

Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)

Readers may note that this Guidance Note supercedes the Guidance Note on Audit of Consolidated Financial Statements, issued by the ICAI in 2003.



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

© The Institute of Chartered Accountants of India

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

First Edition : September, 2003
Second Edition : October, 2016

Committee : Auditing and Assurance Standards Board

E-mail : aasb@icai.in

Website : www.icai.org

Price : Rs. 150/-

ISBN No : 978-81-8441-847-7

Published by : The Publication Department on behalf of the
Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi - 110 002.

Printed by : Sahitya Bhawan Publications, Hospital
Road, Agra - 282 003
October/2016/P2018 (Revised)

FOREWORD

The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India, in 2003, had issued the Guidance Note on Audit of Consolidated Financial Statements to provide guidance to the members undertaking audits of consolidated financial statements. Since the issuance of this Guidance Note, a number of developments have taken place like notification of the Companies (Accounting Standards) Rules, 2006, replacement of the Companies Act, 1956 by the Companies Act, 2013, issuance of the Indian Accounting Standards (Ind AS) by ICAI, notification of the Companies (Indian Accounting Standards) Rules, 2015. These developments necessitated the revision of the Guidance Note.

It is heartening that the Auditing and Assurance Standards Board has brought out this revised Guidance Note on Audit of Consolidated Financial Statements for the benefit of the members. The Guidance Note has been written in an easy to understand language and contains detailed guidance on various issues involved in the audits of consolidated financial statements. I am happy that the Guidance Note is a comprehensive and self-contained reference document for the members.

I wish to compliment CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this revised Guidance Note for the benefit of the members.

I am sure that the members would find the revised Guidance Note immensely useful.

September 26, 2016
New Delhi

CA. M. Devaraja Reddy
President, ICAI

PREFACE

In 2003, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India had issued the 'Guidance Note on Audit of Consolidated Financial Statements'. Since 2003 and especially during the last 2-3 years, a number of developments have taken place which made it necessary to revise this Guidance Note. These developments include issuance of the Companies (Accounting Standards) Rules, 2006 and the Companies (Indian Accounting Standards) Rules, 2015. Also, the Companies Act, 1956 has been replaced by the Companies Act, 2013 which has changed some of the provisions relating to the preparation and audit of the consolidated financial statements.

It gives me immense pleasure to place in your hands this revised edition of the 'Guidance Note on Audit of Consolidated Financial Statements' which incorporates the impact of these developments at appropriate places. The Guidance Note covers aspects such as introduction, definitions, responsibility of the parent, responsibility of the auditor of consolidated financial statements, audit considerations, auditing the consolidation, special considerations, management representations, reporting. For the benefit of the members, the Appendices to the Guidance Note include the illustrative formats of auditor's report on consolidated financial statements.

At this juncture, I wish to place on record my gratitude to all the members of Delhi Study Group viz. CA. Sanjay Vasudeva (Convenor), CA. Sanjeev Singhal, CA. Parveen Kumar, CA. Vinamr Tulshan, CA. Sandeep Aggarwal, CA. Prakash C Bisht, Mr. Kapil Jain, CA. Archana Bhutani, CA. Moiz Anavarali Manjiyani, CA. Indrajit Pathak, CA. Sumit Seth and CA. Surender Kumar for sparing time out of their other preoccupations for revising the Guidance Note. I would also like to thank all the members of Jaipur Study Group viz. CA. Bhupendra Mantri, CA. Vishnu Mantri, CA. Jugal Agrawal, CA. Vikas Gupta, CA. Prahalad Gupta, CA. Mukesh Gupta and CA. Sandeep Jhanwar for their dedicated efforts in reviewing and finalising the Guidance Note.

I wish to express my sincere thanks to CA. M. Devaraja Reddy, Honourable President, ICAI and CA. Nilesh S. Vikamsey, Vice President, ICAI for their guidance and support to the activities of the Board.

I wish to place on record high appreciation of CA. Sanjay Vasudeva, Vice Chairman of the Board for his whole-hearted support. I also wish to place on record my sincere thanks to all the Board Members and all the Council Members for their suggestions, support and guidance in finalising this Guidance Note as well as other pronouncements of the Board. I also wish to thank CA. Megha Saxena, Secretary to the Board and other officers and staff of AASB for their continued co-operation.

I am confident that the Guidance Note would be well received by the members and other interested readers.

September 26, 2016
Jaipur

CA. Shyam Lal Agarwal
Chairman,
Auditing and Assurance Standards Board

CONTENTS

	Paragraph No.	Page No.
Introduction	1-4	1
Definitions	5	2
Responsibility of Parent	6-7	2
Responsibility of the Auditor of the Consolidated Financial Statements	8-10	3
Audit Considerations	11-17	5
Auditing the Consolidation	18-26	8
Special Considerations	27-44	13
Management Representations	45	22
Reporting	46	23
When the Parent's Auditor is also the Auditor of All its Components	47-48	23
When the Parent's Auditor is not the Auditor of All its Components	49-50	24
When the Component(s) auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent	51-54	25
When the Component(s) auditor Reports under an Auditing Framework Different than that of the Parent	55	26
Components Not Audited	56-57	26
Appendices		
Appendix 1: Illustrative Formats of Independent Auditor's Report on Consolidated Financial Statements		28
Appendix 2: Definitions of Terms used in the Guidance Note		59

Introduction

1. The Council of the Institute of Chartered Accountants of India had issued Accounting Standard (AS) 21 'Consolidated Financial Statements' which was subsequently notified as a part of the Companies (Accounting Standards) Rules, 2006 by the Ministry of Corporate Affairs and subsequently amended vide the Companies (Accounting Standards) Amendment Rules, 2016. Also Indian Accounting Standard (Ind AS) 110, 'Consolidated Financial Statements' has been issued as a part of the Companies (Indian Accounting Standards) Rules, 2015 by the Ministry of Corporate Affairs. AS 21 and Ind AS 110 lay down principles and procedures for preparation and presentation of consolidated financial statements under AS and Ind AS respectively¹. In other words, whenever a parent decides to or is required to prepare and present consolidated financial statements, it should do so in accordance with the requirements of applicable Accounting Standards² under the relevant financial reporting framework.

