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

VOLUME III

Financial Reporting Review Board

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Study on Compliance of Financial Reporting Requirements (Ind AS Framework)

(Compiled from the records of Financial Reporting Review Board)

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Basic draft of this publication was prepared by CA. Ankita Mangla and CA. Deepak Khetan

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Foreword

The adoption of robust financial reporting frameworks is pivotal for India's seamless integration into the global economy. In order to align the financial statements of Indian enterprises with global standards, an increasing number of Indian companies are reporting in accordance with Indian Accounting Standards (Ind AS). I am happy to inform that Financial Reporting Review Board (FRRB) of ICAI is reviewing Ind AS based Financial Statements to identify deviations from applicable accounting standards and disclosures prescribed by statutes and has come out with its new publication on 'Study on Compliance of Financial Reporting Requirements (Ind AS Framework) – Volume III'.

This publication by FRRB incorporates the instances of non-compliances identified in Ind AS based Financial Statements, along with the detailed explanations for each observation. The observation featured here serves as both a guide and a reference point for gaining a deeper understanding of best financial reporting practices. This publication covers non-compliances observed relating to Ind AS, Schedule III of the Companies Act, 2013, Standards on Auditing and Companies Auditors Report Order (CARO).

I extend my heartfelt congratulations to CA. Vishal Doshi, Chairman, CA. Dayaniwas Sharma, Vice-Chairman, and all other members of the Financial Reporting Review Board for their dedicated efforts in bringing out this valuable publication.

I am confident that this publication will prove to be immensely beneficial for the members of the Institute and other stakeholders alike.

21st January 2025 **CA. Ranjeet Kumar Agarwal**
New Delhi **President, ICAI**

Preface

To build trust with stakeholders, financial statements must provide a truthful and fair representation of the entity's financial position. In this context, reviewing general purpose financial statements is an essential tool to ensure that organizations meet the utmost reporting standards. Since its establishment in 2002, the Financial Reporting Review Board (FRRB) has been dedicated to a single, core objective: enhancing and strengthening financial reporting practices across the country. In addition to review general-purpose financial statements, to assess compliance with financial reporting standards, rules and regulations set by relevant regulatory authorities, the Board also strives to raise awareness among its members and other stakeholders on key issues in financial reporting.

I am delighted to present Volume III of FRRB's publication 'Study on Compliance of Financial Reporting Requirements (Ind AS Framework)'. This publication aims to disseminate common non-compliances observed during reviews and to overcome the challenges in maintaining a strong financial ecosystem. For easy reference, the observations have been classified elements of financial statements wise viz, Observations related to 'Assets', 'Equity', 'Liabilities', 'Components of Profit and Loss', 'Statement of Cash Flows', 'Other Disclosures', 'Auditor's Report' and 'CARO' which should be complied with while preparing the financial statements or expressing opinion thereupon. A pie chart titled "Deficiency Observed: Elements of Financial Statements" is also included, which highlights the percentage of non-compliances observed in each part of the financial statements. The publication also contains graphical presentation on 'Deficiencies Observed: At a Glance', which exhibits level/ percentage of non-compliances observed in all the Indian Accounting Standards (Ind AS). I am confident that the insights presented in this publication will play a pivotal role in helping us achieve our professional goal of excellence in financial reporting.

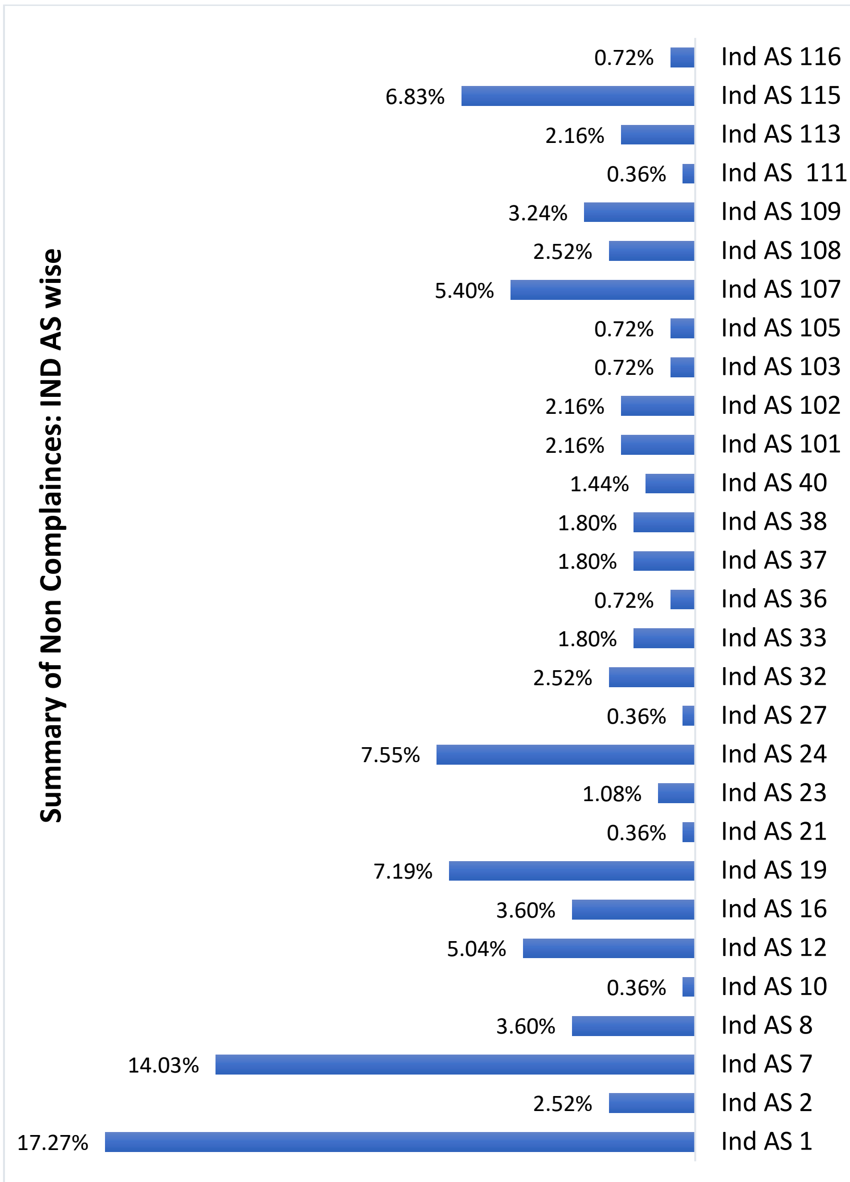
My sincere thanks to CA. Ranjeet Kumar Agarwal, President of ICAI, CA. Charanjot Singh Nanda, Vice-President of ICAI for their guidance and support in various endeavours of the Board. I would also like to express my gratitude to the Council colleagues and special invitees on the Board for their unwavering support during the year, CA. Dayaniwas Sharma, Vice Chairman, CA. Pramod Jain, CA. (Dr.) Sanjeev Kumar Singhal, CA. Durgesh Kumar Kabra, CA. Purushottamlal Khandelwal, CA. Kemisha Soni, CA. Hans Raj Chugh, Advocate Vijay Kumar Jhalani- Government Nominee, Shri Deepak Kapoor – Government Nominee (C&AG), Shri Sanjay Kumar & Shri Inder Deep Singh Dhariwal - Government Nominee (MCA) and the special invitees Shri Ajay Kumar Kripashankar from C&AG, Ms. Devangi Swarnkar from CBDT, Ms. Sheetal Shrivastava from NABARD, CA. Kanishk Jain from Niti Aayog.

I would like to place on record my sincere thanks to CA. Ravi Kanth Miriyala for assisting in preparation of the publication based on the content provided by the Board. My special thanks to CA. Rajesh Mody, CA. Samip Shah and CA. Shripal Shah for reviewing this publication and providing valuable technical insights. I would also like to thank our Technical Reviewers (TRs) and Financial Reporting Review Groups (FRRGs) for their consistent support to the Board.

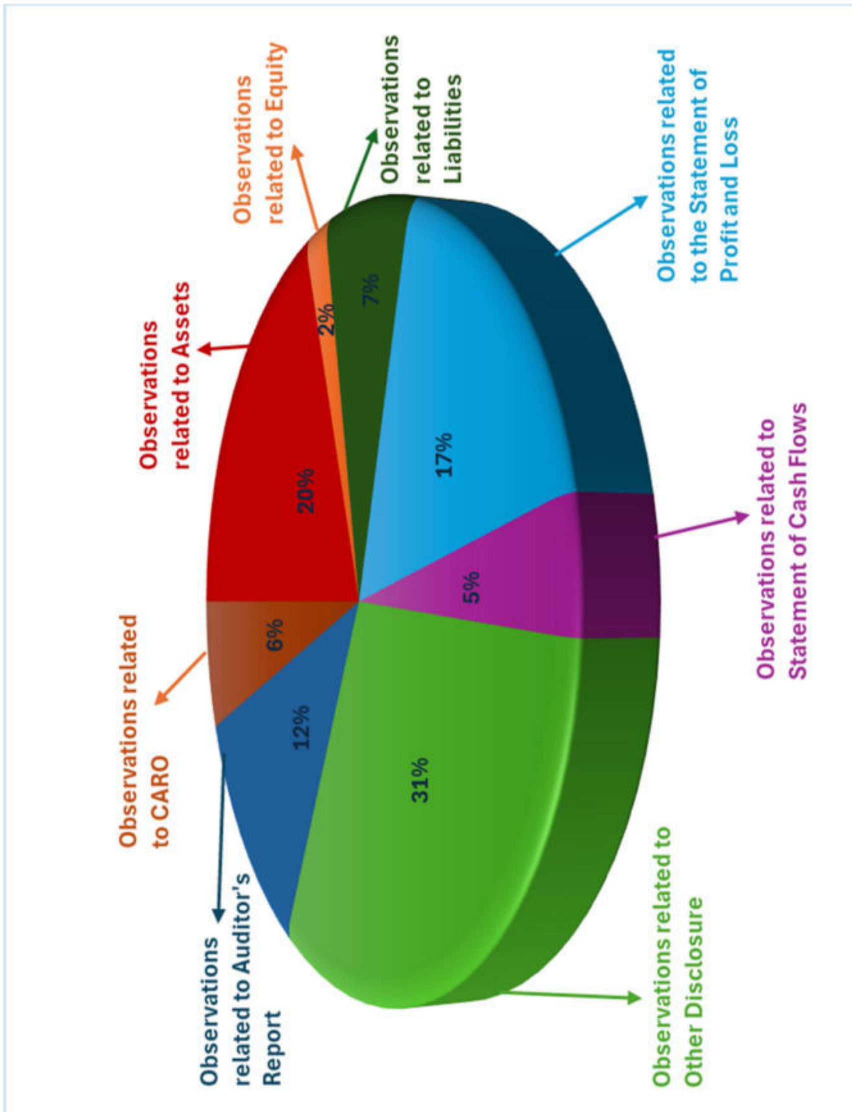
I would also like to appreciate the technical contribution and administrative support provided by CA. Ankita Mangla, Secretary - FRRB, CA. Deepak Khetan, Project Associate, Ms. Kinjal Goyal, Management Trainee and the entire team of FRRB for their efforts in finalising this publication.

Date: January 17, 2025 **CA. Vishal Doshi**
Place: New Delhi **Chairman, FRRB**

Deficiencies Observed: At a Glance



Deficiency Observed : Elements of Financial Statements



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Chapter-1
Observations related to Assets

1. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of Balance sheet & Note on Property, Plant and Equipment given in the Annual Report of a company, reads as follows:

"Balance Sheet as at March 31, 2020

(Rs. In million)

Particulars	**Note No.**	**As at March 31, 2020**	**As at March 31, 2019**
I. Assets			
Non-current Assets			
Property Plant & Equipment	2	--	--
Capital Work-in-Progress		XX	YY
…………	---	---	---"

"Property, Plant and Equipment (Note 2)

Particulars	**Office Building**	**Plant & Machinery**	**Furniture and Fixture**	**Cables**	**Office Equipment**	**Computers**	**Electrical fittings**	**Total**
Gross Block (At Cost)								
……….	---	---	---	---	---	---	---	---
Accumulated Depreciation and Impairment								
……….	---	---	---	---	---	---	---	---
Net Block								
……….	---	---	---	---	---	---	---	---

Principle: Ind AS 16 - Property, Plant and Equipment

Paragraph 73

"The financial statements shall disclose, for each class of property, plant and equipment:

…

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

…

(v) impairment losses recognized in profit or loss in accordance with Indian Accounting Standard 36;

(vi) impairment losses reversed in profit or loss in accordance with Indian Accounting Standard 36;

…

(ix) other changes."

Paragraph 74

"The financial statements shall also disclose:

(a) …

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

Observation

It was noted from the Balance Sheet of the company that capital work-in-progress worth Rs. XX million (PY Rs. YY million) have been disclosed thereat. It was further noted from the notes to the accounts that, while the Company has provided details of various items of property, plant and equipment in Note 2, there is no disclosure regarding the movement in capital work-in-progress. Since Capital-work in-progress is considered as part of property, plant and equipment, the requirements of Ind AS 16 apply to it. Therefore, it was viewed that reconciliation of the carrying amount at the beginning and end of the period as well as the amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction should have been disclosed by the company in line with the requirement of paragraph 73 (e) and 74(b) of Ind AS 16.

It may be noted that the same view, as to capital-work-in-progress be treated as property, plant and equipment, was taken by the Ind AS Transition and Facilitation Group (ITFG) of ICAI and can be referred from issue number 33 of Compendium of ITFG Clarification Bulletins, December 2018 edition. The relevant extract of the issue number 33 of the compendium is reproduced below:

"…Capital work in progress is in the nature of property, plant and equipment under construction, and accordingly, provisions of Ind AS 16, Property, Plant and Equipment apply to it."

Accordingly, it was viewed that requirements of Indian Accounting Standard 16 have not been complied with in preparation and presentation of the financial statements.

2. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of accounting policy on Property, Plant and Equipment given in the Annual Report of a company, reads as follows:

"Significant Accounting Policies

Property, plant and equipment

Depreciation

The estimated useful lives of items of property, plant and equipment for the current and comparative periods are as follows:

Asset	Management estimate of useful life	Useful life as per Schedule II
Office equipment	5 years	5years
Furniture and fixtures	10 years	10 years
Computer equipment	3 years	3 years

Depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Based on technical evaluation and consequent advice, the management believes that its estimates of useful lives as given above best represent the period over which management expects to use these assets.

Depreciation on additions (disposals) is provided on a pro-rata basis i.e., from (up to) the date on which asset is ready for use (disposed of)."

Principle: Ind AS 16 - Property, Plant and Equipment & Schedule II to the Companies Act, 2013

Paragraph 73 of Ind AS 16

"The financial statements shall disclose, for each class of property, plant and equipment:

…

(b) the depreciation methods used"

Part C of Schedule II to the Companies Act, 2013

"…

3. The following information shall also be disclosed in the accounts, namely:

(i) depreciation methods used; and

…"

Observation

It was noted from the accounting policy on depreciation that the company has not disclosed the method of depreciation as required by Indian Accounting Standard 16 as well as Schedule II of the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 16 and Schedule II of the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

3. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of Note on Property, Plant and Equipment & Note on Borrowings given in the Annual Report of a company, reads as below:

"Property, Plant and Equipment

Property, Plant and Equipment consists of the following for the year ended March 31, 20XX:

Particulars	Land	Building	Office Equipment	Computer Equipment	Furniture	Vehicle	Total
……	---	---	---	---	---	---	---"

"Non-current Financial Liabilities – Borrowings

Particulars	31 March, 20XX	31 March, 20YY
Secured Loans		
- ICICI Bank Loan	--	---
- HDFC Bank Loan	--	---
Total	**---**	**---"**

Principle: Ind AS 16 - Property, Plant and Equipment and Division II Schedule III to the Companies Act, 2013

Paragraph 74 of Ind AS 16

"The Financial statements shall also disclose:

(a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities."

Note 6E of General Instructions for Preparation of Balance Sheet

E. Non-Current Liabilities

I. Borrowings

…

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

Observation

It was noted from the notes to accounts that the company has availed secured bank loans. It was further noted from the database of Ministry of Corporate Affairs that the company has created a charge on its property, plant and equipment (PPE) as collateral for borrowings from HDFC Bank. However, no disclosure has been given in the financial statements with respect to charge created on Property, Plant and Equipment for the secured loans.

Accordingly, it was viewed that requirements of Indian Accounting Standard 16 and Division II, Schedule III of the Companies Act 2013 have not been complied with in preparation and presentation of the financial statements.

4. Property, Plant and Equipment

Matter contained in Financial Statements

An abstract of accounting policy on Property, Plant & Equipment and Depreciation as given in the Annual Report of a company, reads as follows:

"Property, Plant and Equipment and Depreciation

(a) …

(b) …

(c) …

(d) The Company depreciates property, plant and equipment over their useful lives as prescribed by schedule II of the Act. In case the cost of a part of a property, plant and equipment is significant to the total cost of the asset, and useful life of the part is different from the remaining useful life of the asset, depreciation is provided on straight line method based on internal assessment and independent technical evaluation carried out by external valuers. The management believes that the useful lives of the components best represent the period over which the management expects to use those components."

Principle: Ind AS 16 - Property, Plant and Equipment

Paragraph 73

"The financial statements shall disclose, for each class of property, plant and equipment:

(a) …

(b) …

(c) the useful lives or the depreciation rates used;

(d) …

Observation

It was noted from the given accounting policy that the company depreciates its Property, Plant and Equipment (PPE) over their useful lives as prescribed by Schedule II of the Companies Act and in certain cases on Straight Line

Basis. However, it was observed that the estimated useful lives or depreciation rates to compute the amount of depreciation has not been disclosed in the financial statements, as required by paragraph 73 (c) of Indian Accounting Standard 16.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 16 have not been complied with in preparation and presentation of financial statements.

5. Property, Plant and Equipment

Matter contained in Financial Statements

An abstract of Balance Sheet and the accounting policy on Property, Plant & Equipment given in the Annual Report of a company, read as follows:

Balance Sheet As at March 31, 20XX

(Rs. in Millions)

	Note	As at March 31, 20XX	As at March 31, 20YY
Assets			
Non-Current Assets			
(a) Property, Plant and Equipment			
(b) Capital Work-in-Progress		**XXX**	**XXX**

"Property, Plant and Equipment

…

The cost of Property, Plant and Equipment not available for use as at each reporting date is disclosed under capital work in progress."

Principle: Ind AS 16 - Property, Plant and Equipment

Paragraph 74

"The financial statements shall also disclose:

(a) …

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;"

Observation

It was noted from the stated accounting policy that the amount incurred during the construction period was recognised as Capital Work in Progress. However, it was observed that the company has not disclosed the amount of expenditure recognised in the carrying amount of capital work in progress as required by paragraph 74 (b) of Ind AS 16.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 16 has not been complied with in the preparation and presentation of financial statements.

6. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of Note on Tangible Assets, read as follows:

Note on Tangible Assets (Amt in Rs.)

Particulars	Gross Block		Depreciation	
	As at 01.04.2018	As at 31.03.2019	As at 01.04.2018	Upto 31.03.2019
Total	76,35,91,767	-	56,77,65,679	-
31.03.2018	-	76,50,59,981	-	56,91,69,236

Observation

From the Note on Tangible Assets, it was observed that the carrying value of the gross block at the beginning of the current year (Rs. 76,35,59,981) does not align with the figure reported for the gross block at the end of the previous year (Rs. 76,50,59,981). Additionally, there are inconsistencies in the carrying values of accumulated depreciation at the beginning of the current year when compared to their closing balances at the end of the previous year. Such discrepancies raise concerns about the accuracy of the figures presented in the financial statements.

Additionally, it was viewed that the word “Property, Plant and Equipment” should have been used instead of ‘Tangible Assets’.

Accordingly, it was viewed that such apparent inconsistencies should be avoided.

7. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of accounting policy on Borrowing Costs and Note on Property, Plant and Equipment, read as follows:

"Borrowing Cost:

Borrowing costs that are directly attributable to the acquisition and construction of qualifying assets are capitalized."

"Note on Property Plant and Equipment

Particulars	**Capital Work In Progress**
Cost as at April 1, 20YY	--
Additions	--
Deletions	--
Cost as at March 31, 20XX (A)	--
Accumulated depreciation as at March 31, 20XX (B)	----
Net Carrying Amount as at March 31, 20XX [(A) – (B)]	-- "

"Capital Work in Progress mainly comprises of assets under construction, unallocated expenditure and borrowing cost related to new projects under construction in the state of Goa and Maharashtra."

Principle: Ind AS 23: Borrowing Costs

<u>Paragraph 26</u>

"An entity shall disclose:

(a) the amount of borrowing costs capitalized during the period; and

(b) the capitalization rates used to determine the amount of borrowing costs eligible for the capitalization."

Observation

It was noted that borrowing cost related to qualifying assets were capitalized during the year. Additionally, a significant amount was added to the capital work in progress, and a reconciliation of capital work in progress has been disclosed. Further, it was noted that the company borrowed funds generally and not specifically for the purpose of obtaining a qualifying asset. However, the amount of borrowing cost capitalized during the year, along with the capitalization rate used to determine the amount eligible for capitalization, has not been disclosed, as required by paragraph 26 of Ind AS 23.

Accordingly, it was viewed that requirements of Indian Accounting Standard 23 have not been complied with in preparation and presentation of the financial statements.

8. Property, Plant and Equipment

Matter contained in Financial Statements

The accounting policy on Property, Plant and Equipment given in the Annual Report of a company, reads as below:

"Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction less accumulated depreciation less accumulated impairment, if any. Freehold land is measured at cost and is not depreciated. Interest cost incurred for **constructed assets** is capitalised up to the date the asset is ready for its intended use…" **(Emphasis supplied)**

Principle: Ind AS 23: Borrowing Costs

Paragraph 8

"An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them."

Observation

It was noted from the stated accounting policy of the company that borrowing costs incurred for constructed assets were capitalised up to the date the asset is ready for its intended use. It was viewed that as per paragraph 8 of

Ind AS 23, borrowing costs incurred on acquisition, construction or production of qualifying asset should be capitalised. As per Ind AS, qualifying asset means an asset which necessarily takes substantial period of time to get ready for its intended use or sale. Accordingly, it was viewed that every constructed asset may not be a qualifying asset, and therefore, borrowing cost incurred on every constructed asset may not be permitted to be capitalized unless it is a qualifying asset as per Ind AS 23.

Accordingly, it was viewed that the accounting policy on Property, Plant and Equipment as adopted by the company with respect to capitalization of borrowing cost is not in accordance with Ind AS 23.

9. Property, Plant and Equipment

Matter contained in Financial Statements

The relevant abstract of the accounting policy on Property, Plant and Equipment as given in the Annual Report of a company, reads as follows:

"Property, Plant and Equipment

Recognition and initial measurement

...

Subsequent measurement (depreciation and useful lives)

Depreciation on Property, Plant and Equipment is provided on written down value method based on the useful life of the asset as specified in Schedule II to the Companies Act, 2013. The management estimates the useful life of the assets as prescribed in Schedule II to the Companies Act, 2013 except in the case of steel shuttering and scaffolding, whose life is estimated as five years considering obsolescence. Cost of building constructed on land owned by third party under 'Build Own Transfer' agreement is amortized over the period of the agreement."

Principle: Ind AS 1: Presentation of Financial Statements

<u>Paragraph 7</u>

"

...

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those

financial statements, which provide financial information about a specific reporting entity.

…

Notes contain information in addition to that presented in the balance sheet), statement of profit and loss, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements."

Observation

It was observed from the stated accounting policy that the cost of building constructed on land owned by third party under 'Build Own Transfer' agreement is amortized over the period of agreement. However, the agreement period has not been disclosed over which the building has been amortized. It was viewed that the company should have provided adequate disclosures for the assets constructed, for better understanding of financial statements.

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

10. Investment Property

Matter contained in Financial Statements

The accounting policy of Investment Property and related Notes to Accounts, reads as below:

"Significant Accounting Policies

…

Investment Property:

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any in accordance with Ind AS 16 Property, Plant and Equipment. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized."

"Useful life of Investment properties:

Particulars	Life
…	…
Plant & Equipment	3 to 5 years
Furniture and fixtures	5 years
Office Equipment	5 years"

"Details of Investment Property and its Fair value

….

Particulars	31.03.20XX	31.03.20YY
…	…	…
Plant & Machinery Furniture and fixtures	--	--
Office Equipment	--	--"

Principle: Ind AS 40: Investment Property

<u>Paragraph 5</u>

"Investment property is the property (land or a building, part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than

(a) use in production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of Business.

<u>Paragraph 75</u>

"An entity shall disclose:

…

(f) the amounts recognized in profit or loss for:

> i. **rental income from investment property;**
>
> ii. **direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and**
>
> iii. **direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period. "**
>
> **<u>Paragraph 79</u>**
>
> **"In addition to the disclosures required by paragraph 75, an entity shall disclose:**
>
> **(a) the depreciation methods used;**
>
> **(b) the useful lives or the depreciation rates used;------"**

Observation

It was observed from the accounting policy for Investment Property that furniture & fixtures, plant & equipment and office equipment have been included in it. Additionally, it was noted that, while disclosing the fair value of Investment Properties, the company also included the fair value of plant & machinery, furniture & fixtures and office equipment. However, these items do not qualify as investment properties under Indian Accounting Standard (Ind AS) 40. According to Ind AS 40, only land, buildings, or part of building or both that are held to earn rentals, capital appreciation or both, are qualified as Investment Property.

It was further observed that other disclosures have also not been provided in the notes to financial statements, like amounts recognized in the Statement of Profit or Loss for rental income from investment property and depreciation method used for it, as required by paragraphs 75 and 79 of Ind AS 40.

Accordingly, it was viewed that requirements of Indian Accounting Standard 40 have not been complied with in preparation and presentation of financial statements.

11. Investment Property

Matter contained in Financial Statements

The abstract of Note on Revenue from Operations given in the Annual Report of a company, reads as below:

“Revenue from Operations

Particulars	31-03-20XX	31-03-20YY
…	---	---
Rental Income	---	---”

Principle: Ind AS 40: Investment Property

<u>Paragraph 75</u>

"An entity shall disclose:

(a) its accounting policy for measurement of investment property."

<u>Paragraph 79</u>

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

(a) depreciation method used;

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

(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period."

Observation

It was noted from the disclosure on Revenue from Operations that the company had earned significant rental income by letting out properties. It was viewed that Property held to earn rentals or for capital appreciation or both, qualifies as Investment Property as per Indian Accounting Standard 40. However, it was noted from the financial statements that the company has not classified the property as Investment property on the face of Balance Sheet and not provided disclosures such as accounting policy, depreciation method used, useful lives or depreciation rates used, gross carrying amount and accumulated depreciation, as required by paragraphs 75 and 79 of Indian Accounting Standard 40.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 40 have not been complied with in preparation and presentation of the financial statements.

12. Investment Property

Matter contained in Financial Statements

The relevant abstract of the accounting policy as well as disclosure of Investment Property in the Annual Report of a company, reads as below:

"Accounting Policy on Investment Property

…

The fair value of investment property is disclosed in the notes. Fair value is determined by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Any gain or loss on disposal of an investment property is recognized in Statement of Profit and Loss."

"Investments Properties

Particulars	Gross Block	Depreciation	Net Block
Building & Office Premises	---	---	---"

Principle: Ind AS 40: Investment Property

<u>Paragraph 75</u>

"An entity shall disclose:

…

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

Observation

It was noted from the given accounting policy on Investment Property that the company measures the fair value of investment property using the services of independent valuer. It was also noted from the accounting policy that fair value of investment property is disclosed in the notes. However, the amount of its fair value has not been disclosed in the financial statements.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 40 have not been complied with in preparation and presentation of financial statements.

13. Goodwill

Matter contained in Financial Statements

The relevant abstract of the Balance Sheet given in the Annual Report of a company, reads as below:

"BALANCE SHEET AS AT 31ST MARCH 20XX

Particulars	Notes	As at 31 March 20XX	As at 31 March 20YY
I. ASSETS			
Non-Current Assets			
(a) …			
(b) Goodwill	3	---	---
(c) …"			

Principle: Ind AS 38: Intangible Assets, Ind AS 103: Business Combinations and Ind AS 36: Impairment of Assets

<u>Paragraph 48 of Ind AS 38</u>

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

<u>Paragraph B67 of Ind AS 103</u>

"To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

…

(d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

…

(v) impairment losses recognised during the reporting period in accordance with Ind AS 36. (Ind AS 36 requires disclosure of

> information about the recoverable amount and impairment of goodwill in addition to this requirement.)"
>
> **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 from the Balance Sheet that the company has a substantial amount of goodwill. However, adequate disclosure with respect to the source of goodwill has not been provided in the financial statements. It was viewed that if it is internally generated goodwill, then it should not be recognised as asset as per paragraph 48 of Ind AS 38, and in case, if the goodwill acquired in a Business Combination, then the fact as well as disclosures required by paragraph B 67 (d) (v) of Ind AS 103 should be given.

Further, it was noted that the accounting policy for goodwill and its impairment has not been provided in the financial statements. As per paragraph 10(b) of Ind AS 36, goodwill is required to be tested for impairment annually irrespective of any indication of impairment. However, the company has not disclosed any information in this regard.

Accordingly, it was viewed that the requirements of Ind AS 36, Ind AS 38 and Ind AS 103 have not been complied with in preparation and presentation of financial statements.

14. Intangible Assets

Matter contained in Financial Statements

The accounting policy on Research and Development Costs given in the Annual Report of the company, reads as below:

"Research and Development Costs

Revenue expenditure incurred on research and development has been charged to the statement of profit and loss for the year in which it is incurred. Capital expenditure is included in respective heads under Property, plant and equipment".

Principle: Ind AS 38: Intangible assets

Paragraph 54

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

Paragraph 57

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

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development."

Observation

It was noted from the given accounting policy that the expenditure on research and developments has not been classified between research phase and development phase.

It was viewed that as per Ind AS 38, the expenditure on research and development should be classified into the expenditure incurred in research phase and development phase instead of classifying them into revenue and capital expenditure. The research expenses (revenue or capital expenses) should be recognised as expenses in line with the paragraph 54 of Indian Accounting Standard 38 and development costs (in the nature of revenue or capital expense) may be capitalised as intangible assets subject to fulfillment of recognition criteria given under paragraph 57 of Ind AS 38 rather than recognising as property, plant and equipment.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 38 have not been complied with in preparation and presentation of financial statements.

15. Intangible Assets

Matter contained in Financial Statements

The abstract of Balance Sheet as well as Note on Depreciation, Amortisation and Impairment expenses given in the Annual Report of a company, read as below:

"**Balance Sheet**

Particulars	**20XX**	**20YY**
Intangible Assets under Development	---	---"

"**Depreciation, Amortization and Impairment expense**

Particulars	**20XX**	**20YY**
(d) Impairment of property, plant & equipment and intangible under development	---	---

Principle: Ind AS 38: Intangible Assets

<u>Paragraph 118</u>

"An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

…

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

i. additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

ii. assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

iii. increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with Ind AS 36 (if any);

iv. impairment losses recognised in profit or loss during the period in accordance with Ind AS 36 (if any);

….

Observation

It was noted from the Balance Sheet that the company has 'Intangible Assets Under Development' and there is a significant increase in its closing balance. However, the reconciliation of the carrying amount at the beginning and the end of the year has not been disclosed, as required by paragraph 118(e)(i) of Indian Accounting Standard 38.

It was further noted that the company has disclosed impairment loss on Property, Plant and Equipment and Intangible assets under development, together in single line item. It was viewed that impairment loss pertaining to intangible assets should have been disclosed separately in line with the requirement of paragraph 118(e)(iv) of Indian Accounting Standard 38.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 38 have not been complied with in preparation and presentation of financial statements.

16. Intangible Assets

Matter contained in Financial Statements

The relevant abstract of Note on Property, Plant & Equipment and Intangible Assets and Accounting Policy regarding Intangible Assets, given in the Annual Report of a company, reads as below:

"Property Plant & Equipment and Intangible Assets

Particulars	**Gross Carrying Cost as at March 31 20XX**	**Depreciation / Amortization as at March 31 20XX**	**Net Carrying Cost as at March 31 20XX**
……………	---	---	---

(B) Intangible Assets			
Computer software	---	---	---
Models, designs	---	---	---"

Intangible Assets

The Company has elected to continue with the carrying value of all of its intangible assets recognised as of 1 April, 20XX measured as per the previous GAAP as its deemed cost on the date of transition to Ind AS.

Recognition and Measurement

…

Principle: Ind AS 38: Intangible Assets

Paragraph 118

"An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

…"

Observation

It was noted from the given note that the company has recognized 'computer software' and 'model, designs' as Intangible Assets. However, the company has not provided clear distinction of whether these intangible assets were internally generated or acquired, as required by paragraph 118 of Indian Accounting Standard 38.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 38 have not been complied with in preparation and presentation of the financial statements.

17. Intangible Assets

Matter contained in Financial Statements

The accounting policy on Intangible Assets and abstract of Note on Property, Plant and Equipment (PPE) and Intangible Assets, are given below:

"Significant Accounting Policies

…

Intangible Assets

Intangible Assets are stated at cost of acquisition net of recoverable taxes, trade discount and rebates less accumulated amortisation/ depletion and impairment loss, if any. Such cost includes purchase price, borrowing costs, and any cost directly attributable to bringing the asset to its working condition for the intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Intangible assets are amortised over their estimated useful life.

"Note : Property, Plant and Equipment (PPE) and Intangible Assets

Description	**…**	**…**	**…**	**Intangible Asset Computer Software (acquired)**
…				
Balance as at 31 March 20XX				---"

Principle: Ind AS 38: Intangible Assets

Paragraph 118

"An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;"

Observation

It was observed from the accounting policy and disclosures on Intangible Assets that the company has recognised computer software as an acquired Intangible Asset, which is amortized over its estimated useful life. However, the company has not disclosed the method of amortization and amortization rate/useful lives of the intangible assets, as required by paragraph 118 (a) & (b) of Indian Accounting Standard 38.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 38 has not been complied with in preparation and presentation of financial statements.

18. Investments

Matter contained in Financial Statements

The relevant abstract of Note on Investments and Fair Value Measurement Hierarchy given in the Annual Report, reads as below:

"Note XX: Investments

Particulars	As at March 31, 20XX	As at March 31, 20YY
Others (Measured at Cost, Refer Note No. XXX)		
(a) The ABC Commercial Co-Operative Bank Limited XXX (Previous Year: XXX) Equity Shares of Face Value Rs XX Each	---	---"

"Note XXX: Fair value measurement hierarchy:

Particulars	As at March 31, 20XX						
	Carrying amount	Amortised Cost	FVTOCI	FVTPL	Level of input used in		
					1	2	3
Financial assets							
Investments*	---	---	-	-	-	-	-

*Excluding investment in subsidiaries and joint venture amounting to Rs. --- lakhs as it is carried at cost.

Principle: Ind AS 109: Financial Instruments

Paragraph 5.2.1

"After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at:

(a) amortised cost;

(b) fair value through other comprehensive income; or

(c) fair value through profit or loss."

Paragraph 5.7.5

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

Paragraph B5.2.3

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Observation

It was noted from Note on Investments that the company has invested in equity shares of ABC Commercial Co-operative Bank and stated that it is measured 'at cost'. However, under Note on Fair Value measurement Hierarchy, it has been stated to be valued at 'amortized cost'. Hence, there is inconsistency with regard to valuation of equity investments. Further, it was viewed that investment in equity instruments (other than investment in group companies covered under Ind AS 27) should be measured at fair value through profit and loss or fair value through other comprehensive income (irrevocable option) in accordance with Ind AS 109.

