits are recognized and measured in the books of account. It was viewed that policy on employee benefits is an important accounting policy and should be disclosed by the company along with other accounting policies.

It was viewed that requirements of paragraph 112 read with paragraph 117 of Ind AS 1 have not been complied with in preparation and presentation of the financial statements.

It was, further, noted that employee benefits expenses have been disclosed which include contribution to provident funds and other funds. However, no disclosure was found in the financial statements regarding Gratuity which is a defined benefit plan in line with paragraph 135 of Ind AS 19.

Further, the company has also not disclosed the reconciliation of opening and closing balances of plan assets in line with paragraph 140 and 141 as well as the significant actuarial assumption in line with paragraph 144 of Ind AS 19.

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

8. Other Expenses

Matter contained in the Financial Statements

The amount of "Other Expenses" as reported in the Statement of Profit and Loss and in the corresponding Note of Other Expenses for the year ended 31st March 20XX and 31st March 20YY is different.

Observation

It was noted that the amount of "Other expenses" as reported in the Statement of Profit and Loss were not tallying with the corresponding note on Other Expenses for the same financial year. It was viewed that such mistakes should be avoided in the Financial Statements.

9. Preliminary Expenses

Matter contained in the Financial Statements

The accounting policy on preliminary expenses states that it is fully written off during the year on Ind AS adoption. The relevant abstract of Note on 'Other Assets' and accounting policy on Preliminary expenses read as below:

Other Assets

(Amount in Rs.)

"Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Non-Current		
Preliminary Expenses	XXX	XXX"

Accounting Policy on Preliminary Expenses

"Preliminary and Pre- Operating expenses are written off entirely during the year on adoption of Ind AS."

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

Paragraph 42

"Subject to paragraph 43, an entity shall correct material prior period errors 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 45 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable."

Observation

It was noted from the note on 'Other Assets' read with the accounting policy of 'Preliminary Expenses' that preliminary expenses were stated to have been written off entirely during the year on adoption of Ind AS. Since this is the first year of presentation of Ind AS financial statements the said adjustments should have been carried out in line with the above stated requirement of Ind AS 8.

Accordingly, it was viewed that the requirements of Ind AS 8 have not been complied with in preparation and presentation of the financial statements.

10. Corporate Social Responsibility

Matter contained in the Financial Statements

Certain disclosures of Corporate Social Responsibility (CSR) expenses have not been made in the financial statements. The relevant abstract of 'Other Expenses' given in the financial statements read as follows:

"**Other Expenses**

(Rs. in Lacs)

	Year Ended 31.03.20XX	**Year Ended 31.03.20YY**
…………….	---	---
CSR related expenses	XXX	XXX"

The amount of "Other Expenses" as reported in the Statement of Profit and Loss and in the corresponding Note of Other Expenses for the year ended 31st March 20XX and 31st March 20YY is different.

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

Paragraph 11.5(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.

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

Observation

It was noted from the Note on 'Other Expenses' that the company has incurred expenses on CSR activities. However, the company has not disclosed the gross amount required to be spent during the year, amount spent on construction and otherwise in line with paragraph 11.5(b) of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of paragraph 11.5(b) 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.

11. Impairment Loss

Matter contained in the Financial Statements

Under a Note on Investments, impairment on investment has been deducted from cost of investments. Further, additional impairment loss has been recognized during the year. The relevant abstract of Note on Investments is reproduced below:

"Investments

Investments in unquoted equity shares (fully paid, carried at cost, unless stated otherwise)		**As on 31.3.20XX (Qty)**	**As on 31.3.20XX (Amount)**	**As on 31.3.20YY (Qty)**	**As on 31.3.20YY (Amount)**
XYZ Ltd. (At cost less impairment of Rs. XXX (Prev. Year Rs. XXX)	Euro 10	xxx represents 100% of paid-up capital	XXX	100% of paid-up capital	XXX

Principle: Ind AS 36: Impairment of Assets

Paragraph 130

"An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit: (a) The events and circumstances that led to the recognition or reversal of the impairment loss.

…"

Observation

It was noted that impairment on investment has been deducted from the cost of investments. Further, it was noted that additional impairment loss has been recognised during the year in investments and provision for impairment of investments has been charged to the Statement of Profit and Loss. It was viewed that the circumstances which led to the recognition of impairment loss during the year has not been disclosed anywhere in the financial statements.

Accordingly, the requirements of paragraph 130 (a) of Ind AS 36 have not been complied with.

12. Extraordinary item

Matter contained in the Financial Statements

In the financial statements, under the Statement of Profit and Loss, the company has disclosed a separate line-item as extraordinary items. The relevant abstract of the Statement of Profit and Loss is reproduced below:

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Profit / (loss) before extraordinary items and tax	XXX	XXX
Extraordinary Items	XXX	XXX
Profit before tax	XXX	XXX"

Principle: Ind AS 1: Presentation of Financial Statements:

Paragraph 87

"An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes."

Observation

It was noted that the company has disclosed a separate line item as 'extraordinary item', though such item has Nil amount, on the face of the Statement of Profit and Loss. The Board viewed that paragraph 87 of Ind AS 1 prohibits any items to be disclosed as extraordinary item in the Statement of Profit and Loss.

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

13. Income Tax

Matter contained in the Financial Statements

The accounting policy on 'Income Taxes' states that provision for current tax has not been made since the company does not have taxable income. The relevant abstract of Note on accounting policy on Income Tax is reproduced below:

"(g) Income Tax

The Company does not have taxable income and hence no provision for current tax has been made."

> **Principle: Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors**
>
> **Paragraph 7**
>
> "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 the accounting policy on Income Tax that a simple statement of fact providing the reason for not recognizing tax expense has been disclosed thereat. The Board viewed that the accounting policy on current taxes should be disclosed in detail keeping in view the requirements of Ind AS 12, Income Taxes for the understanding of the users of the financial statements.

Accordingly, it was viewed that the complete accounting policy for Income Tax has not been disclosed which is not in line with the requirement of Ind AS 8 and Ind AS 12.

14. Income Tax

Matter contained in the Financial Statements

The accounting policy of Income Tax, *inter alia*, states that the deferred tax assets have been recognized and carried forward only to the extent of reasonable or virtual certainty, as the case may be, that the assets will be realized in future. The relevant abstract of Accounting Policy on Income Tax reads as under:

“Income Tax:

1. Provision for Current Tax is made as per the provisions of the Income Tax Act, 1961.
2. Deferred Tax resulting from "timing differences that are temporary in nature" between accounting and taxable profit is accounted for, using the tax rates and laws that have been enacted as on the Balance Sheet date. The deferred tax assets are recognized and carried forward only to the extent that there is a reasonable or virtual certainty, as the case may be, that the assets will be realized in future.”

Principle: Ind AS 12: Income Taxes

Paragraph 24

“A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognized in accordance with paragraph 44.”

Observation

The Board viewed that the use of the word ‘reasonable and virtual certainty’ has been derived from AS 22 on “Accounting for taxes on Income” under Indian GAAP. However, financial statements are prepared by the company under Ind AS framework and paragraph 24 of Ind AS 12 uses the term ‘probable’ and not the terms ‘reasonable or virtual certainty’.

Accordingly, it was viewed that the adopted policy on Income Taxes is not in line with the Ind AS 12.

15. Deferred Tax Liabilities

Matter contained in the Financial Statements

The accounting policy on Income Taxes did not disclose the principle for recognition of Deferred Tax Liabilities (DTL). The relevant abstract of accounting policy on Income Tax reads as follows:

"**Income Tax**

…

Deferred tax liabilities are not recognized for temporary differences between the carrying amount and tax bases of investments in subsidiaries, branches and associates and interest in joint arrangements where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets are not recognized for temporary differences between the carrying amount and tax bases of investments in subsidiaries, branches and associates and interest in joint arrangements where it is not probable that the differences will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized

Deferred tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively."

Principle: Ind AS 12: Income Taxes

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

Paragraph 15

A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

   (i) is not a business combination; and

   (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognized in accordance with paragraph 39.

Observation

It was noted from the stated policy on Income Tax that the timing of recognition of Deferred Tax Assets (DTA) is mentioned therein, however, the timing of recognition of Deferred Tax Liabilities (DTL) was not given.

Accordingly, it was viewed that the adopted policy on 'Income Taxes' is not complete since it does not describe how the recognition of deferred tax liabilities was done and whether the same was in line with paragraph 15 of Ind AS 12.

16. MAT Credit Entitlement

Matter contained in the Financial Statements

In the Statement of Profit and Loss, MAT credit entitlement as well as deferred tax has been disclosed as separate line items. The relevant abstract of the Statement of Profit and Loss is reproduced below:

"**Statement of Profit and Loss**

(Rs. in million)

Particulars	**For the year ended 31 March, 20XX**	**For the year ended 31 March, 20YY**
Tax Expenses:		
Current tax	XXX	XXX
Add: MAT credit entitlement	XXX	XXX
Deferred tax charge / (credit)	XXX	XXX
Total tax expense	**XXX**	**XXX"**

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

Paragraph 9.7.2

"……. MAT Credit Entitlement should be grouped with deferred tax in the Statement of Profit and Loss and a separate note should be provided specifying the amount of MAT Credit".

Observation

The Board viewed that MAT credit should be grouped with deferred tax and accordingly, it should have been disclosed under the head "Deferred tax" in line with the paragraph 9.7.2 of the Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.