¹ MCA has issued a road map for convergence with Ind AS. Those companies which are required to follow Ind AS will prepare their consolidated financial statements as per Ind AS 110 on Consolidated Financial Statements. Companies which are not covered by Ind AS road map and don't voluntarily elect to follow Ind AS are required to follow AS 21 on Consolidated Financial Statements notified under Companies (Accounting Standards) Rules, 2006 as amended upto date (recently AS 21 has been amended as per Notification No. G.S.R. 364(E) dated March 30, 2016). It may also be noted that Section 129 of the Companies Act, 2013 now mandates preparation of consolidated financial statements by all companies having subsidiaries and/associates and /joint ventures or joint operations. Similarly, paragraph 9 of AS 21(Revised) requires enterprises which do not have a subsidiary but have an associate and/or a joint venture to also prepare consolidated financial statements in accordance with AS 23 and AS 27 respectively.

For non-corporate entities, accounting standards issued by ICAI are applicable.

² For Companies covered by Ind AS, the relevant accounting standards are Ind AS 27 – Separate Financial Statements, Ind AS 28 – Investments in Associates and Joint Ventures, Ind AS 110 – Consolidated Financial Statements, Ind AS 111 – Joint Arrangements and Ind AS 112 – Disclosure of Interest in Other Entities, notified under the Companies (Indian Accounting Standards) Rules, 2015. For Companies not covered by Ind AS, the relevant accounting standards are AS 21 - Consolidated Financial Statements, AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements and AS 27 – Financial Reporting of Interests in Joint Ventures, notified under the Companies (Accounting Standards) Rules, 2006. For non-corporate entities, the relevant accounting standards are AS 21, 23 and 27 issued by ICAI.

This Guidance Note does not provide guidance in relation to amalgamation/business combination.

2. Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, a consolidated statement of change in equity (if applicable) and any explanatory notes annexed to, or forming part thereof. Consolidated financial statements are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statements. The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are prescribed under the Schedule III of the Companies Act, 2013.

3. An entity which prepares the consolidated financial statements, either under any law or regulation governing the entity or *suo motu*, might be required to or otherwise engage the auditor for conducting the audit of consolidated financial statements. However, a law or regulation governing the entity may require the consolidated financial statements to be audited by the statutory auditor of the entity. This Guidance Note provides guidance on the specific issues and audit procedures to be applied in an audit of consolidated financial statements. This Guidance Note can also be used while auditing consolidated financial statements prepared for special purpose, to the extent applicable.

4. This Guidance Note does not deal with accounting matters arising on consolidation of financial statements.

Definitions

5. Various terms used in this Guidance Note, have the same meaning as defined in applicable accounting standards. The same have been given in **Appendix II** to the Guidance Note.

Responsibility of Parent

6. The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. This includes:

- (a) identifying components, and including the financial information of the components to be included in the consolidated financial statements;
- (b) where appropriate, identifying reportable segments for segment reporting;
- (c) identifying related parties and related party transactions for reporting;
- (d) obtaining accurate and complete financial information from components;
- (e) making appropriate consolidation adjustments.
- (f) harmonization of accounting policies and accounting framework; and.
- (g) GAAP conversion, where applicable.

7. Apart from the above, the parent ordinarily issues instructions to the management of the components specifying the parent's requirements relating to financial information of the components to be included in the consolidated financial statements. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

Responsibility of the Auditor of the Consolidated Financial Statements

8. Section 129(4) of the Companies Act, 2013 requires that the provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis*, apply to the consolidated financial statements. Besides other matters, the principal auditor of the consolidated financial statements is responsible for expressing an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework under which the parent prepares the consolidated financial statements in addition to reporting on the additional

matters as required under the Companies Act, 2013 and any other statute to the extent applicable.

9. Therefore, the auditor's objectives in an audit of consolidated financial statements are:

- (a) to satisfy himself that the consolidated financial statements have been prepared in accordance with the requirements of applicable financial reporting framework;
- (b) to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements.
- (c) to enquire into the matters as specified in section 143(1) of the Companies Act, 2013; and.
- (d) to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013; for other matters under section 143(3)(j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a),(b) and (c)³ to the extent applicable.

10. Standards on Auditing⁴, Statements and Guidance Notes on auditing issued by the Institute of Chartered Accountants of India apply in the same manner to audit of consolidated financial statements as they apply to audit of separate financial statements. It means that the auditors, while conducting the audit of consolidated financial statements are, *inter alia*, expected to:

- (a) plan their work to enable them to conduct an effective audit in an efficient and timely manner;
- (b) obtain an understanding of the accounting and internal control systems including IT system like consolidation tool, sufficient to plan the audit and determine the nature, timing and extent of his audit procedures. Such an understanding

³ The auditor of the consolidated financial statements generally report on the matters pertaining to the component, on the basis of auditors' report of the respective component.

⁴ As specified under the Companies Act, 2013.

would help the auditors to develop an effective audit approach;

- (c) use professional judgment to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level; etc.

