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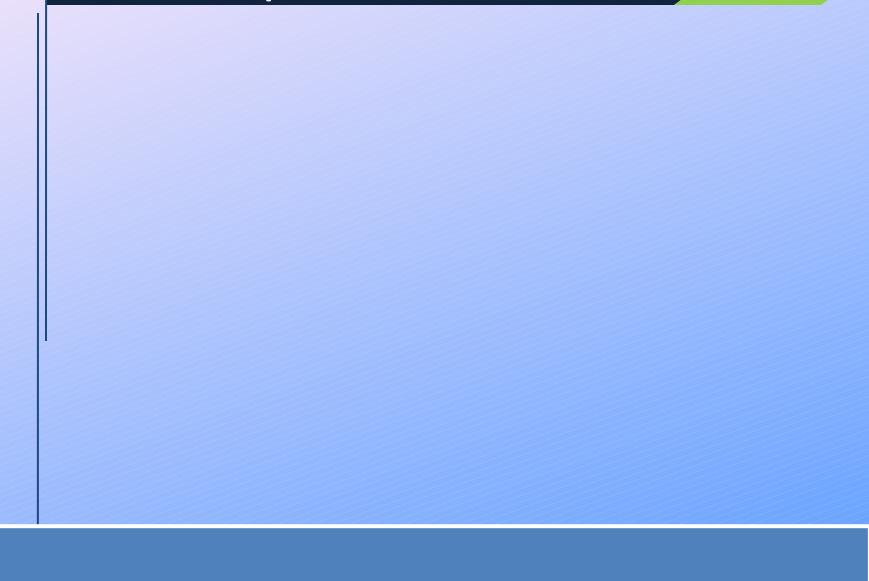
Seminar on Audit Reporting & Common Mistakes therein.

ICAI Bhavan Cuffe Parade - Mumbai 20th February, 2016

Background

· How old is the audit profession?

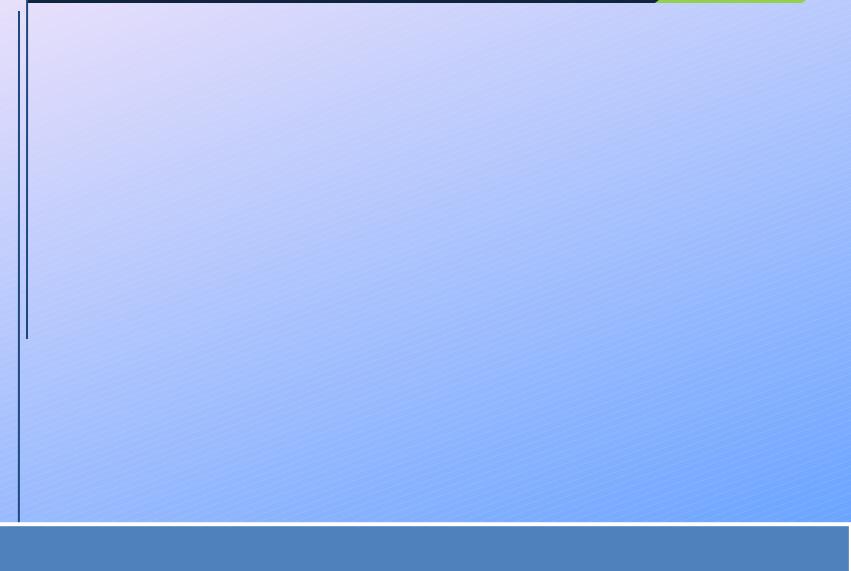
Topics Covered



Background

"An audit is the <u>independent examination</u> of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to <u>expressing an opinion</u> thereon." - SA 200 – Basic Principles Governing an Audit Issued by ICAI





Reporting Standards

 SA 700 (Revised) - Forming an Opinion and Reporting on Financial Statements

 SA 705 – Modifications to the Opinion in the Independent Auditor's Report

 SA 706 - Emphasis of Matter paragraphs and other matter paragraphs in the Independent Auditors Report