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

17. Earnings Per Share

Matter contained in the Financial Statements

From the notes to the financial statements, it was noted that bonus shares were issued by the company during the year, but these bonus shares were not considered for calculation of basic and diluted earnings per share of previous year. The relevant abstract of Note on Earnings per share (EPS) and Statement of Changes in Equity read with Note on Other Equity is reproduced below:

"Note 33 Earnings per Share (EPS)

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
Profit after Tax (Rs. In Lacs)	XXX	XXX
Weighted average number of equity shares – Basic and Diluted	XXX	XXX
Earnings Per Share (in Rs.) – Basic and Diluted	XXX	XXX"

Note (i): The Board of directors in its meeting held on ……, 20XX had recommended issue of bonus shares in the ratio of one equity shares of Rs. 1 each for one existing equity share of Rs. 1 each held. The issue of bonus share was approved by the shareholders on ……, 20XX and accordingly the company allotted …... fully paid equity shares on ……, 20XX."

"**Statement of Changes in Equity**

Equity Share Capital

……….

B. Other Equity

(Rs. in Lacs)

Particulars	**General Reserve**	**Retained Earnings**	**Total Other Equity**
……….	---	---	---
As at 31st March, 20XX	XXX	XXX	XXX"

"Note on Other Equity

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
……….	---	---
Total	XXX	XXX"

Principle Ind AS 33: Earning Per Share

Paragraph 64

"If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively"

Observation

It was noted that the bonus shares were issued by the company during the year and the same has, although, been considered for calculation of basic and diluted earnings per share for current financial year, however, these bonus shares were not considered for calculation of basic and diluted earnings per share of previous year. It may be noted that paragraph 64 of Ind AS 33 provides that in case of issue of bonus shares, calculation of basic and diluted earnings per share for all period presented will be adjusted retrospectively.

Accordingly, it was viewed that requirements of paragraph 64 of Ind AS 33 have not been complied with in preparation and presentation of the financial statements.

18. Other Comprehensive Income

Matter contained in the Financial Statements

Income tax pertaining to items included in Other Comprehensive Income has not been disclosed by various companies. The relevant abstract of the Statement of Profit and Loss given in one of the financial statements reviewed by the Board read as follows:

"Statement of Profit and Loss

(Amount in Rs.)

Particulars	**As at 31.03.20XX**	**As at 31.03.20XX**
Other Comprehensive Income (net of tax)	XXX	XXX"

Principle: Ind AS 12: Income Taxes, Ind AS 1: Presentation of Financial Statements and Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

Paragraph 81 of Ind AS 12: Income Taxes

"The following shall also be disclosed separately:

(a) the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A),

(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and Ind AS 1)"

…

Paragraph 90 of Ind AS 1: Presentation of Financial Statements

"An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes."

Paragraph 9 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

"Other comprehensive income shall be presented as:

(a) Items that will not be reclassified to profit or loss and its related income tax effects,

(b) Items that will be reclassified to profit or loss and its related income tax effects."

Observation

The Board noted from the Statement of Profit and Loss that it contains only one line item pertaining to Other Comprehensive Income which is "Other Comprehensive Income (net of tax)". It was observed that the amount of income tax relating to the components of Other Comprehensive Income has not disclosed separately as required by paragraph 81 of Ind AS 12, paragraph 90 of Ind AS 1 and paragraph 9 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 12, Ind AS 1and Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

19. Other Comprehensive Income

Matter contained in the Financial Statements

No disclosure was given for 'Other Comprehensive Income (OCI)' in the Ind AS financial statements. The Relevant abstract of Introductory Paragraph of Auditor report is reproduced below:

Independent Auditor's Report

"Report on the Financial Statements

We have audited the accompanying financial statements of XYZ Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, the Statement of Profit and Loss (including Other Comprehensive Income) the Statement of Cash Flow and the Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information…"

Principle: PART II – STATEMENT OF PROFIT AND LOSS, Division II – Ind AS Schedule III to Companies Act, 2013

Name of the Company……………………

Statement of Profit and Loss for the period ended ………………………

XIV Other Comprehensive Income

A (i) Items that will not be reclassified to profit or loss

(ii) Income tax relating to items that will not be reclassified to profit or loss

B (i) Items that will be reclassified to profit or loss

(ii) Income tax relating to items that will be reclassified to profit or loss

XV Total Comprehensive Income for the period (XIII+XIV) (Comprising Profit (Loss) and Other Comprehensive Income for the period).

Observation

It was noted from the introductory paragraph given in Auditor's Report that the auditor has reported on Other Comprehensive Income in this Paragraph. However, it was noted that in the Statement of Profit and Loss, the company has not disclosed its Other Comprehensive Income. The Board viewed that even if the amount of OCI is nil, still it should be disclosed as part of Total Comprehensive Income as per the format prescribed.

Accordingly, it was viewed that the requirements of the Division II - Ind AS Schedule III to the Companies Act 2013 have not been complied with regarding disclosure of 'Other Comprehensive Income'.

20. Non – Disclosure of Accounting Policy

Matter contained in the Financial Statements

The Note on 'Other Income' included a line item "Other Income" with significant amount. The relevant abstract of Note on 'Other Income' is reproduced below:

Other Income

(Amount in Rs.)

Particulars	**For Year ended 31st March 20XX**	**For Year ended 31st March 20YY**
Interest Income- Bank Deposits	…	…
Other Income#	XXX	XXX
Total	…	…

#Other income includes amount received towards technical services provided by the Company."

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 117

"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

The Board noted from the given note that ‘Other Income’ constitutes 94% of the total income and such ‘other income’ includes amount received towards technical services provided by the Company. The Board viewed that although such material amount has been received by the company as ‘other income’, however, the accounting policy adopted for its recognition was not disclosed in the financial statement as required by paragraph 117 of Ind AS 1.

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

21. Others

Matter contained in the Financial Statements

Under the Statement of Profit and Loss there is a sale of traded goods, however, under note on Corporate Information, it is mentioned that the company has not carried out any trading activity during the year. The relevant abstracts of the Statement of Profit and Loss and Note on Corporate Information are reproduced below:

“Statement of Profit and Loss

(Amount in Rs.)

Particulars	For Year Ended 31st March 20XX	For Year Ended 31st March 20YY
Sale of traded goods	XXX	XXX”

Note on Corporate Information

“XYZ Holdings Private Limited (“the Company”) is a private limited company incorporated in India on ………., 20ZZ, having its registered office at ……. The main object of the company is to carry and undertake the business of leasing, hire purchase and investments. During the year the company has not carried on any trading activity.”

Observation

The Board noted from the Statement of Profit and Loss that there have been sales of traded goods during the year. However, under Corporate Information given in the Notes to accounts, it was mentioned that during the year the company has not carried out any trading activity.

Accordingly, it was viewed that the contrary information was given in the same set of financial statements which should be avoided.

Chapter-5

Observations related to Statement of Cash Flows

1. Disclosure for Changes in Liabilities from Financing Activities

Matter contained in Financial Statements

The relevant abstract of the Cash Flow Statement and the Note on Other Financial Liabilities given in one of the Annual Report read as follows:

“Cash Flow Statement for the year ended 31st March 20XX

(Rs. in ‘000)

Particulars	Year ended 31-3-20XX	Year ended 31-3-20YY
………..	---	---
C. Cash Flow from Financing Activities		
Proceeds / (repayment) of borrowings	XXX	XXX"

“Note on Other Financial Liabilities

(Rs. in ‘000)

Particulars	As at March 31, 20XX	As at March 31, 20YY
Interest accrued on Borrowings	XXX	XXX”

Principle: Ind AS 7: Cash Flow Statement

Paragraph 44A

“An entity shall provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.”

Observation

The Board noted from the Cash Flow Statement that an inflow of Rs. XXX Thousand had been reported as proceeds from borrowings. It was, further, noted from the Note on Other Financial Liabilities that such inflow has arisen due to the accumulation of accrued interest on borrowings. The Board viewed that there had not been any actual cash flow but a mere increase in accumulated interest payable on borrowings which is a non-cash transaction. Accordingly, the company should have disclosed the changes in liabilities arising from non-cash changes as well as cash flows, in line with paragraph 44A of Ind AS 7.

Accordingly, it was viewed that requirements of paragraph 21 and 44A have not been complied with in preparation and presentation of the cash flow statement.

2. Disclosure for Changes in Liabilities from Financing Activities

Matter contained in Financial Statements

The Cash Flow Statement has been provided by the company; however certain specified disclosures have not been provided. The relevant abstract of Cash Flow Statement is reproduced below:

"Cash Flow Statement

(Rs. in Thousands)

Particulars	**For the Year ended 31St March 20XX**	**For the Year ended 31St March 20YY**
C. Cash Flow from financing activities		
Repayment of Borrowings	XXX	XXX
Proceeds from Borrowings	XXX	XXX"

Principle: Ind AS 7: Statement of Cash flows

Paragraphs 44A to 44 E

"44A. An entity shall provide disclosures that enable users of financial 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 cash flows 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 statement of financial position 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 statement of financial position 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."

Observation

The Board noted from the financial statements that the specified disclosures in aforesaid paragraph of Ind AS 7, Statement of Cash flows have not been provided by the company. It was noted that the requirement of paragraph 44A to 44E is effective on or after 1st April 20YY, however, the same has not been disclosed by the company.

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

3. Disclosure of Cash Flows on Gross Basis

Matter contained in the Financial Statements

In one of the financial statements reviewed by the Board 'proceeds from borrowing' was disclosed on net basis under 'Cash Flows from Financing Activities' in Cash Flow Statement.

The relevant abstract of Cash Flow Statement is reproduced below:

(Amount in Lakhs)

Particulars	Year Ended 31.03.20XX	Year Ended 31.03.20YY
Cash Flow from Financing Activities		
Proceeds/(Repayment) of Borrowings (Net)	XXX	XXX"

Principle: Ind AS 7: Cash Flow Statement

Paragraph 21

"An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis."

Observation

The Board noted from the Cash Flow Statement that under the head of 'Cash flow from Financing Activities', the cash flows relating to proceeds from, or repayment of borrowings was reported on net basis instead of disclosing figures of gross receipts and repayments, separately, as required by paragraph 21 of Ind AS 7.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with in preparation and presentation of the cash flow statement.