Audit Considerations

11. The following features of consolidated financial statements have an impact on the related audit procedures:

- (a) The consolidated financial statements are prepared on the basis of separate financial statements of the parent and its components, using the consolidation procedures prescribed by Accounting Standards⁵ under applicable financial reporting framework; and
- (b) The auditor of the consolidated financial statements may use the work of other auditors as per requirement of Standards on Auditing unless the auditor of consolidated financial statements is also the auditor of the other components of the group.

12. The consolidated financial statements (including the intermediate consolidated financial statements prepared internally)⁶ are prepared using the separate financial statements of the parent and its components and also other financial information, which might not be covered by the

⁵ Accounting Standard (AS) 21, Consolidated Financial Statements, Accounting Standard (AS 23)- Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard (AS) - 27, Financial Reporting of Interests in Joint Ventures OR Indian Accounting Standard (Ind AS) 110 – Consolidated Financial Statements, Indian Accounting Standard (Ind AS) 111- Joint Arrangements, Indian Accounting Standard (Ind AS) 112 –Disclosure of Interests in Other Entities and Indian Accounting Standard (Ind AS) 28 – Investments in Associates and Joint Ventures.

⁶ Intermediate consolidated financial statements are the consolidated financial statements of an intermediate parent, e.g., Company A has one subsidiary Company B. Company B has a subsidiary Company C. In this case, Company B is the intermediate parent and the consolidated financial statements prepared by Company B will be intermediate consolidated financial statements.

separate financial statements of these entities. The 'other financial information' would include disclosures to be made in the consolidated financial statements about the components, proportion of items included in the consolidated financial statements to which different accounting policies have been applied where permitted, adjustments made for the effects of significant transactions or other events that occur between the financial statements of parent and its components, as the case may be, etc. Thus, this 'other financial information' would be required to be additionally disclosed.

13. When an auditor accepts the audit of consolidated financial statements, the auditor should assess whether based on his work alone he would be able to express an opinion on the true and fair view presented by the consolidated financial statements. If the auditor is of the view that his own participation may not be enough or sufficient, he should consider using the work of 'other auditors'.

14. Such 'other auditors' might be the statutory auditors of the separate financial statements of one or more of the components or the auditors appointed specifically for assisting the auditor of the consolidated financial statements (the principal auditor).

15. Where the statutory auditors of one or more of the components of the parent are also requested to assist the principal auditor, the work to be performed by such statutory auditors for use by the principal auditor would constitute an assignment separate from the assignment to conduct the statutory audit of the respective component.

16. Standard on Auditing (SA) 600, 'Using the Work of Another Auditor' establishes standards when an auditor, reporting on the financial statements of an entity (the group—in the case of consolidated financial statements), uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity (Paragraph 2 of SA 600). The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.

17. In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS. (Refer paragraph 27 and 30 of this Guidance Note).
- The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable⁷.
- While considering the observations (for instance modification and /or emphasis of matter/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600, "Using the Work of Another Auditor".

⁷ Refer ICAI's Announcement on the Manner of Disclosure in the Auditor's Report of the Fact of Inclusion of Unaudited Financial Statements/ Information of Component/s in the Financial Statements Audited by the Principal Auditor(s) issued in February 2014.

Auditing the Consolidation

18. Before commencing an audit of consolidated financial statements, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. The auditor should make plans, among other things, for the following:

- (a) Understanding of the group structure and group-wide controls⁸ including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;
- (b) understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of financial statements of foreign components;
- (c) determining and programming the nature, timing, and extent of the audit procedures to be performed based on

⁸ Group-wide controls may include a combination of the following:

- a. group management's risk assessment process, that is, the process for identifying, analysing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements
- b. monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level
- c. a process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components
- d. a central IT system controlled by the same general IT controls for all or part of the group
- e. control activities within an IT system that is common for all or some components
- f. monitoring of controls, including activities of the internal audit function and self-assessment programs
- g. consistent policies and procedures, including a group financial reporting procedures manual
- h. group-wide programs, such as codes of conduct and fraud prevention programs, and
- i. arrangements for assigning authority and responsibility to component management.

the assessment of the risk of material misstatement in the consolidation process;

- (d) determining the extent of use of other auditor's work in the audit; and
- (e) coordinating the work to be performed.

19. A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.

20. The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion as referred to in paragraph 19 above. In respect of completeness of this information, the auditor should perform the following procedures:

- (a) review his working papers for the prior years for the known components;
- (b) review the parent's procedures for identification of various components;
- (c) make inquiries of management to identify any new components or any component which goes out of consolidated financial statements.
- (d) review the investments of parent as well as its components to determine the shareholding in other entities;
- (e) review the joint ventures and joint arrangements as applicable;
- (f) review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group.

- (g) review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013.
- (h) also identify the changes in the shareholding that might have taken place during the reporting period.

21. The auditor should document procedures performed for assessing completeness of the components to be consolidated.

22. There would be various means by which control, joint control or significant influence can be obtained. In this regard, the auditor may verify the Board's minutes, shareholder agreements entered into by the parent, agreements with the entities to which the parent might have provided any technology or know how, enforcement of statute, as the case may be, etc. The auditor may also review the minutes of the meetings of the Board of Directors subsequent to the year-end to understand if there has been any liquidation of investments or any further investments have been made as these may provide further evidence to understand if the control was meant to be temporary in nature or otherwise.