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

19. Trade Receivables

Matter contained in Financial Statements

The relevant abstract of Note on Trade receivables and Note on Financial Risk Management - Credit Risk, as given in the Annual Report of a company, reads as follows:

“Trade Receivables

Particulars	As at March 31, 20XX	As at March 31, 20YY
Trade receivables considered good-secured	-	-
Trade receivables considered good-unsecured	---	---
Trade receivables which have significant increase in credit risk	---	---
Trade receivables-credit impaired	-	-
Total	**---**	**---**
Provision for expected credit loss	(--)	(--)
Total trade receivables	**---**	**---**

“Trade receivables Break up of security details.”

“Financial Risk Management

…

A. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations.

Trade receivables

Concentrations of credit risk with respect to trade receivables are limited, due to the customer base being large, diverse and across sectors. ….

Financial Assets are considered to be of good quality and there is no significant increase in credit risk.

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 17

"In virtually all circumstances, presentation of a true and fair view is achieved by compliance with applicable Ind ASs. Presentation of a true and fair view also requires an entity:

…

(e) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information."

Observation

Under the Note on Financial Risk Management, it has been stated that the company has not experienced a significant increase in credit risk. However, it was observed from the Note on Trade Receivables that there is a significant increase in the allowance for Expected credit loss, which indicates that there is significant increase in credit risk.

Accordingly, it was viewed that contradictory information has been provided in the same set of financial statements and the requirements of Indian Accounting Standard 1 have not been appropriately complied with in preparation and presentation of financial statements.

20. Investments in Subsidiaries, Associates and Joint Ventures

Matter contained in Financial Statements

The relevant abstract of Note on Investments given in the Annual Report of a company, reads as below:

"Investments

Particulars	As at March 31, 20XX		As at March 31, 20YY	
	No. of shares	Amount	No. of Shares	Amount
…	---	---	---	---
Total Investments in Subsidiaries		---		---

	---	---	---	---
Total Investments in Associates		---		---
…	---	---	---	---
Total Preference Instrument Investments in Subsidiaries		---		---
…		---		---"

Principle: Ind AS 27: Separate Financial Statements

Paragraph 17

" … 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

It was noted from the Note on Investments that there are investments in subsidiaries, associates and joint ventures. However, place of incorporation and the proportion of ownership interest in respect of investments in subsidiaries, associates and joint ventures have not been disclosed anywhere in the notes to accounts as required by paragraph 17 of Ind AS 27.

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

21. Investments

Matter contained in Financial Statements

The relevant abstract of Note on Current Investments given in the Annual Report of a company, reads as below:

"Current Investments

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
Mutual Funds	**XXX**	**XXX**

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

Paragraph: Note 6A(VI)(ii) of General Instructions for preparation of Balance Sheet

"**Investments:**

(i) Investments shall be classified as:

…

(ii) The following shall also be disclosed;

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments; and

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

Observation

It was noted from given note that the Company has invested in various mutual funds as Current Investments.

It may be noted that Note 6 of General Instructions for preparation of Balance Sheet given under Divisions II, Schedule III of the Companies Act, 2013 requires Investments to be sub classified into quoted, unquoted and impairment loss (if any) in the notes to financial statements. However, the company has not disclosed the same.

Accordingly, it was viewed that given disclosures are imprecise and not in accordance with the requirements of Division II, Schedule III to Companies Act, 2013.

22. Investments

Matter contained in Financial Statements

The relevant abstract of the Balance Sheet given in the Annual Report of a company, reads as below:

Particulars	As at 31st March, 20XX	As at 31st March, 20YY
Non-current assets		
Property, Plant and Equipment	XXX	XXX
Investments	XXX	XXX

Principle: Division II, Schedule III to the Companies Act, 2013 and Ind AS 32, Financial Instruments: Presentation

Abstract of Format of Balance sheet prescribed under Division II of Schedule III, Companies Act 2013

"Balance Sheet

(1) Assets

Non-current Assets

(h) Financial Assets

(i) Investments"

Paragraph 11 of Ind AS 32

"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) & (ii) ....."

Observation

It was noted from the Balance sheet that "Investments" have been shown under Non-Current Assets. It was viewed that investments are financial assets, as per paragraph 11 of Ind AS 32. Additionally, Schedule III to Companies Act, 2013 requires to classify "Investments" on face of Balance Sheet under the head "Financial Assets“. Hence, it was viewed that 'Investments' should have been shown under the head 'Financial Assets' on the face of balance sheet, as sub-category of Non-Current Assets.

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

23. Loans

Matter contained in Financial Statements

The relevant abstract of Note on Loans given in the Annual Report of a company, reads as follows:

"Note: Loans (at amortized cost)

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
Unsecured, Considered Doubtful		
Loans to others (Business Advance)	---	---"

Principle: Ind AS 109: Financial Instruments

<u>Paragraph 5.5.1</u>

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

Observation

It was observed from the given note that the company has given unsecured business advance which has been considered 'doubtful'. It was also observed that all the loans were carried at amortised cost. However, despite of the fact that these advances were doubtful, the company has not recognized any allowance towards the expected credit loss as required by Indian Accounting Standard 109. It was viewed that non-recognition of allowance for expected credit loss on doubtful business advances, the profits as well as financial assets of the company have been overstated to that extent.

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

24. Deferred Tax

Matter contained in Financial Statements

The relevant abstract of the Accounting Policy on Taxes on Income as given in the Annual Report of a company, reads as follows:

"Significant Accounting Policies

Taxes on Income

…

Deferred Tax:

…

Deferred Tax Assets for previous year has been reversed in current year on conservative approach as non-foreseeability of its adjustment in future against profits."

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 7

"

…

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Observation

It was noted from the stated accounting policy that the company has reversed the deferred tax assets in the current year considering the non-foreseeability of future taxable profits. However, it was observed from the note on deferred tax that the company does not have deferred tax assets in both the current year and previous year. It was viewed that the provided statement on reversal of deferred tax assets is irrelevant and confusing.

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

25. Deferred Tax-MAT Credit

Matter contained in Financial Statements

The relevant abstract of Note on MAT credit entitlement given in the Annual Report of a company, reads as below:

"Note 5: Other Non-Current Assets

(Unsecured, considered Good)

Particulars	As at 31.03.20XX	As at 31.03.20YY
MAT credit entitlement	XXX	XXX

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

Paragraph: 9.7.2. Deferred tax

"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

It was observed from the given note that "MAT credit entitlement" was classified as "Other Non-current Assets". In accordance with stated requirement of Guidance Note, MAT credit entitlement should be grouped with Deferred Tax Assets (Net) in the Balance Sheet with a separate note specifying the nature and amount of MAT Credit.

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

26. Financial Assets

Matter contained in Financial Statements

The relevant abstract of Note on Other Current Assets given in the Annual Report of a company, reads as below:

"Other Current Assets

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
Interest Accrued	---	---

Principle: Ind AS 32: Financial Instruments: Presentation

Paragraph 11

"A *Financial Asset* is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or

(d) …"

Observation

It was noted from the given note on other current assets that the same contains a line item as 'interest accrued'. It was viewed that accrued interest is a "financial asset" since it gives the company a contractual right to receive cash from another entity. Further, it was viewed that interest accrued should be included in the underlying financial assets.

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

27. Financial Assets

Matter contained in Financial Statements

In the annual report of a company, prepaid expenses have been disclosed under 'Other Financial Assets'.

Principle: Ind AS 32: Financial Instruments: Presentation and Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

<u>Paragraph 11 of Ind AS 32</u>

"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) …"

<u>Paragraph 8.1.12 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013</u>

"…Other advances include all other items in the nature of advances which do not meet the definition of a financial assets viz., Prepaid expenses, CENVAT credit receivable, VAT credit receivable, Service tax credit receivable, etc.,"

Observation

The Board viewed that prepaid expenses does not give a contractual right to receive cash or other financial assets, rather it is a right to receive services. Accordingly, the prepaid expenses are not financial assets in terms of Indian Accounting Standard 32 and should have been disclosed as 'Other Current Assets' as per the guidance provided under paragraph 8.1.12 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 32 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 the financial statements.

28. Financial Assets

Matter contained in Financial Statements

The relevant abstract of Note on Joint Venture and Accounting Policy on Impairment of Financial Assets as given in the Annual Report of XYZ Ltd, is reproduced below:

"Note on Joint Venture

ABC JV has a total exposure of Rs XXX in RRR Metro Rail Ltd. (RRR) which includes trade receivables of Rs XXX and unbilled receivables of Rs XXX.

ABC JV has put a Rs XXX variations on RRR which are pending at different stages of arbitration.

XYZ Limited has undertaken sub-contracting work of Rs XXX from ABC JV for RRR Metro Rail Ltd. and as at 31st March 20YY, total receivable due from ABC JV is Rs XXX. An amount of Rs XXX is pending towards subcontracting work and the balance Rs XXX is pending towards advances given to ABC JV. XYZ Limited is not the party to the arbitration/claims, and the recovery of this amount is dependent upon finalization of arbitration award and clearance /acceptance of claims by RRR."

Impairment of financial assets

…The Company applies the expected credit loss model for recognising impairment loss on financial assets measured at amortised cost, lease receivables, trade receivables, other contractual rights to receive cash or other financial asset.

For trade receivables, the Company measures the loss allowance at an amount equal to lifetime expected credit losses. …

Principle: Ind AS 109: Financial Instruments

Paragraph 5.5.1

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

Observation

It was noted from the notes to accounts that the company has a material amount of trade receivables (current assets) whose realization is based on arbitration outcome. It was viewed that as the realization of the outcome is not certain and being a financial asset, allowance for expected credit loss (ECL) should have been made as required by Indian Accounting Standard 109. Non-provisioning for ECL led to overstatement of financial assets as well as overstatement of profits of the company.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 109 have not been complied with in the preparation and preparation of financial statements.

29. Financial Assets

Matter contained in Financial Statements

The accounting policy on financial assets, valued at Fair Value through Other Comprehensive Income (FVOCI), reads as follows:

"Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset is subsequently measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows. Investments which are classified as financial asset, the subsequent changes in fair value are recognized through other comprehensive income (OCI)."

Principle: Ind AS 109: Financial Instruments

Paragraph 4.1.2A

"A financial asset shall be measured at fair value through other comprehensive income if both the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

Observation

It was noted from the given accounting policy that the financial assets are subsequently measured at fair value through other comprehensive income (FVTOCI), 'if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows'. It was viewed that, as per Indian Accounting Standard 109 – a financial asset should be classified as FVTOCI when the financial assets are held within business model whose objective is both to 'collect contractual cash flows' and 'selling of the financial assets'. It was viewed that another objective, i.e. selling of financial assets has not been considered while classifying financial assets as FVTOCI. Accordingly, it was viewed that either policy on financial assets at FVTOCI or classification of financial assets at FVTOCI is not in line with Indian Accounting Standard 109.

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

30. Financial Assets

Matter contained in Financial Statements

The relevant abstract of Note on Non-Current Investments given in the Annual Report of a company, reads as below:

Non-Current Investments

Particulars	As at 31 March 20XX	As at 31 March 20YY
A. Investments in subsidiaries		
Unquoted equity instruments (fully paid-up) carried at cost less provision for other than temporary diminution in value		
…	XXX	XXX
Less: Provision for other than temporary diminution in value	XXX	XXX

Principle: Ind AS 36, Impairment of Assets

Paragraph 59

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

Observation

It was observed from the Note on 'Non-Current Investments' that the impairment loss on investment in subsidiary was termed as 'provision for other than temporary diminution in value', which is as per Accounting Standard 13: Accounting for Investments. This may lead to an impression that financial statements were prepared as per Indian GAAP (AS) Framework. It was viewed that since investment in subsidiary is carried at cost, impairment of investments should be dealt with the principles laid down under Ind AS 36: Impairment of Assets, and the term used for it under Ind AS 36 is 'Impairment loss.'

Accordingly, it was viewed that the requirement of Ind AS 36 has not been complied with in the preparation and presentation of financial statements.

31. Financial Assets

Matter contained in Financial Statements

The relevant abstract of Note on Financial Assets given in the Annual Report of a company, reads as below:

Financial Assets

Particulars	As at 31.03.20XX	As at 31.03.20YY
Loans to related parties		**-**
Subsidiary Companies	XXX	XXX
Loan to Others	XXX	XXX

Principle: Division II, Schedule III to the Companies Act, 2013

Note: 6B (V) of General Instructions for preparation of Balance Sheet'

(i) Loans shall be classified as:

(a) [Omitted];

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

(c) others (specify nature).

Observation

It was observed from the notes given that the company has financial assets including loans and advances mentioning to 'others'. However, it was viewed that the company should specify the nature of 'others' as per the requirements of Division II of Schedule III to the Companies Act, 2013.

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

32. Inventories

Matter contained in Financial Statements

The relevant abstract of the accounting policy on Inventories given in the Annual Report of a company, reads as below:

"….

Determination of Inventories:

Inventories are carried in the balance sheet as follows:

(i)	Raw Material, Packing Material, Construction Materials, stores & Spares.	At weighted average cost basis
(ii)	Work In Progress & Finished Goods – Manufacturing	At cost of material, plus appropriate production overheads

The cost of the inventories has been computed to include all cost of purchases, cost of conversion and other related costs incurred in bringing the inventories to their present location and condition."

Principle: Ind AS 2: Inventories

Paragraph 9

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

Paragraph 6

"*Net realizable value* is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale."

Observation

It was noted from the given policy that inventories have been valued at Cost. In other words, Cost has not been compared to 'net realisable value' for the purpose of valuation of inventories.

It was viewed that for the valuation of inventories 'net realisable value' should also be considered, which is estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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

33. Inventories

Matter contained in Financial Statements

The relevant abstract of accounting policy on Inventories of a company, reads as follows:

"Inventories:

Finished goods covered under confirmed forward contract / orders are valued at net realizable value & others are valued at cost or market price whichever is lower."

Principle: Ind AS 2: Inventories

Paragraph 9

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

Paragraph 25

"The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified."

Paragraph 36

"The financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used."

Observation

It was noted that finished goods covered under confirmed forward contract / order, are valued at net realizable value and cost has not been considered for valuation of the same.

Further, it was noted that other finished goods have been valued at lower of cost and market price instead of net realizable value. It appears that the estimated costs of completion and the estimated costs necessary to make the sale, have not been reduced from the estimated selling price for the purpose of valuation of inventories. Accordingly, it was viewed that finished goods have not been valued at lower of cost and net realizable value as required by Ind AS 2.

Also, the cost formula (i.e., FIFO or weighted average cost) used in the valuation has not been disclosed by the company.

Accordingly, it was viewed that the requirements of Ind AS 2 have not been complied with in preparation and presentation of the financial statements.

34. Inventories

Matter contained in Financial Statements

The relevant abstract of Note on Other Expenses given in the Annual Report of a company, reads as follows:

“Other Expenses

Particulars	**31.03.20XX**	**31.03.20YY**
…	---	---
Legal and professional charges	---	---
Listing Expenses & Demerger Expenses	---	---
Advertisement and business promotion expenses		
	---	---
Less: Transferred to work-in-progress (inventory)	---	(---)
Total	---	---“

Principle: Ind AS 2: Inventories

Paragraph 15

“Other costs are included in the cost of inventories only to the extent that they are incurred for bringing inventories to their present location and condition.”

Paragraph 16

“Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred.

(a) abnormal amounts of wasted materials, labour or other production costs.

(b) storage costs, unless those costs are necessary in the production process before a further production stage.

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs."

Observation

It was noted that 'Other Expenses' namely the 'legal and professional charges', 'listing expenses & demerger expenses' and 'advertisement and business promotion expenses' were transferred / capitalized to the work-in-progress (WIP). It was viewed that the above expenses will not form part of the cost of inventory as they were neither directly incurred on inventories nor were they necessary to be incurred for bringing the inventory into its present location. It was viewed that paragraph 15 clearly states that other costs which are necessary for bringing the inventory into its present location can be capitalized. It was, further, noted that paragraph 16 gives the examples of expenditures which cannot be capitalized into the cost of inventories. Accordingly, the Board viewed that legal expenses, demerger expenditures and advertisement expenditures are not in the nature of 'other cost' described in paragraph 15, and these expenditures are similar to those specified in paragraph 16, therefore, should not be included into the cost of inventory of WIP.

Accordingly, it was viewed that the requirements of Ind AS 2 have not been complied with in preparation and presentation of financial statements.

35. Inventories

Matter contained in Financial Statements

The relevant abstract of accounting policy on Inventories given in the Annual Report of a company, reads as below:

"Accounting Policy on Inventories

Inventories including goods-in-transit are valued at lower of cost and estimated net realisable value. However, Raw materials and other items held for use in the production of inventories are not written down below cost, if the finished products in which it will be incorporated are expected to be sold at or above cost. "

Principle: Ind AS 2: Inventories

Paragraph 36

"The financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;"

Observation

It was noted that although the accounting policy adopted for valuation of inventories have been disclosed, the cost formula used to determine the cost of inventories was not disclosed as required by paragraph 36 of Ind AS 2.

Hence, it was viewed that the disclosure requirements of Ind AS 2 relating to cost formula has not been complied with in preparation and presentation of the financial statements.

36. Inventories

Matter contained in Financial Statements

The relevant abstract of accounting policy on Inventories as given in the Annual Report of a company, reads as below:

"Inventories:

a. **Inventories comprise of:**

   i) Finished Realty stock representing unsold premises in completed projects

   ii) Realty work in progress representing properties under construction / development and

   iii) Raw Material representing inventory yet to be consumed.

b. Inventories **other than Raw Material** above are valued at lower of cost and net realisable value. **Raw Material are valued at weighted average method."**

Principle: Ind AS 2: Inventories

Paragraph 9

"Inventories should be valued at the lower of cost and net realisable value."

Paragraph 36

"The financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;"

Observation

It was noted from the adopted policy that raw material has been valued at weighted average method. It was viewed that the weighted average method is cost formula and not the accounting policy for valuation of Raw Material. The raw material should also have been valued at lower of cost or net realisable value.

Additionally, the company has not disclosed the cost formula used for inventories other than raw materials, as required by paragraph 36 of Ind AS 2.

Accordingly, it was viewed that the requirements of Ind AS 2 have not been complied with in preparation and presentation of financial statements.

37. Assets Held for Sale

Matter contained in Financial Statements

The relevant abstract of Note on discontinued business and its Income & Expenditure account given in the Annual Report of a company, reads as below:

"Note: X business

…

Further, due to disinvestment made by the Company, which is under process, the Board of Directors had approved, in principle, to hive off X business in the board meeting held on 10th July 20XX.

Discounted Operations are excluded from the results of continuing operations and are presented as a single amount as 'Profit or loss after tax from discontinued operations'.

Income & Expenditure statement of X business is as under:

Particulars	**20XX**
Income	
Revenue from Operation	--
Other Income	--

Total – (A)	--
Expenses	
Project Operation Expenses	--
Employees Benefits Expenses	--
HO/NR Allocation	--
Depreciation & Amortization Expenses	--
Other Expenses	--
Total – (B)	--
Net Profit (A-B)	(--)”

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

Paragraph 25

“An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.”

Paragraph 33

An entity shall disclose:

(a) a single amount in the statement of profit and loss comprising the total of:..

(b) an analysis of the single amount in (a) into: …

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations….

(d) the amount of income from continuing operations and from discontinued operations attributable to owners…”

Paragraph 34

“An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.”

Observation

It was noted from the notes to financial statements that the Board of Directors approved the hiving off the X business during the current year. However, in the Income and Expenditure account, Depreciation & Amortisation expenses had been disclosed. It was viewed that hiving off a major line of business constitutes a discontinued operation as per Ind AS 105. Accordingly, non- current asset that are part of the discontinued operation should not be depreciated or amortized, as per paragraph 25 of Ind AS 105.

Further, it was noted that the disclosures required by paragraph 33 of Ind AS 105 have also not been provided in the financial statements.

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

38. Assets Held for Sale

Matter contained in Financial Statements

The relevant abstract of Director's Report given in the Annual Report of a company, reads as below-

"…

The Company's Working/State of affairs during the Financial Year under review

…

During the current financial year, the Board took necessary authorities, powers and consent from the Shareholders/ Members by passing a Special Resolution through the Postal Ballot process to dispose off the Company's manufacturing units/undertakings namely…, …, ... in terms of compliance with the provisions of Sec.180 read with Sec.110 of the Companies Act, 2013, and other applicable rules of the said Act. Subsequently, the Company sold off one of its Plant to M/s. XX Steel Industries Pvt. Ltd. By way of slump sale on a going concern basis by executing a Business Transfer Agreement with the said Buyer Company on 22.11.20XX. The said slump sale transaction was completed on 21.01.20YY and the resultant net profit on such sale (after adjustment of book value of the unit's assets and liabilities as on 31.10.20XX) is included and reflected as other income in the Note No. XX of the annual financial statements."

Principle: Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations and Ind AS 33: Earnings Per Share

Paragraph 30 of Ind AS 105

"An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)."

Paragraph 33 of Ind AS 105

"An entity shall disclose:

(a) a single amount in the statement of profit and loss comprising the total of:

   (i) the post-tax profit or loss of discontinued operations and

   (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

(b) an analysis of the single amount in (a) into:

   (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

   (ii) the related income tax expense as required by paragraph 81(h) of Ind AS 12.

..."

Paragraph 68 of Ind AS 33

"An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes."

Observation

It was noted from the Director's Report that the Board of Directors have approved selling/disposing off certain manufacturing units/undertakings during the current financial year. However, the disclosures as required by paragraph 30 and 33 of Ind AS 105 and paragraph 68 of Ind AS 33 have not been provided in the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 105 and Ind AS 33 have not been complied with in the preparation and presentation of financial statements.

39. Contingent Assets

Matter contained in Financial Statements

The relevant abstract of accounting policy on Provisions, Contingent Liabilities and Contingent Assets given in the Annual Report of a company, reads as below:

"…Contingent liabilities are disclosed in the Notes. Contingent assets are neither recognized nor disclosed in the financial statements."

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

Paragraph 31

An entity shall not recognise a contingent asset.

Paragraph 34

"A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable."

Paragraph 89

"Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52."

Observation

It was noted from the stated accounting policy that contingent assets were stated to have neither been recognized nor disclosed in the financial statements. Although, paragraph 31 of Indian Accounting Standard 37 states that contingent assets should not be recognized in the financial statements, however, disclosure of such assets should be made in line with paragraph 34 read with paragraph 89 of the standard, in cases where inflow of economic benefits is probable.

Accordingly, it was viewed that the adopted policy on contingent assets is not in conformity with the requirements of Ind AS 37.

40. First Time adoption of Indian Accounting Standards

Matter contained in Financial Statements

The relevant abstract of Note on First Time Adoption of Ind AS given in the annual report of a company, reads as follows:

"FIRST TIME ADOPTION OF IND AS

Transition to Ind AS

These are the Company's first financial statements prepared in accordance with Ind AS.

A. Exemptions and exceptions availed

The Company has applied the following optional exemptions in the financial statements:

Ind AS optional exemptions

Property, plant and equipment and intangible assets were carried in the Balance Sheet prepared in accordance with previous GAAP.

Ind AS 101 permits a first-time adopter to measure items of PPE at deemed cost at the date of transition to Ind AS. Deemed cost is to be derived on basis of following two methods:

(i) Fair value/revaluation as deemed cost

(ii) Previous GAAP carrying value as deemed cost

The company has elected to regard previous GAAP carrying values as deemed cost at the date of transition for all assets ***except in case of land*** within Property, plant and equipment which are measured at fair value as deemed cost. **(Emphasis supplied)**

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

Paragraph D5

"An entity may elect to measure an item of Property, Plant and Equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date."

Paragraph D7AA

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognized in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS…"

Definition of Deemed Cost

"An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortization assumes that the entity had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost".

Observation

It was noted from the note on first-time adoption of Ind AS financial statements that the Company has exercised the option under paragraph D7AA and used the carrying value of items of PPE as per previous GAAP, as the deemed cost at the date of transition, for all assets except land. Further, it was noted that land was measured at fair value. It was viewed that the company could measure the items of PPE either at fair value as per paragraph D5 or at previous GAAP carrying value as per paragraph D7AA, as its deemed cost at the time of transition. Further, it was viewed that option under paragraph D5 or D7AA should be exercised for entire PPE and not on selective basis or class basis. It may be noted that a similar view was taken in Issue No. 36 of Compendium on ITFG Clarification Bulletins, December 2018 edition. The relevant extract of the issue number 36 is reproduced below:

"…If a first-time adopter chooses this option, then the option of applying this on selective basis to some of the items of property, plant and equipment and using fair value for others is not available.''

Accordingly, it was viewed that the requirements of Ind AS 101 have not been complied with in preparation and presentation of financial statements.

Chapter-2
Observations related to Equity

1. Statement of changes in Equity

Matter contained in Financial Statements

The relevant abstract of Note on Equity and Other Equity as given in the Annual Report of a company, reads as follows:

"Note: Equity

	As at 31/03/20XX	**As at 31/03/20YY**
AUTHORISED SHARE CAPITAL:		
XX Equity Shares of Rs. 10/- each	---	---
ISSUED, SUBSCRIBED & PAID UP CAPITAL:		
XXX Equity Shares of Rs. 10 each fully Paid up (P.Y XX)	---	---

Note: Other Equity

	As at 31/03/20XX	**As at 31/03/20YY**
Security Premium Reserve		
As Per Last Balance Sheet	---	---
Add: On issue of shares	-	-
	---	---
General Reserve		
As Per last Balance	---	---
Add: Transferred from profit & Loss Account	-	-
	---	---

Profit & Loss Account		
As Per last Balance Sheet	(---)	(--)
Add: During the year profit/(Loss)	(---)	(--)
	(---)	(---)

Principle: The Companies Act, 2013 and Ind AS 1: Presentation of Financial Statements

Section - 2 (40) of the Companies Act, 2013

"Financial statement" in relation to a company, includes-

i) a balance sheet as at the end of the financial year;

ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

iii) cash flow statement for the financial year;

iv) a statement of changes in equity, if applicable; and

v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

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

Paragraph: 10 of Ind AS 1

"A complete set of financial statements comprises:

(a) a balance sheet as at the end of the period

(b) a statement of profit and loss for the period;

(c) Statement of changes in equity for the period;

(d) a statement of cash flows for the period;;

(e)

(ea),

(f)………"

Observation

It was noted from the Note on Equity and Other Equity that the company has prepared financial statements as per Ind AS and presented the Balance Sheet, Statement of Profit and Loss, Statement of Cash Flows and Notes to Accounts. However, it was observed that the company has not presented the Statement of Changes in Equity in the financial statements.

It was viewed that Statement of Changes in Equity is also an integral part of financial statements and should be prepared and presented along with Balance Sheet, Statement of Profit and Loss and Statement of Cash Flows in format that is prescribed in Division II of Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirement of Ind AS 1 and the Companies Act, 2013 has not been complied with in preparation and presentation of financial statements.

2. Other Equity

Matter contained in Financial Statements

The relevant abstract of the Statement of Changes in Equity and Statement of Profit and Loss as given in the Annual Report of a company, reads as follows:

"STANDALONE STATEMENT OF CHANGES IN EQUITY

Other Equity

Particulars	**Reserve and Surplus**		**Items of OCI**	**Total**
	Retained Earnings	**General Reserve**	**Equity Instruments through OCI**	
…..				
…..				
Other Comprehensive income for the year, net of income tax			XXX	XXX

STANDALONE STATEMENT OF PROFIT & LOSS

Particulars	Note no.	Year Ended March 31,20XX	Year Ended March 31,20XX
…..			
…..			
X Other Comprehensive income A (i) Items that will not be reclassified to profit or loss; - Actuarial gain and Losses on defined Benefit plans (ii) Income tax relating to items that will not be reclassified to profit and loss		XXX XXX	XXX XXX”

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

Paragraph 106 of Ind AS 1

“An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:

…

(ii) other comprehensive income”

Format of Statement of Changes in Equity

Name of the Company…….

A. Equity Share Capital

…..

B. Other Equity

….

Note:

(i) Re-measurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss shall be recognised as a part of retained earning with separate disclosure of such items along with the relevant amounts in the Notes.

Observation

It was noted from the Statement of Profit and Loss that the Other Comprehensive Income comprises actuarial gain and losses on defined benefit plans and the same has been added to 'Equity Instruments through OCI' under Statement of Changes in Equity. It was viewed that actuarial gain and loss should be recognised as a part of retained earnings with separate disclosure of such items along with the relevant amounts or should be shown as a separate column under Reserve and Surplus in line with the footnote to Format of Statement of Changes in Equity given under Division II of Schedule III to the Companies Act, 2013. It was further viewed that adding the actuarial gains or losses under the column 'Equity Instruments through OCI' is not correct.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 1 as well as Division II of Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of financial statements.

3. Other Equity

Matter contained in Financial Statements

The relevant abstract of Note on Other Equity given in the Annual Report of a company, reads as below:

Note: Other Equity

Particulars	As at 31 March 20XX	As at 31 March 20YY
Reserve for Equity Instruments through	---	---

Other Comprehensive Income		
Treasury Reserve	---	---
Employee Stock Option Reserve	-	-
Total	**---**	**---**

Principle: Ind AS 1, Presentation of Financial Statements and General Instructions for Preparation of Balance Sheet, Part I, Division II, Schedule III to the Companies Act, 2013

Paragraph 79 of Ind AS 1

"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".

Note 6 General Instructions for Preparation of Balance Sheet, Part I, Division II, Schedule III to the Companies Act, 2013

"D. Equity

(II) Other Equity:

…

(d) Others – (specify the nature and purpose of each reserve and the amount in respect thereof)"

Observation

It was noted from the note on 'Other Equity' that the Reserve for Equity Instruments through Other Comprehensive Income, Treasury Reserve and Employee Stock Option Reserve has been disclosed thereat. However, the nature and purpose of these reserves have not been disclosed in line with paragraph 79 (b) of Ind AS 1 and Note 6D II (iv) of Division II, Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 1 as well as Division II of Scheduled III to the Companies Act, 2013 have not been complied with in preparation and presentation of financial statements.

4. Other Equity

Matter contained in Financial Statements

The relevant abstract of the Statement of Profit and Loss, Statement of Changes in Equity as given in the Annual Report of a company, reads as follows:

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

Particulars	Note No.	Year ended 31.03.20XX	Year ended 31.03.20YY
…			
VIII. Other comprehensive income			
Items that will not be reclassified to Statement of Profit and Loss			
(a) Changes in Fair Value of Equity Instruments through Other Comprehensive Income		**XXX**	**XXX"**

"Statement of Changes in Equity for the year ended 31st March XXX

A. Equity Share Capital

.....

B. Other Equity

Particulars	Reserves and Surplus		Total
	Capital Reserve	Retained Earnings	
Balance as at 31 March 20YY	---	---	---
Profit for the year	-	---	---
Other Comprehensive Income	-	---	---
Balance as at 31 March 20XX	---	---	---"

Principle: Ind AS 1: Presentation of Financial Statements, Format of Statement of Changes in Equity prescribed under Division II Schedule III to Companies Act, 2013, Guidance Note on Division II Schedule III to the Companies Act, 2013 and the Companies Act, 2013.

Paragraph 106 of Ind AS 1

"A. For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106 (d) (ii))."

Format of Statement of Changes in Equity in Div II- schedule III of the Companies Act, 2013

Name of the Company.......

B. Other Equity

	Reserves & surplus					
…	…	Retained Earnings	Debt instruments through Other Comprehensive Income	Equity Instruments through Other Comprehensive Income	…	**Total**

Paragraph 8.2.2. Other Equity of Guidance Note on Division II Schedule III to the Companies Act, 2013

(i) To (iv) ….

(V) Equity Instruments through Other Comprehensive Income –

As per Ind AS 109, companies have an irrevocable option to designate investments in equity instruments to be measured at FVOCI. For such instruments, the cumulative fair value gain or loss is presented as a part of Other Equity under this heading;

Section 2(43) of the Companies Act, 2013

"free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that –

> any amount representing unrealised gains, notional gains or revaluation of assets,
>
> i) whether shown as a reserve or otherwise, or
>
> ii) any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value,
>
> Shall not be treated as free reserves;

Observation

It was noted that Other Comprehensive Income represents unrealized gain on changes in fair value of equity instruments and this balance has been transferred to retained earnings at the end of the year. It was viewed that cumulative fair value gain on equity instruments measured at FVOCI should be separately disclosed under the heading “Equity Instruments through Other Comprehensive Income” in line with paragraph 8.2.2 of Guidance Note as well as format of Statement of Changes in Equity prescribed under Division II Schedule III to the Companies Act, 2013. It may be noted that section 2(43) of the Companies Act, 2013 also restricts to include the fair value changes recognized under equity in free reserves such as “Retained Earnings “.

Accordingly, it was viewed that classification of unrealized gain on equity instruments as a part of retained earnings is not in line with Section 2(43) as well as Schedule III to the Companies Act, 2013.

Chapter-3
Observations related to Liabilities

1. Non-Current Borrowings

Matter contained in Financial Statements

From the financial statements of a company pertaining to financial year 2018-19, it was noted that the Note on Non-Current Borrowings includes Redeemable Cumulative Preference Shares which would be redeemable at par in immediate next year. The relevant abstract of Note on Borrowings along with footnote, is reproduced below:

"Borrowings (Non-current)

Particulars	**As at 31.03.2019**	**As at 31.03.2018**
Secured		
Redeemable cumulative preference shares from related party (see note below)	**7,000**	7000

Note:

…

7.5% redeemable cumulative preference shares which are entirely held by the related party would be redeemable at par **after 5 years** from the date of allotment i.e., **10th January 2015**. These shares would carry a fixed dividend of 7.5% p.a."

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 60

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

Paragraph 69

"An entity shall classify a liability as current when:

…

(d) it does not have an unconditional right to defer settlement of the

liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification."

Observation

It was noted that Redeemable Cumulative Preference Shares were to be redeemed at par after 5 years from the date of allotment (i.e. 10 January 2015). Therefore, preference shares were due for redemption within the 12 months from the end of the financial year under review. Accordingly, it was viewed that these Redeemable Cumulative Preference Shares should have been classified as current liabilities and not as non-current liabilities in the financial statements. Thus, the classification of such preference shares as non-current was not in line with the requirements of Ind AS 1.

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

2. Borrowings

Matter contained in Financial Statements

The relevant abstract of Note on Borrowings and CARO Report given in the Annual Report of a company, reads as below:

"Borrowings

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
Secured		
Term Loans from Financial Institutions	XXX	XXX
Interest accrued and due on Term Loans from Financial Institutions	XXX	XXX

"**CARO Report**

In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to financial institutions, banks or debenture holders as on 31st March 20YY, details of which is given below:

Name of Financial Institutions/ Banks	Outstanding Amount (Principal & Interest) (Rs. In Lacs)	Period of Default
Term Lenders	XXX	Since 20XX"

Principle: Division II Schedule III to the Companies Act, 2013

Note 6(E)(I) of General Instructions for preparation of Balance Sheet

"6. A company shall disclose the following in the Notes:

E. Non-Current Liabilities

I. Borrowings:

(vii) Period and amount of default as on the Balance Sheet date in repayment of borrowings and interest shall be specified separately in each case."

Observation

It was observed from the Note on Borrowings that there are term loans from financial institutions and interest accrued thereon. It was further noted from CARO report that the auditor has reported defaults in repayment of these dues (both Principal and Interest) with a defaults period spanning 7 years.