4. Unpaid Dividends

Matter contained in the Financial Statements

Under the Cash Flow Statement, reconciliation of cash and cash equivalents has been shown. Further unpaid dividend has been disclosed under Other

Financial Liabilities and one of the notes to accounts related to dividend states as follows:

"…High Court passed an interim order dated September XX, XXXX *inter alia* restraining the Company from distributing any dividend or depositing the same in the dividend distribution account in accordance with the provisions of the Companies Act, 1956 (to be read as Companies Act, 2013) pending the final hearing.

The relevant abstract of the Cash Flow Statement read with Note on Other Financial Liabilities is reproduced below:

"Cash Flow Statement for the year ended March 31, 20XX

…………….

(Rs. in Lacs)

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
Cash and cash equivalents	XXX	XXX
Other Bank Balances	XXX	XXX
Sub Total	XXX	XXX
Unrealized Loss / (Gains) on foreign currency cash and cash equivalents	XXX	XXX
Cash and Cash Equivalents	XXX	XXX

"Note on Other Financial Liabilities

(Rs. in Lacs)

	Year Ended 31.03.20XX	**Year Ended 31.03.20YY**
…………….	**---**	**---**
Unpaid dividend	XXX	XXX"

Principle: Ind AS 7: Cash Flow Statement

Paragraph 48

"An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group."

Observation

The Board noted from the Cash Flow Statement that although a reconciliation of cash and cash equivalents has been disclosed by the company, however, no disclosure was made either in cash flow statement or notes to the account regarding amount of cash and cash equivalents which are not available for use. It was noted from the Note on Other Financial Liabilities that a liability towards 'unpaid dividends' had been disclosed thereat. Further, the company was prohibited from transferring the dividend amount to separate bank account. Accordingly, it was viewed that cash and cash equivalents to the extent of amount of unpaid dividend is not available to the company for its use, and therefore, appropriate disclosure should have been made in this regard in line with paragraph 48 of Ind AS 7.

Accordingly, it was viewed that the requirements of paragraph 48 of Ind AS 7 have not been appropriately complied with in preparation and presentation of the financial statements.

5. Capital Advance

Matter contained in the Financial Statements

The relevant abstract of Statement of Cash Flows and Note on Capital Advances given under **Financial Statements of a financial enterprise** read as follows:

"Statement of Cash Flows for the year ended 31st March 20XX

(Amount in Rs.)

Particulars	**Year ended 31st March, 20XX**	**Year ended 31st March, 20YY**
Cash Flow from Investing Activities		
....	XXX	XXX"

"Note on Capital Advances

(Amount in Rs.)

Particulars	**31 March 20XX**	**31 March 20YY**
Advance given for purchase of Freehold Land (Investment Property)	XXX	XXX"

Principle: Ind AS 7: Cash Flow Statement

Paragraph 16

"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. Examples of cash flows arising from investing activities are:

(a) …

(b) …

…

(e) cash advances and loans made to third parties (other than advances and loans made by a financial institution);"

Observation

The Board noted from the Note on Capital Advance that there was an increase in advance given for purchase of freehold land indicating that advance was given to party(ies). It was further noted that from the existing investment properties of the enterprise no rental income has been generated during current year and previous year. It was viewed that the capital advances fall in the category of investing activity, and therefore, should be disclosed as such while determining cash flows from investing activities. However, in the given case, the movement in capital advances was adjusted as working capital changes under the head 'cash flow from operating activity.' The Board viewed that cash flow from operating activities signify cash flows primarily occurring due to principal revenue producing activities of the enterprises. However, capital advances cannot be considered as a part of revenue producing activities. Therefore, cash flows from/to capital advances shall be disclosed under 'Cash Flows from Investing Activities' in line with paragraph 16 of Ind AS 7.

Accordingly, it was viewed that the requirement of paragraph 16 of Ind AS 7 has not been complied with in preparation and presentation of the cash flow statement.

6. Exchange Earner Foreign Currency Account

Matter contained in the Financial Statements

The relevant abstract of Note on Cash and Cash Equivalents and Statement of Cash Flow is reproduced below:

"Note on Cash and Cash Equivalents

(Currency: Indian Rupees in crores)

Particulars	**March 31, 20XX**	**March 31, 20YY**
Balances with banks in:		
-exchange earners foreign currency account	XXX	XXX
Cash and cash equivalents in the balance sheet	XXX	XXX"

"Statement of Cash flows

(Currency: Indian Rupees in crores)

Particulars	**March 31, 20XX**	**March 31, 20YY**
Cash and cash equivalents		
Balances with banks in:		
Exchange earners foreign currency account	XXX	XXX"

Principle: Ind AS 7: Cash Flow Statement

Paragraph 28

"Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates."

Observation

The Board noted from the Note on Cash and Cash Equivalents read with the Cash Flow Statement that the company held bank balance in Exchange Earners Foreign Currency Account (EEFC). It was viewed that effect of changes in exchange rates on such balance should have been reported as a separate part of reconciliation of changes in cash and cash equivalents, as required by paragraph 28 of Ind AS 7. However, no such information has been disclosed under Cash Flow Statements.

Accordingly, it was viewed that the requirement of paragraph 28 of Ind AS 7 has not been complied with in preparation and presentation of the cash flow statement.

Chapter 6

Observations related to Other Disclosure

1. Basis of Preparation of Financial Statements

Matter contained in the Financial Statements

The relevant abstract of the note on Basis of Measurement reads as under:

Basis of Measurement

"The financial statements have been prepared on the historical cost basis."

Observation

It was noted from the financial statements that the same were prepared under Ind AS framework. However, under the note on 'Basis of Measurement' the company had disclosed that the financial statements were prepared on the historical cost basis. The Board viewed that such statement made by the company is incorrect because certain financial assets and liabilities would have been measured at fair value and amortised cost in line with the requirements of Ind AS. Accordingly, the Board viewed that the correct policy should have been disclosed by the company.

Accordingly, it was viewed that the accounting policy on "Basis of Preparation" was not correct.

2. Basis of Preparation of Financial Statement

Matter contained in Financial Statements

Disclosure regarding compliance of Ind AS has not been made.

Note: Basis of preparation of financial statements

"These financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises mandatory accounting standards as prescribed under Section 133 of the Companies Act, 2013 ('the Act') read with Rule 7 of the Companies (Accounts) Rules, 2014, the provisions of the Act (to the extent notified) and guidelines issued by the

Securities and Exchange Board of India (SEBI). Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use."

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 16

"An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind Ass unless they comply with all the requirements of Ind ASs."

Observation

The Board viewed that the company has not made explicit and unreserved statement in the financial statements regarding compliance with Ind AS notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended thereafter, in line with paragraph 16 of Ind AS 1.

Accordingly, it was viewed that the requirements of paragraph 16 of Ind AS 1 have not been complied with.

3. Corporate Identification Number

Matter contained in Financial Statements

In the Annual Report of the company, Corporate Identification Number (CIN) number has not been mentioned.

Principle: **Companies Act, 2013**

Section 12 (3) (c)

"Every company get its name, address of its registered office and the Corporate Identity Number along with telephone number, fax number, if any, e-mail and website addresses, if any, printed in all its business letters, billheads, letter papers and in all its notices and other official publications;"

Observation

It was noted from the Annual Report that the company has not disclosed its Corporate Identification Number in line with the requirement of Section 12 (3) (c) of Companies Act, 2013.

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

4. Director Identification Number

Matter contained in Financial Statements

Director's Identification Number was not mentioned. The relevant abstract of the Balance Sheet is reproduced below:

"Balance Sheet as at 31st March 20XX

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
…………….	XXX	XXX
		Mr. ABC Director
		Mr. DEF Director
		Mr. GHI Director

Principle: Companies Act, 2013

Section 158

"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

The Board noted from the Balance Sheet that although the same was signed by the directors, however, the Director Identification Number (DIN) has not been mentioned which is not in line with the requirements of section 158 of the Companies Act, 2013. Similarly, in the Statement of Profit & Loss and Cash Flow Statement only names and signatures of directors were appearing, DIN was not disclosed thereat.

Accordingly, it was viewed that the provisions of Section 158 of the Companies Act 2013 regarding disclosure of DIN have not been complied with.

5. Date of Approval of Financial Statements

Matter contained in Financial Statements

The relevant abstract of the note describing the general information about company read as follows:

"General Information

"The financial statements are approved by Board of Directors in their Board meeting held on dated …."

Principle: Ind AS 10: Events after the Reporting Period

Paragraph 17

"An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact."

Observation

The Board noted that the incomplete information was disclosed in the notes to accounts with regard to approval of financial statements as 'date' has been left blank.

Accordingly, it was viewed that requirements of paragraph 17 of Ind AS 10 have not been complied with in preparation and presentation of the financial statements.

6. Transition to Ind AS

Matter contained in Financial Statements

The relevant abstract of Note on Corporate Information and Note on First time adoption of Ind AS are reproduced below:

Corporate Information

"XYZ Co. Ltd. (the company was incorporated under the Companies Act, 2013 on August 20ZZ for the purpose of development of power sector. The Company is 100% subsidiary of UVW Ltd."

First time adoption of Ind AS

"The accounting policies set out in notes have been applied in preparing the financial statements for the year ended March 31 20XX the comparative information presented in these financial statements for the year ended March 31, 20YY and the preparation of an opening Ind AS balance sheet at April 1 20ZZ (the company's date of transition). In preparing its opening Ind AS balance sheet, the Company has adjusted the amounts reported previously in financial statements prepared in accordance with the accounting standards notified under companies (Accounting Standards) Rules, 2006 (as amended) and other relevant provisions of the act (previous GAAP or Indian GAAP) An explanation of how the transition from previous GAAP to Ind AS has affected the group's financial position, financial performance and cash flow is set out in the following tables and notes.