23. Where a component is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion and whether such exclusion is in conformity with the applicable financial reporting framework, for example, under the Companies (Accounting Standards) Rules, 2006, there could be two reasons for exclusion of a subsidiary, associate or jointly controlled entity – one, that the relationship of parent with the subsidiary, associate or jointly controlled entity is intended to be temporary or the subsidiary, associate or joint venture operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. Similarly, under the Companies Act, 2013, intermediate subsidiary in India is not required to present consolidated financial statements. Ind AS

110 also prescribes certain criteria⁹ where consolidated financial statements are not required. In such cases, the auditor should satisfy himself that the exclusion made by the management falls within these categories, e.g. in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture is temporary, the auditor should verify that the intention of the parent, to dispose off the subsidiary, investment in associate or interest in jointly controlled entity, in the near future, existed at the time of acquisition of the subsidiary, making investment in associate or jointly controlled entity. The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements. If an entity is excluded from the consolidated financial statements for reasons other than those allowed by the applicable financial reporting framework, the auditor should consider its effect on the auditor's report to be issued.

24. The auditor should also examine whether there is any change in the status of a component (e.g., subsidiary to associate, JV to associates or vice – versa). The auditor, in

⁹(a) A parent need not present consolidated financial statements if it meets all the following conditions:

- (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
 - (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
 - (iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind ASs.
- (b) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits*, applies.
- (c) an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Ind AS, to measure all of its subsidiaries at fair value through profit or loss.

such cases, should examine whether these changes have been appropriately accounted for in the consolidated financial statements as required by the relevant accounting standards under the applicable financial reporting framework.

25. (a) In preparing consolidated financial statements in accordance with the Companies (Accounting Standards) Rules, 2006, the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows and then certain calculations like determination of goodwill or capital reserve, minorities interest and adjustments like elimination of intra group transactions, balances and unrealised profits etc. are made in accordance with the requirements of Accounting Standard (AS) 21, "Consolidated Financial Statements". Investments in associates are accounted for using the Equity Method as prescribed in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements". A parent that has an interest in a jointly controlled entity, reports its interest in the consolidated financial statements using proportionate consolidation method in accordance with Accounting Standard (AS) 27, "Financial Reporting of Interests in Joint Ventures". Many of the procedures appropriate for the application of equity method and the proportionate consolidation method are similar to the consolidation procedures set out in Accounting Standard (AS) 21, "Consolidated Financial Statements".

(b) For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015:

- the financial statements of the parent and its subsidiaries are combined as per Ind AS 110, "Consolidated Financial Statements" on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows;
- related goodwill/ capital reserve and non-controlling interest is determined as per Ind As 103;

- adjustments like elimination of intra group transactions, balances, unrealised profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110.
- Investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, "Investments in Associates and Joint Ventures". Interests in assets, liabilities, revenues and expenses in a joint operation are accounted for as part of separate financial statements of the entity in accordance with Indian Accounting Standard (Ind AS) 111, "Joint Arrangements".

26. The auditor should verify that the adjustments warranted by the relevant accounting standards under the applicable financial reporting framework have been made wherever required and have been properly approved by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments. No adjustments, other than those envisaged in this Guidance Note, can be carried out in the preparation of CFS at the group level.

Special Considerations

Permanent Consolidation Adjustments

27. Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Permanent consolidation adjustments are:

- (a) Determination of goodwill or capital reserve as per applicable accounting standards.
- (b) Determination of amount of equity attributable to minority/non- controlling interests.

28. The auditor should verify that the above calculations have been made appropriately. The auditor should pay particular attention to the determination of pre-acquisition reserves of the components. Date(s) of investment in components assumes

importance in this regard. The auditor should also examine whether the pre-acquisition reserves have been allocated appropriately between the parent and the minority interests/ non-controlling interests of the subsidiary. The auditor should also verify the changes that might have taken place in these permanent consolidation adjustments on account of subsequent acquisition of shares in the components, disposal of the components in the subsequent years.

29. It may happen that while working out the permanent consolidation adjustments, in the case of one subsidiary, goodwill arises and in the case of another subsidiary a capital reserve arises. The parent may choose to net off these amounts to disclose a single amount in the consolidated balance sheet where permitted by the applicable financial reporting framework. In such cases, the auditor should verify that the gross amounts of goodwill and capital reserves arising on acquisition of various subsidiaries have been disclosed in the notes to the consolidated financial statements to reflect the excess/shortage over the parents' portion of the subsidiary's equity.

Current Period Consolidation Adjustments

30. Current period consolidation adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done. Current period consolidation adjustments primarily relate to elimination of intra-group transactions and account balances including:

- (a) intra-group interest paid and received, or management fees, etc.;
- (b) unrealised intra-group profits on assets acquired/ transferred from/ to other subsidiaries;
- (c) intra-group indebtedness;
- (d) adjustments related to harmonising the different accounting policies being followed by the parent and its components;
- (e) adjustments to the financial statements (of the parent and the components being consolidated) for recognized subsequent events or transactions that occur between the balance sheet

date and the date of the auditor's report on the consolidated financial statements of the group.

There are two types of subsequent events:

- a. The first type of subsequent events consists of events or transactions that provide additional evidence about conditions that existed at the date of the financial statements, including the estimates inherent in the process of preparing financial statements (i.e. adjusting events).
- b. The second type of subsequent events consists of events that provide evidence about conditions that did not exist at the date of the financial statements but arose subsequent to that date (i.e. non-adjusting events).

Events occurring after balance sheet date which do not require adjustments would not normally require disclosure, although they may be of such significance that they may require a disclosure in the report of approving authority in the case of accounting standards and in the financial statements in case of Ind AS. For such events, the following shall be disclosed:

- a. The nature of the event; and
 - b. An estimate of its financial effect or a statement that such an estimate cannot be made.
- (f) adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and not already recognised in its financial statements and the date of the auditor's report on the group's consolidated financial statements when the financial statements of the component to be used for consolidation are not drawn upto the same balance sheet date as that of the parent;
- (g) In case of a foreign component, adjustments to convert a component's audited financial statements prepared under the component's local GAAP to the GAAP under which the consolidated financial statements are prepared.

