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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 independent examination 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 expressing an opinion thereon.”

*- SA 200 – Basic Principles Governing an Audit
Issued by ICAI*

Objectives

A decorative horizontal arrow graphic pointing to the right. The main body of the arrow is dark blue, and the tip is a lighter, lime green color. The word "Objectives" is centered in white text within the dark blue section.

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 Pervasiveness of the Effects or Possible Effects on the Financial 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 Compliance



Statutory Compliance

Statutory Requirements under
Companies Act, 2013

Section 143 (3) – Audit Report

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

Statutory Compliance

Internal Financial Controls

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

Statutory Compliance

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, but 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.”

Statutory Compliance

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.”

Statutory Compliance

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.

Statutory Compliance

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

Statutory Compliance

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

Statutory Compliance

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.

Statutory Compliance

Fraud reporting u/s 143 (12)



Statutory Compliance

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.

Statutory Compliance

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.

Recent Updates

- 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.

Recent Updates

- 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).

Recent Updates

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 |

Recent Updates

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

Recent Updates

| 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 (<i>Maximum Qualifications</i>) | 31 | 2 |

Common Mistakes

Interactive discussion with
esteemed members.

Perception

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



Perception



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“Unity over Spreading Knowledge!”

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