However, the period and amount of default as on the Balance Sheet date in repayment of borrowings and interest has not been disclosed under notes to accounts.

Accordingly, it was viewed that non-reporting about the default in repayment of borrowings is in contravention to the provisions of Division II, Schedule III to the Companies Act, 2013.

3. Financial Liabilities

Matter contained in Financial Statements

The relevant abstract of Notes on Other Current Liabilities and Note on Other Non-Financial Liabilities given in the Annual Report of a company, read as below:

“Other Current Liabilities

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
… iii) Employee Benefits Payable	---	---"

“Other Non – Financial Liabilities

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
… Leave Encashment Payable	---	---"

Principle: Ind AS 32: Financial Instruments: Presentation

Paragraph 11

“…

A financial liability is any liability that is:

(a) a contractual obligation;

 (i) to deliver cash or another financial asset to another entity; or

 (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity”

Observation

It was noted from the notes to financial statements that the company has presented employee benefits payable under “Other Current Liabilities” and leave encashment payable under “Other Non-Financial Liabilities”. The Board viewed that the ‘Employee Benefits Payable’ and ‘Leave Encashment Payable’ are contractual obligations of the company to deliver cash to employees for the services rendered by them. Therefore, these should be classified as financial liabilities in accordance with paragraph 11 of Ind AS 32.

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

4. Financial Liabilities

Matter contained in Financial Statements

In the annual report of a company, unclaimed dividend was disclosed under the Note on Other Current Liabilities.

Principle: Ind AS 32: Financial Instruments: Presentation and General Instructions for preparation of Balance Sheet given under Division II - IND AS Schedule III to the Companies Act, 2013

Paragraph 11 of Ind AS 32

"

…

A financial liability is any liability that is:

(a) a contractual obligation:

 (i) to deliver cash or another financial asset to another entity; or

 (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or"

Note 6 (F) of General Instructions for preparation of Balance Sheet given under Division II - IND AS Schedule III to the Companies Act, 2013

"6. A company shall disclose the following in the Notes:

F. Current Liabilities

"II. Other Financial Liabilities

Other Financial liabilities shall be classified as-

(a) (Omitted)

(b) …

(c)…

(d) Unpaid dividends

…"

Observation

It was noted from the financial statements that unclaimed dividend has been disclosed under the heading "Other Current Liabilities". It was viewed that unclaimed/ unpaid dividend is a contractual obligation to deliver cash to settle the obligations, and therefore, satisfies the definition of financial liability as per Indian Accounting Standard 32. It was further viewed that Division II of Schedule III to Companies Act, 2013, also requires the disclosure of unpaid dividends under the head "Other Financial Liabilities". Accordingly, the Board viewed that unpaid dividend is a financial liability in terms of Ind AS 32 and should have been disclosed as 'Other Financial Liability' in line with Note 6(F)(II) of General Instructions for Preparation of Balance Sheet of Division II – Ind AS Schedule III to the Companies Act, 2013.

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

5. Financial Liabilities

Matter contained in Financial Statements

The relevant abstract of accounting policy on financial instruments and Note on Other Financial Liabilities given in the Annual Report of a Company, reads as follows:

"Accounting policy on Financial Instruments

...

Subsequent measurement

...

(iv) Financial liabilities

Financial liabilities are subsequently carried at amortized cost using the effective interest method, except for contingent consideration recognized in a business combination which is subsequently measured at fair value through profit or loss.

2.12 Other financial liabilities

Particulars	As at March 31,20XX	As at March 31,20YY
Financial liability carried at fair value through other comprehensive income	---	---"

Principle: Ind AS 109: Financial Instruments

"4.2 Classification of financial liabilities

Paragraph 4.2.1

An entity shall classify all financial liabilities as subsequently measured at amortised cost...
Option to designate a financial liability at fair value through profit or loss

Paragraph 4.2.2

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

Observation

It was noted from the company's accounting policy that financial liabilities are subsequently measured at amortized cost or at fair value through profit or loss. However, from the relevant note, it was noted that certain financial liabilities have been subsequently classified as fair value through other comprehensive income. It was viewed that the accounting treatment is neither in line with the accounting policy adopted by the company nor as per Indian Accounting Standard 109.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 109 has not been complied with preparation and presentation of financial statements.

6. Financial Liabilities

Matter contained in Financial Statements

An abstract of accounting policy on financial liabilities given in the Annual Report of a company, reads as below:

"Financial liabilities

…

Initial recognition and measurement

Financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. **Financial liabilities are initially measured at the amortized cost unless at initial recognition, they are classified as fair value through profit and loss.**

Subsequent measurement

…..

Principle: Ind AS 109: Financial Instruments

Paragraph 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."

Observation

It was noted from the accounting policy on financial instruments that the company initially recognised financial liabilities at amortised cost unless they were classified at FVTPL. According to the Indian Accounting Standard 109, financial assets and financial liabilities should be initially recognised at fair value adjusted with transactions costs. Hence, it was viewed that stated policy is not in line with paragraph 5.1.1 of Indian Accounting Standard 109.

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

7. Interest Accrued

Matter contained in Financial Statements

The relevant abstract of Note on Disclosure required under Section 22 of MSMED Act, 2006 and Note on financial liability given in the Annual Report of a company, reads as below:

"Disclosure required under Section 22 of the Micro, Small and Medium Enterprises Development Act, 2006

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
Interest due thereon remaining unpaid to any supplier as at the end of the accounting year	XXX	XXX

Other Financial Liabilities (Current)

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
Interest Accrued but not due on Borrowings	XXX	XXX"

Principle: Division II Schedule III to the Companies Act 2013

Note 6(F) of General Instructions of Preparation of Balance Sheet

II. Other Financial Liabilities:

Other Financial liabilities shall be classified as-

…

(c) Interest accrued;

(d) …..

(e) ….

(f) Unpaid matured deposits and interest accrued thereon;

(g) Unpaid matured debentures and interest accrued thereon; and

(h) Others (specify nature).

Observation

It was noted from the given note on "Disclosure required under Section 22 of the Micro, Small and Medium Enterprises Development Act, 2006" that the company has disclosed "Interest due thereon remaining unpaid to any supplier as at the end of the accounting year". However, it was noted that under the Note on "Other Financial Liabilities", only "interest accrued but not due on borrowings" has been disclosed and the company has not reported the liability for "Interest due but not paid to the Suppliers registered under MSME Act, 2006". Accordingly, it was viewed that unpaid accrued interest has not been disclosed under the head of 'Other Financial Liabilities'.

Hence, the requirements of Part I, Division II - Ind AS Schedule III to the Companies Act 2013 have not been complied with in the preparation and presentation of financial statements.

8. Current Tax Liabilities

Matter contained in Financial Statements

The relevant abstract of Note on Other Current Liabilities given in the Annual Report of a company, reads as below:

Note on Other Current Liabilities

Particulars	As at March 31, 20XX	As at March 31, 20YY
Income tax payable	XXX	XXX

Principle: Division II of Schedule III, Companies Act, 2013

Format of Balance Sheet prescribed under Part I, Division II, Schedule III to the Companies Act, 2013

Part I- Balance Sheet

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
(2)	Current liabilities			
	…			
	(d) Current Tax Liabilities (Net)			

Observation

It was observed from the given note that "Income Tax Payable" has been grouped under "Other Current Liabilities" in the Notes to the financial statements. It was viewed that tax payable should be shown as "Current Tax Liabilities (Net)" on the face of Balance Sheet under the "Current Liabilities".

Accordingly, it was viewed that the reporting of "Income Tax Payable" under "Note on Other-Current Liabilities" is not in line with the requirement of Division II - Schedule III to the Companies Act, 2013.

9. Trade Payables -MSME

Matter contained in Financial Statements

The relevant abstract of Note on Trade Payable given in the Annual Report of a company, reads as below:

"Trade Payables

…

As at March 31, 20YY and March 31, 20XX, there are no outstanding dues to micro, small and medium enterprises. There is no interest due or outstanding on the same. During the year ended March 31, 20YY and March 31, 20XX, **an amount** of Rs. XXX and Rs. XXX **was paid beyond the appointed day** as defined in the Micro, Small and Medium Enterprises Development Act 2006."

Principle: Guidance Note on Division II – IND AS Schedule III to the Companies Act, 2013 read with MSMED Act, 2006

Paragraph: 8.2.4.4

"The following disclosures are required under Sec 22 of MSMED Act, 2006 under the Chapter on Delayed Payments to Micro, Small and Medium Enterprises which are also required as per amended Ind AS Schedule III:

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

(b) the amount of interest paid by the buyer under MSMED Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;

(c) …

The terms 'appointed day', 'buyer', 'enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006. Such statutory disclosures should be made by an entity in its Notes to Accounts

Observation

It was noted from the given note on trade payable that a payment has been made beyond appointed day to Micro, Small and Medium Enterprises. However, the company has not disclosed the amount of interest paid as required by Section 22 of MSMED Act read with Guidance Note.

Accordingly, it was viewed that the requirement of MSMED Act, 2006 read with 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.

10. Trade Payables

Matter contained in Financial Statements

The relevant abstract of Balance Sheet and Notes on Trade Payable given in the Annual Report of a company, reads as below:

Balance Sheet as at 31st March, 20XX

Particulars	**Note No.**	**As at 31st March, 20XX**	**As at 31st March, 20YY**
(a) Financial Liabilities			
(iii) Trade Payables	XX	XX	XX

Note XX on Trade Payable

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**
Trade Payable		
Total outstanding dues of micro enterprises and small enterprises	XXX	XXX
Total outstanding dues of other than micro and small enterprises	XXX	XXX

Principle: Division II, Schedule III to the Companies Act, 2013

Format of Balance Sheet prescribed under Part I , Division II Schedule III to the Companies Act, 2013

Part I- Balance Sheet

	Particulars	Note No.	Figures as at the end of the current reporting	Figures as at the end of the previous reporting period
	(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

It was observed from the Note on Trade Payable that there were outstanding dues payable to vendors registered under MSME Act, however, these dues have not been disclosed on the face of the Balance Sheet, instead the total trade payable were reported without bifurcation. It was viewed that trade payable should have been bifurcated into dues to MSME and other payable, in line with the format prescribed above.

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

11. Provisions

Matter contained in Financial Statements

The relevant abstract of 'Note on Provisions' given in the Annual Report of a company, reads as below:

"Note XX – Provisions

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
……..	---	---
Others:		
Provision for Indirect Tax Matters	---	---
Movement of Provision for Indirect Tax Matters		
Opening balance	---	---
Provision created / (utilised / reversed), net	(---)	---
Closing balance	--	--

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

Paragraph 85

"An entity shall disclose the following for each class of provision:

a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits."

Observation

It was noted that the company has disclosed Provision for Indirect Tax Matters under note on provisions. However, the brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits has not been provided in line with paragraph 85 of Indian Accounting Standard 37.

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

12. Provisions

Matter contained in Financial Statements

The relevant abstract of Note on Short term Provisions given in the Annual Report of a company, reads as below:

Note XX: Short Term Provisions

Particulars	**As at 31/03/20XX**	**As at 31/03/20YY**
For Expenditure	---	---

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

<u>Paragraph 84</u>

"For each class of provision, an entity shall disclose:

a) …

b) additional provisions made in the period, including increases to existing provisions;

c) amounts used (i.e., incurred and charged against the provision) during the period;

d) unused amounts reversed during the period; and

e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate. Comparative information is not required."

Observation

It was noted that the company has disclosed short-term provisions for expenditures, however, no discourse has been provided regarding the movement of provision i.e., additional provision made in the current year, amounts used, etc. as required by paragraph 84 of Ind AS 37.

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

13. Employee Benefits

Matter contained in Financial Statements

In the Financial Statements, while giving disclosures required under Indian Accounting Standard 19, the description of risk associated with defined benefit plan was not disclosed.

Principle: Ind AS 19: Employee Benefits

Paragraph 139

"An entity shall disclose:

…

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity specific or plan-specific risks, and of any significant concentrations of risk…"

Observation

It was noted from the disclosures pertaining to employee benefits that, despite of having defined benefit plans, the company has not disclosed the entity specific or plan- specific risk associated with such defined benefit plans as required under paragraph 139(b) of Indian Accounting Standard 19.

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

14. Defined Benefit Plans

Matter contained in Financial Statements

The relevant abstract of Note on Provisions and Accounting Policy on Employee benefits given in the annual report of a company, reads as below:

"Note: Provisions

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Long Term Provisions		
Provisions for Employee Benefits (Gratuity)	**Nil**	**---**
Total	**Nil**	**---**

Accounting Policy on Employee Benefits

"(L) Employee benefits

(ii) Defined Benefit Plan

The employee's gratuity fund scheme is company's defined benefit plan. The present value of the obligation under such defined benefit plan is determined on estimate basis."

Disclosure of employee benefits

….

The company operates a defined benefit plan, viz., gratuity, for its employees. Under the gratuity plan, every employee who has completed at least five years of service gets a gratuity on departure @ 15 days of last drawn salary for each completed year of service. ***As actuarial valuation using the projected unit method is not received yet for the year end, the company has made provision for gratuity based on the premium demanded by LIC of India, which according to the company is more or less adequate. Adjustments, if any will be made on receipt of the valuation report. (emphasis supplied)"***

Principle: Ind AS 19: Employee Benefits

Paragraph 67

"An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost."

Observation

It was observed from the accounting policy that the company's employee gratuity fund scheme is defined benefit plan. The present value of the obligation under such defined benefit plan is determined on an estimated basis. It was further stated that the company has not yet received the actuarial valuation report for the year end, hence it recognized the provision for gratuity based on the premium demanded by Insurance Company. It was viewed that Provision for Gratuity should be made based on Actuarial report which is applying the Projected Unit Credit Method and considering the assumptions prescribed by Indian Accounting Standard 19.

It was noted that the company has neither provided any amount to the payable absences and post-employment benefits nor has made necessary disclosures. Also, it has not used the projected unit credit method for actuarial valuation as required by Indian Accounting Standard 19.

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

15. Defined Benefit Plans

Matter contained in Financial Statements

The relevant abstract from the accounting policy on Employee Benefit given in the annual report of a company, reads as below:

"Employee Benefits

…

c) Defined benefit plans

The Company doesn't operate a defined benefit gratuity plan, which requires contributions to be made to the recognized fund. Hence Company doesn't carry out the Actuarial valuation."

Principle: Ind AS 19: Employee Benefits

<u>Paragraph 72</u>

"Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists."

Observation

It was noted from the accounting policy that the company has not carried out the actuarial valuation for the gratuity plan and has not made any provision for the same. It was viewed that the liability for gratuity arises as soon as the employee started rendering the services, and therefore, liability in this regard should be recognized as and when incurred, i.e., when employee renders the services to the company. Accordingly, non-recognition of provision for gratuity is not in line with the requirement of Indian Accounting Standard 19.

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

Chapter-4

Observations related to the Statement of Profit and Loss

1. Revenue

Matter contained in Financial Statements

The relevant abstract of Accounting Policy on Revenue Recognition given in the Annual Report of a company, reads as follows:

"Significant Accounting Policies

...

d. Revenue/ Expenses Recognition

...

The company adopted Ind AS 115 – "Revenue from Contracts with Customers" from 1st April 2018 using the cumulative catch-up transition method. In accordance with the cumulative catch-up transition method, the comparatives have not been retrospectively adjusted. The following is a summary of new and/or revised significant accounting policies related to revenue recognition. Refer Note 1 – "Significant Accounting Policies", in the company's annual report for the year ended 31st March 2018 for policies in effect for revenue prior to April 1, 2018. The effect on adoption of Ind AS 115 was insignificant…"

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 110

"The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

(a) its contracts with customers (see paragraphs 113-122);

(b) the significant judgments, and changes in the judgments, made in

applying this Standard to those contracts (see paragraphs 123-126); and

(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127-128)."

Paragraph 114

An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87-B89 when selecting the categories to use to disaggregate revenue.

Paragraph B89

Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) type of good or service (for example, major product lines);

(b) geographical region (for example, country or region);

(c) market or type of customer (for example, government and non-government customers);

(d) type of contract (for example, fixed-price and time-and-materials contracts);

(e) contract duration (for example, short-term and long-term contracts);

(f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and

(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries)."

Observation

It was observed from the notes to financial statements that the company has not provided the necessary disclosures as required by Paragraph 110, 114 read with paragraph B89 of Ind AS 115 in the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been complied with in preparation and presentation of the financial statements.

2. Revenue

Matter contained in Financial Statements

An abstract of the Note on Revenue from Contracts with Customers as given in the Annual Report of the Company, reads as follows:

"Revenue from contract with customers

…..

Timing of recognition of revenue:

Particulars	**March 20XX**	**March 20YY**
Services transferred over a period of time	--	--
Total revenue from contracts with customers	**--**	**--"**

Principle: Ind AS 115: Revenue from Contracts with Customers

<u>Paragraph 124</u>

"For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services."

Observation

It was noted from the notes to financial statements that the disclosures regarding timing of recognising revenue over a period of time has been given. However, it was viewed that as per the above stated requirements, if the performance obligations are satisfied over time, then the methods used to recognize revenue, i.e. output method or input method should also be disclosed along with how the followed method provides a faithful depiction of the transfer of goods or services.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

3. Revenue

Matter contained in Financial Statements

The relevant abstract of Accounting Policy on Revenue Recognition given in the Annual Report of a Company, reads as follows:

"2.4 Revenue Recognition

…

Revenue is measured based on transaction price, which is fair value of the consideration received or receivable, net of discounts returns and applicable taxes…."

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 126AA

"An entity shall reconcile the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately."

Observation

It was noted from the given accounting policy of revenue recognition that revenue is recognised net of discounts, returns and applicable taxes. It was viewed that the company has not provided the reconciliation of revenue recognised in the Statement of Profit and Loss with the contracted price showing separately the nature and amount of each such adjustment i.e., discounts, returns etc as required under paragraph 126AA of Ind AS 115.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

4. Revenue

Matter contained in Financial Statements

The relevant abstract of the Accounting Policy on Construction Contracts as well as one note to accounts given in the Annual Report of a company, reads as follows:

Significant accounting policies

Construction contracts:

Claims and amounts in respect thereof are recognized only when negotiations have advanced to a stage where it is probable that the customer(s) will accept them, and amounts can be reliably measured. **In the case of Arbitration Awards which are granted in favor of the Company, the award amount (including interest thereon), are accounted when they are granted and where it is reasonable to expect ultimate collection of such awards. (Emphasis supplied)"**

"Note

AB Ltd had issued a contract for construction. The Design Basis Note (DBN) submitted by AB Ltd during the tender stage was revised thrice. The project got delayed due to various reasons.

Due to the above, the Company has raised two variations amounting to Rs. XX crores which are towards additional expenses on account of extended stay, categorization of excavation works, compensation due to loss of productivity, expenses incurred due to change in alignment, pend period cost etc. These variation costs have already been charged off to profit and loss account in past. Apart from this, negotiations are in progress with XX Ltd for variations towards increase in raw material quantity due to change in design. The value involved is around Rs. XX crores including escalation. **Against these variations and increase in raw material quantity, the total unbilled receivable amounting to Rs. XX is outstanding as at March 31, 20XX**. Based on the opinion from independent expert and the facts of the case, the management is confident of getting a favorable judgment and recover all the dues related to this project.

Principle: Ind AS 1: Presentation of Financial Statements and Ind AS 115: Revenue from Contracts with Customers

<u>Paragraph 18 of Ind AS 1</u>

"An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material."

Paragraph 9 of Ind AS 115

"An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

…

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether the collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).

Observation

It was noted from the stated accounting policy that the company recognizes the revenue in case of arbitration awards, claims and variations, only when they are granted in favour of the company and it is reasonable to expect ultimate collection of such awards. However, from the note given, it was noted that the Company has raised variations, out of which certain unbilled receivables were outstanding. Further, it was stated that the management was confident of getting a favorable judgment, which indicates that as at the Balance Sheet date those claims and variations were not granted in favour of the company. Accordingly, it was viewed that the accounting treatment followed was not in line with the adopted accounting policy.

Accordingly, it was viewed that the requirements of Ind AS 1 and Ind AS 115 have not been complied with in the preparation and presentation of financial statements.

5. Revenue

Matter contained in Financial Statements

The relevant abstract of the Accounting Policy on Construction Contracts given in the Annual Report of a Company, read as follows:

"Abstract of Significant Accounting Policy

Construction contracts:

The performance obligations are satisfied over time as the work progresses. The Company **recognises revenue using input method** (i.e. **percentage-of-completion method**), based primarily on contract cost incurred to date compared to total estimated contract costs. Changes to total estimated contract costs, if any, are recognised in the period in which they are determined as assessed at the contract level. If the consideration in the contract includes price variation clause or there are amendments in contracts, the Company estimates the amount of consideration to which it will be entitled in exchange for work performed.

…

The percentage of completion is based primarily on contract cost incurred to date compared to total estimated contract cost for each contract in order to reflect the effective completion of the project. **This percentage of completion could be based on technical milestones** or as per the contractual terms specified. A construction contract is considered completed when the last technical milestone is achieved, which occurs upon contractual transfer of ownership of the asset".

Principle: Ind AS 115: Revenue from Contracts with Customers

<u>Paragraph 124</u>

"Determining the timing of satisfaction of performance obligations.

For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and…"

<u>Paragraph B 15</u>

Output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered

Observation

It was noted from the stated accounting policy on construction contracts that its first paragraph states that contract revenue is recognized based on the input method. However, the second paragraph states that the percentage of completion could be based on technical milestones or as per the contractual terms specified. As per paragraph B 15 of Ind AS 115, recognizing contract revenue on the basis of technical milestones is an output method.

It was viewed that contradictory information has been given in the accounting policy.

6. Interest Income

Matter contained in Financial Statements

An abstract of Note on Other Income given in the annual report of a company, reads as follows:

"Other Income

Particulars	As at 31.03.20XX	As at 31.03.20YY
Other income (net) consists of the following		
Interest Income		
…		
Interest Income comprise:		
Interest on bank deposits		
Interest income on financial assets		
Other interest (including interest on income tax refunds)		

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

Paragraph 20(b) of Ind AS 107

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

….

(a) total interest revenue and total interest expense (calculated using effective interest method) for financial assets that are measured at amortized cost or that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A or Ind AS 109 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss."

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

"Other Income

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

(a) Interest income,

(b) Dividend Income,

(c) Other non-operating income (net of expenses directly attributable to such income).

Indian Accounting Standard 107, para 20(b) requires total interest revenue calculated using the effective interest method for financial assets that are measured at amortized cost and that are measured at FVTOCI, to be shown separately.

Accordingly, 'interest income' for financial assets measured at amortized cost and for financial assets measured at FVTOCI, calculated using effective interest method, should be presented in separate line items under 'Other Income'.

Observation

It was observed from the given note that the company has not disclosed the total interest revenue, calculated using the effective interest method, for financial assets that are measured at amortized cost and that are measured at FVTOCI separately in the notes to financial statements. It was viewed that interest income and interest expense which are calculated using effective interest method should be shown separately in line with paragraph 20 (b) of Indian Accounting Standard 107 read with Guidance Note on Division II-Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that requirements of Indian Accounting Standard 107 read with 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.

7. Royalty Income

Matter contained in Financial Statements

The accounting policy on Royalty Income given in the Annual Report of a Company, reads as follows:

“Royalty Income

Royalty income is accounted for as per the terms of the agreement entered into with the parties involved”.

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 58

"An entity shall apply paragraph B63 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property."

Paragraph B63

"Notwithstanding the requirements in paragraph 56-59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

(b) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied)."

Observation

It was noted from the accounting policy that the royalty income is recognized by the company as per the terms of the agreement between the parties. It was viewed that the royalty income should be accounted for “sales based” or “usage based” royalty that is promised in exchange for license of intellectual property in line with paragraph 58 read with paragraph B63 of Ind AS 115.

Hence, it was viewed that the accounting policy for recognition of royalty income is not in line with the requirements of Ind AS 115.

8. Insurance Claim

Matter contained in Financial Statements

The Note on Exceptional items given in the Annual Report of a company, reads as follows:

"Exceptional items

On 04 November 20XX, a fire broke out at one of the manufacturing facilities of the Company which caused damage to the Company's property, plant, equipment and inventories. The Company lodged claim with the insurance company for losses suffered which is under survey by the insurance company. The Company has recorded a loss of Rs XXX arising from such incident for the year ended 31 March 20XX. Further, the Company has also recognised a minimum insurance claim receivable for equivalent amounts and has been disclosed under note XX in these standalone financial statements. The aforementioned losses and the corresponding credit arising from insurance claim receivable has been presented on a net basis (Rs. Nil) under Exceptional items in these standalone financial statements. There are no disputes made by the insurance company against such claim till the date of these standalone financial statements. The Company has received on account payments of Rs XX from the insurance company and Rs XX from the scrap vendor. The same has been adjusted with the amount recoverable from the insurance company. Also, the Company is in the process of determining its final claim for loss of property, plant and equipment and losses incurred due to interruption of business and has accordingly not recorded any further claim arising therefrom at this stage."

Other financial assets:

Particulars	As at 31 March 20XX	As at 31 March 20YY
Insurance claims receivables	---	---
…….	---	---

Principle: Ind AS 16: Property, Plant and Equipment and Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Paragraph 66 of Ind AS 16

"Impairments or losses of items of property, plant and equipment, related **claims for or payments of compensation from third parties** and any subsequent purchase or construction of replacement assets **are separate economic events and are accounted for separately** as follows:

(a) impairments of items of property, plant and equipment are recognised in accordance with Indian Accounting Standard 36;

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard."

(emphasis supplied)

Paragraph 74 of Ind AS 16

"The financial statements shall also disclose:

…

(d) if it is not disclosed separately in the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss."

Paragraph 53 of Ind AS 37

"Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision".

Observation

It was observed that a fire occurred at one of the Company's manufacturing facilities, resulting in damage to property, plant and equipment as well as inventories. The Company has lodged a claim with the insurance provider for the incurred losses, which is currently under assessment. Additionally, the Company has recognized a loss of Rs XXX million, along with a minimum insurance claim receivable in the financial statements. These losses and the corresponding insurance claim receivable have been presented on a net basis under Exceptional Items in the Statement of Profit and Loss.

It was viewed that the total loss resulting from the fire be fully expensed or provisioned, while the insurance claim should be recognised for the amount that is virtually certain to be received, in line with paragraphs 53 of Ind AS 37 rather than netting these two amounts. Additionally, as per paragraph 66 (c) and (d) of Ind AS 16, the insurance claim receivable should be separately identified for claims related to Property, Plant, and Equipment and those pertaining to inventories.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 16 and Indian Accounting Standard 37 have not been complied with in the preparation and presentation of financial statements.

9. Employee Benefits

Matter contained in Financial Statements

The relevant abstract of Note as well as Accounting Policy on Employee Benefits of a company, reads as below:

”Note on Employee Benefits Expenses

Particulars	**Year ending 31.03.20XX**	**Year ending 31.03.20YY**
…		
Contribution to Provident Fund and Other Defined Contribution Funds (refer Note 43)	XXX	XXX

43. Employee Benefits Obligations

…

d) Provident Fund

The Company contribution towards Provident Fund managed either by approved trusts or by the Central Government is debited to the statement of profit and loss. In respect of provident fund management by the approved trust, the Company has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis. The Company also contributes to Coal Mines Provident Fund (CMPF) in respect of employees working in coal mines.

Principle: Ind AS 19: Employee Benefits

Paragraph 30

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

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

Observation

It was noted from the Note on Employee Benefits Expenses that 'contribution to provident funds' and 'other defined contribution funds' was disclosed thereat. It was further noted from the Note on Employee Benefits Obligations that the company's contribution towards 'Provident Fund' managed either by approved trusts or by the Central Government had been debited to the Statement of Profit and Loss as defined contribution plan. It was observed that in respect of provident funds managed by the approved trust, the company has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis.

It was viewed that as per the definition provided in paragraph 8 of Indian Accounting Standard 19, the defined contribution plans are the plans for which the entity will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. If these obligations are borne by the company, the plan will be treated as defined benefit plan. Accordingly, the Board viewed that, since in the given case the obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis is borne by the company, therefore, the plan should be treated as defined benefit plan and not as defined contribution plan.

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

10. Employee Benefits

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss and accounting policy on Employee Benefits given in the Annual Report of a company, reads as below:

"STANDALONE STATEMENT OF PROFIT & LOSS

Particulars	**As at 31st March,20XX**	**As at 31st March,20YY**
Other Comprehensive income	XX	XX
A (i) Items that will not be reclassified to profit or loss:		
-Actuarial gain and losses on defined benefit plans	(.14)	(.14)"
(ii) income tax relating to items that will not be reclassified to profit or loss		

"

(m) Employee Benefits:

…

Other long-term employee benefits obligation

Other Long term employee benefit comprise of Leave encashment which is provided for based on the actuarial valuation carried out as at the end of the year."

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

Paragraph 7 of Ind AS 1

"….

The components of other comprehensive income include:

(a) …

(b) remeasurements of defined benefit plans (see Indian Accounting Standard 19, Employee Benefits);

Paragraph 8 of Ind AS 19

" **…**

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

Paragraph 122 of Ind AS 19

"Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity".

Paragraph 127 of Ind AS 19

"Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs 128 and 129);"

Paragraph 156 of Ind AS 19

"For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Indian Accounting Standard requires or permits their inclusion in the cost of an asset:

…

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127– 130)

Observation

It was noted that the remeasurement of defined benefit plans have been disclosed as Other Comprehensive Income in the Statement of Profit and Loss. It was further noted from the disclosure of employee benefits that the remeasurement of defined benefit plans disclosed as other comprehensive income in the Statement of Profit and Loss, comprises of actuarial loss on Gratuity Rs. (0.05) Cr and actuarial gain on leave encashment Rs. 0.19 Cr. Further, it was noted from the accounting policy on employee benefits that the leave encashment has been recognized as 'Other Long Term Employee Benefits'. Hence, it was viewed that remeasurement gain (actuarial gain) on Long Term Employee Benefits i.e. Rs 0.19 Cr. should be recognized in Statement of Profit and Loss as per paragraph 156 of Indian Accounting Standard 19.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 19 have not been complied with preparation and presentation of financial statements.

11. Employee Benefits

Matter contained in Financial Statements

An abstract of Disclosures of Employee benefits given in the Annual Report of a company, reads as below:

"Disclosures as required by Indian Accounting Standard 19- Employee Benefits

Table: Principal Actuarial Assumptions of gratuity

Particulars	**For the year ended 31.03.20XX**	**For the year ended 31.03.20YY**
Discount rate (p.a.)	6.60 %	7.50%
Salary escalation rate (p.a.)	5.00%	7.00%

Estimate of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market."

Principle: Ind AS 19: Employee Benefits

Paragraph 57

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

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

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

Paragraph 135

"An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them);

(b) identifies and explains the amounts in its financial Indian Accounting Standard 19, Employee Benefits statements arising from its defined benefit plans; and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows."

Paragraph 144

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

When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges."

Observation

It was noted from the disclosures provided that the company has disclosed a few actuarial assumptions. However, the other information like the mortality rate and inflation rate as required by paragraph 57(a)(i) read with paragraph 144 of Ind AS 19 has not been disclosed.

Further, it was observed that the company has not disclosed information as required under paragraph 135 (c) as to how defined benefits plans may affect the amount, timing, and uncertainty of the entity's future cash flows.

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

12. Employee Benefits

Matter contained in Financial Statements

The relevant abstract from the Accounting Policy on Employee Benefits given in the Annual Report of a company, reads as below:

"Accounting Policy on Employee Benefits

Gratuity

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan') covering its eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation, or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company.

The Company recognizes the net obligation of a defined benefit plan in its Balance Sheet as an asset or liability. Gains and losses through re-measurements of the net defined benefit liability / (asset) are recognized in other comprehensive income.

Compensated absences

The Company has a policy on compensated absences which are both accumulating and non-accumulating in nature. The expected cost of accumulating compensated absences is determined by actuarial valuation performed by an independent actuary at each Balance Sheet date using projected unit credit method on the additional amount expected to be paid / availed as a result of the unused entitlement that has accumulated at the Balance Sheet date."

“Note: Non-current Provisions

Particulars	**31 March, 20XX**	**31 March, 20YY**
Provision for leave encashment	--	--
Provision for Gratuity	--	--
Total	**--**	**--"**

Principle: Ind AS 19: Employee Benefits

<u>Paragraph 140</u>

"An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

  (i) plan asset.

  (ii) the present value of the defined obligation.

  (iii) the effect of asset ceiling.

(b) any reimbursement right. An entity shall also describe the relationship between reimbursement right and the related obligation."

<u>Paragraph 141</u>

"Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

(a) current service cost.

(b) Interest income or expense.

(c) Remeasurements of the net defined benefit liability (asset), showing separately:

  (i) the return on plan assets, excluding amounts included in interest in (b).

  (ii) actuarial gains and losses arising from changes in demographic assumptions.

  (iii) Actuarial gains and losses arising from changes in financial assumptions.

  (iv) Changes in the effect of limiting a net defined benefit asset to the

asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlement need not be distinguished if they occur together.

(e) The effect of changes in foreign exchange rates.

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payment from the plan, showing separately the amount paid in respect of any settlement.

(h) The effect of business combinations and disposals."

Observation

It was noted from the accounting policy that the company has defined benefit obligations towards gratuity & leave encashments and also recognized the provisions for the same, as evident from relevant notes to the accounts. However, the company has not provided the disclosure as required by paragraphs 140 and 141 of Indian Accounting Standard 19, in respect to defined benefit plans.

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

13. Employee Benefits

Matter contained in Financial Statements

The abstract from Notes to Accounts related to disclosures on Employee Benefits given in the Annual Report of a company, reads as below:

“Disclosure pursuant to Indian Accounting Standard 19 on “Employee Benefits”

....

Qualitative Disclosures

Para 139(a) Characteristics of defined benefit plan: The Company has a defined benefit gratuity plan in India (funded). The company's defined benefit gratuity plan is a final salary plan for employees, which requires contributions to be made to a separately administered fund. The fund is managed by a trust which is governed by the Board of Trustees. The Board of Trustees are responsible for the administration of the plan assets and for the definition of the investment strategy.

Para 139(b) Risks associated with defined benefit plan: Gratuity is a defined benefit plan and company is exposed to the Following Risks:

Interest rate risk: A fail in the discount rate which is linked to the G. Sec. Rate will increase the present value of the liability requiring higher provision. A fail in the discount rate generally increases the mark to market value of the assets depending on the duration of asset.

Salary risk: The present value of the defined benefit plan liability is calculated by reference o the future salaries of members. As such, an increase in salary of the members more than assumed level will increase the plan's liability.

Investment risk: the present value of the defined benefit plan liability is calculated using a discount rate which is determined by reference to market yields at the end of the reporting period on government bonds. If the return on plan asset is below this rate, it will create a plan deficit. Currently, for the plan in India, it has a relatively balanced mix of investments in government securities, and other debt instruments.

Asset liability matching risk: The plan faces the ALM risk as to the matching cash flow. Since the plan is invested in lines of Rule 101 of Income Tax Rules, 1962, this generally reduces ASL risk.

Mortality risk: Since benefits under the plan is not payable for lifetime and payable till retirement age only, plan does not have any longevity risk.

Para 139(c) Characteristics of defined benefit plans: During the year, there were no plan amendments, curtailments, and settlements.

Para 147(a) A separate trust fund is created to manage the Gratuity plan."