- (h) determination of movement in equity attributable to the minorities interest/non-controlling interest since the date of acquisition of the subsidiary.
- (i) adjustments of deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intragroup transactions and undistributed profits of the component in case of consolidated financial statements prepared under Ind AS.

31. The adjustments required for preparation of consolidated financial statements are made in memorandum records kept for the purpose by the parent. The auditor should review the memorandum records to verify the adjustment entries made in the preparation of consolidated financial statements. Apart from reviewing the memorandum records, the auditor should inter alia:

- (a) verify that the intra group transactions and account balances have been eliminated;
- (b) verify that the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances;
- (c) verify that adequate disclosures have been made in the consolidated financial statements of application of different accounting policies in case, it was impracticable to harmonize them. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so¹⁰.

¹⁰ AS 21/ AS 23/ AS 27 permit application of different accounting policies, if it is impractical to use uniform accounting policies, that fact should be disclosed together with the proportion of the items in the consolidated financial statements to which the different accounting policies have been applied. Ind AS 28 permits that financial statement of an associate can be prepared using different accounting policies if it is impractical to do so however adjustment shall be made to make the accounting policies confirm to those of parent when the financial statements are used by parent in applying the equity method.

- (d) verify the adjustments made to harmonise the different accounting policies including adjustments made by management to convert a component's financial statements prepared under the component's GAAP to the GAAP under which the consolidated financial statements are prepared;
- (e) verify the calculation of minorities/non-controlling interest;
- (f) verify adjustments relating to deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from Intergroup transactions (where the parent's accounts are maintained in Ind AS);
- (g) verify that income and expenses of the subsidiary are included in consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognised in consolidated financial statements at the acquisition date¹¹.

32. The auditor should gain an understanding of the procedures adopted by the management of the enterprise to make the above mentioned adjustments. This helps the auditor in reducing the audit risk to an acceptably low level.

33. One of the important adjustment that may be required in the current period is determination of impairment loss that might exist for goodwill arising on consolidation. Goodwill arising on consolidation is carried at the value determined at the date of acquisition of the component, and the same is to be tested for impairment loss at every balance sheet date.

34. The auditor should examine whether any impairment loss has been determined by the parent. If yes, the auditor should examine the procedure followed for determination of impairment loss. The auditor should satisfy himself that the amount of impairment loss determined is fair. In case the impairment loss

¹¹ Where the consolidated financial statements are prepared under Indian Accounting Standards.

in goodwill of a component has been determined in foreign currency, the auditor should verify if any amount of loss in local currency need to be adjusted from currency translation reserve on account of movement in the exchange rate from the date when the goodwill was first accounted for in the consolidated financial statement of parent, to the date of determination of impairment loss.

35. The auditor should also perform audit procedures to understand and verify whether Intragroup losses are indicating an impairment loss that requires recognition in the consolidated financial statements.

36. Apart from verifying that the calculation and disclosures regarding minorities/non-controlling interest have been made appropriately, the auditor also determines, in cases where the minority interests' share of the losses exceed the minority /non-controlling interests' share of the equity, the excess, and any further losses applicable to the minority interest, have been accounted for in accordance with the relevant accounting standards.

37. The financial statements of the components used in the consolidation should be drawn up to the same reporting date as that of the parent. If it is not practicable to draw up the financial statements of one or more components to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months in case of financial statements under AS and three months in case of financial statements under Ind AS. The auditor of the consolidated financial statements should review other components' results between its financial reporting date and that of the parent for significant transactions or other events that have taken place during the period and, therefore, need to be reflected in the consolidated financial statements. Recognition should be given by disclosure or otherwise to the effect of

intervening events which materially affect the financial position, results of operations or cash flows.

38. The fundamental accounting assumption of “consistency” requires the auditor of the consolidated financial statements to consider whether the length of the reporting periods and any difference in financial year-ends are the same from period to period. If there have been any changes in the respective reporting periods of the components included in the consolidated financial statements that have a material effect on the financial statements, the auditor should ensure that the entity discloses such changes and the manner of treatment in the financial statements.

39. The Ministry of Corporate Affairs has issued a Circular number 39/2014 dated October 14, 2014 stating that Schedule III to the Act read with the applicable Accounting Standards does not envisage that a company while preparing its consolidated financial statements merely repeats the disclosures made by it under separate financial statements being consolidated. In the consolidated financial statements, the company would need to give all disclosures relevant to consolidated financial statements only.

40. Further, Accounting Standard (AS) 21 also lays down certain principles that should be observed while giving the information which is part of the separate financial statements of the Components but that need not be reported in the notes and other explanatory material of the consolidated financial statements. The auditor should:

- (a) examine that the notes required by the applicable standards which are necessary for presenting a true and fair view of the consolidated financial statements have been included in the consolidated financial statements as an integral part thereof; and
- (b) examine that additional statutory information disclosed in the separate financial statements of the subsidiary and/or a parent having bearing on the true and fair view of the

consolidated financial statements have been disclosed in the consolidated financial statements.

41. In addition, the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') should be disclosed. For example, following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

- (i) amount of net assets and net assets as a percentage of consolidated net assets;
- (ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;
- (iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.¹²

42. As regards consolidation adjustments (including elimination of intra group transactions), it should be ensured that these are either disclosed as a single line item separately or adjusted in the information (e.g. net assets) disclosed for the parent and its each component.