…"

Observation

It was noted from the note on 'Corporate Information' that the company was incorporated in August 20ZZ. Further, noted from the note on 'First time adoption of Ind AS that opening Ind AS' balance sheet was prepared as at April 1, 20ZZ. In other words, 1st April 20ZZ was taken as the date of transition.

The Board viewed that the company was incorporated in August 20ZZ, hence the question of balance sheet as at April 1, 20ZZ, does not arise. Accordingly, the correct date of transition should have been given instead of 1st April 20ZZ.

Accordingly, it was viewed that the incorrect date of transitions was disclosed by the company in the financial statements.

7. Transition to Ind AS

Matter contained in Financial Statements

The relevant abstract of note on Basis of preparation of financial statements for the financial year is reproduced below:

Basis of preparation of financial statements

"These financial statements for the year ended 31 March 2018 are the first the Company has prepared in accordance with Ind AS. **The company has made *voluntary* adoption of Ind AS**." (emphasis supplied)

Principle: Press Release No. 11/10/2009 CL-V dated 2nd January 2015 from Ministry of Corporate affairs

The Ind AS shall be applicable to Companies as follows:

(i) On voluntary basis for financial statements for accounting periods beginning on or after April 1, 2015, with the comparatives for the periods ending 31st March 2015 or thereafter.

(ii) On mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives for the periods ending 31st March 2017, or thereafter, for the companies specified below:

a) Companies whose equity and/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 less than rupees five hundred Crore.

b) Companies other than those covered in paragraph (ii) and paragraph (iii)(a) above that is unlisted companies having net worth of two hundred and fifty crore or more but less than rupees five hundred Crore.

Holding, subsidiary, joint venture or associate companies of companies covered under paragraph (iii) (a) and (iii) (b) above.

Observation

The Board noted from the note on Basis of preparation of financial statements that company had stated that it had made voluntary adoption of Ind AS. However, the Board viewed that the statement made by the company regarding voluntary adoption of Ind AS is incorrect since it is a listed company, as per its data available on the website of Ministry of Corporate Affairs, and hence, Ind AS are mandatorily applicable to the Company for the accounting periods beginning on or after April 1, 2017.

Accordingly, it was viewed that the given disclosure regarding adoption of Ind AS on voluntary basis is incorrect.

8. Transition to Ind AS

Matter contained in Financial Statements

The relevant abstract of ‘Basis of Preparation’ paragraph given under ‘Significant Accounting Policies’ reads as follows:

"Basis of preparation of financial statements

These financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises mandatory accounting standards as prescribed under Section 133 of the Companies Act, 2013 ('the Act') read with Rule 7 of the Companies (Accounts) Rules, 2014, the provisions of the Act (to the extent notified) and guidelines issued by the Securities and Exchange Board of India (SEBI). Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use."

Principle: Ind AS 101: First-time Adoption of Indian Accounting Standards and Ind AS 1: Presentation of Financial Statements

Paragraph 21 of Ind AS 101

"An entity's first Ind AS financial statements shall include at least three Balance Sheet, two Statements of profit and loss, two Statements of cash flows and two Statements of changes in equity and related notes, including comparative information for all statements presented."

Paragraph 23 of Ind AS 101

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

Paragraph 38 A of Ind AS 1

"An entity shall present, as a minimum, two balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity, and related notes."

Observation

The Board noted that the company was a Phase II listed company on which Ind AS was applicable from the financial year 2017-2018 with 1st April 2016 being the date of transition and comparative period being 2016-17. Therefore, the company was required to present Balance Sheets for three dates viz. 31 March 2018, 31 March 2017 and 1 April 2016, and the Statement of Profit & Loss (for two years), Statement of Cash Flows (for two years), along with notes to accounts. It was also required to provide reconciliation for changes to these financial statements due to transition from Indian GAAP to Ind AS. However, no such disclosures were made by the Company.

Accordingly, it was viewed that the requirements of the paragraph 21, 23 of Ind AS 101 and paragraph 38 A of Ind AS 1 have not been complied with.

9. Opening Ind AS Balance Sheet

Matter contained in Financial Statements

Opening balance sheet has not been given in the financial statements. The relevant abstract of Balance Sheet read with Note on Basis of preparation of financial statements and Note on Explanation to transition to Ind AS read as under:

"Balance Sheet as at 31st March 20XX

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Assets		
…	XXX	XXX
Equity and Liabilities		
…	XXX	XXX"

Note: Explanation to transition to Ind AS

"As stated in Note 1.2(a), these are the Company's first financial statements prepared in accordance with Ind AS. For the previous year ended 31 March 20YY, the Company had prepared its financial statements in accordance with Companies (Accounting Standards) Rules, 2006, notified under Section 133 of the Act and other relevant provisions of the Act ('previous GAAP'). The accounting policies set out in Note 1 have been applied in preparing these financial statements for the year ended 31st March 20XX including the comparative information for the year ended 31st March 20YY and the opening Ind AS balance sheet on the date of transition i.e., 1st April 20ZZ."

Principle: Ind AS 101: First Time adoption of Indian Accounting Standards

Paragraph 6

"An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS subject to the requirements of paragraphs D13AA and D22."

Observation

The Board noted that under the Note on Explanation to transition to Ind AS it was stated that "the accounting policies set out in Notes have been applied in preparing these financial statements for the year ended 31st March 20XX including comparative information for the year ended 31st March 20YY and opening Ind AS balance sheet on the date of transition i.e., 01st April 20ZZ. However, it was observed that the Balance Sheet does not have opening Balance Sheet as at 1st April 20ZZ i.e., the date of transition.

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

10. Ind AS issued but not yet effective

Matter contained in Financial Statements

Ind AS that has been issued but is not yet effective has not been disclosed in Notes to Accounts of financial statements pertaining to financial year 2017-18.

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

Paragraph 30

"When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application."

Observation

It was viewed that Ind AS 8 requires the entity to disclose the impact of new standards which are issued but not yet effective. However, the company has not disclosed the new standards issued as well as the possible impact of such standards on the company's financial statements. It was viewed that Ind AS 115 has been issued but was not effective for the financial year 2017-18, however, this fact and its possible impact has not been disclosed by the Company in the notes to accounts.

Accordingly, it was viewed that the requirements of Ind AS 8 have not been complied with in preparation and presentation of the financial statements.

11. Reclassification of Financial Assets

Matter contained in Financial Statements

In the financial statements, there is a loss on reclassification of financial assets from amortized cost to fair value. The relevant abstract of the Statement of Profit & Loss and Note on Financial Instruments is reproduced below:

"**Statement of Profit and Loss for the year ended March 31, 20XX**

(Rs. in Lacs)

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
…………….	---	---
Loss on reclassification of financial assets from amortized cost to fair value	XXX	(XXX)"

Note on Financial Instruments

……………..

Fair value hierarchy of assets and liabilities measured at amortized cost for which fair values are disclosed:

(Rs. in Lacs)

Particulars	Carrying Amount	Level 1	Level 2	Level 3
……………	---	---	---	---
As at 31.03.20YY				
In bonds carrying at amortized cost	XXX	---	---	XXX"

Principle: Ind AS 107: Financial Instruments: Disclosure

Paragraph 12B

"An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of Ind AS 109. For each such event, an entity shall disclose:

(a) the date of reclassification.

(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

(c) the amount reclassified into and out of each category."

Observation

The Board noted from the Statement of Profit and Loss that a loss was disclosed thereat on account of reclassification of financial assets from amortized cost to fair value. It was viewed that a change in the business model had been made by the company, consequently, financial instruments which were otherwise valued at amortized cost, were now valued at fair value through other comprehensive income. Accordingly, it was viewed that the company should have made appropriate disclosure in line with paragraph 12B of Ind AS 107 giving the detail of such reclassification. It was viewed that disclosure should have been made by the company giving detailed explanation of such change in the business model, date of reclassification etc. in line with the aforesaid paragraph of Ind AS 107.

Accordingly, it was viewed that requirements of paragraph 12B of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

12. Financial Instruments

Matter contained in Financial Statements

Certain disclosures related to financial instruments were not made in the financial statements.

Principle: Ind AS 107: Financial Instruments: Disclosures

Paragraph 33

"For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies, and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period."

Paragraph 34

"For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in Ind AS 24, Related Party Disclosures), for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).

(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b)."

Observation

The Board noted from the financial statements of a company that although there were financial assets and financial liabilities, however, certain qualitative and quantitative disclosures as required by paragraphs 33 and 34 of Ind AS 107 have not been made by the Company in the Notes to Accounts.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

13. Financial Instruments

Matter contained in Financial Statements

The relevant abstract of Notes to the Accounts reads as follows:

"NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 20XX

Statement of Significant Accounting Policies

Note on Property Plant and Equipment

Note on Other Non-current Financial Assets

…"

Principle: Ind AS 107: Financial Instruments: Disclosures

Paragraph 8

"The carrying amounts of each of the following categories, as specified in Ind AS 109, shall be disclosed either in the balance sheet or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately

   i. those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of Ind AS 109 and

   ii. those mandatorily measured at fair value through profit or loss in accordance with Ind AS 109.

(b)-(d) [Refer Appendix 1]

…

(e) financial liabilities at fair value through profit or loss, showing separately

   (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of Ind AS 109 and

   (ii) those that meet the definition of held for trading in Ind AS 109.

(f) financial assets measured at amortized cost.

(g) financial liabilities measured at amortized cost.

(h) financial assets measured at fair value through other comprehensive income, showing separately

(i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of Ind AS 109; and

(ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of Ind AS 109"

Paragraph 31

"An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period."

Observation

The Board noted from the financial statements that no disclosure was made by the company about the information required to be disclosed under paragraph 8 read with Appendix 1 of Ind AS 107. The Board, further, noted that information regarding nature and risk arising from financial instruments was not disclosed by the company in line with the paragraph 31 of Ind AS 107.