Reporting Standards

- Section 143 (9) / 143 (10) of Companies Act, 2013.
- Does not apply to reviews & compilations.
- · Consistency in reporting.
- Scope & responsibilities of an auditor have been elaborated.
- · Provides guidance.
- Based on ISA issued by IAASB

Types of Modified Opinion

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasivene the Effects or Possible Effects on the Finance Statements	
	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion



Statutory Requirements Companies Act, 2013 under

Section 143 (3) – Audit Report

- Balance Sheet, P&L
- Branch
- Accounting Standards
- Books of accounts
- Observations

Internal Financial Controls

- Mandatory for FY 2015-16
- Designed efficiently & operating effectively.
- Non-compliance to be reported

Internal Financial Controls– To prevent an auditor from taking full responsibility.

The auditor's responsibility para to include:

"....the auditor considers internal financial controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, <u>but</u> not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls."

Internal Financial Controls– Auditor is taking full responsibility. Reporting u/s 143 (3) (i)

The auditor's responsibility para to include:

"....the auditor considers internal financial controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

CARO 2015 – Section 143 (11)

- Applicability To all companies
- Except: Private Co's fulfilling all 3 conditions.
- 1. Paid up capital + reserves < 50 L
- 2. Loans from banks /FI < 25 L
- 3. Turnover < 5 Cr
 - · Guidance Note issued by ICAI.

Which 12 clauses have to be reported in CARO 2015 as compared to 21 clauses in CARO 2013?

- 1. Fixed Assets
- 2. Inventory
- 3. Loans given to related parties
- Internal controls purchase of inventory, fixed assets; sale of goods and services.
- 5. Deposits
- 6. Cost records

- 7. Depositing Statutory Dues
- 8. Accumulated losses & cash flow
- 9. Default in repayment of dues
- 10. Corporate guarantee given
- 11. Application of term loans
- 12. Fraud reporting

If CARO is not applicable, it must be stated in the Audit Report.



Fraud reporting u/s 143 (12)



Fraud:

- Report to CG within 60 days in Form ADT-4
- Tax / VAT Auditors not covered
- Covers only employees, not vendors or third parties
- Materiality level for reporting (threshold)
- If below threshold, report to Board or ACM
 Cases not reported to CG, must be disclosed in Board Report.

Case Study - NSEL:

- Quantum Rs 5600 cr
- What was the fraud?
- What were its implications?
- Withdrawal of audit report of FTIL.
- SA 560 allows an auditor to change his opinion if subsequent events require it.

- Requirement of italic or bold is done away.
- Reasons for any negative matter or qualification.
- Auditor shall pay for damages to the Company or others for losses arising out of misleading particulars in the report.

- Auditor to attend AGM.
- To read out any qualification or observation at the AGM.
- To attend all general meetings of the company.
- In case of fraud, criminal liability on the signing partner; fine to be borne by the firm.
- Disciplinary matters to be handled by NFRA in future (currently ICAI).

ICAI guidelines for reporting components

Component	Component is Material to financial statement (Yes / No)	Disclosure in Principal Auditor's Report
Unaudited	No	Optional disclosure [if reported, 'Other Matters']
Audited by another auditor	No	Optional disclosure [if disclosed, 'Other Matters']
Audited by another auditor	Yes	Disclosure to be made in 'Other Matters'
Unaudited	Yes	Report to be modified

Which listed company has the maximum number of qualifications in its audit report? & How many?

Name of listed company	No of qualification	EOM
Air India Limited*	11	4
MCX Stock Exchange Limited	3	1
Steel Authority of India Limited	1	10
Tech Mahindra Limited	1	4
Unitech Limited	1	3
MTNL	1	1
Spice Jet Limited	1	1
BSNL (Maximum Qualifications)	31	2



Interactive discussion with esteemed members.

Perception

Client's staff feel that rather than being auditors, at times we are....



Perception



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