43. The Ind AS 110 does not give a list of information which is part of the separate financial statement of the components but that need not be reported in the notes and other explanatory material of the consolidated financial statements, however, based on section 129(4) and MCA circular 39/2014 as referred above, it can be construed that, even in consolidated financial statements under Ind AS, only those disclosures should be given which are relevant to consolidated financial statements.

44. Based on the above discussion, in case of companies, the information such as the following given in the notes to the

¹² For companies which are covered by Ind AS.

separate financial statements of the parent and/or the subsidiary, need not be included in the consolidated financial statements.

- (i) Source from which bonus shares are issued, e.g., capitalisation of profits or Reserves or from Securities Premium Account.
- (ii) Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.
- (iii) Disclosure required under Micro, Small and Medium Enterprises Development Act, 2006.
- (iv) A statement of investments (whether shown under “financial assets or non-financial assets as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.
- (v) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:
 - (a) raw materials;
 - (b) components and spare parts;
 - (c) capital goods.
- (vi) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.
- (vii) Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.

- (viii) The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.
- (ix) Earnings in foreign exchange classified under the following heads, namely:-
 - (a) export of goods calculated on F.O.B. basis;
 - (b) royalty, know-how, professional and consultation fees;
 - (c) interest and dividend;
 - (d) other income, indicating the nature thereof.

However, notwithstanding the above, the auditor needs to ensure compliance with disclosure requirements of applicable accounting standards and other applicable laws for consolidated financial statements.

Management Representations

45. Standard on Auditing (SA) 580, "Written Representations" requires the auditor to obtain appropriate representations from management. The auditor of the consolidated financial statements should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent and that parent's management has approved the consolidated financial statements. In addition, the auditor of the consolidated financial statements should obtain written representations from parent's management on matters material to the consolidated financial statements. Examples of such representations include:

- (a) Completeness of components included in the consolidated financial statements;
- (b) Identification of reportable segments for segment reporting;

- (c) Identification of related parties and related party transactions for reporting;
- (d) Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra-group transactions.

Reporting

46. With reference to the auditor's responsibility under paragraph 8, there could be two situations in an audit of consolidated financial statements--when the parent's auditor is also the auditor of all the components to be included in the consolidated financial statements and when the parent's auditor is not the auditor of one or more components and therefore, uses the work of other auditors in the audit. The auditor should, while preparing the report, consider the requirements of Standard on Auditing (SA) 700, "Forming an Opinion and Reporting on Financial Statements", SA 705, "Modifications to the Opinion in the Independent Auditor's Report and SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report. Where, the auditor uses the work of other auditors in the audit of consolidated financial statements, the requirements of Standard on Auditing (SA) 600, "Using the Work of Another Auditor" should also be considered. Reference may also be made to paragraph 16 for using the work of another auditor.

When the Parent's Auditor is also the Auditor of All its components

47. While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed. In case of any departure, the auditor should consider the same while drafting the audit report.

48. Auditor should issue an audit report expressing an opinion whether the consolidated financial statements give a true and

fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit. Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statement. Suggested format of the audit report to be issued in such circumstance is given in **Appendix I** to this Guidance Note.

When the Parent's Auditor is not the Auditor of All its Components

49. In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should consider the requirements of SA 600.

50. As prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor. Total assets, revenues and cash flows not audited by the parent's auditor should be presented before giving effect to permanent and current period consolidation adjustments. Reference in the report of the auditor on the consolidated financial statements to the fact that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries. Suggested format of the audit report to be issued by the auditor of the consolidated financial

statements in this circumstance is given in **Appendix I** to this Guidance Note.

When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent

51. The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent's GAAP because of their unfamiliarity with such GAAP.

52. When a component's financial statements are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group's consolidated financial statements, the parent's management perform a conversion of the components' audited financial statements from the framework used by the component to the framework under which the consolidated financial statements are prepared. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation. Suggested format of the audit report to be issued by the auditor of the consolidated financial statements in this circumstance is given in **Appendix I** to this Guidance Note.

53. A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group's consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the

group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies".

54. When applying the approach in paragraph 53 above of using group accounting policies as the financial accounting framework for components to report under, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements. This ensures that the information prepared under the requirements of the group accounting policies will be directly usable and relevant for the preparation of consolidated financial statements by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component's financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components' audit report and make reference to it in the auditor's report on the consolidated financial statements. See paragraph 50 for additional guidance.

When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent

55. Normally, audits of financial statements, including consolidated financial statements, are performed under auditing standards generally accepted in India ("Indian GAAS"). In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the consolidated financial statements, the components' financial statements should also be audited under a framework that corresponds to Indian GAAS.

Components Not Audited

56. Generally, the financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location

group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components' auditor.

57. Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor (or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, "Modifications to the Opinion in the Independent Auditor's Report"¹³.

¹³ Refer Announcement on the Manner of Disclosure in the Auditor's Report of the Fact of Inclusion of Unaudited Financial Statements / Information of Component/s in the Financial Statements audited by the Principal Auditor(s) issued by ICAI in February 2014.

Appendix I

Illustrative Formats of Independent Auditor's Report on Consolidated Financial Statements

Illustration 1: Unmodified Opinion

Note:

The following illustrative format is based on the assumptions that all components have been audited by the Principal Auditor.

The independent auditor of Consolidated Financial Statements:

- Gives an **Unmodified Opinion** on the consolidated financial statements

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS¹⁴ financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations¹⁵, comprising the Consolidated

¹⁴ if applicable.