Accordingly, it was viewed that the requirements of paragraph 8 and 31 of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

14. Financial Instruments

Matter contained in Financial Statements

Financial Instruments disclosure relating to Risk Management Strategy and other related disclosures were not given in the financial statements.

Principle: Ind AS 107: Financial Instrument Disclosure

Paragraph 31

"An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period."

Paragraph 32

"The disclosures required by paragraphs 33–42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk."

Observation

The Board noted from the financial statements that nature and extent of risks arising from financial instruments including credit risk, liquidity risk and market risk have not been disclosed anywhere in the financial statements, in line with the paragraph 31 read with paragraph 32 of Ind AS 107.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

15. Financial Risk Management – Credit Risk

Matter contained in Financial Statements

The relevant abstract of Note on Financial Risk Management reads as follows:

"Financial Risk Management

…

Credit Risk

The company is exposed to credit risk, which is the risk that counterparty will default on its contractual obligation resulting in a financial loss to the company. Credit risk arises from cash and cash equivalents, financial assets carried at amortized cost."

Principle: Ind AS 107: Financial Instruments: Disclosure

Paragraph 36

"For all financial instruments within the scope of this Ind AS, but to which the impairment requirements in Ind AS 109 are not applied, an entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset in accordance with Ind AS 32); this

> disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.
>
> (b) a description of collateral held as security and other credit enhancements, and their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument)."

Observation

The Board noted from Note on Financial Risk Management that while giving disclosure of Credit Risk, the information about the collateral held as security and other credit enhancements has not been disclosed in line with the paragraph 36 of Ind AS 107.

Accordingly, it was viewed that the requirement of Ind AS 107 has not been complied with in preparation and presentation of the financial statements.

16. Financial Risk Management -Interest Rate Risk

Matter contained in Financial Statements

The relevant abstract of Note on Financial Risk Management reads as follows:

(b) Market Risk – Interest Rate Risk

The exposure of the Company's borrowing linked to Bank rate at the end of the reporting report are as follows:

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY	As at 01.04.20ZZ
Variable rate borrowings	XXX	XXX	
Total borrowings	XXX	XXX	-

The Company has not entered into any interest rate swap agreement.

Principle: Ind AS 107: Financial Instruments: Disclosures

Paragraph 40

Market Risk

Sensitivity Analysis

40. Unless an entity complies with paragraph 41, it shall disclose:

a. a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

b. the methods and assumptions used in preparing the sensitivity analysis; and

c. changes from the previous period in the methods and assumptions used, and the reasons for such changes.

Observation

The Board noted from note on Financial Risk Management that while giving disclosure of Market Risk, the information related to sensitivity analysis for the interest rate risk has not been disclosed in line with paragraph 40 of Ind AS 107.

Accordingly, it was viewed that the requirement of Ind AS 107 has not been complied with in preparation and presentation of the financial statements.

17. Going Concern

Matter contained in Financial Statements

The relevant abstract of Note on Capital Management in the financial statements reads as under:

"The Company manages its capital to ensure that it will continue as going concern while maximising the return to stakeholders. The company manages its capital structure and make adjustment in light of changes in business condition. The overall strategy remains unchanged as compare to last year."

In another note, it was stated that the entire net worth of the Company has been substantially eroded and also there was no material business activity during the year.

Principle: **Ind AS 1: Preparation of Financial Statements**

Paragraph 25

"When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern."

Observation

It was noted from the Note on Capital Management that the Company manages its capital to ensure that it will continue as going concern while maximising the return to stakeholders.

It was observed that the entire net worth of the Company has been substantially eroded and also there was no material business activity during the year. Accordingly, it was viewed that although there existed material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

However, the Company has not made the relevant disclosures as per the requirements of paragraph 25 of Ind AS 1.

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

18. Related Party Disclosure

Matter contained in Financial Statements

In the Note on Related Party Disclosure, under Transactions with related parties, amount borrowed from related party during the year has not been disclosed. However, the same was disclosed under note on borrowings. The relevant abstracts of Note on Borrowings and Note on Related Party are reproduced below:

"Borrowings

(Rs. in Lacs)

Particulars	**For the year ended 31st March, 20XX**	**For the year ended 31st March, 20YY**
Term Loan from Others - Unsecured		
Loan from related parties (M/s XYZ Ltd.)	XXX	XXX"

"Transactions with related parties

(Rs. in Lacs)

Particulars	**For the year ended 31st March, 20XX**	**For the year ended 31st March, 20YY**
Transaction with Holding Company		
XYZ Ltd.		
Towards services received by the Company Consultancy charges (excluding taxes)	…	…
Interest on Loan paid / payable		
Total transaction with related party		"

Principle: Ind AS 24: Related Party Disclosure

Paragraph 18

"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;

…

Observation

It was noted from the note on Borrowings that loans have been raised by the company during the year from its holding company. However, while making disclosures of related party transactions although, transactions with holding company involving 'consultancy charges' and 'interest on loan paid / payable' have been disclosed but no disclosure has been made regarding amount borrowed.

Accordingly, it was viewed that the requirements of paragraph 18 of Ind AS 24 have not been complied with in preparation and presentation of the financial statements.

19. Related Party Disclosure

Matter contained in Financial Statements

Under a Note on Related Party Disclosures, the total compensation paid to key management personnel was disclosed, however, break-up of total compensation was not disclosed. The relevant abstract of Note on Related Party Disclosure reads as follows:

Related Party Disclosures

"Particulars	**31.3.20XX**	**31.3.20YY**
Transactions with Key Managerial personnel or their relatives		
Mr. XYZ		
Managerial Remuneration	XXX	XXX
Rent Expense	XXX	XXX
Mr. ABC		
Managerial Remuneration	XXX	XXX"

Principle: Ind AS 24: Related Party Transactions

Paragraph 17

"17. An entity shall disclose key management personnel compensation in total and for each of the following categories:

(a) short-term employee benefits;

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment."

Observation

The Board noted from the disclosures made under note on 'Related Party Disclosures' that managerial remuneration was paid to two key management personnel, however, the breakup of the compensation as per applicable categories has not been disclosed as required under paragraph 17 of Ind AS 24.

Accordingly, it was noted that the requirements of Ind AS 24 have not been complied with in preparation and presentation of the financial statements.

20. Segment Reporting

Matter contained in Financial Statements

In the accounting policy on Segment Reporting, it is stated that the company has only one reportable business segment. Further, segment disclosure had not been given in the financial statement. The relevant abstract of note on accounting policy for Segment Reporting reads as under:

Segment Reporting:

"The company has only one reportable business segment. Hence, Segment Reporting as defined in IND AS-108 is not applicable."

Principle: Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors and Ind AS 108: Operating Segment

Paragraph 5 of Ind AS 8

"Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements."

Paragraph 31 of Ind AS 108

"31. Paragraphs 32–34 apply to all entities subject to this Ind AS including those entities that have a single reportable segment. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this Ind AS."

Observation

The Board noted from the disclosures made regarding segment reporting under note on significant accounting policies that Ind AS 108 was stated to be not applicable on the company because the company had only one reportable segment. It was viewed that although the company was engaged in single reporting segment yet paragraph 31 of Ind AS 108 is applicable on it, and therefore, details required under paragraphs 32 to 34 of Ind AS 108 should have been disclosed by the company.

It was, further, viewed that the segment disclosures are not accounting policies, per se, and therefore should not have been disclosed under note on 'significant accounting policies', rather the same should have been disclosed as part of "Notes to Accounts"

Accordingly, it was viewed that the requirements of Ind AS 8 and Ind AS 108 have not been complied with in preparation and presentation of the financial statements.

21. Common Control Transactions

Matter contained in Financial Statements

The relevant abstract of Note on Common Control Transactions reads as under:

"Business combinations arising from transfers of interest in entities that are under the common control, are accounted at historical cost. The difference between any consideration given/received and the aggregate historical carrying amount of assets and liabilities of the interest acquired/disposed are recorded in Retained Earnings."

Principle: Appendix C to the Ind AS 103: Business Combinations

Paragraph 8

"Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interests method."

Paragraph 9

"The pooling of interest method is considered to involve the following:

(i) The assets and liabilities of the combining entities are reflected at their carrying amounts.

(ii) No adjustments are made to reflect fair values, or recognise any new assets or liabilities.

(iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date."

Paragraph 13

"The following disclosures shall be made in the first financial statements following the business combination:

(a) names and general nature of business of the combining entities;

(b) the date on which the transferor obtains control of the transferee;

(c) description and number of shares issued, together with the percentage of each entity's equity shares exchanged to effect the business combination; and

(d) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof."

Observation

The Board noted from the note on 'Common Control Transactions' that the accounting policy adopted for recognition and measurement of common control transaction is incorrect. It was viewed that as per paragraph 8 of Ind AS 103 business under common control should be accounted for using the pooling of interest method whereas company had used historical cost method. It was further noted that the company had not made the disclosure required under paragraph 13 of Ind AS 103 regarding common control transactions.

Accordingly, it was viewed that the requirements of Ind AS 103 have not been complied with.

22. Capital Management

Matter contained in Financial Statements

Under a Note on Capital Management, it is stated that the primary objective of the Company's capital management is to maximize the shareholder value. The relevant abstract of Note on 'Capital Management' is reproduced below:

"**Capital Management**

For the purposes of the Company's capital management, capital includes issued equity capital, share premium and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximize the shareholder value."

Principle: Ind AS 1: Presentation of Financial statements

Paragraph 134

"An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital."

Paragraph 135

"To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies, and processes for managing capital, including:

  (i) a description of what it manages as capital;

  (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

  (iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g., some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g., components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period."

…

Observation

The Board noted from note on capital management that it states about the primary objective of managing capital only. Stated policy did not disclose the qualitative information about its policies and processes and summary of quantitative data like gearing, leverage etc. and its policy towards the same for managing capital. Further, there was nothing mentioned about the purpose and future utilisation of the unissued preference shares which should have been given.