Principle: Ind AS19: Employee Benefits

Paragraph 139

"(b) a description of the risks to which the plan exposes the entity, focused on

any unusual, entity-specific, or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g., property, the plan may expose the entity to a concentration of property market risk".

Paragraph 147

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

……………

(c) *information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments."*

Observation

It was noted from the given disclosures that although the company has provided necessary disclosures related to risks associated with gratuity plan, pertaining to interest rate risks, investment risk, salary risk and asset liability matching risk. However, the company has not disclosed the information required by paragraph 139 (b) and 147 (c) of Indian Accounting Standard 19 like any unusual, entity-specific, or plan-specific risks, mortality risk, attrition rate associated with the defined benefit plan, any significant concentrations of risk, weighted average duration of the defined benefit obligation and maturity analysis of benefit payment.

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

14. Employee Benefits

Matter contained in Financial Statements

The relevant abstracts from Notes to Accounts and Accounting Policy on Employee Benefits given in the Annual Report of a company, reads as below:

"Note: Employee Benefit Expenses

Particulars	Year Ended 31.03.20XX	Year Ended 31.03.20YY
Salary*	---	---

Ex Gratia	---	---
Gratuity	_	---
Staff Welfare	---	---
*(includes Director's Remuneration Rs. ---/-)		
Total	**---**	**---**

Employee Benefits

...

(i) Post Employment Benefits

(a) Defined Contribution Plans

State Government Provident Fund Scheme is a defined contribution plan. The contribution paid/payable under the scheme is recognized in the profit & loss account during the period during which the employee renders the related service."

Principle: Ind AS 19: Employee Benefits

Paragraph 53

"An entity shall disclose the amount recognised as an expense for defined contribution plans."

Observation

It was noted from the stated accounting policy of Employee Benefits that State Government Provident Fund Scheme is a defined contribution plan and contribution paid / payable is recognized in the Statement of Profit or Loss during the period in which the employee renders the related service. However, it was observed that the company has not disclosed the amount recognised as an expense for defined contribution plans as required by paragraph 53 of Indian Accounting Standard 19.

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

15. Employee Benefits

Matter contained in Financial Statements

The relevant abstract of Notes to the Financial Statements and Statement of Profit and Loss given in the Annual Report of a company, reads as below:

"Note: Employee Benefits Provisions

The Company has got the actuarial valuation of employee benefit done at the year end.

…

Bifurcation of total Actuarial (gain)/ loss on liabilities

Period	**1/4/20XX to 31/3/20YY**
Actuarial gain/ losses from changes in Demographics assumptions (mortality)	Not applicable
Actuarial gain/ losses from changes in financial assumptions	0
Experience Adjustment (gain)/ loss for plan liabilities	---
Total amount recognised in other comprehensive income	**---"**

"STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED ON MARCH 31, 20XX

Particulars	**Year ended 31.03.20XX Amount (Rs)**	**Year ended 31.03.20YY Amount (Rs)**
… VII. Other Comprehensive Income		
a) Items that will not be reclassified to statement of profit and loss through Other Comprehensive Income	Nil	Nil
b) Income Tax relating to item (a) above	Nil	Nil
Other Comprehensive Income (net of tax) **…**	--	--"

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

Paragraph 7 of Ind AS 1

"Definitions

Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Indian Accounting Standard s.

The components of other comprehensive income include:

…

(b) remeasurement of defined benefit plans (see Indian Accounting Standard 19, Employee Benefits);"

Paragraph 57 of Ind AS 19

"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."

Observation

It was noted from the Note on Employee Benefit Provisions that the gain / loss on actuarial valuation has been transferred to Other Comprehensive Income (OCI). However, it was observed that no such gain / loss on actuarial valuation has been recognized under Other Comprehensive Income (OCI). It indicates that the actuarial gain/ loss would have been recognized in the Statement of Profit and Loss as employee benefit expense, which is not in line with the requirement Indian Accounting Standard 1 and Indian Accounting Standard 19.

It was further observed that all liability (current and non-current) towards employee benefits has been disclosed under Note on Other Current Liabilities. It was viewed that it should be shown as provision instead of liability since it is a liability of uncertain amount or timing.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 1 and 19 have not been complied with preparation and presentation of financial statements.

16. Employee Benefits

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss and Note on Retirement Benefit Obligation given in the Annual Report of a company, reads as below:

"Abstract of Statement of Profit and Loss

Particulars	Year Ended 31.03.20XX	Year Ended 31.03.20YY
Profit for the Year	**---**	**---**
(VIII) Other Comprehensive Income		
A) Items that will not be reclassified to profit & loss		
(i) Remeasurement of post-employment benefit Obligation	**(100000)**	**--**
(ii) …	_	_
(iii) Income tax relating to these items	_	_
	---	_
B) Items that will not be reclassified to profit & loss	**--**	_
(IX) Other Comprehensive Income for the year	**---**	_
(IX) Profit/(Loss) After Tax Carried to Balance Sheet	**---**	**---**
Earning Per Equity share:		
-Basic & diluted	**--**	**--"**

"Note: Retirement Benefit Obligation

A) Defined Benefit Plans

…

Table showing Amount Recognised in the Statement of Profit & Loss	**01-April-XX to 31-March-YY**
Current Service Cost	200000
Interest Cost	100000
Expected Return on Plan Assets	-
Past Service Cost	100000
(Gain)/ Loss due to Settlements/ Curtailments/ Acquisitions/ Divestitures	-
Total Expense/ (Income) included in "Employee Benefit Expense"	400000

Table showing Amount recognised in Other Comprehensive Income (OCI)	**01-April-XX to 31-March-YY**
Amount Recognised in OCI, Beginning of Period	-
Re-measurements due to:	
Effect of Changes in financial assumptions [C]	(200000)
Effect of Changes in demographic assumptions [D]	-
Effect of experience adjustments [E]	(300000)
Actuarial (Gains)/ Losses (C+D+E)	(500000)
Return on plan assets (excluding interest)	-
Total re-measurements recognised in OCI	(500000)
Amount recognized in OCI, End of Period	(500000)

Principle: Ind AS 19: Employee Benefits

Paragraph 57

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

(a) …

(b) …

(c) determining amounts to be recognized in profit or loss:

   (i) current service cost (see paragraphs 70–74).

   (ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

   (iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognized 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."

Observation

It was noted from the given note on Retirement Benefit Obligation that the company has netted-off the amount of employee benefit expense / (income) to be recognized in Statement of Profit & Loss with the Remeasurement of net defined benefit liability (Actuarial loss) which should be recognised in Other Comprehensive Income and presented the netted amount in Other Comprehensive Income. Hence, it was viewed that recognising the net of post employee benefit cost under "Other Comprehensive Income – Items that will not be reclassified to Profit & Loss" is not correct and the same results into incorrect Earnings Per Share, also.

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

17. Employee Benefits

Matter contained in Financial Statements

The relevant abstract from the Note on Employee Benefits plan given in the Annual Report of a company, reads as below:

"Note X: Details of Gratuity Plan

Defined Benefit Plan

Gratuity: The Company offers gratuity under employee benefit scheme to its employees. Gratuity is paid to a staff member who has put in a minimum qualifying period of 5 years of continuous services on superannuation, resignation, termination or to his nominee on death.

These defined benefit plan expose the Company to actuarial risks, such as salary inflation risk, interest rate risk and market (investment) risk.

Movement of defined benefit obligation and fair value of plan assets

The amounts recognized in the balance sheet and the movement in the net defined benefit obligation over the years are as follows:

Particulars	Present Value of Obligation	Fair Value of Obligation	Net Amount
April 01.20XX	--	--	--
Interest Cost/ (Income)	--	--	--
Current Service Cost	--	--	--
Total amount recognized in statement of profit and loss	--	--	--
Actuarial (Gains)/ Losses on obligation due to change in financial assumption	--	--	--
Actuarial (Gains)/ Losses on obligation due to experience	--	--	--

Return on Plan Assets (greater)/ less than discount rate	--	--	--
Total amount recognized in other comprehensive Income	--	--	--
Employer Contribution	--	--	--
Benefit Payments	--	--	--
March 31,20YY	--	--	--

Principle: Ind AS 19: Employee Benefits

Paragraph 142

"An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in Indian Accounting Standard 113, *Fair Value Measurement*) and those that do not. For example, considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography etc.);

(c) debt instruments (segregated by type of issuer, credit quality, geography etc.);

(d) real estate (segregated by geography etc.);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);

(f) investment funds (segregated by type of fund);

(g) assets-backed securities; and

(h) structured debt."

Observation

It was noted from the financial statements that although various disclosures for employee benefits were provided by the company. However, the company has not provided the disclosures related to plan assets like disaggregation of plan assets as required by paragraph 142 of Indian Accounting Standard 19.

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

18. Employee Benefits

Matter contained in Financial Statements

The relevant abstract from the Accounting Policy and Notes on Employee Benefits given in an annual report, reads as below:

"Employee Benefits

Post-employment benefits

…

(ii) Defined Benefit Plans:

The Employees' Group Gratuity-cum-Life Assurance Scheme with Life Insurance Corporation of India, Provident Fund Scheme managed by Regional Provident Fund Commissioner (RPFC), and the Employee's Superannuation Scheme are the Company's defined benefit plans. Wherever applicable, the present value of obligation under such defined benefit plans are determined based on actuarial valuation. In case of funded plans, the fair value of the plan assets is reduced from the gross obligation under the defined benefit plan to recognize the obligation on the net basis.

Termination benefits

Termination benefits are recognized as an expense in the period in which they are Incurred."

"Note (a) Disclosures as required by Indian Accounting Standard (Indian Accounting Standard) 19 Employee Benefits

Employee benefits – provision for / contributions to retirement benefit schemes are made in accordance with Indian Accounting Standard – 19 Employee Benefits as follows –

Defined Contribution Plan – Company has contributed Rs. – towards Employee's Pension Scheme (previous year: --) and Rs. XX towards Provident fund (Previous Year Rs. --), which is recognized as an expense in the Statement of Profit and Loss."

Principle: Ind AS 19: Employee Benefits

Paragraph 8

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

Paragraph 165

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

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognizes costs for a restructuring that is within the scope of Indian Accounting Standard 37 and involves the payment of termination benefits."

Observation

It was noted from the notes to accounts that contribution to provident fund has been shown under Defined Contribution Plan. However, under accounting policy it has been mentioned that the provident fund contribution is a Defined Benefit Plan. It was viewed that as the company has been transferring the provident fund contribution amount to the scheme managed by regional provident fund commissioner (RPFC), it should be considered as Defined Contribution Plan.

It was further noted from the stated accounting policy that Termination benefits are recognized as an expense in the period in which they are incurred. It was viewed that the termination benefits expenses should be recognized when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring that is within the scope of Indian Accounting Standard 37 and involves the payment of termination benefits whichever is earlier as required by Indian Accounting Standard 19.

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

19. Borrowing Cost

Matter contained in Financial Statements

The relevant abstract of Note on Property, Plant and Equipment and Director's Report regarding operations of the company as given in the Annual Report, reads as below:

"Note: Property, Plant and Equipment

…

(a) Detail of expenditure during construction pending allocation are given below:

…

Interest and finance charges Rs. ---

Miscellaneous Expenses Rs. --

Abstract of Director's Report

"OPERATIONS AND STATE OF COMPANY'S AFFAIRS

…

However, due to non-fulfilment of certain subsequent conditions of Power Purchase Agreement from both the parties, the said Power Purchase Agreement was cancelled by XXXX with effect from June 24, 20XX. Conversely, in view of the progress made by the Company in setting up the power project, the Company is exploring opportunities to establish the project under the policy formulated by the Ministry of Power, Government of India. During the year under review, the Company had incurred an aggregate expenditure of Rs. XXX /- towards net interest and Finance Charges and Rs. XXX/- towards administrative purpose. **Pending Commencement of commercial activities by the Company, these have been considered as pre-operative expenses. (emphasis supplied)"**

Principle: Ind AS 23: Borrowing Costs

<u>Paragraph 20</u>

"An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset."

<u>Paragraph 21</u>

"An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved."

Paragraph 22

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

Paragraph 26

"An entity shall disclose:

(a) the amount of borrowing costs capitalised during the period; and

(b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation."

Observation

It was noted from the Director's Report that Power purchase agreement was cancelled and the company was exploring opportunities to establish the project under the new policy. Thus, the power project is stalled and there is no substantial expenditure incurred related to active development of the project. It was viewed that as per Ind AS 23, the borrowing cost incurred during the suspension period should have been charged to the Statement of Profit and Loss instead of capitalizing it as pre-operative expenses.

It was further noted that out of the total borrowed amount, 35% amount was deployed for purposes other than project i.e., to acquire investment in zero coupon debentures and advance for acquiring land. It was viewed that such Investment and Advance for acquiring land are not qualifying assets as per Ind AS 23, as it does not take substantial period of time to make it ready for its intended use or sale, hence, the borrowing costs incurred on such assets should not be capitalized as project cost/ pre-operative expenses, instead these costs should be charged to Statement of Profit and Loss.

Accordingly, it was viewed that the requirements of Ind AS 23 have not been complied with in the preparation and presentation of financial statements.

20. CSR Expenditure

Matter contained in Financial Statements

From the Annual Report of various companies, it was observed that the CSR disclosures have either not been provided or have been presented in the following manner:

Corporate Social Responsibility Expenses (CSR)

As per Section 135(1) of the Companies Act, 2013 read with the guidelines issued by the Department of Public Enterprises, the Company is required to spend, in every financial year, at least two per cent of the average net profits of the Company made during the three immediately preceding financial years in accordance with its CSR Policy.

Details of CSR spent during the financial year:

The Company is in the process of identifying the right charitable institutes to be associated with, which has vis-à-vis same purpose as that of Company CSR Policy, and therefore, in the current financial year there was a short spent of Rs. 0.60 million towards the CSR activities."

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

Note: 7 of General Instructions for Preparation of Statement of Profit and Loss of Division II Schedule III to the Companies Act, 2013

(m) Corporate Social Responsibility (CSR)

Where the company covered under section 135 of the Companies Act, the following shall be disclosed with regard to CSR activities:-

(i) amount required to be spent by the company during the year,

(ii) amount of expenditure incurred,

(iii) shortfall at the end of the year,

(iv) total of previous years shortfall,

(v) reason for shortfall,

(vi) nature of CSR activities,

(vii) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,

(viii) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately.

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

"Disclosures pertaining to corporate social responsibility activities [Clause (j) and (m) of Note 7]

This new requirement introduced by the Companies Act 2013 is that the companies which are covered under Section 135 are required to disclose the amount of expenditure incurred on corporate social responsibility activities. The Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities issued may be referred to for disclosure requirements, which are essentially as under:

a. From the perspective of better financial reporting and in line with the requirements of Schedule III in this regard, it is recommended that all expenditure on CSR activities, that qualify to be recognized as expense should be recognized as a separate line item as 'CSR expenditure' in the statement of profit and loss. Further, the relevant note should disclose the break-up of various heads of expenses included in the line item 'CSR expenditure'.

b. The notes to accounts relating to CSR expenditure should also contain the following:

   (1) Gross amount required to be spent by the company during the year.

   (2) Amount spent during the year on:

      (i) Construction/acquisition of any asset

      (ii) On purposes other than (i) above

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

c. Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per Accounting Standard (AS) 18, Related Party Disclosures.

d. Where a provision is made in accordance with paragraph 8 above the same should be presented as per the requirements of Schedule III to the Companies Act, 2013. Further, movements in the provision during the year should be shown separately."

Observation

It was noted from the financial statements of certain companies that although they were required to spend on CSR activities as per the Companies Act, 2013, however, some companies have not provided any disclosure while others have provided incomplete disclosures related to CSR. It was viewed that CSR disclosures should have been made in the financial statements in line with above stated requirements.

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

21. Prior Period Items

Matter contained in Financial Statements

In the financial statements of a company, under Note on Other Expenses, Prior Period Expense were shown. While in the financial statements of another company, it was stated that "Prior period income / expenses have been credited/ debited to the respective head of accounts in the Statement of Profit and Loss."

Further, the disclosures regarding the prior periods were not found in the financial statements of both the companies.

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 49

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

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction:

  (i) for each financial statement line item affected; and

  (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected

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

Observation

It was noted from the financial statements of certain companies that material amount of prior period expenses and income ha been recognized during the year under review. It was viewed that as per Ind AS 8, an entity shall correct prior period errors retrospectively by restating the comparative amounts for the prior periods presented in which the error occurred or if the error occurred before the earliest prior period presented, then restate the opening balances of assets, liabilities and equity for the earliest prior period presented.

However, in the given cases, the material prior period error has not been corrected retrospectively. Further, the disclosures as required by paragraph 49 of Ind AS 8 has not been given in the financial statements.

Accordingly, it was viewed that the accounting treatments of prior period expenses and income followed by the companies are not in accordance with the requirements of Ind AS 8.

22. Contract Liability

Matter contained in Financial Statements

The relevant abstract of the Note on Contract Balances given in the Annual Report of a company, read as follows:

Contract balances

	March 31, 20XX	March 31, 20YY
Contract liability	--	--

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 116

"An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price)."

Paragraph 118

"An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:

(a) changes due to business combinations;

(b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;

(c) impairment of a contract asset;

(d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and

(e) a change in the time frame for a performance obligation to be satisfied (i.e for the recognition of revenue arising from a contract liability)."

Observation

It was noted from the notes to financial statements that the company has disclosed contract liabilities. It was also noted that there is a significant change in the balance of contract liability compared to previous year. However, the company has not provided the required disclosures or explanations regarding these significant changes in contract liability balances during the reporting period, including both qualitative and quantitative information as required by Ind AS 115.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

23. Tax Expense

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss and Note on Other Expenses given in the Annual Report of a company, reads as below:

Statement of Profit and Loss for the Year Ended March 31, 20XX

Particulars	**Year ended 31.03.20XX Amount (Rs)**	**Year ended 31.03.20YY Amount (Rs)**
Total Expenses	XXX	XXX
Profit Before Tax	XXX	XXX
Tax expense		
(a) Current tax	62000	XXX
Profit After Tax	XXX	XXX

Note on Other Expenses

Particulars	As at 31.03.20XX Amount (Rs.)	As at 31.03.20YY Amount (Rs.)
Income Tax	140000	XXX

Principle: Division II, Schedule III to the Companies Act, 2013

Abstract of Format of Statement of Profit & Loss:-

Part II: Statement of Profit and Loss

Name of the Company…

Statement of Profit and Loss for the period ended…

	Particulars	Figures for the current reporting period	Figures for the previous reporting period
IV	Total expenses	XXX	XXX
V	Profit/ (Loss) before exceptional items and tax	XXX	XXX
VI	Exceptional Items	XXX	XXX
VII	Profit/ (Loss) before tax	XXX	XXX
VIII	Tax expense:	XXX	XXX
	(1) Current Tax (2) Deferred Tax	XXX	XXX

Observation

It was observed from the given notes to financial statements that the tax expenses have been presented at two places in the financial statements, i.e., on the face of Statement of Profit and Loss at Rs 62,000 and under the Note on Other Expenses at Rs 1,40,000. It was viewed that as per the requirement of Schedule III, total tax expense for the year should be reported on the face of Statement of Profit and Loss subclassifying into current tax and deferred tax, and other relevant disclosures as required by Ind AS 12 should be made in the Notes to the financial statements.

Accordingly, it was viewed that the requirement of Schedule III to Companies Act, 2013 as well as Ind AS 12 have not been complied with in the preparation and presentation of financial statements.

24. Items of Other Comprehensive Income and Tax Effect Thereon

Matter contained in Financial Statements

The relevant abstract of the Statement of Profit and Loss given in the Annual Report of a company, reads as below:

"Statement of Profit and Loss

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
Other Comprehensive Income		
A) Items that will not be reclassified to profit & loss		
(i) Re-measurement of post-employment benefit Obligation	**XX**	_
(ii) Fair Value changes in Financial Assets	_	_
(iii) Income tax relating to these items	**Nil**	_
	--	**--**
B) Items that will be reclassified to profit & loss	**XX**	_

Principle: Ind AS 12 – Income Taxes

<u>Paragraph 61A</u>

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

a) in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).

b) directly in equity, shall be recognised directly in equity (see paragraph 62A).

Paragraph 62

Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income. Examples of such items are:

(a) a change in carrying amount arising from the revaluation of property, plant and equipment (see Ind AS 16); and

(b) [Refer Appendix 1]

(c) exchange differences arising on the translation of the financial statements of a foreign operation (see Ind AS 21).

(d) [Refer Appendix 1]

Observation

It was noted that the company has disclosed "Re-measurement of post-employment benefit Obligation" under the heading of 'Items that will not be reclassified to statement of profit & loss'. However, it was noted that the corresponding income tax amount for this item has been reported as Nil. It was viewed that its tax impact should also be disclosed under other comprehensive income in line with paragraph 61A read with paragraph 62 of Ind AS 12.

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

25. Items of Other Comprehensive Income

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss given in the Annual Report of a company, reads as below:

"Statement of Profit and Loss

Particulars	**For the year ended 31.03.20XX**	**For the year ended 31.03.20YY**
Profit for the Year (A)	**XXX**	**XXX**
Other Comprehensive Income		
…		
2. Items that will be reclassified to Statement of Profit and Loss		

Equity Instruments at Fair Value through Other Comprehensive Income	XXX	XXX
Tax on Above Item	XXX	XXX
Total Other Comprehensive Income (B)	**XXX**	**XXX”**

Principle: Division II, Schedule III to the Companies Act, 2013 and Ind AS 109: Financial Instruments

<u>Note 6(A) of General Instructions for preparation of Statement of Profit and Loss</u>

“Other Comprehensive Income shall be classified into-

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

(i);

(ii);

(iii) Equity Instruments through Other Comprehensive Income;

…”

<u>Paragraph 4.1.4 of Ind AS 109</u>

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).

Observation

It was observed from the Statement of Profit and loss that the Company has disclosed “Equity Instruments at Fair Value through Other Comprehensive Income” under the head “Items that will be reclassified to Statement of Profit or Loss”. In accordance with the above stated requirement, the Equity instruments measured at FVTOCI are required to be shown under the head

"Items that will not be reclassified to Profit or Loss" in Other Comprehensive Income.

Accordingly, it was viewed that requirements of Ind AS 109 and Division II, Schedule III to Companies Act, 2013 have not been complied with preparation and presentation of financial statements.

26. Other Comprehensive Income

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss given in the Annual Report of a company, reads as below:

Particulars	**For The Year ended as on 31st March,20XX**	**For The Year ended as on 31st March,20YY**
Profit/(loss) for the period from continuing operations	XXX	XXX
Profit/(loss) for the period	XXX	XXX
Earnings per equity share		
[nominal value of share]	XXX	XXX
Basic	XXX	XXX
Diluted	XXX	XXX

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

<u>Note 2 General Instructions for Preparation of Statement of Profit and Loss</u>

"Statement of Profit and loss shall include:

(1) Profit or loss for the period;

(2) Other comprehensive income

The sum of (1) and (2) above is 'Total comprehensive income'."

<u>Paragraph 81A of Ind AS 1</u>

The statement of profit and loss shall present, in addition to the profit

or loss and other comprehensive income sections:

(a) profit or loss;

(b) total other comprehensive income;

(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

Observation

It was observed from the Statement of Profit and Loss, that entity has not disclosed line item of "Other Comprehensive Income" and "Total Comprehensive Income" after reporting the "Profit/(Loss) from Continuing Operations".

It may be noted that "Other Comprehensive Income" is an integral part of Statement of Profit and Loss which is mandatorily to be reported to comply with the Divisions II, Schedule III to Companies Act, 2013.

Accordingly, it was viewed that the requirements of Ind AS 1 and Division II, Schedule III to the Companies Act, 2013 have not been complied with in the preparation and presentation of financial statements.

27. Share Based Payments

Matter contained in Financial Statements

The relevant abstract of Note on Employee Benefits given in the Annual Report of certain companies, reads as below:

Note: Employee Benefit Expense

Particulars	**Year Ended 31-Mar-XX**	**Year Ended 31-Mar-YY**
…	…	…
Employee Stock Option Scheme/ Share based Payment to Employee	(---)	---

Principle: Ind AS 102: Share Based Payment and Ind AS 1: Presentation of Financial Statements

Paragraphs 44 of Ind AS 102

"An entity shall disclose information that enables users of the financial

statements to understand the nature and extent of share-based payment arrangements that existed during the period.

Paragraphs 45 of Ind AS 102

To give effect to the principle in paragraph 44, the entity shall disclose at least the following:

(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e. g., whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to satisfy the principle in paragraph 44.

(b) the number and weighted average exercise prices of share options for each of the following groups of options:

  (i) outstanding at the beginning of the period;

  (ii) granted during the period;

  (iii) forfeited during the period;

  (iv) exercised during the period;

  (v) expired during the period;

  (vi) outstanding at the end of the period; and

  (vii) exercisable at the end of the period.

(c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.

(d) For share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

> <u>**Paragraph 112 of Ind AS 1**</u>
>
> **The notes shall:**
>
> **a) …**
>
> **b) …**
>
> **c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.**

Observation

It was noted from the Note on Employee Benefits that Share based Payment expense has been recognised in the previous financial year and it has been reversed during the current financial year. However, no disclosure had been given in the financial statement for share-based payment. It was viewed that the reason for reversing such expenses should have been disclosed in line with Ind AS 1. Further, it was viewed that all the necessary disclosures related to share-based payment should have been provided in the financial statements in line with Paragraph 44 and 45 of Ind AS 102.

Accordingly, it was viewed that the requirements of Ind AS 102 and Ind AS 1 have not been complied with in preparation and presentation of financial statements.

28. Share Based Payments

Matter contained in Financial Statements

The abstract of Note on Share based Payments given under Critical Accounting Estimates in the Annual Report of a company, reads as below:

"Share-based payments

……

Employee Stock Appreciation Rights (SAR)

The company has formed 'ABC Employee Welfare Trust' (AEW trust) for implementation of the schemes that are notified or may be notified from time to time by the Company under the plan, providing share-based payment to its employees. AEW trust purchases Company's shares out of funds provided by the Company. Accordingly, the Company has approved the grant of Employee Stock Appreciation Rights (SARs) to the eligible employees of the Company. **Each SAR shall confer the right to the eligible employee to receive appreciation (cash settled / equity settled)** with respect to the underlying Equity Share on the entitled shares after it has been exercised in accordance with terms of the Scheme. The **Company follows the intrinsic value method to account for its Employee Stock Appreciation Rights (SARs). …. (Emphasis Added)"**

Principle: Ind AS 102: Share Based Payment

Paragraphs 10

"For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Paragraphs 30

"For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period."

Observation

It was noted from the given accounting policy on share-based payment that the company measure its stock appreciation rights i.e., cash settled/equity settled share-based payment by using 'intrinsic value method.' It was viewed that cash settled as well as equity settled share-based payment should be measured at fair value as required by Ind AS 102.

Accordingly, it was viewed that the requirements of Ind AS 102 have not been complied with in preparation and presentation of financial statements.

29. Earnings Per Share

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss & Note on Earning Per Share given in the Annual Report of a company, reads as below:

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

Particulars	**Note No.**	**March 31, 20XX**	**March 31, 20YY**
……………	---	---	---
Earnings per share – (on Rs. 1 per share)	**35**		
Basic		---	---
Diluted		---	---"

Note 34: Earnings Per Share

Particulars	**March 31, 20XX**		**March 31, 20YY**	
	Basic	**Diluted**	**Basic**	**Diluted**
Total number of equity shares outstanding	---	---	---	---
Weighted average number of potential equity shares exercised by XYZ Employee Welfare Trust	(---)	(---)	(---)	(---)
Weighted average number of potential equity shares resulting from exercise of employee stock option	---	---	---	---
Weighted average number of equity shares for calculation of earnings per share	---	---	---	---

Principle: Ind AS 33: Earnings per share, Ind AS 1: Presentation of Financial Statements and Division II, Schedule III to the Companies Act, 2013

Paragraph 70 of Ind AS 33

"An entity shall disclose the following:

(a) the amount used as the numerators in calculating basic and diluted earnings per share, and the reconciliation of those amounts to profit or

> loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share."
>
> **Paragraph 113 of Ind AS 1**
>
> An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.
>
> **Note 4(ii) of General Instructions for Preparation of Financial Statements of a Company Required to Comply with Ind AS given under Division II Schedule III to the Companies Act, 2013.**
>
> Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

Observation

It was noted that the company has disclosed only the denominators (i.e. number of outstanding shares) used for calculation of EPS. However, no disclosure was made regarding profits/ earnings used for calculation of earnings per shares (i.e. numerator) as required by paragraph 70(a) of Indian Accounting Standard 33.

Additionally, it was noted that Note on Earnings per Share was given under Note 35, however, in the Statement of Profit and Loss reference of Note 34 has been given instead of giving correct note reference. It is not in line with paragraph 113 of Ind AS 1 and Note 4 (ii) of General Instruction for preparation of financial statements of a company required to comply with Ind AS.

Accordingly, it was viewed that the requirements of Ind AS 33, Ind AS 1 and Division II of Schedule III to the Companies Act 2013 have not been complied with in preparation and presentation of the financial statements.

30. Earnings Per Share

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss & Note on Earning Per Share given in the Annual Report of a company, reads as below:

Statement of Profit and Loss

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
…		
Profit for the Year	**1000**	**800**
(VIII) Other Comprehensive Income		
A) Items that will not be reclassified to profit & loss		
…		
B) Items that will be reclassified to profit & loss		
(IX) Other Comprehensive Income for the year	**100**	**80**
(X) Profit/(Loss) After Tax Carried to Balance Sheet	**1,100**	**880**

Note X: Earning Per Share (EPS)

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Net profit after tax as per Profit & Loss Statement	1,100	880
Weighted average number of shares used as denominator for calculation of EPS	---	--
Basic & Diluted Earnings per shares	**--**	**--**
Face value of Equity shares	**--**	**--**

Principle: Ind AS 33: Earnings per share

Paragraph 12

"For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(a) profit or loss from continuing operations attributable to the parent entity; and

(b) profit or loss attributable to the parent entity

shall be the amounts in (a) and (b) adjusted for the after-tax amounts of Preference Dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

Observation

It was noted from the Note to Accounts that total comprehensive income for the year was taken as a numerator for computation of the earnings per share, instead of taking profit for the year. It was viewed that it is net profit or loss after tax but before the adjustments of items of other comprehensive incomes, that is used for the purpose of calculating earnings per share. Accordingly, it was viewed that use of 'total comprehensive income' for the purpose of computation of earnings per share is not in line with the requirement of paragraph 12 of Indian Accounting Standard 33.

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

31. Earnings Per Share

Matter contained in Financial Statements

The Note on Earnings per share given in the Annual Report of the company, reads as below:

"Earnings Per Share:

Earnings per share is calculated by dividing net profit / (loss) after tax with weighted average number of equity shares (previous year net of dividend distribution tax on proposed preference dividend)."

Principle: Ind AS 33: Earnings Per Share

Paragraph 70

"An entity shall disclose the following:

(a) the amount used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instrument that affects earnings per share.

(b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share."

Observation

It was noted from the Note on Earnings Per Share (EPS) that the company had merely disclosed the method of calculation of EPS and no disclosures was made regarding amount used as numerator and weighted average number of shares used as denominator in calculating EPS as well as other information required under paragraph 70 of Indian Accounting Standard 33.

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

32. Earnings Per Share

Matter contained in Financial Statements

The relevant abstract of Statement of Profit and Loss & Note on Share Capital given in the Annual Report of a company, reads as below:

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

Particulars	Note No.	As at 31st March 20XX (In Rs.)	As at 31st March 20YY (In Rs.)
……………	---	---	---
Earnings per share (Rs 1 each)			
Basic (amount in Rs)	..	--	--
Diluted (amount in Rs)		--	--"

"Note XX: Share Capital

Particulars	As at 31-March-XX		As at 31-March-YY		As at 31-March-ZZ	
	Number of shares	**In Rs**	**Number of shares**	**In Rs**	**Number of shares**	**In Rs**
AUTHORISED						
Equity Shares **of Rs 10/- each** (previous year Rs. 10 each)	…	…	…	…	…	…"

Observation

It was noted from the Statement of Profit and Loss that the nominal value of equity share was disclosed at Rs. 1/- each. However, the nominal value per share as per note on Share Capital was Rs 10/- each.

Accordingly, it was viewed that contradictory information has been reported in the same set of financial statements regarding nominal value of equity shares.

33. First time adoption of Ind AS 115

Matter contained in Financial Statements

The accounting policy on Revenue from Contracts with Customers given in the Annual Report of a Company, reads as follows:

"Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Sales & services include sales during trial run and excise duty/service tax recoverable. Liquidated damages are accounted for as and when they are ascertained.

Revenue in respect of sales orders received on provisional price basis, is recognized on a provisional basis except to the extent stated otherwise. In respect of such sales orders, the Company recognizes the differential revenue, being the difference between provisional price and the final price, at the time when the provisional price gets firmed up"

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph C1 of Appendix C1

"An entity shall apply this Standard for accounting periods beginning on or after 1 April 2018."

Paragraph C10 of Appendix C1

This Standard supersedes the following Standards:

(a) Ind AS 11, *Construction Contracts;*

(b) Ind AS 18, *Revenue.*"

Paragraph C (8) of Appendix 'C':

"For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to Ind AS 11 and Ind AS 18; and

(b) an explanation of the reasons for significant changes identified in C 8(a)."

Observation

It was noted from adopted policy that the company recognises revenues after the transfer of risk and rewards of ownership of goods to the customers which depicts that it is following the principles of erstwhile Ind AS 18, which was withdrawn on introduction of Ind AS 115, Revenue from Contract with Customers. It was viewed that revenue is recognized when entity satisfies the performance obligation which may be either at any point of time or over the point of time as per Ind AS 115.

It was, further, viewed that the company has not provided the necessary disclosures under Paragraph 110-128 & Paragraph C (8) of Ind AS 115 in the notes to financial statements.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been complied with in the preparation and presentation of financial statements.

34. First time adoption of Ind AS 115

Matter contained in Financial Statements

The relevant abstract of the Accounting Policy on Revenue from Contracts with Customers given in the Annual Report of a Company, read as follows:

"Revenue recognition.

Recognition of Revenue from Real Estate Development:

Effective 1 April 2018, the Company has applied Ind AS 115 – "Revenue from contracts with customers", which outlines single comprehensive model for accounting of revenue arising from contracts with customers and supersedes Ind AS 11 "Construction Contracts". It focuses on performance obligations in a contract with customers, allocation of transaction price to the performance obligations and recognition of revenue as the performance obligations are satisfied either at a point in time or over a period of time. While recognizing revenue, the cost of land has been allocated in proportion to the percentage of work completed. If the outcome of a construction contract can be estimated reliably, contract revenue is recognized in the Statement of Profit and Loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. Otherwise, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognized as expenses as incurred unless they create an asset which is related to future contract activity. An expected loss on a contract is recognized immediately in the Statement of Profit and Loss.

Revenue is recognised in the income statement to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably."

Principle: Ind AS 115: Revenue from Contracts with Customers and Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph C3 of Ind AS 115

"An entity shall apply this standard using one of the following two methods:

(a) retrospectively to each prior reporting period presented in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, subject to the expedients in Paragraph C5; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with Paragraph C7–C8."

Paragraph 28 of Ind AS 8

"When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

...

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if Indian Accounting Standard 33, Earnings per Share, applies to the entity, for basic and diluted earnings per share."