¹⁵ As the case may be as per the relevant accounting standards.

Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income)¹⁶, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity¹⁷, for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)¹⁸, consolidated cash flows and consolidated statement of changes in equity¹⁹ of the Group including its Associates and Jointly controlled entities/ Joint ventures and Joint operations²⁰ in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 / Indian Accounting Standards specified under Section 133 of the Act²¹. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities /joint ventures and joint operations²² are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled

¹⁶ if applicable.

¹⁷ if applicable.

¹⁸ if applicable.

¹⁹ if applicable.

²⁰ As the case may be as per the relevant accounting standards.

²¹ Select as applicable.

²² As the case may be as per the relevant accounting standards.

entities/joint ventures and joint operations²³ and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the

²³ As the case may be as per the relevant accounting standards.

consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated 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 consolidated state of affairs (financial position) of the Group, its associates and jointly controlled entities /joint ventures and joint operations²⁴ as at 31st March, 20XX, and their consolidated profit/loss (financial performance including other comprehensive income)²⁵, their consolidated cash flows and consolidated statement of changes in equity²⁶ for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

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

²⁴ As the case may be as per the relevant accounting standards.

²⁵ if applicable.

²⁶ if applicable.

- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.
- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement, and Consolidated Statement of Changes in Equity²⁷ dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act²⁸.
- (e) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled entities/ joint venture and joint operations²⁹ incorporated in India is disqualified as on 31st March 20XX from being appointed as a director in terms of Section 164 (2) of the Act.
- (f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary

²⁷ if applicable.

²⁸ Select as applicable.

²⁹ As the case may be as per the relevant accounting standards.

companies, associate companies and jointly controlled entities/ joint ventures and joint operations³⁰ incorporated in India and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.

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

i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations³¹ - Refer Note XX to the consolidated financial statements.

Or

There were no pending litigations as at 31st March, 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations³².

ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities /joint ventures and joint operations³³ and (b) the Group's share of net profit/loss in respect of its associates.

³⁰ As the case may be as per the relevant accounting standards.

³¹ As the case may be as per the relevant accounting standards.

³² As the case may be as per the relevant accounting standards.

³³ As the case may be as per the relevant accounting standards.

Or

The Group, its associates and jointly controlled entities/joint ventures and joint operations³⁴ did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31st March, 20XX .

- iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations³⁵ incorporated in India during the year ended 31st March 20XX.

Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations³⁶ incorporated in India during the year ended 31st March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations³⁷ incorporated in India during the year ended 31st March 20XX: [describe the

³⁴ As the case may be as per the relevant accounting standards.

³⁵ As the case may be as per the relevant accounting standards.

³⁶ As the case may be as per the relevant accounting standards.

³⁷ As the case may be as per the relevant accounting standards.

delays, covering date of payment, amount involved and number of days' delay.]

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)

(Designation³⁸)
(Membership No. XXXXX)

Place of Signature:
Date:

³⁸ Partner or Proprietor as the case may be.

Illustration 2: Unmodified Opinion

Note:

The following illustrative format is based on the assumptions that the Group has:

- Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, and they did not have any matter to report under section 143(3)(f) of the Companies Act, 2013.
- Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.

The independent auditor of Consolidated Financial Statements:

- Gives an **Unmodified Opinion** on the consolidated financial statements.
- Discloses the aforementioned facts about the Components in the "Other Matters" Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014.

**ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR'S
REPORT ON THE CONSOLIDATED FINANCIAL
STATEMENTS OF A GROUP UNDER THE COMPANIES
ACT, 2013 AND THE RULES THEREUNDER**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ABC COMPANY LIMITED**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS³⁹ financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations⁴⁰, comprising the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income)⁴¹, the Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity⁴², for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)⁴³, consolidated cash flows and consolidated statement of changes in equity⁴⁴ of the Group including its Associates and Jointly controlled entities /Joint ventures and Joint operations⁴⁵ 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

³⁹ if applicable.

⁴⁰ As the case may be as per the relevant accounting standards.

⁴¹ if applicable.

⁴² if applicable.

⁴³ if applicable.

⁴⁴ if applicable.

⁴⁵ As the case may be as per the relevant accounting standards.

(Accounts) Rules, 2014 / Indian Accounting Standards prescribed under Section 133 of the Act⁴⁶. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities /joint ventures and joint operations⁴⁷ are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled entities/joint ventures and joint operations⁴⁸ and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about

⁴⁶ Select as applicable.

⁴⁷ As the case may be as per the relevant accounting standards.

⁴⁸ As the case may be as per the relevant accounting standards.

whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of other auditors on separate financial statements and on the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations⁴⁹, the aforesaid consolidated 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 consolidated state of affairs (financial position) of the Group, its associates and jointly controlled entities

⁴⁹ As the case may be as per the relevant accounting standards.

/joint ventures and joint operations⁵⁰ as at 31st March, 20XX, and their consolidated profit/loss (financial performance including other comprehensive income)⁵¹, their consolidated cash flows and consolidated statement of changes in equity⁵² for the year ended on that date.

Other Matters

- (a) We did not audit the financial statements/ financial information of _____ subsidiaries, and _____ jointly controlled entities /joint operations⁵³, whose financial statements/ financial information reflect total assets of Rs. _____ and net assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash outflows/(inflows)⁵⁴ amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities /joint ventures and joint operations⁵⁵ and associates, and our report in terms of sub-section (3) of Section 143 of the Act, insofar as it relates to the aforesaid subsidiaries, jointly controlled entities /joint ventures and joint operations⁵⁶ and associates,

⁵⁰ As the case may be as per the relevant accounting standards.