Accordingly, it was viewed that the requirements of the paragraph 134 and 135 of Ind AS 1 have not been complied with.

23. Non – Disclosure of Accounting Policy

Matter contained in Financial Statements

Non-disclosure of accounting policy on financial assets and financial liabilities.

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 117

"An entity shall disclose in the summary of significant accounting policies:

(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."

Paragraph 119

"In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Ind ASs. An example is disclosure of a regular way purchase or sale of financial assets using either trade date accounting or settlement date accounting (see Ind AS 109, Financial Instruments). Some Ind ASs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, Ind AS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment."

Observation

The Board noted from the note on 'Significant Accounting Policies' that the company had not disclosed policies relating to recognition and measurement of financial assets and financial liabilities although it was noted that the company has disclosed certain Financial Assets and Liabilities in its Financial Statements viz trade receivables, investment in equity, borrowings, deposits, and impairment of the financial assets etc.

Accordingly, it was viewed that the requirements of paragraph 117 and 119 of Ind AS 1 have not been complied with.

Chapter-7

Observations related to Auditor's Report

1. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of 'Opinion Paragraph' of Independent Auditor's Report read as follows:

"Independent Auditors Report

....

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the standalone Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, its profit and its cash flows for the year ended on that date."

Principle: Paragraph 27 read with Illustrative Format of Independent Auditor's Report given in Implementation Guide on Auditor's Reports under Ind AS for transition phase

Paragraph 27

With regard to the opening balance sheet and the financial statements for the corresponding period ("Comparative Ind AS Financial Statements"), the following considerations would *inter alia* apply while reporting:

- In addition to the notes required by Ind AS, the notes to such financial statements should describe that as part of conversion to Ind AS, the company has prepared the Comparative Ind AS financial statements to establish the financial position (balance sheet), income **(including results of operations and Other Comprehensive Income)** and cash flows of the company necessary to provide the comparative financial information expected to be included in the company's first complete set of Ind AS financial statements as at the company's Ind AS reporting date. The note should also state that these financial statements do not themselves include comparative financial information for the prior period;"

(Emphasis added)

"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

Opinion

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 give a true and fair view in conformity with the accounting principles generally accepted in India including the Ind AS, of the state of affairs (financial position) of the Company as at 31st March, 2017, 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.

(Emphasis added)

Observation

The Board noted from the Independent Auditor's Report that the auditor has not included 'other comprehensive income' and 'changes in equity' while giving his opinion on financial position and financial performance of the company, under 'Opinion Paragraph' as required by paragraph 27 read with format of independent auditor's report given under Implementation Guide.

Accordingly, it was viewed that the auditor has not complied with the requirements of paragraph 27 read with Illustrative Format of Independent Auditor's Report given in Implementation Guide on Auditor's Reports under Indian Accounting Standards for Transition Phase.

2. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in Auditor's Report and Financial Statements

From the auditor's report, it was noted that under "Management's Responsibility for the Standalone Financial Statements", auditor has not used correct reference for financial statement. The relevant abstract of the Independent Auditors' Report read as follows:

"**Management's Responsibility for the Standalone Financial Statements**

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these **standalone financial statements** that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, prescribed under Section 133 of the Act read with relevant rules issued there under. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error."

(Emphasis supplied)

Principle: Annexure I to Implementation Guide on Auditor's Report under Ind AS for transition

"Management's Responsibility for the Standalone Financial Statements

The Company's Board of Director is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone **Ind AS financial statements** that give a true and fair view of the state of affairs (financial position), profit or loss (financial performance including other comprehensive income), cash flows and changes in equity…"

(Emphasis added)

Observation

It was noted from the Independent Auditor's Report that the auditor has used the term Financial Statements. However, it was viewed that since the financial statements are prepared under Ind AS framework and format of audit report prescribed under Implementation Guide (as stated above) requires to refer such financial statements as 'Ind AS Financial Statements', therefore, the auditor should have used correct terminology to refer the Ind AS Financial Statements.

Accordingly, it was viewed that the auditor's report is not in line with illustrative format given under Annexure I to Implementation Guide on Auditor's Report under Ind AS for transition.

3. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of Auditor's report reads as below:

"*Report on Other Legal and Regulatory Requirements*

…

(c) The balance sheet, the statement of profit and loss, the statement of cash flows and the statement of changes in equity dealt with by this Report are in agreement with the books of account.

(d) In our opinion, the aforesaid standalone financial statements to comply with the **Accounting Standards** specified under Section 133 of the Act read with relevant rule issued thereunder;"

(Emphasis supplied)

Principle: Annexure I to Implementation Guide on Auditor's Report under Ind AS for transition

"Report on Other Legal and Regulatory Requirements

……….

(e) In our opinion, the aforesaid standalone Ind AS financial statements comply with the Indian Accounting Standards prescribed under section 133 of the Act."

Observation

It was noted from the paragraph on Report on Other Legal and Regulatory requirement that the auditor has reported that the financial statements comply with 'Accounting Standards'. Since the financial statements have been prepared under Ind AS framework, it was viewed that the auditor should have used the term 'Indian Accounting Standards' as per the above stated requirement of Implementation Guide.

Accordingly, it was viewed that the auditor's report is not in line with illustrative format given under Annexure I to Implementation Guide on Auditor's Report under Ind AS for transition.

4. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of Opinion Paragraph given in the Independent Auditor's Report is reproduced below:

"Independent Auditor's Report

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including the Ind AS, of financial position of the Company as at 31stMarch, 20XX, and its financial performance including other comprehensive income, its cash flows and the changes in equity for the year ended on that date.

Principle: 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

...

Opinion

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 give a true and fair view in conformity with the accounting principles generally accepted in India including the Ind AS, of the state of affairs (financial position) of the Company as at 31stMarch, 2017, **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.

(**Emphasis added**)."

Observation

It was noted from the opinion paragraph given in Auditor's Report that the auditor has, *inter alia*, reported that the financial statements give true and fair view of financial position of the Company and its financial performance including other comprehensive income. It was viewed that the auditor has given his opinion on the financial performance of the company, however, he has not commented on whether the opinion is on profit or loss of the company.

Accordingly, it was viewed that the Auditor's Report is not in line with the requirements of Annexure I of Implementation Guide on Auditor's Report under Ind AS for transition phase.

5. Auditor's Report on the First Standalone Ind AS Financial Statements

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of Independent Auditor's Report is reproduced below:

"**Independent Auditor's Report**

"TO THE MEMBERS OF XYZ LIMITED,

Report on the Financial Statements

We have audited the accompanying financial statements of XYZ LIMITED ("the Company"), which comprise the Balance sheet as at March 31, 20XX, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

…………………………………..

Report on other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), as amended, issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. As required by section 143(3) of the Act, we report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

(b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

(c) The Balance Sheet, Statement of profit and Loss, and Cash Flow Statement dealt with by this report are in agreement with the books of account.

(d) **Except for the effects of the matters described in the basis for qualified opinion paragraph,** in our opinion, the Balance Sheet, the Statement of Profit and Loss comply with the Accounting Standards specified under section 133 of the Act.

(e) On the basis of the written representations received from the directors as on March 31, 20XX, taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of Section 164(2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure B".

(g) With respect to the other matters included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to our best of our information and according to the explanations given to us:

(h) The company has disclosed the impact of pending litigations on its financial position in its financial statements –Refer Note 24 to the financial statements:

(i) The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses:

(j) There has been no delay in transferring amount, required to be transferred, to the Investors Education and Protection Fund by the Company."

Principle: Section 143(3)(f) and (h) of the Companies Act, 2013

"Report on Other Legal and Regulatory Requirements

As required by Section 143 (3) of the Act, we report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

………………………………………………

(f) The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

……………………………………………..

(h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above."

SA 700 read with Implementation Guide on Auditor's Report under Ind AS for Transition Phase

"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."

Observation

The Board noted from the Independent Auditor's Report that auditor has reported on various matters given under section 143(3) of Companies Act, 2013 under the heading 'Report on Other Legal and Regulatory Requirements', however, he has not reported on matters specified under section 143(3)(f) and (h) of the Act even though auditor has given a qualified opinion.

Accordingly, it was viewed that the requirements of Section 143 (3)(f) and (h) of the Companies Act, 2013 have not been complied with by the auditor.

It was further noted from the 'Report on the Financial Statements' paragraph of the Independent Auditor's Report that while describing the financial statements that have been audited by the auditor i.e., Balance Sheet, Statement of Profit and Loss, Cash Flow Statement, Summary of Accounting Policies and Other Explanatory Notes, however, the auditor has not mentioned the Statement of Changes in Equity therein. Further, under Paragraph 2 (c) and (d) of Report on other legal and Regulatory Requirements also reference to the statement of changes in equity has not been given. It was viewed that statement of changes in equity is also an integral part of financial statement and non-inclusion of it by the auditor gives the impression that the same has not been audited. Accordingly, it was viewed that Statement of Changes in Equity should also have been included by the auditor while describing the financial statements in aforesaid paragraph in line with the SA 700 read with Implementation Guide on Auditor's Report under Ind AS for Transition Phase.

It was viewed that the requirements of SA 700 read with Implementation Guide on Auditor's Report under Ind AS for Transition Phase have not been complied with by the auditor.

6. Auditor's Report on Directions issued by the C&AGI

Matter contained in Auditor's Report and Financial Statements

From the Independent Auditor's Report, it was noted that while reporting on the directions issued by the C&AGI auditor has also incorporated the reply given by the management on observations of the auditor. The relevant abstracts of paragraph (ii) of Annexure A to the Independent Auditor's Report

(CARO Reporting) and Annexure B to the Independent Auditor's Report read as follows:

"**Annexure – A to the Independent Auditor's Report**

ii. In our opinion and according to the information and explanations given to us, there is no inventory. Hence, the provision of clause 3(ii) is not applicable."