Observation

The company has adopted Ind AS 115 for revenue recognition, effective April 1, 2018. Upon initial application of this standard, the company is required to comply with the requirements outlined in paragraphs C7 and C8, in conjunction with C3 in Appendix C of Ind AS 115. However, the company has not disclosed the method used for its adoption, specifically whether the standard was applied retrospectively to each prior period or if the cumulative effect was considered.

Furthermore, if the company chooses to adopt paragraph C3(i), it must disclose the amount of adjustment for the current period as well as for each prior period presented in the financial statements, as required by Ind AS 8. If the company opts to adopt the standard retrospectively, with the cumulative effect of the initial application recognized at that time, then the disclosure requirements of paragraphs C7 and C8 would apply.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

Chapter-5

Observations related to Statement of Cash Flows

1. Leases

Matter contained in Financial Statements

The relevant abstract of the Cash Flow Statement and the Note on Leases given in the Annual Report of a company, read as follows:

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

Particulars	31st March, 20XX	31st March, 20YY
C. Cash Flow from Financing Activities		
Payment of lease liabilities	(---)	---"

"Note on Leases:

Amount recognized in profit and loss

Particulars	Amount
Interest on lease liabilities	---
Variable lease payments not included in the measurement of lease liabilities	
Expenses relating to short-term leases	---
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	---

"Amount recognized in the Statement of Cash flows

Particulars	Amount
Total cash outflow for leases	---"

Principle: Ind AS 116: Leases

Paragraph 50

"In the statement of cash flows, a lessee shall classify:

.....

(b) cash payments for the interest portion of the lease liability within financing activities applying the requirements in Ind AS 7, Statement of Cash Flows, for interest paid;

..."

Observation

It was noted from Note on Leases that the amount recognized in Statement of Profit and Loss, includes interest on lease liabilities. It indicates that the ''total cash payment of lease liabilities'' as disclosed in Cash Flow Statement also includes interest on lease liabilities. It was viewed that paragraph 50 of Indian Accounting Standard 116 requires to present cash payment for the interest portion of lease liability separately under the financing activities of the Statement of Cash Flows.

Accordingly, it was viewed that the disclosures requirements of Indian Accounting Standard 116 have not been complied with in preparation and presentation of the financial statements.

2. Disclosure of Cash Flows on Gross Basis

Matter contained in Financial Statements

The relevant abstract of Statement of Cash Flows and Note on Other Expenses given in an Annual Report, reads as follows:

"Statement of Cash Flows

(₹ in Lakhs)

	Note No.	March 20XX	March 20YY
(a) Cash Flow from Operating Activities			
...			
Loss on sale of Property, Plant and Equipment (net)	-	5.90	---
...			

(c) Cash Flow from Financing Activities			
Long term borrowings (repaid)/taken **(net)**		---	---"

"Other Expenses

(₹ in Lakhs)

Particulars	**March 20XX**	**March 20YY**
Loss on sale/disposal of Property, Plant and Equipment (net)	21.75	---"

Principle: Ind AS 7- Statement of Cash Flows

<u>Paragraph 17</u>

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) ….

(b) ….

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) …

(e) ….

<u>Paragraph 21</u>

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.

<u>Paragraph 22</u>

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Observation

It was observed from the Statement of Cash Flows that the amount of loss on sale of Property, Plant and Equipment (PPE) adjusted with the profit for the year while determining the cash flows from operating activities, did not match with the amount of loss disclosed in Note on Other Expenses. It was viewed that an explanation should have been provided in the notes explaining the reason for such difference.

It was further noted that the company has presented "Long term borrowings (repaid) / taken", on a net basis, as single line item under the financing activities. It was viewed that except for the circumstances mentioned in paragraph 22 and 24 of Indian Accounting Standard 7, all the cash inflows and outflows from investing and financing activities should be reported on gross basis and not on net basis. In other words, cash received from raising Long-term borrowings and cash paid in repayment thereof should be disclosed on gross basis., Hence, it is appropriate to present cash flows from financing activities separately on gross basis.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of the Financial Statement.

3. Disclosure of Cash Flows on Gross Basis

Matter contained in Financial Statements

The relevant abstract of the Statement of Cash Flows as given in the Annual Report of a company, is as follows:

"STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH, 20XX

Particulars	**Year ended 31.03.20XX**	**Year ended 31.03.20YY**
	Amount (Rs.)	**Amount (Rs.)**
2. **From Investing Activities**		
… Decrease/Increase) in Non-Current Loans		
Decrease / (Increase) in Other		

Financial Assets		
Decrease/Increase) in Other Non-Current Loans		
3. From Financing Activities		
Decrease/(Increase) in Other Equity …		-“
Decrease/Increase) in Other Financial Liabilities		

Principle: Ind AS 7: Statement of Cash Flows

Paragraph 21

“An enterprise should 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

It was noted from the Statement of Cash Flows that the company used the terminology of ‘Increase / decrease’ under the Investing and Financing Activities. It was viewed that the appropriate terminology is ‘Proceeds from/ Payment to’’.

It was further noted that the company has presented “Increase / (Decrease) in loans/ financial assets” as single line item under the financing activities. It was viewed that cash receipts/payments on behalf of customers and for items where the turnover is quick, the amounts are large and maturities are short – in these cases only, the company can present the cash flows on net basis. Hence, it is appropriate to present cash flows from financing activities separately on gross basis.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 7 has not been complied with in preparation and presentation of financial statement.

4. Disclosure of Changes in Liabilities arising from Financing Activities

Matter contained in Financial Statements

One of the Statement of Cash Flows did not contain certain disclosures.

Principle: Ind AS 7- Statement of Cash Flows

Paragraph 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."

Observation

It was observed from the Statement of Cash Flows that there were proceeds from long term borrowings and repayment of long-term borrowing during the year, however, the disclosures of changes in liabilities arising from financing activities including changes arising from cash flows and non-cash changes as required by paragraph 44A of Indian Accounting Standard 7, have not been disclosed.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of financial statements.

5. Non-Cash Adjustment

Matter contained in Financial Statements

The relevant abstract of Statement of Cash Flows, Notes on Other Expenses, Inventories and Other Income as given in the Annual Report of a company, read as follows:

"Statement of Cash Flows

Particulars	**As at March 31, 20YY**	**As at March 31, 20XX**
Cash flows from operating activities		
Profit for the year	---	---
Adjustments for:		

Interest paid recognised in Profit or Loss	---	---
Depreciation and amortisation of non-current assets (continuing and discontinued operations)	---	---

Note: Other Expenses

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
Sundry Balance w/off	---	---
…		
Provision of Bad debt as per ECL Method	---	---
Bad and doubtful Debts	---	

Note: Inventories

Particulars	**As at 31st Match, 20XX**	**As at 31st Match, 20YY**
(At lower of cost and net realisable value)		
……		
Stores and spares [include material in transit 31st March, 20XX Rs. --- (31st March, 20YY Rs. ---)]	**---**	**---**

……

Write down of inventories to net realizable value relating to stores and spares amounted to Rs. XXX (31st March, 20XX Rs. ---)"

Note on Other Income

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
(a) Interest Income		
- Bank Deposits	---	---"

Principle: Ind AS 7: Statement of Cash Flows

Paragraph 20 of Ind AS 7

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

a. changes during the period in inventories and operating receivables and payables.

b. non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and

c. all other items for which the cash effects are investing or financing cash flows."

Observation

It was noted from the Note on Other Expenses that the company has recognised non-cash expenses like the Provision for Bad & Doubtful Debts, Bad debts written off and Sundry balances written off in the Statement of Profit and loss. It was also noted from Note on Inventory that the company has written off stores and spares in the current year which is a non-cash transaction. However, it was observed that these non-cash items have not been adjusted to Net Profit while determining Cash Flow from Operating Activities.

It was further noted from Note on Other Income that the company has recognized interest income from bank deposits in the Statement of Profit and Loss. However, such interest income has not been deducted from profit before tax while determining Cash Flow from Operating Activities.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of the financial statement.

6. Adjustment for Re-measurement of Defined Benefit Plan

Matter contained in Financial Statements

The relevant abstract of the Statement of Cash Flows and Statement of Profit and Loss as given in the Annual Report of a company, reads as follows:

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

Particulars	**For the year ended 31st March, 20XX**	**For the year ended 31st March, 20YY**
Cash Flow from Operating Activities		
Profit after tax	**---**	**---**
Adjustments for:		
Re-measurement of defined benefit liabilities/ (assets) through OCI	**---**	**---**

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

Sr. No.	**Particulars**	**For the year ended 31st March, 20XX**	**For the year ended 31st March, 20YY**
	Profit for the year	**---**	**---**
	Other comprehensive income		
	A) Items that will not be reclassified to profit or loss		
	…	---	---
	(a) Remeasurements of defined benefit plans	---	---
		---	---

Principle: Ind AS 7 – Statement of Cash flows

<u>Paragraph 20</u>

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

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

b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and

c) all other items for which the cash effects are investing or financing cash flows."

Observation

It was noted from the Statement of Profit & Loss that the company has recognised the loss on Re-measurement of the defined benefit plans, as a part of Other Comprehensive Income (OCI) and the same has been adjusted with the Profit for the year while deriving 'Cash Flow from Operating Activities'. It was viewed that while determining the net Cash Flow from Operating Activities, profit for the year has been taken, and therefore, the adjustment made in OCI should not be adjusted in Profit for the year to derive Cash Flow from Operating Activities.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 7 has not been complied with in the preparation and presentation of the financial statement.

7. Finance Cost

Matter contained in Financial Statements

The relevant abstract of the Statement of Cash Flows as given in the Annual Report of a company reads as follows:

"Statement of Cash Flows

(₹ in Lakhs)

Particulars	31.03.20XX	31.03.20YY
I. Cash Flow from Operating Activities		
Finance Cost	33.15	60.01
..		
Cash Generated from / (used in) operations		
Interest paid	(33.15)	(60.01)

Principle: Ind AS 7 : Statement of Cash Flows

Paragraph 33

"Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Some argue that interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. However, it is more appropriate that interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments."

Observation

It was noted from the Cash Flow Statement that the company has adjusted finance cost while determining the cash flows from operating activities and the same has been again deducted under cash flow from operating activities. It was viewed that the interest payment should be disclosed under cash flow from financing activities as required by paragraph 33 of Indian Accounting Standard 7.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of financial statement.

8. Adjustment of Income and Expenses

Matter contained in Financial Statements

The relevant abstract of the Statement of Cash Flows and Note on Other Income in the financial statement of a company, reads as follows:

"Statement of Cash Flows for the Year ended March 31, 20XX

	Year ended March 31, 20XX	**Year ended March 31, 20YY**
Cash Flow from Operating Activities		
Profit for the year	XXX	XXX
Adjustments for:		
Interest Income recognised in profit or loss	(1.86)	(0.44)

Note on Other Income

	Year ended March, 31, 20XX	Year ended March, 31, 20YY
(a) Interest Income earned		
- On Financial assets (at amortised cost)		

Principle: Ind AS 7 : Statement of Cash Flows

Paragraph 20

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

…

(c) all other items for which the cash effects are investing or financing cash flows."

Observation

It was noted from the Note on Other Income that the company has interest income in the current year and previous year. However, the amount of interest income adjusted with profit before tax, while arriving at cash flow from operating activities, does not match with the amount disclosed in the note on other income and the company has not provided any explanation for mismatch between Statement of Cash Flow and Statement of Profit & Loss.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 7 has not been complied with in the preparation and presentation of the financial statement.

9. Increase in Receivables

Matter contained in Financial Statements

An abstract of the Statement of Cash Flows and Note on Cash & Cash Equivalents of a company, reads as follows:

“Statement of Cash Flows

Particulars	**Year ended March 31, 20XX**	**Year ended March 31, 20YY**
Cash Flow from Operating Activities		
Profit for the year		
Adjustments for:		
…		
Construction contract costs	---	---
Construction Income	---	---
Movement in working capital:		
…		
Cash Flows from Investing Activities		
Increase in receivable under service concession agreement (net)	(---)	(---)

Cash and cash equivalents

Particulars	**Year ended March 31, 20XX**	**Year ended March 31, 20YY**
Cash and cash equivalents	---	---
Less- Secured Demand Loans from banks (cash credit) shown under current borrowings in note	--	--
Less- Unsecured demand loans from banks (bank overdraft) shown under current borrowings in note	--	--
Total	---	---"

Principle: Ind AS 7 – Statement of Cash Flows

Paragraph 20

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

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

b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and

c) all other items for which the cash effects are investing or financing cash flows"

Paragraph 14

Cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) …

(c) cash payments to suppliers for goods and services;

(d) …

(e) …

(f) …

(g) cash receipts and payments from contracts held for dealing or trading purposes.

Observation

It was noted from the Statement of Cash Flows that the Company has adjusted construction income and construction cost while determining Cash Flows from Operating Activities. It was further noted that the equivalent amount of construction cost has been presented as an increase in receivables under the service concession agreement under the head of Cash Flows from Investing Activities. It was viewed that increase in receivables are operating receivables for the company in the given case. Hence, it should be presented under the head of Cash Flow from Operating Activities rather than

Investing Activities. Further, the company has not provided any explanatory note with reasons for presenting under investing activities.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of financial statements.

10. Income Tax Paid

Matter contained in Financial Statements

The relevant abstract of Note on Current Tax Liabilities as given in the Annual Report of a company, reads as follows:

“Current Tax Liabilities (Net)

(Rs. in Crores)

Particulars	**As at 31st March,20XX**	**As at 31st March,20YY**	**As at 1st April,20ZZ**
Provision for Tax (net of advance tax)	6.50	10.20---	10.50---"

Principle: Ind AS 7 : Statement of Cash Flows

Paragraph 35

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

Observation

It was noted that the Company had reported Provision for tax (net of advance tax) under Note on Current Tax Liabilities (Net). It was further noted that such provision for tax (net of advance tax) has been reduced from previous year which indicates that certain advance taxes have been paid during the year. However, the company has not disclosed any tax payment in the Cash Flow Statement as required by Indian Accounting Standard 7.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 7 have not been complied with in the preparation and presentation of financial statements.

Chapter-6

Observations related to Other Disclosure

1. Approval of Financial Statements

Matter contained in Financial Statements

The abstract of ‘Statement of Compliance’ as given in the Annual Report of a company, reads as follows:

“Statement of Compliance

The financial statements of the company have been prepared in accordance with Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 notified under section 133 of the Companies Act, 2013, (the ‘Act’) and other relevant provisions of the Act with effect from 1st April, 2017.”

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

It was noted that the company has given statement of compliance that financial statements have been prepared in accordance with applicable framework. However, it has neither disclosed approving date nor the approving authority for issue of financial statements, which is required to be disclosed as per paragraph 17 of Ind AS 10.

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

2. Basis of Preparation of Financial Statements

Matter contained in Financial Statements

The relevant abstract of Basis of Preparation and Note on Investments as given in the Annual Report of a company, reads as follows:

"Note: Significant Accounting Policies

(a) Basis of Preparation:

The financial statements have been prepared under the historical cost convention on accrual basis except certain financial instruments that are measured in terms of relevant Ind AS at amortized cost at the end of each reporting period.

Note: Current Investment

	As at 31st March, 20XX	As at 31st March, 20YY	As at 31st March, 20ZZ
Quoted Investment in Mutual Funds at FVTPL "			
…			

Principle: Ind AS 1: Presentation of Financial Statements

<u>Paragraph 112</u>

"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"

Observation

It was noted from the given notes that the company has Investments in mutual fund which were measured at Fair value through Profit or Loss. However, it was observed that the company has not provided reference of 'fair value measurement' under the basis of preparation.

Accordingly, it was viewed the requirement of Indian Accounting Standard 1 have not complied with in the preparation and presentation of the financial statements.

3. Basis of Preparation of Financial Statements

Matter contained in Financial Statements

The Note on Basis of Preparation and Use of Estimates as given in the Annual Report of a company, reads as follows:

"Note 2: Basis of Preparation

"The financial statements of the company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The financial statements have been prepared on an accrual basis and under the historical cost convention. Accounting policies not specifically referred to otherwise are consistent and in consonance with generally accepted accounting principles. In applying the accounting policies considerations have been given to prudence, substance over form and materiality."

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 112

The noted 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;

b) disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and

c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

Observation

It was noted from Basis of Preparation that financial statements have been prepared on an accrual basis and under the historical cost convention. However, it was observed that there were certain financial assets which were measured at fair value, but the exception for these items was not disclosed in the Basis of Preparation.

It was further noted that an incorrect statement was made, indicating that the financial statements were prepared using Indian GAAP; however, they were actually prepared in accordance with the Ind AS framework.

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

4. First time adoption of Indian Accounting Standards

Matter contained in Financial Statements

A relevant abstract of Note on Property, Plant and Equipment as given in the Annual Report, reads as follows:

"Property, Plant and Equipment

Particulars	Freehold Land	Building owned	Total
Gross Carrying Amount as at April 01, 20XX	---	---	---
Accumulated Depreciation as at April 01, 20XX	--	---	---

For Property, Plant and Equipment existing on April 01, 20XX, i.e., its date of transition to Ind AS, the company has used India GAAP carrying value as deemed costs.

Principle: Ind AS 101 : First Time Adoption of Accounting Standards

<u>Paragraphs D5</u>

"An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date."

<u>Paragraphs D7AA</u>

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS"

Definition of Deemed Cost

"An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost."

Observation

In was noted from the notes to financial statements that the company has exercised the option provided under paragraph D7AA for measuring the Property, Plant and Equipment (PPE) at deemed cost i.e. the carrying amount (depreciated cost) as per the Previous GAAP as on the date of transition. However, the company has presented Gross value of PPE and Accumulated depreciation as on the date of transition instead of presenting the Net value of PPE i.e. carrying amount (depreciated cost) as required by Ind AS 101 as well as educational material on Ind AS 101 published by ICAI.

Accordingly, it was viewed that the requirements of Ind AS 101 have not been complied with in the preparation and presentation of financial statements.

5. First Time adoption of Indian Accounting Standards

Matter contained in Financial Statements

From the financial statements of previous financial year, it was noted that the company has transitioned its basis of accounting from Indian Generally Accepted Accounting Principles ("IGAAP") to Ind AS in the previous financial year and has elected to continue with the carrying value of its property, plant and equipment as well as its intangible assets as on transition date, measured as per the previous GAAP, as the deemed cost.

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

Paragraph 27AA

"If an entity adopts the first-time exemption option provided in accordance with paragraph D7AA, the fact and the accounting policy shall be disclosed by the entity until such time that those items of Property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired or derecognised from the entity's Balance Sheet."

Paragraph D7AA

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. If an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs. This option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40, Investment Property."

Observation

It was viewed that according to paragraph 27AA, if an entity chooses to utilize the first-time exemption option outlined in paragraph D7AA, the entity must disclose both the fact of adoption of first-time exemption and the accounting policy until the respective items of Property, Plant and Equipment (PPE), Investment Properties, or Intangible Assets are significantly depreciated, impaired, or derecognized from the entity's balance sheet. However, despite the entity having a significant balance of Property, Plant and Equipment (PPE) and intangible assets, the disclosure has not been provided in the current financial year in line with paragraph 27 AA of Ind AS 101.

Accordingly, it was viewed that the requirements of Ind AS 101 have not been complied with in preparation and presentation of financial statements.

6. First Time adoption of Indian Accounting Standards

Matter contained in Financial Statements

From the disclosures relating to First time adoption of Ind AS, it was noted that only the "Reconciliation of Total Comprehensive Income and Equity" have been given in the financial statements.

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

Explanation of transition to Ind ASs

Paragraphs 23

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

Paragraphs 25

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

Observation

It was observed that although reconciliation of Total Comprehensive Income and Equity have been given, however, details of material adjustments to the Balance Sheet, Statement of Profit & Loss and Statement of Cash Flow have not been provided in the notes to financial statements in line with paragraph 25 of Ind AS 101.

Accordingly, it was viewed that requirements of Ind AS 101 have not been complied with in preparation and presentation of financial statements.

7. Reclassification of Items in Financial Statement

Matter contained in Financial Statements

One of the Notes to Accounts given in the financial statements of a company, reads as follows:

"The previous year's figures have been regrouped, rearranged & reclassified wherever considered necessary."

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 40

An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:

(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements;

and

(b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

Paragraph 41

"If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

(a) the nature of the reclassification.

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification."

Paragraph 42

"When it is impracticable to reclassify comparative amounts, and entity shall disclose:

(a) the reason for not reclassifying the amounts, and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified."

Observation

It was noted from the given note that the previous year's figures have been reclassified / regrouped. However, the nature of reclassification / regrouping, the amount of each item or class of item that is reclassified / regrouped and the reasons for the reclassification / regrouping have not been disclosed in line with the requirements of paragraph 41 of Ind AS 1.

It was viewed that if any reclassification was made by the company, as stated in the given note, appropriate disclosures should have been made in line with paragraph 41 of Ind AS 1.

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

8. Presentation of Financial Statements

Matter contained in Financial Statements

An abstract of Other Equity given in the Annual Report of a company, reads as follows:

"Note: Other Equity

Particulars	As at 31.3.20XX	As at 31.3.20YY
……………	---	---
Dividend (including dividend distribution taxes)	(---)	(---)"

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 107

"An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognized as distribution to owners during the period, and related amount of dividends per share."

Observation

It was noted from the Note on Other Equity that the company has deducted 'dividend distribution to shareholders' from the retained earnings. However, the dividend per share has not been disclosed as required by paragraph 107 of Indian Accounting Standard 1.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 1 have not been complied with.

9. Presentation of Financial Statements

Matter contained in Financial Statements

One of the Notes to Accounts of a company, reads as follows:

"Abstract of note

"(a) AB Joint Venture (ABJV) had submitted claims for change orders aggregating to Rs XXX to X Ltd. The ABJV has invoked arbitration in respect of the aforesaid change orders, as the same were not approved by Outside Expert Committee (OEC). Claims against change orders and counter claims by X Ltd aggregating to Rs XXX will be discussed in arbitration.

(b) XY Infrastructure Limited (the company) has given advances aggregating to Rs. XXX which are receivable from ABJV. The recovery of this amount is dependent upon finalization of arbitration award".

Principle: Ind AS 1: Presentation of Financial Statements

Paragraph 7

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

Material

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Observation

It was noted from the given note the company has given advances to AB Joint Venture (ABJV). Further, it was noted that ABJV had submitted claims for change orders to X Ltd and the ABJV has invoked arbitration in respect of the aforesaid change orders, as the same were not approved by Outside Expert Committee (OEC). The claims against change orders and counter claims by X Ltd will be discussed in arbitration. Further, it was noted that the collectability of advances given by the company under review to ABJV, depends upon finalization of arbitration award.

It was viewed that the company has not provided any note to give clarity as to what extent these claims are accounted as contract receipts, as receivables and ECL made thereon in the books of the Joint Venture, and thereby, its impact on financial statements of the company under review. Accordingly, the given Note has not been elaborated enough to provide complete information.

Hence, it was viewed that the given information is obscured as the information regarding a material item, transaction or other event is disclosed in the financial statement, but the language used is vague or unclear.

Accordingly, it is viewed that the requirements of Indian Accounting Standard 1 have not been complied with preparation and presentation of financial statements.

10. Ind AS issued but not yet effective

Matter contained in Financial Statements

In the financial statements pertaining to financial year 2018-19, a Note on ''Recent Accounting Pronouncement'' describes about New Accounting Standard: Ind AS 116. The relevant abstract of the Note is reproduced below:

"Recent accounting pronouncements

New Accounting Standard: Ind AS 116- Leases

On March 30, 2019, the Ministry of Corporate Affairs notified the Companies (Indian Accounting Standards) Amendment Rules, 2019 containing Ind AS 116 – 'Leases', related amendments to other Ind AS 116 replaces Ind AS 17 – Leases and related Interpretation and guidance. The standard set out principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e., the lessee and the lessor. Ind AS 116 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Currently, operating lease expenses are charged to the statement of profit and loss. The Standard also contains enhanced disclosure requirements for lessees. Ind As 116 substantially carries forward the lessor accounting requirements as per Ind AS 17. Ind AS 116 is effective for annual periods beginning on or after April 1, 2019."

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 noted from the given note that the company has disclosed about the requirement of the new standard (Ind AS 116) in brief. It was viewed that although the fact has been disclosed that Ind AS 116 (Leases) was issued but not effective for the reporting period, however, its impact on the financial statements have not been disclosed, as required by paragraph 30 of Ind AS 8.

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

11. Ind AS issued but not yet effective

Matter contained in Financial Statements

The financial statements of certain companies pertaining to financial year 2018-19 has not provided any information regarding the new Ind AS that has been issued but not effective.

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

Ind AS 8 requires the entity to disclose the fact and impact of new standards that have been issued but not effective for the reporting period. It was noted that Ind AS 116 has been issued but was not effective for the reporting period, however, this fact and its possible impact has not been disclosed by the companies in the notes to accounts, as required by paragraph 30 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.

12. Going Concern

Matter contained in Financial Statements

The relevant abstracts of Balance Sheet, Statement of Profit & Loss and Cash Flow Statement as given in the Annual Report of a company, reads as follows:

"Balance Sheet as at 31 March 20XX
(All amounts are in Indian Rupees, except share data and as stated)

Particulars	Notes	As at 31 March 20XX	As at 31 March 20YY
ASSETS			
……………	---	---	---
Total Current Assets		---	---
EQUITY AND LIABILITIES			
……………	---	---	---
Total Equity		(---)	(---)
Total Current Liabilities		---	---"

"Statement of Profit and Loss for the year ended 31 March 20XX
(All amounts are in Indian Rupees, except share data and as stated)

Particulars	Notes	As at 31 March 20XX	As at 31 March 20YY
……………	---	---	---"
Profit for the year		---	(---)

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

(All amounts are in Indian Rupees, except share data and as stated)

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
Cash Flow from Operating Activities		
……………	---	---
Cash generated from operations	(--)	(--)"

Principle: Ind AS 1 : Presentation of Financial Statements

<u>Paragraph 25</u>

"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."

<u>Paragraph 26</u>

"In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate."

Observation

It was noted from the Balance Sheet of a company that the negative net-worth and negative working capital has been reported thereat. Also, the company had a history of reported losses in its Statement of Profit and Loss, and it did not generate any revenue from its operations. The reason the company was able to report a profit during the year was that it had recognized significant income as 'changes in inventories'. Hence, it was viewed that the company should disclose the appropriateness & suitability of going concern assumption considering all these negative patterns showing weak performances and unsound financial position which are casting significant doubts on suitability of going concern assumption as required by paragraph 25 and 26 of Indian Accounting Standard 1.

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

13. Going Concern

Matter contained in Financial Statements

The relevant abstract of Director's Report as given in the Annual Report, reads as follows:

Abstract of Director's Report

"IMPACTING ON GOING CONCERN STATUS AND COMPANY'S OPERATIONS

There has been no significant and material orders passed by any regulators or courts or tribunals impacting the going concern status and company's operations in future."

Note 2.13(ii): Material uncertainty about going concern
"In preparing financial statements, management has made an assessment of Company's ability to continue as a going concern. Financial statements are prepared on a going concern basis. The Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern."

Principle: Ind AS 1: Presentation 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 financial statements that there are material uncertainties involved around the company's ability to continue as going concern which includes followings factors:

- Cancellation of Power Purchase Agreement (PPA)
- No addition in assets for the last two years
- Interest due but not paid on loans taken from parents is more than 57% of principal amount of loan.
- Non-realization of interest on loans advanced to others;
- The company has a very minimal net worth compared to its liability;

However, it was observed that the company has not made any disclosures related to going concern assumptions in line with paragraph 25 of Ind AS 1, even though uncertainties involved around the viability of power project.

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

14. Rounding off Figures

Matter contained in Financial Statements

From the financial statements of certain companies, it was noted that all the amounts were presented in terms of 'Rupees'. The relevant abstracts are given below:

Balance Sheet as at March 31,20XX

Particulars	Note No.	As at 31.03.20XX Amount (Rs)	As at 31.03.20YY Amount (Rs)

Statement of Profit and Loss for the Year ended on March 31, 20XX

Particulars	Note No.	Year ended 31.03.20XX Amount (Rs)	Year ended 31.03.20YY Amount (Rs)

Cash Flow Statement for the Year Ended March 31, 20XX

Particulars	Year ended 31.03.20XX Amount (Rs)	Year ended 31.03.20YY Amount (Rs)

Principle: Division II, Schedule III to the Companies Act, 2013

Note 5 of General Instructions for Preparation of Financial Statements

"Depending upon the Total Income of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Total Income	Rounding Off
i. less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
ii. one hundred crore rupees or more	To the nearest, lakhs millions or crores, or decimals thereof.

Observation

It was viewed that as per the requirement of Schedule III, the amounts shown in the financial statements should be rounded off to nearest lakhs, millions or crores or decimal thereof based on the total income criteria.

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

15. Comparative Amounts

Matter contained in Financial Statements

From the Financial Statements of certain companies, it was noted that the company has not provided the comparatives for immediately preceding reporting year for the items of Property, Plant & Equipment.

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

Note 6 of General Instructions for Preparation of Financial Statement

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

Paragraph 38 of Ind AS 1

"Except when Ind ASs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements"

Paragraph 38A 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

It may be noted that Paragraph 6 of General instructions for preparation of Financial Statements stipulated in Division II – Ind AS Schedule III of the Companies Act, 2013, mandates to provide the comparatives for the preceding reporting period. Likewise, the provisions of Ind AS 1 outline the minimum requirement to present the comparative information in the financial statement.

Accordingly, it was viewed that non-disclosure of comparative amounts is the non-compliance of Division II – Ind AS Schedule III to the Companies Act, 2013 as well as Ind AS 1.

16. Non-Disclosure of Accounting Policy

Matter contained in Financial Statements

The relevant abstract of Note on Other Expenses as given in the Annual Report of a company, reads as follows:

"Other Expenses

Particulars	**Year Ended March 31, 20XX**	**Year Ended March 31, 20YY**
……………	---	---
Impairment of investments in subsidiaries	---	---
Diminution in value of receivables	---	---"

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

It was noted that the company had recorded expenses in the current year on account of 'Impairment of Investment in Subsidiaries' and 'Diminution in Value of Receivables'. However, it was observed that the company has not disclosed the accounting policy for impairing the investments in subsidiaries and trade receivables I.e. impairment of financial assets.

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

17. Non-Disclosure of Accounting Policy

Matter contained in Financial Statements

The relevant abstract of Note on Revenue from Operations as given in the Annual Report of a company, reads as follows:

"REVENUE FROM OPERATIONS

Particulars	**Year ended March 31, 20XX**	**Year ended March 31, 20YY**
....		
Rendering of Services		
.....		
EPC Work	**---**	**---"**

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

It was noted from the Note on Revenue that company has earned significant amount of revenue from EPC work. It was further noted that the accounting policy on revenue from various streams has been disclosed in the financial statements. However, its revenue recognition policy on 'EPC work services' have not been disclosed despite of its material amount of revenue.

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

18. Non-Disclosure of Accounting Policy

Matter contained in Financial Statements

The relevant abstract of Notes on Deferred Tax, Other Income, Employee Benefits, Finance Costs, Administration and Other Expenses as given in the Annual Report of certain companies, reads as follows:

"Deferred Tax

Particulars	For the year ended 31.03.20XX	For the year ended 31.03.20YY
… **Deferred tax** **…** MAT Entitlement (Current year) MAT Entitlement (Earlier Periods)	… … --- 	… … ---

NOTE- 14: OTHER INCOME

(Amount in ₹)

	As at 31st March, 20XX	As at 31st March, 20YY
Dividend Received	XXX	XXX

NOTE- 15: EMPLOYEE BENEFITS EXPENSES

(Amount in ₹)

	As at 31st March, 20XX	As at 31st March, 20YY
Salaries, Wages & Bonus	XXX	XXX

Note: Finance Cost

Particulars	Year ended March 31, 20XX	Year ended March 31, 20YY
(a) Interest	XXX	YYY
Add: Exchange fluctuation	XXX	YYY

considered as interest cost		
Less: Transferred to capital account	(XXX)	(YYY)
	XXX	**YYY**
(b) Discounting charges	XXX	YYY
Total	**XXX**	**YYY**

Note: Administrative & Other Expenses

Particulars	**Year Ended 31.03.20XX**	**Year Ended 31.03.20YY**
Rent & Lease	**---**	**---**
…		

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

While reviewing financial statements of certain companies, it was noted that the following accounting policies have not been provided:

(i) It was noted from the Note on Deferred Tax that MAT entitlement has been disclosed thereat for both the current year and previous year. However, the accounting policy on Minimum Alternate tax (MAT) has not been disclosed under the significant accounting policies.

(ii) The accounting policy on dividend income as well as employee benefits has not been disclosed, despite the significant amounts of dividend income and employee benefits expenses recognised in the Statement of Profit and Loss.

(iii) It was noted from the Note on Finance Costs that there are interest expenses. However, the accounting on Borrowing Cost has not been disclosed.

(iv) It was also noted from the Note on Administrative and Other Expenses that rental and lease expenses have been recognised during the year, which indicates that certain assets were taken on leases. However, the accounting policy on leases has not been given.

(v) In addition to the above, the accounting policies regarding the Initial and subsequent measurement of financial assets, contingent assets & liabilities and the operating cycle have not been provided.

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

19. Statement of Changes in Equity

Matter contained in Financial Statements

The relevant abstract of Equity and Other Equity as given in the Annual Report of a company, reads as follows:

"Note: Equity

	As at 31/03/20XX	**As at 31/03/20YY**
AUTHORISED SHARE CAPITAL:		
XX Equity Shares of Rs. 10/- each	---	---
ISSUED, SUBSCRIBED & PAID UP CAPITAL:		
XXX Equity Shares of Rs. 10 each fully Paid up (P.Y XX)	---	---

Note: Other Equity

	As at 31/03/20XX	**As at 31/03/20YY**
Security Premium Reserve	---	---
As Per Last Balance Sheet	-	-

Add: on issue of shares	---	---
General Reserve		
As Per last Balance	---	---
Add: Transferred from Statement of Profit & Loss	-	-
	---	---
Statement of Profit & Loss		
As Per last Balance Sheet	(---)	(--)
Add: During the year profit/(Loss)	(---)	(--)
	(---)	(---)

Principle: The Companies Act, 2013 and Ind AS 1: Presentation of Financial Statements

<u>Section – 2 (40) of the Companies Act, 2013</u>

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

i) a balance sheet as at the end of the financial year;

ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

iii) cash flow statement for the financial year;

iv) a statement of changes in equity, if applicable; and

v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

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

<u>Paragraph 10 of Ind AS 1</u>

"A complete set of financial statements comprises:

(a) a balance sheet as at the end of the period

(b) a statement of profit and loss for the period;

(c) Statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) ……..

(ea) ……..

(f) ………"

Observation

It was noted from the Note on Equity and Other Equity that the company has prepared financial statements as per Ind AS and presented the Balance Sheet, Statement of Profit and Loss, Statement of Cash Flows and Notes to Accounts. However, it was observed that the company has not presented the Statement of Changes in Equity in the financial statements.

It was viewed that statement of changes in equity is also an integral part of financial statement and should be prepared and presented along with Balance Sheet, Statement of Profit and Loss and Statement of Cash Flows in format that is prescribed in Division II of Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirement of Ind AS 1 and the Companies Act, 2013 has not been complied with in preparation and presentation of financial statements.