"**Annexure – B to the Independent Auditor's Report**

Specific areas examined during the course of audit of Annual Accounts of XYZ Limited for the year ended 31st March 20XX, in terms of the directions/sub-directions issued to us:

S. No.	Particulars	Management Reply	Statutory Auditor Reply
	Whether proper records are maintained for inventories lying with third parties and assets received as gift/ grants from the Government or other authorities.	The Company has maintained adequate records in respect of the company's inventories lying with third parties. In all cases, the confirmation from such parties have been obtained on year end basis. No assets were received as gift from Government or other Authorities.	Based on the information and representations provided by the Management to us and based on the verification procedures performed by us, we agree to the Management's response."

Principle: Section 143(5) of Companies Act, 2013:

"*In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Government, or partly by the Central Government and partly by one or more State Government, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of* section 139 *and direct such auditor the manner in which the accounts of the company are required to be audited and"] thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company."*

Observation

The Board noted from the Independent Auditor's Report that while reporting on the directions issued by the Comptroller and Auditor General of India under Sec. 143(5) of Companies Act, 2013, auditor has also included the reply given by the management. It was viewed that section specifically requires the auditor to report on matter specified in the directions of C&AGI and not the management to reply on comments of the auditor. Accordingly, it was viewed that management's reply should not have been included by the auditor in his comments under section 143(5).

Accordingly, it was viewed that auditor's reply to the directions given by C&AGI is not in line with the section 143(5).

It was further noted from the auditor's report under section 143(5) that inventories were lying with the third parties. In other words, the company holds inventories. However, under paragraph (ii) of Annexure A to the Independent Auditor's Report auditor has commented that company does not have any inventory.

Accordingly, it was viewed that there appears to be a contradiction with the reporting done by auditor under paragraph (ii) of Annexure – A and point number 3 of Annexure – B to the Independent Auditor's Report.

7. Report on Internal Financial Controls

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of Opinion paragraph, Report on other legal and regulatory requirements and Annexure II to the Auditor's Report i.e., Report on Internal Financial Control over Financial Reporting read as follows:

Opinion

8. In our opinion and to the best of our information and according to the explainations given to us, the aforesaid financial statements give the information requirred by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Ind AS specified under Section 133 of the Act, of the state of affiars(financial position) of the Company as at 31 March 20XX, and its profit (financial performance including other comprehensive income), its cash flows and changes in equity for the year ended on that date.

Report on other legal and regulatory requirements

…

f. We have also audited the internal financial controls over financial reporting(IFCoFR) of the Company as on 31 March 20XX in conjunction with our audit of the financial statements of the Company for the year ended on that date and our report dated 04 May 20XX as per Annexure II expressed unmodified opinion; and …

Annexure II to the Auditor's Report i.e., Report on Internal Financial Control over Financial Reporting

…

"5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the Company's IFCoFR."

Opinion

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such controls were operating effectively as at 31 March, 2018, based on the internal controls over financial reporting criteria established by the Company considering the essential components of internal controls stated in the guidance Note issued by ICAI.

Observation

The Board noted from Annexure II to the Auditor's Report that auditor has referred his opinion on internal financial control over financial reporting as 'qualified opinion', however, no qualification has been provided by the auditor in his report. It was viewed that such type of mistakes should be avoided while preparing the Auditor's Report.

8. Report on Internal Financial Controls

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of Annexure B to the Independent Auditor's Report (i.e., Auditor's Report on Internal Financial Control over Financial Reporting) of a subsidiary company read as follows:

"**Annexure B to the Independent Auditors Report of even date on the standalone Ind AS financial Statement of the (Name of holding company)**

Report on Internal Financial Control under Clause (i) of Sub-section (3) of Section 143 of Companies Act, 2013

We have audited the internal financial control over financial reporting of 'Name of Holding Company ("The Company") as of March 31 20XX in conjunction with our audit of standalone Ind AS financial statement of the Company for the year ended on that date."

Observation

It was noted from the Annexure B annexed with the Independent Auditors Report pertaining to Internal Financial Controls on Financial Reporting that the name of different company, which is holding company, has been mentioned there in place of the auditee company. It was viewed that in the title as well as in the opinion paragraph name of holding company has been wrongly mentioned which may create confusion in mind of the readers of the financial statements.

Accordingly, it was viewed that such errors should be avoided by the auditors.

9. Balance confirmation

Matter contained in Auditor's Report and Financial Statements

One of the notes on financial statement on 'Balance Confirmation' read as follows:

"Note No. xyz. **Party Balances and Confirmations**

Balances of recoverable shown under Assets and Other Payables shown under Liabilities include balances subject to confirmation/ reconciliation and consequential adjustments if any. However, reconciliations are carried out on ongoing basis."

Principle: **SA 505: External Confirmation**

Paragraphs 7, 8 and 9 of SA 505: External Confirmation

"7. When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

(a) Determining the information to be confirmed or requested;(Ref: Para.A1)

(b) Selecting the appropriate confirming party; (Ref: Para.A2)

(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para.A3-A6)

(d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7)"

"8. If management refuses to allow the auditor to send a confirmation request, the auditor shall:

(a) Inquire as to management's reasons for the refusal and seek audit evidence as to their validity and reasonableness; (Ref: Para. A8)

(b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures; and (Ref: Para.A9)

(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para.A10)"

"9. If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260. The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705."

Observation

It was noted from the Note 'xyz' that certain balances of 'receivable' and 'payables' were subject to confirmation from the parties. It was viewed that if the amount of these 'receivables' and 'payables' is not material, then such note was not required to be given in the financial statements. However, if the amount is material, then it is the responsibility of the auditor to qualify his report and quantify its effect as required by SA 705.

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 auditor should have exercised appropriate procedure to satisfy himself regarding external confirmation and if he is not in agreement with the confirmation received, then he shall modify his report in accordance with aforesaid paragraph of SA 505, otherwise such notes should not be given in the financial statements as these might create confusions in the mind of readers of the financial statements that balance confirmations have not been done and auditor has not carried out appropriate procedures in accordance with SA 505 with regard to the same

10. Going Concern

Matter contained in Auditor's Report and Financial Statements

The relevant abstract of the Independent Auditor's Report and Note XX and XY of the Financial Statements is reproduced below:

"Independent Auditor's Report

……….

Emphasis of Matter

We draw attention to the following matters in the notes to the standalone financial statements of 31 March 2017. Our opinion is not modified in respect of this matter:

1. Note No. XX of the Financial Statements regarding non provision of interest on ECB Borrowings from XYZ Ltd. consequent to the waiver of interest.
2. …..
3. Note No. XY of the Financial Statements regarding Impact and Justification on the Assumption of Going Concern."

"Note No. XX - Taking into consideration the financial health of the company, the Promoter Company has agreed for not to insist for payment till the improvement of the financial health of the Company. Therefore, the interest on ECBs for the period from 1st April 20XX to 31st March, 20XX has been waived off and has not been provided in the books of accounts."

"Note No. XY - Consequent to the transfer and assignment of AB & CD Fields to the XYZ Limited, all assets, stores and capital work in progress lying at fields has been fully depreciated/written off being zero realizable value and the same have been charged to the Statement of Profit & Loss as Exceptional Item. The company has accumulated losses and its net worth has been fully eroded which indicate the existence of material curtailment of the operations that cast a substantial doubt on the Company's ability to continue as a going concern."

Principle: Section 143(3)(f) of Companies Act, 2013 read with paragraph 9 of Guidance Note on Reporting under Section 143(3)(f) of Companies Act, 2013

"Section 143(3)(f) of Companies Act, 2013

(3) 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."

"Paragraph 9 of Guidance Note on Reporting under Section 143 (3)(f) and (h) of the Companies Act, 2013

Auditor's will need to apply professional judgement in considering matters of emphasis that may have an adverse effect on the functioning of the company. Ordinarily matters that are pervasive in nature such as going concern or matters that will significantly impact the operations of the company due to its size and nature will need to be reported under clause (f) of sub-section (3) of section 143 of the Act…

Observation

The Board noted from the 'Emphasis of Matter' paragraph of Independent Auditor's Report that auditor has reported there regarding impact of non-provision of interest on going concern assumption, however, the auditor has not reported on the requirements of section 143(3)(f) under the heading of 'Report on Other legal and Regulatory Requirements' of the Audit Report.

Accordingly, it was viewed that the requirements of section 143(3) (f) of Companies Act, 2013 read with Guidance Note on Reporting under Section 143 (3) (f) and (h) of the Companies Act, 2013 have not been complied with.

Chapter-8

Observations related to CARO, 2016

1. Security Provided

Matter contained in Financial Statements

The relevant abstract of paragraph (iv) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"According to the information and explanation given to us, the Company has not made any loan, investment, and guarantees to any person specified under section 185 and section 186 of the Companies Act, 2013. Therefore, the provisions of paragraph 3(iv) of the Order are not applicable to the Company."

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."

Observation

The Board noted from the paragraph (iv) of Annexure A to the Auditor's Report wherein the auditor reported that the company has not made any loan, investment, and guarantees to any person specified under section 185 and section 186 of the Companies Act, 2013. **It was viewed that although the auditor has reported about loans, investments and guarantees under said paragraph but the auditor has not reported on 'security', as required under clause 3 (iv) of CARO, 2016**.

Accordingly, it was viewed that the auditor has not appropriately reported on paragraph 3 (iv) of CARO, 2016.

2. Compliance of the Companies Act, 2013

Matter contained in Financial Statements

The relevant abstract of the paragraph (iv) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) is reproduced below:

"In our opinion, in respect of loans, investments, guarantees and security the provisions of section 185 has been complied & section 186 has not been complied."