20. Revenue

Matter contained in Financial Statements

The abstract of Disclosure pursuant to Ind AS 115 and Accounting Policy of Revenue Recognition, , reads as follows:

"Reconciliation of Revenue Recognised with Contract Price in accordance with Para 126AA:

…

Accounting Policy on Revenue Recognition

Contract assets in the nature of unbilled revenues are initially recognised for revenue earned from Infrastructure development and mining operations as receipt of consideration is conditional on successful completion of performance obligation. Upon fulfilment of performance obligation and acceptance by the customer, the amounts recognised as unbilled revenues are reclassified to Trade Receivables."

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 114

An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.

Paragraph 115

In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies Ind AS 108, Operating Segments.

Paragraph 116

Contract balances

An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

Observation

It was noted from the notes to financial statements that the company has provided the reconciliation of Revenue Recognised with Contract Price as required by Paragraph 126AA of Ind AS 115. Further, the accounting policy relating to contract assets has been disclosed under the policy on Revenue Recognition. However, it was observed that the following disclosures have not been provided in the notes to financial statements:

a. Information pertaining to disaggregate revenue recognized from contract with customers, including details pertaining to nature, amount, timing and uncertainty of revenue as required by paragraphs 114 and 115 of Ind AS 115.
b. Details pertaining to contract balances as required by paragraph 116 of Ind AS 115.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

21. Contract Assets

Matter contained in Financial Statements

The relevant abstract of the Note on Contract Balances given in the Annual Report of a Company, reads as follows:

Contract balances

	Year ended March 31, 20XX	**Year ended March 31, 20YY**
Trade receivables	--	--
Unbilled work in progress (contract assets)	--	--

Principle: Ind AS 115: Revenue from Contracts with Customers

Paragraph 118

"An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:

a. changes due to business combinations;

b. cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;

c. impairment of a contract asset;

d. a change in the time frame for a right to consideration to become unconditional (i.e. for a contract asset to be reclassified to a receivable); and

e. a change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a contract liability)."

Observation

It was noted from the Note on Contract Balances that the company had contract assets in form of unbilled revenue (WIP). It was also noted that there was a significant change in the balance of contract assets compared to previous year. However, the company has not provided the required disclosures or explanations regarding these significant changes in contract asset balances during the reporting period, including both qualitative and quantitative information as stipulated by Ind AS 115.

Accordingly, it was viewed that the requirements of Ind AS 115 have not been appropriately complied with in the preparation and presentation of financial statements.

22. Employee Benefits

Matter contained in Financial Statements

The relevant abstract from the Note on Employee Benefits Expense given in the Annual Report of a company, reads as below:

Employee Benefits Expense

	Year ended 31 March 20XX	**Year ended 31 March 20YY**
Salaries and wages	--	--
Gratuity and Leave Encashment	--	-
Contribution to Provident Fund	--	-
	--	**--"**

Principle: Ind AS 19: Employee Benefits

Paragraph 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 note that the company has provided for gratuity, leave encashment and contribution to provident fund. However, the company has neither disclosed the accounting policy nor provided any disclosure related to these Post-employment Benefit Plans and Other Long-term employee Benefits in the financial statements, as required by Indian Accounting Standard 19.

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

23. Fair Value Measurement

Matter contained in Financial Statements

An abstract of Note on Fair value measurement as given in the Annual Report of a company, reads as below:

"Fair value measurement

Fair Value Hierarchy

…

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis:

Particulars		**Fair Value Hierarchy (level)**	**Fair Value as at**		
A.	Financial Assets		**31.03.20 XX**	**31.03.20 YY**	**31.03.20 ZZ**
a)	Measured at fair value through Profit or Loss				
	…	…	…	…	…
b)	Measured at Fair value through Other Comprehensive Income				
	i. Investment in Equity Shares	Level 1 & 3	--	--	--

There has not been any transfer amongst Level 1, Level 2 and Level 3. **The sensitivity of valuation of financial assets considered as Level 2 and Level 3 is not material.**

(Emphasis supplied)"

Principle: Ind AS 113: Fair Value Measurement

<u>Paragraph 93</u>

"To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Ind AS) in the balance sheet after initial recognition:

…

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with 93(d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity. "

Paragraph 94

"An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the balance sheet. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the balance sheet. If another Ind AS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Ind AS if that class meets the requirements in this paragraph."

Observation

It was noted from the given notes to accounts that the levels of the fair value hierarchy within which fair value measurement is categorized for each class of assets and liabilities have not been disclosed. It is not in line with the requirements of paragraph 94 of Ind AS 113. Further, it was noted that the company has measured the investment in equity instruments at fair value using market rate i.e., observable inputs, hence, it should be classified as Level 1 instrument, as required by Indian Accounting Standard 113. However, the company has clubbed Level 1 instruments with Level 3 instruments.

It was, further, noted that the company has disclosed the sensitivity impact as immaterial with respect to Level 3 instruments. It was viewed that the unobservable inputs have been used to calculate the discounted cash flow model for the purpose of their valuation, therefore, reporting of sensitivity analysis becomes crucial for the better understanding of the readers of the financial statements. Hence, the company should comprehend this, and various unobservable inputs used as well as variation levels used should have been disclosed.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 113 have not been complied with in the preparation and presentation of financial statements.

24. Fair Value Measurement

Matter contained in Financial Statements

One of the Notes to Accounts regarding the Fair value of Financial Assets and Liabilities given in the Annual Report of a company, reads as below:

“Note: Fair Value of Financial Assets and Liabilities:

Fair Value hierarchy

The following table provides the fair value measurement hierarchy of Company’s asset and liabilities grouped into Level 1 to Level 3 as described below:

Level 1

…..

Level 2

…..

Level 3

……

Fair Value calculation by category is summarized below:

Particulars	**Level**	**Carrying value/fair value**		
		As at 31st March, 20XX	**As at 31st March, 20YY**	**As at 1st April, 20ZZ**
Financial Assets- **At amortized cost**				
Investment	1&2	---	---	---
Trade Receivables	2	---	---	---
Loans	2	---	---	---
Other Financial Asset	2	---	---	---
Financial Liabilities- **At amortized cost**				
Borrowings	2	---	---	---
Trade Payable	2	---	---	---
Other Financial Liabilities	2	---	---	---"

Principle: Ind AS 113: Fair Value Measurement

Paragraph 91

"An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements,

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period."

Observation

It was noted from the financial statements that all the financial assets and financial liabilities have been measured at amortised cost, except investments in mutual funds. Further, it was noted that fair value hierarchy has been disclosed for all these financial assets and financial liabilities. It was viewed that the valuation techniques and inputs used to develop those measurements are required to be disclosed for assets and liabilities that are measured at fair value as per Indian Accounting Standard 113. Accordingly, it was viewed that disclosure of valuation techniques as well as the fair value hierarchy are not relevant for financial assets and financial liabilities measured at amortised cost.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 113 have not been complied with in the preparation and presentation of financial statements.

25. Fair Value Measurement

Matter contained in Financial Statements

The accounting policy on Financial Instruments as given in the Annual Report of a company, reads as below:

“Financial instruments

…

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs for asset or liability that are not based on observable market data (unobservable inputs).

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement."

Principle: Ind AS 113: Fair Value Measurement

<u>Paragraph 91</u>

"An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period."

<u>Paragraph 93</u>

"To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Ind AS) in the balance sheet after initial recognition:

….

Observation

It was noted from the accounting policy on the financial instruments that the basis of categorization of fair value measurements into Level 1, 2 and 3 has been disclosed thereat. However, no disclosure has been provided regarding fair value hierarchy of various assets and liabilities as well as other disclosures required by paragraph 91 and 93 of Indian Accounting Standard 113.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 113 have not been complied with in preparation and presentation of the financial statements.

26. Financial Instruments

Matter contained in Financial Statements

The financial statements indicate that the company holds financial assets including investments, loans, and trade receivables as well as financial liabilities such as borrowings and trade payables.

Principle: Ind AS 107: Financial Instruments - Disclosures

Paragraph 8

"The carrying amounts of each of the following categories, as specified in Indian Accounting Standard 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 Indian Accounting Standard 109 and (ii) those mandatorily measured at fair value through profit or loss in accordance with Indian Accounting Standard 109.

(b) [Refer Appendix 1] (d)

(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 Indian Accounting Standard 109 and (ii) those that meet the definition of held for trading in Indian Accounting Standard 109.

(f) financial assets measured at amortised cost.

(g) financial liabilities measured at amortised cost."

Observation

It was noted from Balance Sheet that the company had financial assets in form of investments, trade receivables, cash & cash equivalents and financial liabilities in the form of borrowings and trade payables. However, the measurement method used i.e., whether these are recognized at Fair value through Profit and Loss, amortized cost or Fair value through OCI has not been disclosed anywhere in the Notes to Accounts, as required by paragraph 8 of Ind AS 107.

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

27. Financial Instruments

Matter contained in Financial Statements

The relevant abstract of the Balance Sheet of a company, reads as below:

Balance Sheet

Particulars	**Note No**	**31.03.20XX**	**31.03.20YY**
Financial Assets	--	---	---
….			
Financial Liabilities			
Borrowings	--	-	-
Provisions	--	---	---
…	---	---	---"

Principle: Ind AS 107– Financial Instruments: Disclosures and Ind AS 113: Fair Value Measurement

Paragraph 31 of Ind AS 107

"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 of Ind AS 107

"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".

Paragraph 91 of Ind AS 113

"An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

Paragraph 93 of Ind AS 113

"To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Indian Accounting Standard) in the balance sheet after initial recognition

…

(a) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)."

Observation

It was noted from the Balance Sheet that although the company has financial assets and financial liabilities, however, the information regarding nature and risk arising from financial instruments has not been disclosed in line with paragraph 31 and 32 of Indian Accounting Standard 107.

It was further noted from the notes to financial statements that the company has not provided the classification and fair values of various assets and liabilities, which includes trade receivables, loans, borrowings, trade payables and other financial liabilities etc., on the bases of their categorization into level 1, level 2 and level 3. It was viewed that the categorization of financial assets / financial liabilities into level 1, level 2 and level 3 are required by Indian Accounting Standard 113.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 107 and Indian Accounting Standard 113 have not been complied with in preparation and presentation of the financial statements.

28. Financial Instruments

Matter contained in Financial Statements

An abstract of Balance Sheet of a company, reads as below:

Standalone Balance Sheet as at 31st March 20XX

(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

	Note no.	As at 31st March 20XX	As at 31st March 20YY
ASSETS			
1. Non-current assets			
(a) …			
…			
(d) Financial assets			
-Investments		XXX	XXX
-Loans & Advances		XXX	XXX
-Other Financial Assets		XXX	XXX
…			
2. Current Assets			
(a) Financial Assets			
-Trade Receivables		XXX	XXX
-Lease Receivables		-	XXX
-Cash and cash equivalents		XXX	XXX
-Loans		XXX	XXX
…			
EQUITY AND LIABILITIES			
…			
2. Non-current liabilities			
Financial liabilities			
-Borrowings		XXX	XXX
….			
3. Current liabilities			
Financial liabilities			
-Trade Payables		XXX	XXX

Principle: Ind AS 107: Financial Instruments - Disclosures

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 disclosure 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,* and market risk."

Observation

It was noted from the financial statement that the Company has disclosed various financial assets viz., Investments, Loans and Advances (current and non-current), trade receivables and financial liabilities such as borrowings, deposits and trade payables. However, it has not provided the qualitative and quantitative disclosures regarding the risks arising from financial instruments as required by Indian Accounting Standard 107.

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

29. Financial Instruments

Matter contained in Financial Statements

Non-Disclosures of certain information in notes to financial statements.

Principle: Ind AS 107: Financial Instruments- Disclosures and Ind AS 113: Fair Value Measurement

Paragraph 31 of Ind AS 107

"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 33 of Ind AS 107

"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 39 of Ind AS 107

"An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).

(c) a description of how it manages the liquidity risk inherent in (a) and (b)."

Paragraph 93 of Ind AS 113

"To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Indian Accounting Standard) in the balance sheet after initial recognition:

…

(b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)."

Observation

It was noted from the financial statements that the Company has not provided the disclosures relating to financial risk management i.e., interest rate risk, market risk and maturity analysis as required by Indian Accounting Standard 107. Further, the company has not disclosed the categories and the fair value hierarchy relating to fair value of financial instruments as required by Indian Accounting Standard 113.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 107 and 113 have not been complied with in preparation and presentation of the financial statements.

30. Financial Instruments

Matter contained in Financial Statements

The abstract of Note on Financial Instruments given in the Annual report of a company, reads as follows:

"Particulars	**Carrying Value/ Fair Value**	
	March 31,20XX	**March 31,20YY**
Financial Assets		
Financial Assets measured at Fair Value		
Investment measured at Fair value through Other Comprehensive Income (OCI)	---	---
Financial Assets measured at Amortised Cost		
Trade Receivable	---	---
Cash and Bank Balances	---	---
Other Financial Assets	---	---
Total		
Financial Liabilities		
Financial Liabilities measured at Amortised Cost		
Borrowings	---	---
Trade Payables	---	---
Other Financial Liabilities	---	---
Total	---	---"

Principle: Ind AS 1: Presentation of Financial Statements and Ind AS 107: Financial Instruments: Disclosures

Paragraph 117 of Ind AS 1

"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."

Paragraph 21 of Ind AS 107

"In accordance with the paragraph 117 of Indian Accounting Standard 1, *Presentation of Financial Statements*, an entity discloses its significant accounting policies, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements."

Paragraph B5 of Ind AS 107

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

(a) for financial liabilities designated as at fair value through profit or loss:

- (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss.
- (ii) the criteria for so designating such financial liabilities on initial recognition; and
- (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of Indian Accounting Standard 109 for such designation.

(aa) for financial assets designated as measured at fair value through profit or loss:

- (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and
- (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of Indian Accounting Standard 109 for such designation.

(b) [Refer Appendix 1]

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of Indian Accounting Standard 109).

(d) [Refer Appendix 1]

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

(f)-(g) [Refer Appendix 1]"

Observation

It was noted from the stated note that the company had financial instruments, comprising of financial assets and financial liabilities. However, the accounting policies for recognition and measurement of financial instruments as well as various other disclosures has not been provided in the financial statements in line with paragraph 21 read with paragraph B5 of Indian Accounting Standard 107.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 1 and Indian Accounting Standard 107 have not been complied with in preparation and presentation of the financial statements.

31. Financial Instruments

Matter contained in Financial Statements

The relevant abstract of Note on Investments and Financial Risk Management as given in the Annual Report of a company, read as follows:

"Investments: Non-Current

Particulars	**Currency**	**Face Value**	**Number of shares**		**Balances as at**	
… Equity Shares Quoted ABC Global Solution (carried at fair value through other comprehensive income)	INR	10	xx	xx	xx	xx

FINANCIAL RISK MANAGEMENT FRAMEWORK

Particulars	Fair value through P&L	Fair value through OCI	…
… Investments (Other than in subsidiary and interest in XYZ Benefit trust loan)	… XX	… XX	… …”

Principle: Ind AS 107: Financial Instruments - Disclosures

Paragraph 11A

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

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income

(b) the reasons for using this presentation alternative."

Observation

It was noted from the given notes that the company has designated investment in Quoted Equity share measured at Fair Value through Other Comprehensive Income (FVTOCI). However, the company has not provided the disclosure of the reason for using the FVTOCI alternative in line with paragraph 11A of Indian Accounting Standard 107.

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

32. Financial Instruments

Matter contained in Financial Statements

A Note on Financial Risk Management as given in the Annual Report of a company, reads as follows:

“Financial Risk Management Framework

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Such changes in the values of financial instruments may result from changes in the foreign currency exchange rates, interest rates, credit, liquidity and other market changes. The company's exposure to market risk is primarily on account of foreign currency exchange rate risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because change in market interest rates. As the company has debt obligation with floating interest rates, the company is exposed to changes in market interest rates. As the company has no significant interest-bearing assets, the income and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency Exposure Risk

The fluctuation in foreign currency exchange rates may have a potential impact on the statement of profit or loss and other comprehensive income and equity. Where any transaction references more than one currency or where assets/liabilities are denominated in a currency other than the functional currency of the respective entities. The risks primarily relate to fluctuations in US Dollar, Japanese Yen, SGD and EURO against functional currency of the company. The company, as per its risks management policy, uses derivative instruments primarily to hedge the foreign currency payable. The company evaluates the impact of foreign exchange rate fluctuations but assesses its exposure to exchange rate risks. It hedges a part of these risks by using derivatives financial instruments in line with its risks management policies. The information on derivative instruments is disclosed in note no. xx."

Principle: Ind AS 107: Financial Instruments – Disclosures

<u>Paragraph 40</u>

"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."

Paragraph 41

"If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Observation

It was noted from the relevant notes to the financial Statements that the company has not provided the disclosures related to sensitivity analysis for the interest rate risk, market risk and foreign currency exposure risk showing how profit or loss and equity would have been affected due to changes in the relevant risk variable that were reasonably possible at that date, as required by paragraph 40 and 41 of Indian Accounting Standard 107.

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

33. Financial Instruments

Matter contained in Financial Statements

The abstract of Note on Components of Other Comprehensive Income and Accounting Policy on Derivative Financial Instruments given in the Annual Report, reads as follows:

Note on Components of Other Comprehensive Income

	March 31, 20XX	March 31, 20YY
Items that will be reclassified to profit or loss		

Net movement on cash flow hedges	XXX	XXX
Income tax effect	XXX	XXX

"**Derivative Financial Instruments**

Such derivatives financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative."

Note XX: Hedging Activities and Derivatives

The Company uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one week to twelve months.

.....

Details of foreign currency exposure that has been hedged by forward contract are as follows:

Particulars	Currency	March 31, 20XX	March 31, 20YY
Trade payable and short-term borrowings	USD	XXX	XXX

Principle: Ind AS 107– Financial Instruments - Disclosures

Paragraph 21 A

"An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) an entity's risk management strategy and how it is applied to manage risk.

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

> (c) the effect that hedge accounting has had on the entity's balance sheet, statement of profit and loss and statement of changes in equity."

Observation

It was observed from the adopted accounting policy on derivatives that the derivatives were stated to have been recognized at fair value. However, the company had not provided the disclosures with respect to Hedge Accounting as required by paragraph 21 A of Indian Accounting Standard 107.

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

34. Financial Risk Management

Matter contained in Financial Statements

From one of the financial statements, it was noted that the company has significant risk of liquidity as there is maturity gap between current assets and current liabilities.

> **Principle: Ind AS 107– Financial Instruments - Disclosures**
>
> **Paragraph 39**
>
> "An entity shall disclose:
>
> (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
>
> (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
>
> (c) a description of how it manages the liquidity risk inherent in (a) and (b)."

Observation

It was observed that the company has not provided disclosures relating to liquidity risk even though the company is facing huge risk of liquidity. It was viewed that disclosures required under paragraph 39 of Indian Accounting Standard 107 should have been given in the financial statements.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 107 have not been complied with in the preparation & presentation of the financial statements.

35. Capital Management

Matter contained in Financial Statements

The Note on Capital Management as given in the Annual Report of a company, reads as follows**:**

"For the Purpose of the company's capital management, capital includes issued equity capital, and all other equity reserves attributable to the equity holders. The primary objective of the company's capital management is to maximize the shareholders' value and keep the debt equity ratio within acceptable range. The company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. Breaches in meeting the financial covenants would entail the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders and issue new shares."

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 (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
>
> (c) any changes in (a) and (b) from the previous period.
>
> (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
>
> (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. The entity bases these disclosures on the information provided internally to key management personnel."

Observation

It was noted from the note on capital management that the company has disclosed the primary objective of managing capital. However, it has not disclosed qualitative information about its policies and processes and summary of quantitative data.

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

36. Impairment of Assets

Matter contained in Financial Statements

The relevant abstract of Note on Other expenses given in the Annual Report of a company, reads as below:

"Other Expenses

Particulars	**Year Ended March 31, 20XX**	**Year Ended March 31, 20YY**
…	---	---
Impairment loss on CWIP	---	---"

Principle: Ind AS 36: Impairment of Assets

Paragraph 130

"An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognized or reversed during the period:

(a) the events and circumstances that led to the recognition or reversal of the impairment loss.

...

(c) for an individual asset:

...

(i) if the entity reports segment information in accordance with Ind AS 108, the reportable segment to which the asset belongs."

Observation

It was noted from Note on Other Expenses that a significant amount of 'Impairment Loss on Capital-Work-In-Progress' has been recognised during the year. However, necessary disclosures have not been made i.e. accounting policy adopted by the company to recognize the impairment losses, the events and circumstances that led to recognition of impairment loss and segments to which the asset impaired belongs.

Accordingly, it was viewed that the requirements of Ind AS 36 have not been complied with in the preparation and presentation of the financial statements.

37. Deferred Tax

Matter contained in Financial Statements

The relevant abstract of the Balance Sheet, Statement of Profit and Loss and the Note regarding Use of Estimates and Judgement for Deferred taxes given in the Annual Report, reads as follows:

Balance Sheet As at March 31,20XX

Particulars	Note No.	As at 31/03/20XX	As at 31/03/20YY
A. ASSETS			
(1) Non-Current Assets	…	…	…
…			
(a) Deferred tax Assets (Net)	X	--	--

Statement of Profit and Loss As at March 31,20XX

Particulars	Note No.	As at 31/03/20XX	As at 31/03/20YY
(VI) Tax Expense			
- Deferred tax		(--)	(--)

Basis of preparation of IND AS financial statements

Use of Estimates and Judgment

Deferred taxes:

……

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carry-forwards become deductible. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced."

Principle: Ind AS 12 : Income Taxes

<u>Paragraph 27</u>

"The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised".

Observation

In one of the notes to accounts, it was stated that the realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carry-forwards become deductible. Further, it was noted from the Balance Sheet that deferred tax assets have been recognised during the year despite the fact that the company is having a material amount of accumulated losses. As per Ind AS 12 deferred tax assets can be recognized only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, the accounting policy does not mention that it recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, as required by Ind AS 12.

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

38. Deferred Tax

Matter contained in Financial Statements

The relevant abstract of Accounting Policy on Deferred Tax as given in the Annual Report of a company, reads as below:

"Deferred Tax

In accordance with Ind AS 12 on 'Income Taxes', issued by the Institute of Chartered Accountants of India, on conservative basis, deferred tax assets have not been accounted for in the books, since the estimation of future taxable profits cannot be made , against which such deferred tax assets would be realized."

Principle: Ind AS 12 – Income Taxes

<u>Paragraph 81</u>

"The following shall also be disclosed separately:

………

(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet."

Observation

It was noted from the given accounting policy that deferred tax assets were not recognised since the estimation of future taxable profits could not be made against which such deferred tax assets could be realised. It was viewed that although the company had disclosed the fact that it has not recognised the deferred tax assets, however, it has not disclosed the amount of deductible temporary differences, unused tax losses, or unused tax credits for which no deferred tax asset has been recognised as required by Ind AS 12.

It was further noted that the company has disclosed a reference that 'Ind AS 12 issued by Institute of Chartered Accountants of India (ICAI)'. It was viewed that Ind AS have been notified by the Ministry of Corporate Affairs under Section 133 of Companies Act, 2013 after the recommendation of ICAI and in consultation with and after examination of the recommendations of the National Financial Reporting Authority. Accordingly, it is the Ministry of Corporate Affairs which notifies the Ind AS and not by ICAI.

Accordingly, it was viewed that the requirements of Ind AS 12 have not been complied with and incorrect reference of ICAI as authority to issue Ind AS, has been provided in the financial statements.

39. Deferred Tax

Matter contained in Financial Statements

An abstract of the Balance Sheet and Statement of Profit and Loss given in the Annual Report of a company, read as below:

Balance Sheet as at March 31, 20XX

	31.3.20XX	**31.3.20YY**
Deferred Tax Liabilities	Nil	XXX

Statement of Profit & Loss for the year ended 31st March 20XX
(All amounts in Indian rupees unless otherwise stated)

Particulars	**Notes**	**Year Ended 31-Mar-XX**	**Year Ended 31-Mar-YY**
Income			
…			
Total Income		**XXX**	**XXX**

Expenses			
…			
Total Expenses		**XXX**	**XXX**
…			
Profit/(Loss) Before Tax		(XXX)	(XXX)
Tax Expenses			
-Current Tax		-	-
-Deferred Tax		(XXX)	Nil

Principle: Ind AS 12 : Income Taxes

Paragraph 79

"The major components of tax expense (income) shall be disclosed separately.

Paragraph 80

Components of tax expense (income) may include:

…

(b) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences.

(c) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.

(d) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense.

(e) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense.

(f) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and

(g) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Ind AS 8, because they cannot be accounted for retrospectively."

Paragraph 81

The following shall also be disclosed separately:

…

(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

(ii) a numerical reconciliation between the average Ind AS 12 effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed:"

Observation

The Balance Sheet indicates that the company had a significant amount of deferred tax liabilities in the previous financial year, which were credited in the Statement of Profit and Loss and adjusted against the current year's loss. However, it was observed that disclosures as per paragraph 80 (c) to (h) and 81(c) of Ind AS 12 have not been provided.

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

40. Deferred Tax

Matter contained in Financial Statements

The relevant abstract of Note on Reconciliation of tax expenses as given in the Annual Report of a company, reads as below:

"Reconciliation of Tax Expenses and Details of Deferred Tax Balances

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
i. Income tax expenses relating to continuing operations		

Current Tax		
In respect of current year	--	---
MAT credit entitlement recognized	--	---
MAT credit entitlement written off	--	---
Total	**--**	**---**
ii. Income tax expenses relating to discontinued operations		
In respect of current year	--	---
MAT credit entitlement recognized	--	---
Total	**---**	**---**
iii. Income tax expenses relating to continuing and discontinued operations		
In respect of current year	--	---
MAT credit entitlement recognized	--	---
MAT credit entitlement written off	--	---
Total	**--**	**---**

Tax expenses for the current year represent unutilized MAT credit recognized in earlier years now written off. Other than the above, the net tax expense for the Company is Nil considering the unabsorbed tax losses and depreciation. During the year, the Company recognized MAT credit entitlement which is expected to be available for set off in the future years.

Principle: Ind AS 12 : Income Taxes

Paragraph 81

"The following shall also be disclosed separately:

…

(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

> (ii) a reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed"

Observation

It was noted that while providing Reconciliation of Tax Expense although the disclosures regarding current year tax as well as details of MAT has been given, however, the same is not in line with the requirements of paragraph 81(c) of Ind AS 12. As per the standard, tax expense should be reconciled with the product of accounting profit multiplied by the applicable tax rates, and the basis on which the applicable tax rates have been computed should be disclosed.

In the given case, the company has neither disclosed the reconciliation between average effective tax rate and applicable tax rates nor the basis of computing applicable tax rate.

Accordingly, it was viewed that the requirement of Ind AS 12 has not been complied with in preparation and presentation of the financial statements.

41. Deferred Tax

Matter contained in Financial Statements

The relevant abstract of the Statement of Profit and Loss as given in the Annual Report of a company, reads as below:

"Statement of Profit and Loss

	As at March 31, 20XX	**As at March 31, 20YY**
Tax Expense		
(1) Current tax	--	--
(2) Deferred tax	--	--
	--	**--**

> **Principle: Ind AS 12 : Income Taxes**
>
> **<u>Paragraph 81</u>**
>
> "The following shall also be disclosed separately:
>
> …

(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

   i. a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

   ii. a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;"

Observation

It was observed that tax expense has been disclosed in Statement of Profit and Loss. However, the disclosure required by paragraph 81(c) of Ind AS 12 have not been given i.e., an explanation of relationship between tax expense (income) and accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed.

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

42. Deferred Tax

Matter contained in Financial Statements

The abstract of Note on Deferred Tax given in the Annual Report of a company, reads as below:

"Note XX: Deferred Tax Liabilities (Net)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Deferred Tax Liabilities		
Fixed Assets: Impact of difference between tax depreciation and depreciation charged for the period	--	--
Total	--	--

Principle: Ind AS 12 : Income Taxes

Paragraph 5

"***Temporary differences*** are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

(a) ***taxable temporary differences***, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) ***deductible temporary differences***, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes."

Observation

It was noted from the given note that Deferred Tax Liability (DTL) has been recognised and measured based on depreciation expense as per the books of accounts and tax depreciation. It indicates that the company has computed the deferred tax liability as per the Profit and Loss approach, instead of Balance sheet approach. As per the Ind AS 12, the company needs to consider the differences between the carrying amount of an asset or liability and its tax base.

Accordingly, it was viewed that the requirement of Ind AS 12 has not been complied with in the preparation and presentation of financial statements.

43. Deferred Tax

Matter contained in Financial Statements

An abstract of Note on Current Tax and Deferred Tax as given in the Annual Report of a company, reads as below:

"**Current Tax and Deferred Tax**

The following is the analysis of deferred tax asset/(liability) presented in the Balance Sheet:

Particulars	Opening Balance	Recognised in the Profit and Loss	Recognised in OCI	Closing Balance
…				
Tax effect of items constitutes Deferred Tax Assets				
Bought forward loss and unabsorbed depreciation	XXX	XXX	XXX	XXX
Tax effect of items constituted Deferred Tax Liabilities				
Property, Plant and Equipment	--	--		---
Effect of valuation	--	--	--	---
…				
Net Deferred Tax Asset	**--**	--		--

Principle: Ind AS 12 : Income Taxes

Paragraph 35

"… Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition."

Paragraph 82

"An entity shall disclose the amount of deferred tax asset and the nature of evidence supporting its recognition, when:

(a) the utilization of deferred tax asset is dependent on future taxable profits excess of the profits arising from the reversal of existing taxable temporary differences; and

(b) the entity has suffered a loss in either the current or preceding period in tax jurisdiction to which the deferred tax asset relates"

Observation

It was observed from the Note on Deferred Taxes that the company has recognized deferred tax assets on carried-forward business losses and unabsorbed depreciation. Notably, the company has a history of incurring tax losses in recent years. In light of these circumstances, the company should have disclosed the nature of evidence supporting the recognition of the Deferred Tax Asset for the year under review. However, the same has not been disclosed in the financial statements as required by Paragraph 82 of Ind AS 12.

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

44. Segment Reporting

Matter contained in Financial Statements

Abstract of Note on Segment Reporting given in Ind AS based financial statements of a company, reads as below:

"Segment Reporting

I. Primary segment (Business segment):

The Company is mainly engaged in the pharmaceutical business. Considering the nature of business and financial reporting of the Company, the Company has only one business segment viz. pharmaceuticals as the primary reportable segment.

II. Secondary segment (Geographical segment):

The Company operates in three principal geographic locations.

(i) Europe

(ii) Asia

(iii) Rest of the world

Particulars	Year ended 31 March 20XX	Year ended 31 March 20YY
I. Revenue from operations		
Continuing operations		
Europe	--	--
Asia	--	--
Rest of the world	--	--
Discontinued operations		
Europe	--	--
Asia	--	--
Rest of the world	--	--
Total	**--**	**--**
II. Total Assets		
Europe	--	--
Asia	--	--
Rest of the world	--	--
Total segment assets	--	--
Un-allocable	--	--
Total assets	--	--
III. Cost incurred during the year to acquire segment assets		
Continuing operations		
Asia	--	--
Discontinued operations		
Asia	--	--
Total	--	--”

Principle: Ind AS 108: Operating Segments

Paragraph 5

"An operating segment is a component of an entity:

(a) That engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity,

(b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) For which discrete financial information is available."

General Information

Paragraph 22

"An entity shall disclose the following general information:

(a) Factors used to identify the entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated.

(aa) the judgment made by management in applying the aggregation criteria in paragraph 12. This includes brief description of the operating segment that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and

(b) Types of products and services from which each reportable segment derives its revenues."

Information about geographical areas

Paragraph 33

"An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(a) Revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.

(b) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries."

Information about major customers

<u>Paragraph 34</u>

"An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Ind AS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national, or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this the reporting entity shall consider the extent of economic integration between those entities."

Observation

It was noted from the segment reporting disclosures provided by the company that it has followed the principles of Accounting Standard 17: Segment Reporting (IGAAP). It was viewed that Indian Accounting Standard 108 does not require the classification of segments into primary and secondary, rather it requires disclosure of segment information as 'operating segment.'

It was viewed that the company has not provided the following necessary disclosures as required by Indian Accounting Standard 108:

(i) Information related to Chief Operating Decision Maker and how the company has determined the operating segment.

(ii) Factors used to identify the reportable segment; judgements made in applying aggregation criteria etc.; and

(iii) Information related to major customers.

Accordingly, it was viewed that requirements of Indian Accounting Standard 108 have not been complied with in preparation and presentation of the financial statements.

45. Segment Reporting

Matter contained in Financial Statements

Abstract of Note on Segment Reporting given in the Annual Report of a company, reads as below:

"Segment Reporting

The business activities of the Company predominantly fall within a **single reportable** business segment i.e., manufacture and sale of hosiery fabrics and garments in India. There are no separately reportable businesses or geographical segments that meet the criteria prescribed in Indian Accounting Standard 108 on Operating Segments. The aforesaid is in line with review of operating results by the chief operating decision maker."

Principle: Ind AS 108: Operating Segments

Paragraph 31

"Paragraphs 32–34 apply to all entities subject to this Ind AS including those entities that have a single reportable segment.…

Paragraph 32

An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed…

Paragraph 33

An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(a) …

(b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

…

If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed…."

Paragraph 34

"An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues…

Observation

It was noted that the company was engaged in single reporting segment and no segment reporting disclosure has been provided in the financial statements. It was viewed that although the company was engaged in single reporting segment yet paragraph 31 of Ind AS 108 is applicable to it, and therefore, details required under paragraphs 32 to 34 of Ind AS 108 should have been disclosed.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 108 have not been complied with in preparation and presentation of financial statements.

46. Segment Reporting

Matter contained in Financial Statements

The relevant abstract of Note on Segment Reporting given in the Annual Report of a company, reads as below:

"Information about Major Customers

Out of the total revenue of Rs. YY for 31st March 20XX, one customer has 10% or more of the total revenue."

Principle: Ind AS 108: Operating Segments

Paragraph 34

"An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenue that each segment reports from that customer. For the purposes of this Ind AS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities."

Observation

It was noted from the stated note that the company has disclosed the mere fact that one customer had participated in the revenue of the company by more than 10%. It was viewed that other information such as total amount of revenue from such customer, which segment this customer falls into, etc. was not disclosed as per the requirement of paragraph 34 of Indian Accounting Standard 108.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 108 have not been complied with in the preparation and presentation of financial statements.

47. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Related Party Disclosure given in the Annual Report of a company, reads as below:

"Transactions with Related Parties:

Particulars	**Year ended March 31, 20XX**	**Year ended March 31, 20YY**
Financial liabilities assumed (Refer note)		
Subsidiaries	---	-
Investments (including deemed investment) written off (Refer note)		
-Subsidiaries	---	-
Inter corporate deposits and other receivables written-off (Refer note)		
-Subsidiaries	---	-
Inter corporate deposits converted into deemed investment		
-Subsidiaries	---	-"

Note

Loss on impairment/write off of investments in/and advances to XYZ and ABC

The National Company Law Tribunal, Mumbai (NCLT) vide Order, has admitted an application filed against XYZ by an operational creditor and initiated the Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code 2016 ('IBC'). In accordance with the provisions of IBC, the powers of the Board of Directors of XYZ shall stand suspended and the management of XYZ presently vests with the Resolution Professional ('RP') appointed under the provisions of IBC. ABC, a wholly owned subsidiary of the Company, is presently holding a 68.70% equity stake in XYZ. The Company took over liabilities aggregating Rs XXX pursuant to settlement agreements entered/ negotiations by the Company with the lenders of XYZ in connection with the put options/ corporate guarantees issued for borrowings of XYZ. In view of uncertainties associated with the outcome of CIRP and as a matter of prudence, the Company had impaired/written off its exposure in both these entities during the year as stated below.

Particulars	ABC	XYZ	Total
Non-current investments	--	--	--
Non-current loans	--	--	--
Other financial assets	--	--	--
Liability for put option/corporate guarantee	-	--	--
Total		--	--"

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;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Paragraph 24

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Paragraph 24A

Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. **Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.**

Observation

It was noted from the financial statements that the company has material related party transactions with subsidiary companies viz, inter corporate deposits converted into deemed investments, investments written off, inter corporate deposits and other receivables written off. However, party wise disclosures have not been made, rather all related party transactions have been clubbed under the categories of subsidiaries, Key Management Personnel, Joint Venture, Associates and Other Related Parties.

Accordingly, it was viewed that the requirements of paragraph 24 of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

48. Related Party Disclosures

Matter contained in Financial Statements

An abstract of Related Party Disclosures given in the Annual Report of a company, reads as below:

Related Party Disclosures

"List of Related Parties – Where Control Exists:

Transactions between Holding and Subsidiaries	31.03.20XX	31.03.20YY
M/s XYZ Pvt. Ltd.	Nil	--
M/s DEF Pvt. Ltd.	--	--

M/s XYZ Pvt. Ltd.	--	--"

"List of Related Parties where Control does not exist:

Inter Corporate Transactions	31.03.20XX	31.03.20YY
PQR Pvt. Ltd.	--	--
M/s STU Pvt. Ltd.	Nil	--

"Outstanding Balance Receivable as at year end

	31.03.20XX	31.03.20YY
ABC Limited	(--)	--"

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;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties."

Observation

It was noted from the Related Party Disclosures that the company disclosed the transactions between the related parties along with the name of parties. However, the company has not disclosed the nature of these transactions and in some other cases, the company has not disclosed the relationship between the parties as required by paragraph 18 of Indian Accounting Standard 24.

It was further noted that the company has disclosed the negative balance of receivable i.e., rental amount due. It was viewed that the same should be presented under payable (liability) rather than receivable.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

49. Related Party Disclosures

Matter contained in Financial Statements

The footnote to Note on Financial Liabilities – Borrowings (Current) given in the Annual Report of a Company, reads as below:

"All the above loans are guaranteed by XYZ Limited, the ultimate holding company."

Principle: Ind AS 24: Related Party Disclosures

<u>Paragraph 18</u>

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 financial statements that the loans of the company have been guaranteed by its ultimate holding company. However, this information of guarantee taken has not been disclosed as part of related party disclosures, in line with Indian Accounting Standard 24.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with.

50. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Related Party Disclosure given in the Annual Report of a company, reads as below:

"Related Party Transactions

(a) Name of Related Parties

Joint Venture & Associate Companies

1. ……

2.……

(b) The nature wise transactions with the above Joint Ventures and Associates are as follows:

S.No.	Nature of Transactions	20XX-YY	20YY-ZZ
1.	Purchase of goods	XXX	XXX
2.	Sale of goods	XXX	XXX
3.	Purchase of fixed assets	-	XXX
4.	Rendering of Services	XXX	XXX
5.	Receiving of Services	XXX	XXX
…	….	XXX	XXX

The outstanding balances are unsecured and are being settled in cash except advance against equities which are settled in equity."

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; (c) provisions for doubtful debts related to the amount of outstanding balances; and (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties."

Paragraph 19

"The disclosures required by paragraph 18 shall be made separately for each of the following categories: (a) the parent; (b) entities with joint control of, or significant influence over, the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a joint venturer; (f) key management personnel of the entity or its parent; and (g) other related parties."

Observation

Following discrepancies were noted with regards to the disclosure of Related Party Transactions:

a. It was noted from the footnote given under Related Party Disclosures that the outstanding balances are unsecured and are being settled in cash. It indicates that there were certain outstanding balances with related parties. However, the balances with the Related party have not been disclosed separately for the categories as required by Paragraph 18 and 19 of Ind AS 24.

b. Nature-wise transactions with the Joint Ventures and Associates should have been given separately and should not be clubbed under one head, in line with Paragraph 19 of Ind AS 24.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

51. Related Party Disclosures

Matter contained in Financial Statements

The abstract of Related Party Disclosure given in one of the Annual Report, reads as below:

Related Party Transactions:

(I) Subsidiaries, Associates, Joint Ventures, and Others

Purchase of Materials, Capital Equipment and Others

…

(III) Key Managerial Remuneration

(i) Executive Directors

…

	Year ended 31.03.20XX	Year ended 31.03.20YY
(a) Remuneration of Executive Directors	--	--
Short – term employee benefit	--	--
Post-employment benefit	--	--“

Principle: Ind AS 24: Related Party Disclosures

Paragraph 24A

“Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.”

Observation

It was noted from the disclosures on Related Party Transactions that the company has clubbed the purchase of materials and capital equipment and disclosed them as single line items. Further, remuneration to executive Directors has been disclosed in aggregate instead of disclosing remuneration to each individual director.

It was viewed that the purchase of materials and capital equipment shall not be aggregated as they are not the items of similar nature. Paragraph 24A of Ind AS 24 specifically mentions that purchase or sale of goods shall not be aggregated with purchase or sale of fixed assets. Further, it was viewed that remuneration paid to related parties (executive and non-executive directors) should be disclosed to individual directors rather than in aggregate.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

52. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Note on Related party Transactions given in the Annual Report of a Company, reads as follows:

"…

The related party transactions with above KMPs which comprise directors and executive officers are as follows:

Particulars	**Year ended March 31**	
	20XX	**20YY**
Salary and other employee benefits to whole time directors and executive officers (1)(2)	--	--
Commission and other benefits to non-executive / independent directors	--	--
Total	--	--

- Total employee stock compensation for the year ended March 31, 20XX and March 31, 20YY includes a charge of Rs. XX and Rs. YY, towards KMP respectively.
- does not include post-employment benefit based on actuarial valuation as this is done for the company as a whole."

Principle: Ind AS 24 : Related Party Disclosures

<u>Paragraph 17</u>

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

a) Short-term employee benefits,

b) Post-employment benefits,

c) Other long-term benefits,

d) Termination benefits,

e) Share based payment"

Observation

It was noted from the given note that the company has paid salaries, commission and other employee benefits to its key management personnel. However, the compensation paid to key management personnel was not categorized into short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits etc. as required under paragraph 17 of Indian Accounting Standard 24.

Accordingly, it was viewed that the requirement of Indian Accounting Standard 24 has not been complied with in preparation and presentation of the financial statements.

53. Related Party Disclosures

Matter contained in Financial Statements

The abstract of Accounting Policy on Employee Benefits given in the Annual Report of a company, reads as below:

"Employee Benefits

…

(ii) Post-employment benefits

…

(b) Defined Benefit Plans:

The employees' gratuity fund scheme and the provident fund scheme managed by the trust of the Holding Company are the Group's defined benefit plans. The present value of the obligation under such defined benefit plans is determined based on actuarial valuation using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation."

Principle: Ind AS 24 : Related Party Disclosures

Paragraph 9

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

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

…

(b) An entity is related to a reporting entity if any of the following conditions applies:

…

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

Observation

It was noted from the accounting policy that the employees' gratuity fund scheme and the provident fund scheme managed by the trust of the Holding Company are the Group's defined benefit plans. However, no Related Party Disclosure has been made in this regard. It was viewed that in accordance with paragraph 9(b)(v) of Ind AS 24, Trust managed by the holding company and categorized under Employee Benefit Plan, is a related party to the subsidiary also, since subsidiary makes contribution to the trust for gratuity of its employees, and therefore, contribution made to it need to be disclosed under related party transactions.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

54. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Related Party Disclosures given in the Annual Report of a company, reads as below:

"Related party Disclosure

Mr. P	Director

Note: In accordance with Related Party disclosures as required by the Ind AS 24 "Related Party Disclosures" notified by Companies (Indian Accounting Standards) Rules, 2015 as amendment by Companies (Indian Accounting Standards) Amendment Rules, 2016, there is no related party transactions during the period."

Principle: Ind AS 24 : Related Party Disclosures

Paragraph 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

Under Related Party Disclosures, it has been reported that there were no related party transactions during the period. However, it was observed from the Report on Corporate Governance that ''in view of the heavy losses incurred during the period, the company has decided not to pay the remuneration to its KMP for the period except Mr. P (Director) who had received a remuneration of Rs. XX during the current year i.e., from 01.07.20XX to 31.03.20YY''. It was viewed that Mr P is a Key Management Personnel and remuneration paid/ payable to him is related party transaction and the same should be disclosed as part of Related Party Disclosures, in line with Indian Accounting Standard 24.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in the preparation and presentation of the financial statements

55. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Annual Return given in the Annual Report of a company, reads as below:

Remuneration of Directors and Key Managerial Personnel

…

C. Remuneration to Key Managerial Personnel other than MD/Manager/WTD

Sr. No.	Particulars of Remuneration	Mr P
1	**Gross Salary**	
	(a) Salary as per provision contained in section 17(1) of the Income Tax Act, 1961 …	XXXX …
	Total	XXXX

Principle: Ind AS 24 : Related Parties Disclosures

Paragraph 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."

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. "

Observation

It was noted that remuneration to Key Management Personnel (KMP) has been disclosed under Annual Return, however, the required disclosures as per paragraphs 17 and 18 of Indian Accounting Standard 24 have not been provided in the financial statements.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

56. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Note on Other Financial Liabilities and Related Party Disclosure given in the Annual Report of a company, reads as below:

"Other Financial Liabilities

	As at March 31, 20XX	**As at March 31, 20YY**
Current		
Payable to State Government towards project management fees	--	--"

"Related Party Disclosures

(b) Related Parties with whom transactions have taken place during the year

Enterprises having significant influence over the company	"State Government "

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."

Observation

It was noted from the Related Party Disclosure that State Government has been disclosed thereat as enterprise having significant influence over company. It was further noted from Note on Other Financial Liabilities, that a current liability has been disclosed thereat as 'payable to State Government as project management fee'. However, no disclosure of such transaction/ Balance has been made under Related Party Disclosure in line with paragraph 18 of Indian Accounting Standard 24.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

57. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Corporate Governance Report and Related Party Disclosure given in the Annual Report of a company, reads as below:

"5 REMUNERATION OF DIRECTORS

(a) Disclosures on remuneration and shareholding of Director:-

NAME OF MEMBER	FIXED COMPONENT (Rs. In lacs)		PERFORMANCE LINKED INCENTIVES	SHARES HELD
Mr. A	Basic	XX	NIL	XX
	Allowances	Nil		3.56%
	Commission	Nil		
	Other Benefits			
	TOTAL	XX"		

RELATED PARTY DISCLOSURE

There is no transaction or balance outstanding at the end of the period with the related parties hence no disclosures of transactions with the related parties are given."

> **Principle: Ind AS 24: Related Party Disclosures**
>
> **<u>Paragraph 17</u>**
>
> **"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

It was noted from the Corporate Governance Report that the company has paid remuneration to Mr. A, Executive Whole time Director. It was viewed that the compensation paid to Mr A, key managerial personnel should be disclosed by the company under Related Party Disclosures in line with paragraph 17 of Indian Accounting Standard 24.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

58. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Related Party Disclosure given in the Annual Report of a company, reads as below:

"Related Party Disclosure as per Indian Accounting Standard– 24, Related Party Disclosure for the year ended March 31, 20XX

Nature of Relationship	Name of Party
Other Related Parties w.e.f., April 01, 20XX	ABC Limited
	XYZ Limited

	PQR Limited
	TUV Limited
	DEF Limited
	EFG Limited
	FGH Limited
	MNO Limited
	GHI Limited
	DEF Limited
	CID Foundation

"Closing Balance

Nature of Transaction	**Holding Company**
…	---
Outstanding loan amount of securitized book purchased	
DEF Finance Limited	--
Outstanding loan amount of securitized book sold	
DEF Finance Limited	--"

Principle: Ind AS 24 : Related Parties 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:

> …
>
> (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;"

Observation

It was noted that names of various entities had been disclosed with the relationship as 'other related parties w.e.f., April 1, 20XX'. It was viewed that the nature of relationship with these entities should have been disclosed in line with paragraph 18. It was further noted that certain outstanding balances with respect to securitized book purchased and sold were disclosed, however, the terms and conditions of these loans were not disclosed in line with the paragraph 18(b) (i).

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

59. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of Related Party Disclosure given in the Annual Report of a company, reads as below:

Transactions with related parties for the year ended 31st March 20XX:

Transaction	**Name of the Related Party**	**Holding Company**		**Total**	
		20YY-XX	**20ZZ-YY**	**20YY-XX**	**20ZZ-YY**
………					
Loans taken (Maximum balance)	ABC	--	--	--	--

> **Principle: Ind AS 24 : Related Party Disclosures**
>
> **<u>Paragraph 18</u>**
>
> **"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 transactions

(b) ...."

Observation

It was noted that the company has disclosed the maximum amount of loans taken from the related party. It was viewed that instead of disclosing maximum loan amount, the company should disclose the amount of loan taken and repaid during the year separately in line with paragraph 18 of Indian Accounting Standard 24.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

60. Related Party Disclosures

Matter contained in Financial Statements

The relevant abstract of certain Notes to Accounts given in the Annual Report of a company, reads as below:

"Other Financial Assets

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Unsecured Considered Good		
Loans to the Related Parties	--	---
Advances recoverable in cash or kind or for value to be received (includes business advances given to related party Rs. XX PY Rs. XX) (included doubtful of Rs. XX P. Year Rs. XX Company has already initiated legal proceedings against one of the party)	---	--

"**Short Term Borrowings**

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Unsecured Loans from Relate Party		
ABC Limited (Interest Bearing @ 8% p.a. payable within 12 months)	---	_"

"**Trade Payables**

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Trade Payables	--	--
Total	--	--"

(c) Includes payable to related party of Rs. XX Crores, PY Rs. XX.

"**Other Current Liabilities**

Particulars	**As at 31.03.20XX**	**As at 31.03.20YY**
Advance from Customers (include due to related party Rs. XX, PY Nil	--	--"

Principle: Ind AS 24: Related Party Disclosures

Paragraphs 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;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties."

Paragraphs 24

"Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity."

Paragraphs 24A

"Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure."

Observation

From the Notes to Accounts given in the financial statements, numerous instances were identified regarding loans provided to or obtained from related parties and sums due from or owed to related parties. However, these related party transactions have not been disclosed under Related Party Disclosures as required by paragraph 18, read with paragraph 24 and 24A of Indian Accounting Standard 24.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

61. Related Party Disclosures

Matter contained in Financial Statements

An abstract of Related Party Disclosure given in the Annual Report of a company, reads as below:

"Disclosure of Related Party Transactions:

Particulars	**20XX-YY Rs.**	**20YY-ZZ Rs.**
Key Managerial Personnel – Salary and Perquisites		
Mr. SP		
Short term employee benefits	--	--
Other long term benefits	-	--
Mr. S K S		
Short term employee benefits	---	-
Other long term benefits	---	-

Principle: Ind AS 24: Related Party Disclosures

Paragraph 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 payement"**

Observation

It was noted from the given note that the company has disclosed short term employee benefits plan and other long-term employee benefits plan expenses related to Key Managerial Personnel (KMP). However, it is silent on post-employment benefits plan expense related to KMPs.

Accordingly, it was viewed that requirements of Indian Accounting Standard 24 have not been complied with in preparation and presentation of the financial statements.

62. Contingent Liabilities

Matter contained in Financial Statements

The relevant abstract of Note on Contingent Liabilities and Commitments given in the Annual Report of a company, reads as below:

Contingent Liabilities And Commitments

Particulars	As at 31 March 20XX	As at 31 March 20YY
(i) Contingent Liability		
(a) Bank guarantees outstanding	XXX	XXX

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

Paragraph 8.2.14

Contingent liabilities and commitments

(i) Contingent Liabilities shall be classified as-

(a) …

(b) guarantees excluding financial guarantees; and

(c) …

….

Paragraph 8.2.14.1

"A contingent liability in respect of guarantees arises when a company issue guarantees to another person on behalf of a third party e.g., when it undertakes to guarantee the loan given to a subsidiary or to another company or gives a guarantee that another company will perform its contractual obligations. However, where a company undertakes to perform its own obligations, and for this purpose issues, what is called a "guarantee", it does not represent a contingent liability and it is misleading to show such items as contingent liabilities in the Balance Sheet. For various reasons, it is customary for guarantees to be issued by Bankers e.g. for payment of insurance premium, deferred payments to foreign suppliers, letters of credit, etc. For this purpose, the company issues a "counter-guarantee" to its Bankers. Such "counter-guarantee" is not really a guarantee at all, but is an undertaking to perform what is in any event the obligation of the company, namely, to pay the insurance premium when demanded or to make deferred payments when due.

> Hence, such performance guarantees and counter guarantees should not be disclosed as contingent liabilities."

Observation

It was observed that the company has disclosed Bank Guarantees outstanding as at balance sheet date, as Contingent Liability. It was viewed that bank guarantees undertaken by companies for its own obligations are counter guarantees/ performance guarantee and does not represent a contingent liability. Therefore, performance guarantee and counter guarantee should not be considered as contingent liabilities.

Accordingly, it was viewed that presentation of Bank Guarantees under "Contingent Liabilities" is not in line with the Guidance Note on Division II Ind AS Schedule III to the Companies Act, 2013.

Chapter-7

Observations related to Auditor's Report

1. Format of Auditor's Report

Matter contained in the Independent Auditor's Report

The relevant abstract of the Independent Auditor's Report of a company, reads as follows:

"To the Members of,

ABC Limited

1. Report on the Indian Accounting Standards (Ind AS) Financial Statements

   …

2. Management's Responsibility for the Ind AS Financial Statements

   …

3. Auditor's Responsibility

   …

4. Key Audit Matters

   …

5. Opinion

   …

6. Report on Other Legal and Regulatory Requirements"

Principles: SA 700 (Revised): Forming an opinion and Reporting on Financial Statements, SA 720: The Auditor's Responsibilities relating to Other Information and SA 701: Communicating Key Audit Matters in the Independent Auditor's Report

Auditor's Opinion

Paragraph 23 of SA 700 (Revised)

The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion."

Basis for Opinion

Paragraph 28 of SA 700(Revised)

"The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:(Ref: Para. A27)

(a) States that the audit was conducted in accordance with Standards on Auditing; (Ref: Para A28)

(b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI; (Ref: Para A29-A34)

(d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion."

Going Concern

Paragraph 29 of SA 700(Revised)

"Where applicable, the auditor shall report in accordance with SA 570 (Revised)."

Key Audit Matters

Paragraph 30 of SA 700(Revised)

"For audits of complete sets of general-purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701."

Responsibilities for the Financial Statements

Paragraph 33 of SA 700(Revised)

"The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework applicable to the entity and need not refer specifically to "management". In some entities, the appropriate reference may be to those charged with governance. (Ref: Para. A39)"

Auditor's Responsibilities for the Audit of the Financial Statements

Paragraph 37 of SA 700 (Revised)

"The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

Other Reporting Responsibilities

Paragraph 43 of SA 700(Revised)

"If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs. (Ref: Para. A53-A55)"

Paragraph 21 of SA 720

"The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

(a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or

(b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

Section 143 (3) (f) of the 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 13 of SA 701

"The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s),

> if any, in the financial statements and shall address: (Ref: Para. A34-A41)
>
> (a) Why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42-A45)
>
> (b) How the matter was addressed in the audit. (Ref: Para. A46-A51)."

Observation

The following non-compliances were observed from the Independent Auditor's Report,

(i) It was noted that Auditor's Report was divided into six sections in following order;

- Report on the Indian Accounting Standards (Ind AS) Financial Statements
- Management's Responsibility for the Ind AS Financial Statements
- Auditor's Responsibility
- Key Audit Matters
- Opinion
- Report on Other Legal and Regulatory Requirements.

It was observed that the auditor has followed the old format of the audit report as per SA 700. It was viewed that SA 700 (Revised) is effective for audits of financial statements for periods beginning on or after April 1, 2018, accordingly, the Auditor's report should be in the following order:

- Opinion
- Basis for opinion
- Going Concern
- Key Audit Matter
- Responsibilities of Management for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements
- Report on Other Legal and Regulatory Requirements

(ii) It was noted that the separate section on going concern has not been reported by the auditor as required by SA 700 (Revised) eventhough there were certain events which may cast material uncertainty about going concern, as evident from the company overview, Key Audit Matter and negative net worth.

(iii) It was noted that SA 720 (Revised), The Auditor's Responsibilities Relating to Other Information, was also applicable on the company for the financial year under review, however, the auditor has not reported Other Information in line with SA 720 (Revised).

(iv) It was further noted that the auditor has not reported as per section 143(3)(f) of the Companies Act, 2013.

(v) It was noted that the description of each key audit matter has not been properly given to address reason for consideration of this matter to be one of the most significant in the audit and how the matter was addressed in the audit, which is required to be given as per SA 701.

Accordingly, it was viewed that the auditor has not complied with the requirement of SA 700 (Revised), SA 701, SA 720 (Revised), SA 570 (Revised) and the Companies Act, 2013.

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

Matter contained in the Independent Auditor's Report

The relevant Abstract of Independent Auditor's Report given in the Annual Report of a company, reads as follows:

"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 the significant accounting policies and other explanatory information as required for fair presentation of financial statements.

Management's Responsibility for the 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 financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies(Accounts) Rules, 2014…

Report on Other Legal and Regulatory Requirements

…

(d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014."

Principle: 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 There under

INDEPENDENT AUDITOR'S REPORT

Report on the Standalone Ind AS Financial Statements

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, 20XX, 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 …

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 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 of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) prescribed under section 133 of the Act…

Auditor's Responsibility

Our responsibility is to express an opinion on these standalone Ind AS financial statements based on our audit…

Other Matters

a) Predecessor auditor to audit transition adjustments

The comparative financial information of the company for the year ended 31st March XXX and the transition date opening balance sheet as at 1st April XXX prepared in accordance with Ind AS included in these standalone Ind AS financial statements have been audited by the predecessor auditor who had audited the financial statements for the relevant periods. The report of the predecessor auditor on the comparative financial information and the opening balance sheet dated XXX expressed an unmodified opinion.

…

Report on Other Legal and Regulatory Requirements

1.

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

…

d) The Balance Sheet, the Statement of Profit and Loss, the Cash Flow Statement and Statement of Changes in Equity dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us].

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

The following non-compliance were observed during the review of auditor's report on Ind AS financial statements of transition year:

1) The wordings of the introductory paragraph should be "Report on the Ind AS Financial Statements". Further, it was viewed that in case of first-time adoption of Ind AS, auditor is required to state "Report on the Standalone Ind AS Financial Statements" as per the implementation guide on Auditor's Report under Ind AS for transition phase read with its illustrative format given above. Similarly, in the Section auditor's responsibility the auditor has used the term "financial statements" instead of "Ind AS financial statements".

2) In the section "Management's Responsibility for Financial Statements," the auditor states, "true and fair view of the company's financial position, financial performance, and cash flows..." in the first sentence. However, the auditor has not mentioned "including other comprehensive income" and ''changes in equity".

3) It was noted that the comparative financial information of the company for the year ended 31st March 2017 and the transition date opening balance sheet as at 1st April 2016 prepared in accordance with Ind AS included in these standalone Ind AS financial statements, were audited by the predecessor auditor who had audited the financial statements for the relevant periods. However, the auditor has not included paragraph "Other Matters" in his audit report in which he should have commented upon:

   'The report of the auditor who has performed audit on the comparative financial information as on 31st March 2017 and the transition date opening balance sheet as on 1st April 2016, and whether the opinion on those statements was modified or otherwise.'

4) While reporting under 'Management Responsibility Section' and Report on Other Legal and Regulatory Requirements', the auditor uses the words "including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014" in the first sentence. It was observed that Rule 7 of the Companies (Accounts) Rules 2014 was a transitional provision until the accounting standards were notified by the Central Government under Section 133 of the Companies Act, 2013. Subsequently, the Central Government notified these standards. The accounting standards applicable to the company under reference are Ind-AS as notified under the 'The Companies (Indian Accounting Standards) Rules, 2015'. It was viewed that the use of the words "read with Rule 7 of the Companies (Accounts) Rules, 2014' is inappropriate in the circumstances where transitional

provision is no longer applicable. It would have been more informative to state as follows:

'read with the Companies (Indian Accounting Standards) Rules, 2015, as amended' along with 'Section 133 of the Act'.

Accordingly, it was viewed that the auditor's report has not been prepared in accordance with the requirements of SA 700 (Revised) as well as Implementation Guide on Auditor's Report under IND AS for transition phase.

3. Addressee

Matter contained in the Independent Auditor's Report

The relevant abstract of Independent Auditors' Report reads as below:

INDEPENDENT AUDITORS' REPORT

To

The Resolution Professional of ABC LTD

…"

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

Paragraph A16 of Application and Other Explanatory Material

"… The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited."

Observation

It was noted that the company is in the Corporate Insolvency Resolution Process (CIRP) and a Resolution Professional has been appointed. It was further noted that the Auditor's Report has been addressed to Resolution Professional.

It was viewed that with the appointment of an Interim Resolution Professional (IRP)/Resolution Professional (RP), the powers of the Board of Directors vested by virtue of the Companies Act, 2013 are suspended and the IRP/RP is mandated to manage the affairs of the Company. Nevertheless, the Auditor, appointed by the members of the Company, should continue to perform his duties as per the Companies Act, 2013 and SEBI regulations.

Hence, it was viewed that the audit report should be addressed to shareholders instead of Resolution professional.

Accordingly, it was viewed that the requirement of SA 700 (Revised) has not been appropriately complied with.

4. Addressee

Matter contained in the Independent Auditor's Report

An abstract of Auditor's Report of **XYZ Ltd**, reads as under

"Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Subsection 3 of Section 143 of the Companies Act, 20l3 ("the Act")

We have audited the internal financial controls over financial reporting of **ABC LIMITED ("the Company")** as of March 31, 20XX in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date."

(emphasis supplied)

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

Paragraph A16

"The law or regulation applicable to the entity often specifies to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited. "

Observation

It was noted from the Auditor's Report that the X audit firm was appointed as auditor of XYZ Ltd. However, Annexure A of the auditor's report mention the name of other company i.e. "ABC Limited".

Accordingly, it was viewed that the requirements of SA 700 (Revised) have not been complied with.

5. Opinion

Matter contained in Independent Auditor's Report

The relevant abstract of an Independent Auditor's Report reads as follows:

"**INDEPNDENT AUDITOR'S REPORT**

To the Members of:

ABC Corporation Limited

Report on the audit of financial statements

We have audited the accompanying financial statements of ABC Corporation Limited ("the company"), which comprise Balance Sheet as at 31st March, 20XX, the Statement of Profit and Loss (including Other Comprehensive Income), and summary of significant accounting policies and other explanatory information (hereinafter referred to as "financial statements").

……………"

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

<u>Paragraph 8</u>

"Reference to "financial statements" in this SA means "a complete set of general-purpose financial statements, including the related notes". The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information and any other information required to be included as part of the financial statements by the law and regulations governing the entity. The requirements of the applicable financial reporting framework determine the form and content of the financial statement, and what constitute a complete set of financial statements."

<u>Paragraph 23</u>

"The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion"."

"Illustration 1 - Auditor's Report on Financial Statements of a Listed Company Prepared in Accordance with a Fair Presentation Framework

…

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (statement of changes in equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information ……………"

Observation

It was noted from the Independent Auditor's Report that while giving the opinion on financial statements auditor has included 'Balance Sheet', 'Statement of Profit and Loss (including other comprehensive income), 'Summary of Accounting Policies', and 'Other Explanatory Notes' in his statement. However, he has omitted to include 'Statement of Changes in Equity, Statement of Cash Flow' and 'Notes to the Financial Statements'. It was further noted that auditor has omitted to give the heading 'Opinion' for its opinion paragraph.

Accordingly, it was viewed that the auditor has not complied with the requirements of SA 700(Revised).

6. Unmodified Opinion

Matter contained in Independent Auditor's Report

An abstract of Opinion Paragraph given in one of the Independent Auditor's Report, reads as below:

"5. Opinion

In our opinion and to the best of our information and according to the explanations given to us, and **subject to note given above**, the 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 the affairs of the company as at 31st March 20XX, and its losses, cash flows for the year ended on that date."

(emphasis supplied)

Principles: SA 705: Modification to the Opinion in the Independent Auditor's Report and SA 700 (Revised): Forming and Opinion and Reporting on Financial Statements

Paragraph 21 of SA 705

"If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para A22)"

Paragraph A20 of SA 700 (Revised)

"When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion."

Observation

It was noted from the opinion paragraph that the auditor has given an unmodified opinion. However, while giving unmodified opinion the auditor has reported that ''subject to note given above, the Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view''. It was viewed that when the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, because it indicates a conditional opinion or modification of opinion as per SA 700 (Revised). Accordingly, providing an unmodified opinion by using the phrase 'subject to note given above' is not in line with the requirements of SA 700 (Revised).

In case, the auditor is expressing modified opinion, then the auditor should report brief description of material misstatements in financial statement as well as their effect thereon, and if it is not practicable to quantify their impact, the fact should be stated in the basis for modified opinion paragraph.

Accordingly, it was viewed that the requirements of SA 700 (Revised) and SA 705 have not been complied with.

7. Modified Opinion

Matter contained in Independent Auditor's Report

The relevant abstract of the Independent Auditor's Report of a company reads as below:

"Basis of Qualified Opinion

…

4. Disclaimer of Opinion

…

(v) Attention is invited to Note no. 30 where the profit of Rs. XX Crores fully represents write back of sundry balances and is not out of normal business of the Company.

5. Basis of Disclaimer of Opinion

…

"Note 30: Earning Per Share

…

Note: The profit of Rs. X crores fully represent write back of balances and is not out of normal business of the company."

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

Paragraph 13

"If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

   (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)

   (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)."

Observation

It was noted from the Auditor's Report that the auditor has modified his opinion by giving Qualified Opinion as well as Disclaimer of Opinion. It was viewed that there is a distinction between qualified opinion, a disclaimer of opinion and an adverse opinion as per SA 705 (Revised). As per the Standard, the auditor shall either qualify his opinion if the possible effect of undetected misstatements is likely to be material but not pervasive, or give disclaimer of opinion, if possible, effect of undetected misstatements is material as well as pervasive and the auditor is unable to obtain sufficient and appropriate audit evidence.

Accordingly, it was viewed that the auditor's report is not in line with the requirements of SA 705 (Revised).

8. Going Concern

Matter contained in Independent Auditor's Report

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

"Emphasis of Matter

We draw attention to the note no. XX of the financial statements, the Company has incurred loss of Rs. XX during the year (accumulated losses as at 31st March, 20XX is Rs. XXX) resulting in to erosion of its net worth as at 31st March, 20XX. The ability of the Company to continue as a going concern is significantly dependent on its ability to successfully fund its operating and capital fund requirement. The management in view of its business plan is confident of generating cash flows to fund the operating and capital requirements of the Company. Accordingly, these Statements have been prepared on a going concern basis. Our report is not qualified in respect of this matter."

Principle: SA 570 (Revised): Going Concern read with SA 701: Communicating Key Audit Matters in the Independent Auditor's Report and Implementation Guide to SA 701

Paragraph 22 of SA 570 (Revised)

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28–A31,

A34)

(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

<u>Question 30 of Implementation Guide to SA 701</u>

"Will matters relating to going concern now be reported as key audit matter as required by SA 701 or an Emphasis of Matters as required by SA 570 (Revised) or SA 706 (Revised)?

Response 30:

Scenario 1: Material Uncertainty w.r.t. Going Concern exists

In the event of existence of a material uncertainty that casts a significant doubt on the entity's ability to continue as a going concern in the foreseeable future, the same by nature would be a key audit matter. There could be 2 situations here. First, where adequate disclosure about the material uncertainty is made in the financial statements and second, where adequate disclosure about the material uncertainty is not made in the financial statements**. Reporting in Situation 1** If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the Material uncertainty is required to be disclosed separately under a separate section 'Material uncertainty related to going concern', after 'Basis for Opinion' paragraph as required by SA 570 (Revised). In the case of a listed entity, in addition to the disclosure under the aforesaid separate section, under the key audit matters section also, the auditor is required to make a reference. Therefore, in the event of a material uncertainty, when an Emphasis of Matter paragraph used to be provided earlier has now been replaced with inclusion as a separate paragraph with heading 'Material uncertainty related to going concern' and would no longer be an Emphasis of Matter paragraph."

<u>Illustration: In the auditor's report having unmodified opinion:</u>

Material Uncertainty Related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended March

31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. **In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.**

[*Description of each key audit matter in accordance with SA 701*]

…"**(emphasis supplied)**

Observation

It was observed from the auditor's report that the Going Concern matter has been addressed under the heading "Empasis of Matters". It was viewed that, following the introduction of SA 570 (Revised), in the event of a material uncertainty, the emphasis of matter paragraph has been replaced with a separate paragraph titled 'Material uncertainty related to going concern'. Additionally, since the company is listed the reference to this matter should have been included under Key Audit Matters also in the given manner.

Accordingly, it was viewed that the requirements of SA 570 (Revised) and SA 701 have not been complied with.

9. Going Concern

Matter contained in the Annual Report

The relevant abstract of the Director's Report and Note XX of the Financial Statements, is reproduced below:

"Director's Report

…

IMPACTING ON GOING CONCERN STATUS AND COMPANY'S OPERATIONS

There has been no significant and material orders passed by any regulators or courts or tribunals impacting the going concern status and company's operations in future."

"Note XX: Material uncertainty about Going Concern

"In preparing financial statements, management has made an assessment of Company's ability to continue as a going concern. Financial statements are prepared on a going concern basis. The Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern."

Principles: SA 570 (Revised): Going Concern and Ind AS 1: Presentation of Financial Statements

Paragraph 23 of SA 570 (Revised)

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A34)

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised)4; and

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter."

Paragraph 25 of Ind AS 1

"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**."

(*emphasis supplied)*

Observation

It was noted that annual report of a company reveals material uncertainties regarding its ability to continue as going concern, including the cancellation of long-term project, no asset addition's in the last two years, unpaid interest on a loan from parent company which exceeds 57% of the principal amount, non-realization of interest on loans advanced to others and negative net worth.

It was viewed that when management is aware 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 company should disclose those material uncertainties as required by Paragraph 25 of Ind AS 1.

Further, it was viewed that since the company was facing various significant uncertainties posing a potential threat to its continuity as a going concern and considering the insufficient disclosures in its financial statements, the auditor should have given either a qualified opinion or an adverse opinion in his audit report as per the requirements of SA 570 (Revised).

Accordingly, it was viewed that the requirements of SA 570 (Revised), SA 705 and Ind AS 1 have not been complied with.

10. Communicating Key Audit Matters in the Auditor's Report

Matter contained in Independent Auditor's Report

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

"Independent Auditor's Report

…

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the standalone Ind AS financial statements for the year ended March 31, 20XX. These matters were addressed in the context of our audit of the standalone Ind AS financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	Auditor's Response
1. Goodwill Impairment testing and Impact on COVID-19 thereon …	Principal Audit Procedure …

Principle: SA 701: Communicating Key Audit Matters in the Independent Auditor's Report

<u>Paragraph 13 of SA 701</u>

"13. The description of each key audit matter in the Key Audit Matters section of the **auditor's report shall include a reference to the related disclosure(s)**, if any, in the financial statements and shall address:(Ref: Para. A34-A41)

(a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para A42-A45)

(b) How the matter was addressed in the audit. (Ref: Para. A46-A51)"

(emphasis supplied)

Observation

It was observed from the Balance sheet that goodwill represents 65% of the company's total assets. Additionally, it was noted from the auditor's report that Impairment testing of Goodwill and the COVID 19 impact thereon has been considered as Key Audit Matter. From notes to accounts, it was noted that a detailed note in this regard has also been given in the financial statements. However, the auditor has not given the reference to the relevant note to accounts while reporting the Key Audit Matter in his Audit Report.