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"

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				
		Name of Company/ Party	**Amount Involved**	**Balance as at Balance Sheet**	**Remarks, if any**
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

The Board noted from the paragraph (iv) of Annexure A to the Independent Auditor's Report that **the auditor has, although, reported the fact that there has been non-compliance of section 186 of the Companies Act, 2013, however, the details of such non-compliance have not been reported**. It was viewed that details of such non-compliance should have been reported by the auditor in the manner specified under paragraph 39 (B) (c) of Guidance Note on CARO, 2016 as given above.

Accordingly, it was viewed that the requirements of paragraph 3 (iv) of CARO, 2016 read with paragraph 39 (B) (c) of Guidance Note on CARO, 2016 have not been complied with by the auditor.

3. Loans granted

Matter contained in Financial Statements

The relevant abstract of the paragraph (iv) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"In our opinion and according to information and explanations given to us, the company has complied with the provisions of Section 185 and 186 of the Companies Act, 2013 in respect of grant of loans, making investments and providing guarantees and securities, as applicable."

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."

Observation

It was noted from the paragraph (iv) of Annexure A to the Independent Auditor's Report that the auditor has stated that the company has complied with the provisions of Section 185 and 186 of the Companies Act, 2013. However, it was observed from the financials that the company has neither granted loans nor does it have any investments. The Board was of the view that auditor should have reported under the paragraph 3 (iv) of CARO, 2016 based on the factual position.

Accordingly, it was viewed that the auditor has not properly reported on paragraph 3 (iv) of CARO, 2016.

4. Undisputed Statutory Dues

Matter contained in the Financial Statements

The relevant abstract of the Auditor's Report under CARO, 2016 reads as below:

"vii. a) The Company is generally regular in depositing undisputed statutory dues, including Provident fund, Employees' State Insurance, Income-tax, Sales Tax, Service Tax, Customs Duty, Value Added Tax, Cess, and other material statutory dues applicable to it to the appropriate authorities except GST."

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

The Board noted from the paragraph (vii) (a) as reproduced above that the auditor has reported that the company is regular in depositing statutory dues except GST. **It was viewed that the auditor's comment under paragraph (vii)(a) of CARO, 2016 is not complete as he has not commented on other part relating to the extent of the arrears of statutory dues (GST) outstanding as on the last day of the financial year for a period of more than six months from the date, they became payable.**

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

5. Statutory Dues

Matter contained in Financial Statements

The relevant abstract of paragraph (vii) (a) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"According to the information and explanations given to us the company is generally regular in depositing undisputed statutory dues with appropriate authorities and there were no arrears as at 31st March, 20XX for the period more than six months from the date they became payable."

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

The Board noted from the paragraph (vii) (a) of Annexure A to the Independent Auditor's Report that while reporting on the regularity in payment of various undisputed statutory dues, the **auditor has merely mentioned 'statutory dues' and has not specified in his comments the dues in respect of provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess etc. as required in aforesaid paragraph of CARO, 2016**.

Accordingly, the Board viewed that the auditor's comment under paragraph vii (a) of CARO Report is not in line with the paragraph 3 (vii) (a) of CARO, 2016.

6. Statutory dues

Matter contained in Financial Statements

The relevant abstract of Auditor's Report under paragraph (vii) (a) of CARO, 2016 reads as below:

"(vii)(a) Undisputed statutory dues including provident fund employee' state insurance, income tax, sales tax, service tax, duty of custom, duty of excise, value added tax, cess and other material statutory dues, as applicable, have not been regularly deposited with the appropriate authorities and there have been significant delays in large number of cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they become payable"

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 has reported on various statutory dues, however, he has not reported for regularity in depositing of Goods and Services Tax (GST). Accordingly, it was viewed that the requirements of paragraph 3 (vii) of CARO, 2016 have not been appropriately complied with.

7. Statutory Dues

Matter contained in Financial Statements

The relevant abstract of paragraph (vii) (b) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) is reproduced below:

"(vii) In respect of Statutory Dues:

(a) According to the records provided by the Company, the company has been regular in depositing undisputed statutory dues, 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 during the period and there were no arrears of any outstanding statutory dues as at 31st March, 20XX for a period of more than six months from the date they became payable.

(b) According to the information and explanations provided to us, there were no **undisputed** demands payable in respect of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax **and no amount has been deposited on account of any dispute**."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (vii) (b)

"(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

The Board noted from the paragraph (vii) (b) of Annexure A to the Independent Auditor's Report that **the auditor has wrongly commented upon the undisputed demands payable in respect of Income Tax, Sales Tax, Service Tax, Duty of Customs, Duty of Excise, Value Added Tax instead of the disputed demands as required by the paragraph 3 (vii) (b) of Companies (Auditor's Report) Order, 2016**.

Accordingly, it was viewed that the auditor has not appropriately commented on paragraph (vii) of CARO, 2016.

8. Loans

Matter contained in Financial Statements

Under a note on 'Other Current Financial Liabilities', it has been stated that loans have been recalled by bank 3 years back. However, these loans have not been paid by the company at the end of the year and were appearing in its financial statements as 'other current financial liabilities'. In the Auditor's Report, auditor has reported the default by the company in repayment of loan amounting to 1% of the loans only and not the full amount of loan. The relevant abstract of paragraph (viii) of Annexure A to the Independent

Auditor's Report (reporting under CARO, 2016) and Note on Other Current Financial Liabilities read as follows:

"**Annexure A to the Independent Auditor's Report**

viii. Based on our audit procedure and as per the information and explanation given by management, the company has defaulted in repayment of dues to banks. The details of period and amount of default as ascertained by management are as follows:

Name of the Bank	**Nature of Dues**	**Amount (Rs. in Lacs)**	**Due Date**	**Date of Payment**
XYZ Bank	Cash credit facility, Overdraft facility and Interest	XXX	Various dates	Not paid"

"**Note 15 Other Current Financial Liabilities**

(Rs. in Lacs)

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
....	---	---
Total	YYY	YYY

(Above loans have been recalled by XYZ Bank 3 years back)."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (viii)

"Whether the company has defaulted in repayment of loans and borrowing to a financial institution, banks, government, or dues to debenture holders. If yes, the period and the amount of default to be reported."

Observation

The Board noted from 'Other Current Financial Liabilities' that loans have been recalled by Bank 3 years back. However, these loans have not been paid by the company and were appearing in its financial statements as 'other current financial liabilities'. It was, further, noted from the auditor's report under paragraph (viii) of CARO reporting that default in repayment of loans by the company was reported for only 1% of the loans amount. **It was viewed that the reporting done by the auditor under aforesaid**

paragraph is not correct as he ought to have included the total amount of loan as default in repayment by the company since these loans were recalled by the bank 3 years back but have not been paid by the end of the year under review.

Accordingly, it was viewed that the requirements of paragraph 3 (viii) of CARO, 2016 have not been complied with by the auditor.

9. Defaults in Repayment

Matter contained in Financial Statements

In one of the financial statements abstract of the paragraph (viii) of report under CARO, 2016 reads as follows:

"In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to financial institutions, banks, and debenture holders."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (viii)

"Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government, or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided)".

Observation

The Board noted from the financial statements that the company had not borrowed any fund from Banks, Financial Institutions (FIs), and Government. **Only borrowing, as per the financial statements, that company raised was in form of debentures which were issued to the holding company. Therefore, reporting made by auditor as to "no defaults" has been made by company in repayment of dues to FIs, banks is not correct.**

Accordingly, it was viewed that the reporting done by auditor is not appropriate as per the requirements of CARO, 2016.

10. Utilization of fund raised

Matter contained in Financial Statements

The relevant abstract of paragraph (ix) of Annexure 1 to the Independent Auditor's Report under CARO, 2016 is reproduced below:

"In our opinion and according to the information and explanations given by the management and on an overall examination of the balance sheet, the monies raised by way of debt instruments in the nature of foreign currency bonds and term loans were applied for the purposes for which those were raised, though idle/surplus funds which were not required for immediate utilization have been temporarily invested in fixed deposits / mutual funds."

Principle: Guidance Note on Companies (Auditor's Report) Order, 2016:

Paragraph 45(s) of Guidance Note on CARO, 2016 prescribed following reporting format under paragraph 3 (ix) of CARO, 2016:

"In our opinion and according to the information and explanations given to us, the Company has utilized the money raised by way of initial public offer/ further public offer (including debt instruments) and the term loans during the year for the purposes for which they were raised, except for:

Nature of the fund raised	Details of default (Reason /Delay)	Amount (Rs.)	Subsequently rectified (Yes/No) and details
……….	……….	---	………."

Observation

The Board noted from the auditor's comment in reproduced paragraph of CARO reporting that monies were raised by the company through debt instruments and term loans and some of these funds were applied for the purpose for which they were raised, however, there were certain idle funds which were not so utilized and have been temporarily invested in fixed deposits / mutual funds. **It was viewed that though auditors have reported on funds not utilized for intended purposes which they were raised for, in line with paragraph 3 (ix) of CARO, 2016, however, he has not adhered to the suggested reporting format as prescribed under 45(s) of Guidance Note on CARO, 2016.**

Accordingly, it was viewed that the requirements of Guidance Note on CARO, 2016 have not been complied with by the auditor.

11. Related Party Transactions

Matter contained in Financial Statements

The relevant abstract of the paragraph (xiii) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"In our opinion and according to the information and explanation given to us, the related party transactions are in compliance with section 177 and 188."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (xiii)

Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable, and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards"

Observation

It was noted from the paragraph (xiii) of Annexure A to the Independent Auditor's Report that **auditor has stated that transactions with related parties are in compliance with the section 177 and 188 of the Companies Act, 2013, however, he has not reported as to whether these transactions with the related parties were disclosed in the financial statement in compliance with the applicable accounting standards i.e., Ind AS 24.**

Accordingly, it was viewed that the requirements of paragraph 3 (xiii) of CARO, 2016 have not been complied with by the auditor.

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