Accordingly, it was viewed that the requirements of SA 701 have not been complied with by the auditor.

11. Key Audit Matter Section

Matter contained in Independent Auditor's Report

The relevant Abstract of the Independent Auditor's Report given in the Annual Report of a company, reads as follows:

"Report on audit of the Standalone Financial Statements

Opinion

…

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone 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 and profit / loss, and its cash flows for the year ended on March, 20XX.

…

Key Audit Matters

1. Key audit matters are those matters that, in our professional judgment, were of most significance in our **audit of the Special Purpose Financial Statements** of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
2. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addresses the key audit matter
---Nil---	

Principles: SA 701 - key Audit Matters in the Independent Auditor's Report and SA 700 (Revised) - Forming an Opinion and Reporting on Financial Statements

Paragraph 5 of SA 701

"This SA applies to audits of complete sets of general-purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This SA also applies when the auditor is required by law or regulation to communicate key audit matters in auditor's report. However, SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation."

Paragraph A22 of SA 700(Revised)

"In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of, the matters that financial statements are designed to present. For example, in case of financial statements of companies prepared in accordance with the Companies (Indian Accounting Standards) Rules, 2015, these matters are: *true and fair view of the state of affairs of the company as at the end of its financial year and its profit or loss,"*

Observation

It was noted from the Key Audit Matter paragraph of Independent Auditor's Report that the auditor has made reference to the 'Special Purpose Financial Statements' while describing the key audit matters and his professional judgement in that regard. It was viewed that the financial statements on which the auditor has given his report are the general-purpose financial statements, therefore, it leads to incorrect references in the report.

It was further noted from the 'Opinion' paragraph that the auditor has used the term 'profit / losses'. It was viewed that, since the company has incurred loss during the year, the auditor should have clearly mentioned the term 'loss' in his report in line with paragraph A22 of SA 700(Revised).

Accordingly, it was viewed that the requirement of SA 700(Revised) and SA 701 have not been complied with by the auditor.

12. Other Information

Matter contained in the Independent Auditor's Report

An abstract of the Independent Auditor's Report of a company, reads as below:

"Information Other than the Ind AS Financial Statements and Auditor's Report thereon

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the standalone financial statements and our auditor's report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard."

Principles: SA 720 (Revised)- The Auditor's Responsibilities Relating to Other Information

Paragraph 22

"When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)

…

(b) An identification of:

…

(ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report

Illustrative Format 4 of Appendix 2

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The Company's Board of Directors is responsible for the other information. *The other information comprises the [information included in the X report, but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.*

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and (describe actions applicable in the applicable laws and regulations).]

(emphasis supplied)"

Observation

It was noted from the annual report that the Director's Report and Other related information were signed on July 19, 2019, while the auditor's report and financial statements were signed on May 15, 2019, i.e., prior to the availability of this other information. It was observed that, in the Auditor's Report, the auditor expressed an opinion on the information other than the standalone financial statements as of May 15, despite the same was not available at that time.

It was viewed that the auditor should have reported the fact that other information is expected to be made available to them after the date of this auditor's report and should have reported as per the illustrative format given under SA 720.

Accordingly, it was viewed that the auditor's reporting is not in line with the requirement of SA 720 read with illustration 4 thereon.

13. Other Information

Matter contained in the Independent Auditor's Report

The Other Information paragraph has not been included in the Independent Auditor's Report of certain companies.

Principle: SA 720 (Revised)- The Auditor's Responsibilities Relating to Other Information

Paragraph 21

"The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

(a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or

(b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

Paragraph 22

When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)

(a) A statement that management is responsible for the other information;

(b) An identification of:

   (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and

   (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;

(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;

(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and

(e) When other information has been obtained prior to the date of the auditor's report, either:

   (i) A statement that the auditor has nothing to report; or

   (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information".

Observation

It was noted that SA 720 (revised) was applicable to the auditor's report for the year under review. However, the auditor has not reported on Other Information as per the above stated requirement of SA 720(Revised).

Accordingly, it was viewed that the requirements of SA 720 (revised) have not been complied with.

14. Other Information

Matter contained in the Annual Report

The relevant abstract of the Director's Report and Note on Other Current Financial Liabilities as given in the Annual Report of a company, reads as below:

"Annexure A to Director's Report

Form No. MGT-9 Extract of Annual Returns

V. INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment.

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
…				
Indebtedness at the end of the financial year				
i. Principal Amount	**--**			**--**
ii. Interest due but not paid	--	-	-	--
iii. Interest accrued but not due	--	-	-	--
Total (i+ii+iii)	**---**	**-**	**-**	**---**

Note on Other Current Financial Liabilities

(Rupees in lakhs)

	March 31, 20XX	March 31, 20YY
Current maturities of long-term borrowings (refer note: 3.11)	**--**	--
Interest accrued but not due on borrowings	--	--
Interest accrued and due on borrowings	--	-
…		

Principle: SA 720 (Revised)- The Auditor's Responsibilities Relating to Other Information

Paragraph 17

"If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or

(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. "

Paragraph 18

"If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44)

(a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (Ref: Para. A45)

(b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)"

Observation

It was observed that there is a material difference between Principal amount of Indebtedness disclosed in Part V of Form No. MGT 9 and the balance at the end of the reporting date under Note on Other Current Financial Liability in the financial statements.

It was viewed that the auditor has not reported the inconsistency in his report under the section ''Information other than the financial statements and auditor's report thereon".

Accordingly, it was viewed that the requirement of SA 720 (Revised) has not been complied with.

15. Responsibilities of Management and Those Charged with Governance

Matter contained in the Independent Auditor's Report

An abstract of Independent Auditor's Report of a company, reads as below:

"Independent Auditor's Report

To the Members of

ABC Industries Limited

Report on the Standalone Ind AS Financial Statements

…

Management's Responsibility for the Financial Statements

…"

> **Principle: SA 700 (Revised)- Forming an Opinion and Reporting on Financial Statements**
>
> **"INDEPENDENT AUDITOR'S REPORT**
>
> To the Members of ABC Company Limited
>
> Report on the Audit of the Standalone Financial Statements
>
> …
>
> **Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements**
>
> **…"**

Observation

It was noted from the Independent Auditor's Report that the auditor has used the heading "Management's Responsibility for the Financial Statements" instead of using correct heading i.e., "Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements ".

Accordingly, it was viewed that the requirements of SA 700(Revised) have not been complied with.

16. Auditor's Responsibilities for the Audit

Matter contained in the Independent Auditor's Report

From the Independent Auditor's Report of a company, it was noted that the auditor's responsibilities paragraph is incomplete.

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

Paragraph 40

"The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A45)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

(b) State that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards;"

Observation

It was noted that while reporting Auditor's Responsibilities for the Audit of the Standalone Financial Statements the auditor has not stated that he has communicated with those charged with governance regarding planned scope and timing of the audit, significant audit findings as well as complied with relevant ethical requirements as required by paragraph 40 (a) & (b) of SA 700 (Revised).

Accordingly, it was viewed that the requirements of SA 700(Revised) have not been complied with by the auditor.

17. Emphasis of Matter

Matter contained in Financial Statements

The relevant abstract of the Note on Other Intangible Assets given in the Annual Report of a company, reads as below:

"The SCAs for both projects has been granted for an initial period of 30 years from the "operations Date" which is October 24, 2000 in case of VHRP and February 20, 2003, in case of AMRP. The SCAs also envisage the Company earning designated return over the period of 30 years. In the event, the Company is unable to earn the designated return, the SCAs provide for extension of the period of 30 years by two years at a time until the project costs and the returns thereon are recovered by the Company. However, the Company has made an application to GoG for restricting the concession period up to FY 2040 for VHRP and AMRP, acceptance of the application is awaited from GoG. Accordingly, the remaining amortization period considered for the Toll Collection Rights at the end of the reporting period is 22 years. (March 31, 2017: 23 years)."

Principle: SA 706 (Revised)- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Paragraph 8

"If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5-A6)

a) The auditor would not be required to modify the opinion in accordance with SA 705(Revised) as a result of the matter; and

b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1-A3)

Observation

The Note regarding 'Amortization of Rights under Service Concession arrangements (SCA)' indicates that these rights were originally to be amortized over a period of 30 years, as stipulated by the Government of Gujarat (GoG). However, the company has submitted an application to GoG, (which was under consideration of authority at the reporting date), to extend the amortization period to 2040 instead of 2030 and based on that application, the period of 'amortization of rights under SCA' has been increased by 10 years i.e., without confirmation being received from GoG. It was viewed that such a change in the useful life of the 'rights under SCA' will significantly alter the amount of amortization expenses, thereby impacting the Statement of Profit and Loss. Given the implications of this adjustment on the financial statements, it is crucial for the users to be informed. Therefore, it should have been brought to their notice by the auditor by way of 'emphasis of matter' in line with paragraph 6 of SA 706.

Accordingly, it was viewed that the requirements of SA 706 (Revised) have not been complied with by the auditor.

18. Other Matters - Accounts of Branches

Matter contained in Financial Statements

The relevant abstract of the Independent Auditor's Report and Note on Income Tax given in the Annual Report of a company, reads as follows:

"Independent Auditor's Report

….

Other Matter

The comparative financial information of the Company for the year ended March 31, 20XX and the transition date opening balance sheet as at April 1, 20YY included in these standalone Ind AS financial statements, have been restated to comply with Ind AS. Adjustments made to the previously issued said financial information prepared in accordance with the Companies (Accounting Standards) Rules, 2006 to comply with Ind AS have been audited by us.

Report on the Other Legal and Regulatory Requirements

1. As required by Section 143(3) of the Act, based on our audit and on the consideration of the reports of the branch auditors and other auditors on the separate financial statements, to the extent applicable that:

…"

"Note: Income Tax

…

The Company is also subject to tax on income attributable to its permanent establishments in foreign jurisdictions due to operation of foreign branches."

Principle: SA 700 (Revised): Forming an opinion and Reporting on Financial Statements

Appendix (Ref Para. A14)

Illustrations of Independent Auditor's Reports on Financial Statements

"INDEPENDENT AUDITOR'S REPORT

…

Other Matter

We did not audit the financial statements / information of __________ (number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX and total revenues of Rs. ______ for the year ended on that date, as considered in the standalone financial statements. The financial statements / information of these branches has been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not qualified in respect of this matter."

Observation

It was noted from the Independent Auditor's Report as well as Notes to financial statements of the company that the company has branches, including foreign branches, and the auditor considered the reports received from branches during the audit. However, it was observed that auditor has not provided the details of branches that were not audited by him under 'other matter' paragraph. Further, the total assets and total revenues of these branches were not reported by the auditor in line with the format of the Independent Auditor's Report given under Appendix to SA 700 (Revised).

Accordingly, it was viewed that the format of Independent Auditor's Report given under Appendix to the SA 700 (Revised) has not been complied with.

19. Report on Other Legal and Regulatory Requirements

Matter contained in the Independent Auditor's Report

The relevant abstract of the Auditor's Report reads as follows:

…

Report on Other Legal and Regulatory Requirements

…

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

i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements.

ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts;

iii. ….

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

<u>Appendix</u>

Illustrations of Independent Auditor's Reports on Financial Statements

"…

Report on Other Legal and Regulatory Requirements

…

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

i. The Company has disclosed the impact of pending litigations on its

> financial position in its financial statements - **Refer Note XX** to the financial statements. **(emphasis supplied)**
>
> **ii.** The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - **Refer Note XX** to the financial statements; **(emphasis supplied)**
>
> …

Observation

It was noted from the auditor's report that the company has disclosed the impact of pending litigations on its financial position as well as made provision required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts. However, the reference of the related notes to accounts has not been provided in the auditor's report for better understanding of the users of the financial statements.

Accordingly, it was viewed that the requirement of SA 700 (Revised) has not been appropriately complied with.

20. Report on Other Legal and Regulatory Requirements

Matter contained in the Independent Auditor's Report

The relevant abstract of Independent Auditor's Report of a company, reads as follows:

"Report on Other Legal and Regulatory Requirements

1. As required by section 143(3) of the Act, based on our audit we report that:

   (g)

   i. The company **has disclosed** the impact of pending litigation on its financial position in its financial statements.

   ii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company

   (emphasis supplied)"

Principle: SA 700 (Revised): Forming an opinion and Reporting on Financial Statements

<u>Illustration 1 - Auditor's Report on Financial Statements of a Listed Company Prepared in Accordance with a Fair Presentation Framework</u>

Report on Other Legal and Regulatory Requirements

…

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

I. The Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Note XX to the financial

II. ….

III. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.}

Observation

The auditor reported that the company has disclosed the impact of pending litigation on its financial position in its financial statements. However, upon review, it was observed from the financial statements that the company had not provided any details of pending litigations.

Further, the auditor has reported that 'there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company'. However, it was observed from the financial statements that there were no outstanding amounts to be transferred to Investor Education and Protection Fund. It was viewed the auditor should have reported that "There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company".

Accordingly, it was viewed that the auditor's report is not appropriate and not in line with SA 700 (Revised).

21. Date of the Auditor's Report

Matter contained in the Independent Auditor's Report

An abstract of Auditor's Report of a company, reads as below:

"Auditor's Report

XYZ & CO

Chartered Accountant

FRN : XXXXW

(Mr. D)

Proprietor

Membership No . 99999

Place: XXX

Date: "

> **Principle: SA 700 (Revised) - Forming an Opinion and Reporting on Financial Statements**
>
> **"Date of the Auditor's Report**
>
> 48. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A58–A61)
>
> (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
>
> (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.".

Observation

It was noted from Auditor's Report that the date of signing the audit report was not mentioned which is required by paragraph 48 of SA 700 (Revised).

Accordingly, it was viewed that the requirements of SA 700(Revised) have not been complied with by the auditor.

22. Signing of Audit Report

Matter contained in the Annual Report

The relevant abstracts of the Auditor's Report and Balance Sheet given in the Annual Report of a company, reads as under:

"Auditor's Report

For ABC & Co.

Mr. A

Sd/-

Membership No.: 99999

Balance Sheet

"For ABC & Co.

Chartered Accountants

Sd/-

(Mr. A)

Proprietor

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

Paragraph 46

" The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them. (Ref: Para. A56-A57)"

Observation

It was noted from the Independent Auditors Report that the Firm Registration Number has not been mentioned thereat. Further, it was noted that the Membership No. and Firm Registration number has not been mentioned in the audited Financial Statements.

Accordingly, it was viewed that the requirements of SA 700 have not been complied with.

23. Balance Confirmation

Matter contained in the Annual Report

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

"Independent Auditor's Report

…

Emphasis of Matter

Balance confirmations received from parties covered under the head Trade receivables, Trade payables, Long term and short-term liabilities, Other Current liabilities, Long term and Short term Loan & Advances and deposits were limited. None of the major parties have confirmed their balances and hence, differences, if any could not be identified. Pending confirmation and reconciliation, consequential impact on the Ind AS financial statements cannot be quantified."

"Note XX

Confirmations for balances as at 31st March 20XX from Trade Receivables, Trade Payables and Loans & Advances/ Deposits were circulated, but response received was limited."

Principle: SA 505: External Confirmation, SA 705 (Revised): Modifications to the Opinion in the Independent Auditor's Report and SA 706 (Revised): Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Paragraphs 12 and 13 of SA 505

"12. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para A18- A19)"

"13. If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705(Revised). (Ref: Para A20)"

Paragraphs 7 and 21 of SA 705 (Revised)

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

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

"21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)"

Paragraph 9 of SA 706 (Revised)

"9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

…

(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements.

…"

Observation

It was noted from Note XX that Confirmations for balances from Trade Receivables, Trade Payables and Loans & Advances/ Deposits were circulated, but response received was limited. It was further noted that auditor has emphasized this matter under audit report that none of the major parties have confirmed their balances, and hence, the differences, if any could not be identified.

It was viewed that if the amount of party's balance is not material, then such note was not required in the financial statements. However, if the amount is material, then it is the responsibility of the auditor to modify the report and quantify its effect as required by paragraphs 7 and 21 of SA 705 read with paragraph 13 of SA 505.

Further, it was viewed that the auditor should have performed alternate audit procedures to satisfy himself regarding external confirmation, and if he is not in agreement with the balances reported , then he shall modify his report in accordance with SA 705, 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 audit procedures in accordance with paragraph 12 of SA 505 with regard to confirmation of reported balances.

Furthermore, it was observed that the auditor has drawn attention relating to the aforesaid matter under emphasis of matter, without giving the cross reference to the relevant notes to accounts for the matter being emphasized, as required by Paragraph 9 to SA 706.

Accordingly, it was viewed that the requirements of SA 505, SA 705 (Revised) and SA 706 (Revised) have not been complied with by the auditor.

24. Related Parties

Matter contained in Financial Statements

The relevant abstract of Note XX on Related Party Disclosures as given in the Annual Report of a company, reproduced below:

"Note XX: Related Party Disclosures

…

(Related Party relationship is as identified by the Company and relied upon by the auditors.)

Principle: SA 550: Related Parties

<u>Paragraphs 9 and 15 of SA 550</u>

"9. The objectives of the auditor are:

(a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

   i. To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and

   ii. To conclude whether the financial statements, insofar as they are affected by those relationships and transactions:

      a. Achieve a true and fair presentation (for fair presentation frameworks); or

      b. Are not misleading (for compliance frameworks); and

(b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework."

"15. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. (Ref: Para. A22-A23)

…"

Observation

It was noted from the Note on Related Party Disclosures that the management has used expression “As identified by the Company and relied upon by the auditors”. It was viewed that usage of the phrase ‘relied upon by the Auditors’ may lead the users of financial statements to believe that the auditor has merely relied on the information provided by the management without applying appropriate audit procedures to verify the information with regard to the transactions made with the related party.

It was, further, viewed that if the auditor has performed all the necessary audit procedures to conclude that the related party relationship existed among the parties then the auditor should have insisted on not bringing such phrases (As identified by the Company and relied upon by the auditors) in the financial statements.

Accordingly, it was viewed that the requirements of SA 550 have not been complied with by the auditor.

Chapter - 8
Observations related to CARO

1. Property, Plant and Equipment

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure B to Independent Auditor's Report on Property, Plant and Equipment given in the Annual Report of a company, reads as follows:

Annexure B to Independent Auditor's Report

"(i) (a) …

(b) Property, Plant and Equipment have been physically verified by the management during the year and no material discrepancies were noticed on such verification."

> **Principle: The Companies (Auditor's Report) Order, 2016**
>
> **Paragraph 3 (i) (b)[1]**
>
> "Whether these fixed assets have been physically verified by the management at **reasonable intervals**; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account." **(Emphasis supplied)**

Observation

It was noted that the auditor has reported in CARO report that "Property, Plant and Equipment (PPE) have been physically verified by the management during the year". It may be noted that paragraph 3(i)(b) of CARO, 2016 requires the auditor to comment as to whether the physical verification of PPE was performed at a reasonable interval by the management.

Accordingly, it was viewed that the auditor's reporting is not in line with the requirements of paragraph 3(i)(b) of CARO, 2016.

[1] This observation is still relevant under paragraph 3(i)(b) of the CARO, 2020.

2. Physical Verification of Inventory

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure A to Independent Auditor's Report on Physical Verification of Inventory given in the Annual Report of a company, reads as below:

"Annexure - A to the Independent Auditor's Report

…

ii. As per the information and explanations given to us, the management has conducted physical verification of inventory at reasonable intervals during the year **wherever possible and required**, and the discrepancies noticed have been properly dealt with in the books."

(Emphasis supplied)

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(ii) [2]

(c) "Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;"

Observation

It was noted from auditor's reporting on paragraph 3(ii) of CARO, 2016 that the auditor has used the phrase "wherever possible and required", while commenting on whether the physical verification of inventory was conducted during the year. It was viewed that the stated wording is not appropriate, as it is creating ambiguity in the minds of readers. It was viewed that the CARO reporting should be based on the factual information.

Accordingly, it was viewed that the auditor's reporting is not in line with the requirement of paragraph 3(ii) of CARO, 2016.

[2] This observation is still relevant under paragraph 3(ii)(a) of the CARO, 2020.

3. Loans and Advances

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure B to Independent Auditor's Report given in the Annual Report of a company, reads as below:

"3.(ii) **According to the information given to us**, the borrowers have been regular in the repayment of principles and interest on loans as stipulated."

(Emphasis supplied)

Principle: Guidance Note on the Companies (Auditor's Report) Order, 2016

"**Paragraph 38**[3]

B. whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular. **Paragraph 3(iii)(b)**

Audit Procedures and Reporting

(b) The auditor has to examine from the loan agreements / mutually agreed letter of arrangement, as the case may be, whether the schedule of repayment of principal and payment of interest has been stipulated at the time of sanction. If there is no such agreement / arrangement or the agreement / arrangement does not contain the schedule of repayment of principal and payment of interest, the auditor shall report that there is no stipulation of schedule of repayment of principal and payment of interest."

Observation

It was noted from given abstract of CARO report that auditor has used the words, 'according to the information given to us' the borrowers have been regular in the repayment of principles and interest on loans as stipulated under CARO, 2016.

It was viewed that the use of such expression ''According to the information given to us'' may lead users of the financial statements to believe that the auditor has merely relied on the information provided by the management without carrying out any other appropriate audit procedures to verify the

[3] This observation is still relevant under paragraph 52(b) and (e) of GN on the CARO, 2020 (Revised 2022 Edition)

information as to whether the repayment of principles and interest on loans is regular or not.

Accordingly, it was viewed that the requirements of CARO 2016 have not been complied with.

4. Loans, Investments, Guarantees and Security

Matter contained in the Annual Report

The relevant abstract of Annexure A to Independent Auditor's Report on Loans, Investments, Guarantees and Security and Note of Contingent Liabilities and Commitments given in the Annual Report of a company, reads as below:

"Annexure A to Auditor's Report

…

(iv) In our opinion and according to the information and explanation given to us the company has complied with the provision of section 185 and 186 of the Act with **respect to the investment made**.

(Emphasis supplied)

Note: Contingent Liabilities and commitments (to the extent not provided for)

S. No.	Particulars	March 31, 20XX	March 31, 20YY	April 1, 20ZZ
(1)	Guarantees issued on behalf of the third parties (net of margin money)	---	---	---

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(iv)[4]

"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."

[4] This observation is still relevant under paragraph 3(iv) of the CARO, 2020.

Observation

It was noted from Note on Contingent Liabilities that the Company has issued "Guarantees on behalf of third parties". It was further noted from CARO report that the auditor has reported compliances with section 185 and 186 of Companies Act, 2013 with respect to the investments made. However, the auditor has not reported on the compliances of these sections with respect to the "Guarantee or Security provided" as required by paragraph 3(iv) of CARO, 2016.

Accordingly, it was viewed that the requirements of the paragraph 3(iv) of the CARO, 2016 have not been appropriately complied with.

5. Loans, Investments, Guarantees and Security

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure A to Independent Auditor's Report given in the Annual Report of an Infrastructure company, reads as follows:

"

(iv) In our opinion and according to the information and explanations given to us, there are no loans given in respect of which provisions of section 185 of the Act are applicable and hence not commented upon. Further, based on the information and explanations given to us, being an infrastructure company, provision of section 186 of the Act is not applicable to the Company and hence not commented upon."

Principle: The Companies Act, 2013 and the Companies (Auditor's Report) Order, 2016

Section 186 (11) of Companies Act, 2013

"*Nothing contained in this section, except sub-section (1) shall apply* –

(a) *…. company established with the object of and engaged in the business of financing industrial enterprises, or of providing infrastructure facilities."*

Paragraph 3(iv) of the CARO, 2016[5]

"In respect of loans, investments, guarantee, and security, whether provisions of sections 185 and 186 of the Companies Act,2013 have been complied with. If not, provide the details thereof. "

[5] This observation is still relevant under paragraph 3(iv) of the CARO, 2020.

Observation

It was noted from the CARO Report wherein the auditor has stated that "provisions of section 186 of Companies Act, 2013 are not applicable to the Company and hence, not commented upon". The Board viewed that an infrastructure company is excluded from the provisions of section 186 except the provisions of section 186(1). In other words, the requirements of section 186(1) are applicable to infrastructure companies, and therefore, auditor should have given his comment on compliance with the provisions of section 186(1) by the company in line with paragraph 3(iv) of CARO, 2016.

Accordingly, it was viewed that the requirements of paragraph 3(iv) of CARO, 2016 have not been complied with.

6. Undisputed Statutory Dues

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure A to Independent Auditor's Report on Undisputed Statutory Dues given in the Annual Report of a company, reads as below:

"(vii)(a) The company is regular in depositing with appropriate authorities undisputed statutory dues, including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, service tax, duty of Custom, duty of excise, value added tax, cess and any other statutory dues applicable to it."

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(vii)(a)

"Whether the company is regular in depositing undisputed statutory dues including Goods and Service Tax, 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 from the financial statements that the company has neither paid any employee benefits nor made contribution to provident fund or ESI. However, it was observed that while reporting about the regularity of depositing undisputed statutory dues, the auditor has reported that ''the company is regular in depositing statutory dues of provident fund, employees' state insurance with appropriate authorities".

Accordingly, it was viewed that auditor's reporting contradicts with the information available in the financial statements.

7. Statutory Dues

Matter contained in the Annual Report

The relevant abstract of Annexure B to Independent Auditor's Report and Note on Contingent Liabilities given in the Annual Report of a company, reads as below:

Annexure B to Independent Auditor's Report

…

"**Clause (vii) (b)**

"Details of dues of **Excise Duty, Service Tax and Customs Duty** which have not been deposited as on March 20XX on account of disputes are given below:

…"

(Emphasis supplied)

"Note: Contingent Liabilities and Commitments

Particulars	**As at 31 March 20XX**	**As at 31 March 20YY**
(i) Contingent Liability		
(a). …	---	---
(b) Claims against the company not acknowledged as debts		
- Income tax matters		---
- Excise, Service Tax and Goods & Service Tax related matters	---	---
- Sales Tax related matters	---	---

Principle: The Companies (Auditor's Report) Order, 2016 and Guidance Note on the CARO, 2016

Paragraph 3 (vii) (b) of the CARO, 2016[6]

"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)".

Paragraph 43(g) of the Guidance Note on CARO, 2016

"Further, a plain reading of this clause suggests that the amounts to be reported under clause 3(vii)(b) of the order are those which have not been deposited on account of any dispute, irrespective of the treatment of such disputed amounts in accounts. **It is quite possible that an amount is disputed and has not been deposited but on consideration of the likely outcome of the dispute, a provision has been made in the accounts. Such an amount will need to be reported, notwithstanding that it has been provided for in accounts. Similarly**, **even if it had not been provided for in accounts, it would have to be reported as long as it is not deposited**. It is also possible that an amount is disputed, has been deposited and on consideration of the likely outcome of the dispute, has been shown as a recoverable. Though such an amount is not contemplated for reporting under this clause, since **it has been deposited, the fact of such deposit having been made under protest should be brought out by the auditor in his report under this clause**.

Whether a disputed amount should be provided for in the accounts or not will need to be judged in the context of AS 4, "Contingencies and Events Occurring After the Balance Sheet Date/Ind AS 10, "Events after the Reporting Period" and AS 29, "Provisions, Contingent Liabilities and Contingent Assets"/Ind AS 37, "Provisions, Contingent Liabilities and Contingent Assets".

Observation

It was noted from Note on Contingent Liabilities that the company has disclosed claims against company with respect to Income Tax and Sales Tax

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[6] This observation is still relevant under paragraph 3(vii)(b) of the CARO, 2020 read with paragraph 60(i) of GN on the CARO, 2020(Revised 2022 Edition).

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matters. However, it was observed that the auditor has not given any reference under clause (vii)(b) of CARO, 2016, with respect to Income Tax and Sales Tax Matters. It was viewed that in case the amount has been deposited under protest, then such fact should have been disclosed by the auditor in his audit report as per paragraph 43(g) of the Guidance Note on CARO, 2016.

Accordingly, it was viewed that the requirements of paragraph 3(vii)(b) of CARO 2016 read with paragraph 43(g) of the Guidance note on CARO,2016 have not been complied with.

8. Disputed Statutory Dues

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure B to Independent Auditor's Report on Disputed Statutory Dues, reads as below:

"(vii)(b) In our opinion, there are **no material dues** of the duty of customs, service tax, excise duty, Goods and Service Tax, VAT, which have not been deposited on account of dispute."

(Emphasis supplied)

Principle: The Companies (Auditor's Report) Order, 2016 and Guidance Note on the CARO, 2016

Paragraph 3(vii)(b) of CARO, 2016[7]

"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)."

Paragraph 43 of Guidance Note on the Companies (Auditor's Report) Order, 2016

…

(a) This clause requires that in case of disputed statutory dues, the amounts involved should be stated along with the forum where the dispute is pending. Therefore, even minor amounts would be required

[7] This observation is still relevant under paragraph 3(vii)(b) of the CARO, 2020 read with paragraph 60 (a) of Guidance Note on CARO, 2022 (2022 edition)

> to be reported under this clause. The auditor should be reported in a manner so that the reader is able to understand the dispute and the amount involved therein."

Observation

Under the stated clause, the auditor has reported that there are "no material dues" which have not been deposited on account of dispute. As per paragraph 43 (a) of the Guidance Note on CARO, 2016 even minor amounts would be required to be reported in a manner so that the reader is able to understand the dispute and the amount involved therein. It was viewed that usage of such phrase/ statements gives an impression that the auditor has verified and reported only the dues that were material in nature and has not covered all the applicable dues that were under dispute as per the paragraph 3(vii)(b) of CARO, 2016.

Accordingly, it was viewed that the requirements of Paragraph 3(vii)(b) of CARO ,2016 read with Paragraph 43(a) stipulated under Guidance Note on CARO, 2016 have not been appropriately complied with.

9. Borrowings

Matter contained in the Annual Report

The relevant abstract of Annexure B to Independent Auditor's Report and Note on Borrowings given in the Annual Report of a company, reads as below:

Annexure B to Independent Auditor's Report

"…

(viii) In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to financial institutions, banks or debenture holders as on 31st March 20XX, details whereof is given herein below:

Name of Dues of Financial Institutions/ Banks	Principal outstanding Amount (Rs. In Lacs)	Period of Default
Term Lenders	---	Since 20XX

Note: Borrowings

Particulars	**31.3.20XX**	**31.3.20YY**
Secured		
Term loans from Financial Institutions	---	----
Interest Accrued and due on Term loans from Financial Institutions	----	---

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(viii)[8]

"Whether the company has defaulted in repayment of loans or borrowings 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 institution, and government, lender wise details to be provided). "

Observation

It was noted from the CARO Report that the auditor has reported principal amount outstanding and period of default for all the lenders in aggregate. It was viewed that if there were any defaults in repayment to any lender, then the auditor should have provided the required detail for each type of lender such as Banks, Financial Institutions and Government along with its period and amount of default.

It was further noted from the notes to financial statements that the company has borrowings from financial institutions with payable outstanding in form of principal as well as interest thereon. Accordingly, the amount of default should include the principal amount and Interest due thereon. However, it was observed that the Auditor has reported about the default of Principal amount only in his Report.

Accordingly, it was viewed that the requirements of Paragraph 3(vii)(b) of CARO, 2016 have not been complied with appropriately.

[8] This observation is still relevant under paragraph 3(ix)(a) of the CARO,2020.

10. Term Loans

Matter contained in the Annual Report

The relevant abstract of **Annexure** B to Independent Auditor's Report and Note on Non-current Financial Liability and Statement of Cash Flow given in the Annual Report of a company, reads as below:

Abstract of Annexure B to Independent Auditor's Report

…

"(ix)…The company did not raise any money by way of initial public offer or further public offer and terms loans during the year. Accordingly, our comment on this clause is not required."

Note: Non-Current Financial Liability- Borrowings

"Particulars	**As at 31st March,20XX**	**As at 31st March,20YY**	**As at 1st April,20ZZ**
Secured Term Loan	---	---	---
Total	---	---	---"

Standalone Cash Flow Statement

"Particulars	**31st March, 20XX**	**31st March, 20YY**
Cash flow from financing activities Proceeds/(repayment) from/ to long term borrowings	---	---"

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(ix)[9]

"Whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported."

[9] This observation is still relevant under paragraph 3(ix)(c) of CARO, 2020.

Observation

It was noted from the CARO report that while reporting in pursuance to clause (ix) of paragraph 3 of CARO, 2016, the auditor has, inter alia, reported that the company did not raise any money by way of term loans during the year. However, it was observed from the Cash flow Statement and Note on "Non-current Borrowings" that the company has obtained the additional long-term borrowings during the year. The Board viewed that the auditor's reporting under paragraph 3(ix) of CARO, 2016 is contrary to the information provided in financial statements of the company. Further, the same has resulted to non-reporting of ''whether the term loans were applied for the purpose for which these loans were obtained''.

Accordingly, it was viewed that the requirements of paragraph 3(ix) of CARO, 2016 have not been complied with by the auditor.

11. Fraud

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure B to Independent Auditor's Report regarding Fraud as given in the Annual Report of a company, reads as below:

Abstract of Annexure B to Independent Auditor's Report

… "(x) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practice in India, and according to the information and explanations given to us, no fraud by the Company or on the Company by its officers or employees has been noticed or reported **during the course of our audit**."

(Emphasis supplied)

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3 (x)[10]

"Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated."

[10] This observation is still relevant under paragraph 3(xi)(a) of the CARO, 2020.

Observation

In pursuance to paragraph 3 (x) of CARO 2016, the Auditor has reported that no fraud has been reported or noticed during the 'course of our audit'. However, it was viewed that as per the requirement of the stated paragraph, the auditor needs to report for the entire financial year and not just the period under audit.

Accordingly, it was viewed that the auditor has not appropriately commented on paragraph 3(x) of CARO, 2016.

12. Related Party Transaction

Matter contained in the Independent Auditor's Report

The relevant abstract of Annexure A to Independent Auditor's Report on Related Party Transaction given in the Annual Report of a company, reads as below:

Abstract of Annexure A to Independent Auditor's Report

"…

xii. In our opinion and as per information and explanations provided to us by management all the transactions with the related parties are in compliance with the provisions of sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the financial statements as required under **Accounting Standard (AS) 18, Related Party Disclosures** specified under Section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014."

(Emphasis supplied)

Principle: The Companies (Auditor's Report) Order, 2016

Paragraph 3(xiii)[11]

"Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, where applicable and the details have been disclosed in the Financial Statements etc., as required by applicable accounting standards."

[11] This observation is still relevant under paragraph 3(xiii) of the CARO, 2020.

Observation

It may be noted that clause 3(xiii) of CARO, 2016 requires the auditor to report that all the related party transactions have been disclosed as per the applicable accounting standards. It was noted that the applicable accounting standards on the company is Indian Accounting Standard 24, Related Party Disclosures, notified under Companies (Indian Accounting Standards) Rules, 2015, as amended and not the Accounting Standard 18. Accordingly, the comment made by the auditor, referring to AS 18 instead of Ind AS 24, is not correct.

Accordingly, it was viewed that the auditor's reporting is not appropriate in this regard.

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