⁵¹ if applicable.

⁵² if applicable.

⁵³ As the case may be as per the relevant accounting standards.

⁵⁴ Please delete what is not applicable in the given case.

⁵⁵ As the case may be as per the relevant accounting standards.

⁵⁶ As the case may be as per the relevant accounting standards.

is based solely on the reports of the other auditors.

Certain of these subsidiaries/associates/ joint ventures and joint operations are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Company's management has converted the financial statements of such subsidiaries/associates/ joint ventures and joint operations located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries/associates/ joint ventures and joint operations located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us.

- (b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities/ joint operations⁵⁷, whose financial statements/ financial information reflect total assets of Rs. _____ and net assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash outflows/(inflows)⁵⁸ amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates and joint ventures, whose financial statements / financial information have not

⁵⁷ As the case may be as per the relevant accounting standards.

⁵⁸ Please delete what is not applicable in the given case.

been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities /joint ventures and joint operations⁵⁹ and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities /joint ventures and joint operations⁶⁰ and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements/ financial information are not material to the Group.

Our opinion above on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/ financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit and on the consideration of report of the other auditors on separate financial statements and the other financial information of subsidiaries, associates and jointly controlled entities/joint ventures and joint operations⁶¹, as noted in the 'other matter' paragraph, we report, to the extent applicable, that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief

⁵⁹ As the case may be as per the relevant accounting standards.

⁶⁰ As the case may be as per the relevant accounting standards.

⁶¹ As the case may be as per the relevant accounting standards.

were necessary for the purposes of our audit of the aforesaid consolidated financial statements.

- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.
- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity⁶² dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act⁶³.
- (e) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations⁶⁴ incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies/joint venture incorporated in India is disqualified as on 31st March 20XX from being appointed as a director in terms of Section 164(2) of the Act.

⁶² if applicable.

⁶³ Select as applicable.

⁶⁴ As the case may be as per the relevant accounting standards.

- (f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations⁶⁵ incorporated in India and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations⁶⁶, as noted in the ‘Other matter’ paragraph:
- i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations⁶⁷. Refer Note XX to the consolidated financial statements.
- Or
- There were no pending litigations as at 31st March 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations⁶⁸.
- ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative

⁶⁵ As the case may be as per the relevant accounting standards.

⁶⁶ As the case may be as per the relevant accounting standards.

⁶⁷ As the case may be as per the relevant accounting standards.

⁶⁸ As the case may be as per the relevant accounting standards.

contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities /joint ventures and joint operations⁶⁹ and (b) the Group's share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities /joint ventures and joint operations⁷⁰ did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31st March 20XX.

- iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations⁷¹ incorporated in India during the year ended 31st March 20XX.

Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations⁷² incorporated in India during the year ended 31st March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund

⁶⁹ As the case may be as per the relevant accounting standards.

⁷⁰ As the case may be as per the relevant accounting standards.

⁷¹ As the case may be as per the relevant accounting standards.

⁷² As the case may be as per the relevant accounting standards.

by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India during the year ended 31st March 20XX: [describe the delays, covering date of payment, amount involved and number of days' delay.]

For XYZ & Co.
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁷³)
(Membership No. XXXXX)

Place of Signature:

Date:

⁷³ Partner or Proprietor as the case may be.

Illustration 3: Modified Opinion

Note:

The following illustrative format is based on the assumptions that the Group has:

- Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, and they have issued a modified opinion and also reported under section 143(3)(f) and 143(3)(h) of the Companies Act, 2013.
- Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.

The independent auditor of Consolidated Financial Statements:

- Gives a **Modified Opinion** on the consolidated financial statements.
- Discloses the aforementioned facts about the Components in the "Other Matters" Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014.

ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC COMPANY LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Ind AS⁷⁴ financial statements of ABC Company Limited (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") its associates and its jointly controlled entities/joint ventures and joint operations⁷⁵, comprising the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss (including other comprehensive income)⁷⁶, the Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity⁷⁷, for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance (including other comprehensive income)⁷⁸, consolidated cash flows and consolidated statement of changes in equity⁷⁹ of the Group including its Associates and Jointly controlled entities /Joint ventures and Joint operations⁸⁰ 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

⁷⁴ if applicable.

⁷⁵ As the case may be as per the relevant accounting standards.

⁷⁶ if applicable.

⁷⁷ if applicable.

⁷⁸ if applicable.

⁷⁹ if applicable.

⁸⁰ As the case may be as per the relevant accounting standards.

(Accounts) Rules, 2014 / Indian Accounting Standards prescribed under Section 133 of the Act⁸¹. The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities /joint ventures and joint operations⁸² are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates and its jointly controlled entities/joint ventures and joint operations⁸³ and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

⁸¹ Select as applicable.

⁸² As the case may be as per the relevant accounting standards.

⁸³ As the case may be as per the relevant accounting standards.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

Basis for Qualified Opinion

We draw your attention to the following qualification to the audit opinion of the financial statements of [Name of the subsidiary company], a subsidiary of the Holding Company issued by an independent firm of Chartered Accountants vide its Report dated [date] reproduced by us as under:

“[State the Basis for Qualified Opinion as included by the component auditor in his report]”

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of other auditors on separate financial statements and on the other financial information of the subsidiaries, associates and

jointly controlled entities/joint ventures and joint operations⁸⁴, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph above, give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs (financial position) of the Group, its associates and jointly controlled entities /joint ventures and joint operations⁸⁵ as at 31st March, 20XX, and their consolidated profit/loss (financial performance including other comprehensive income)⁸⁶, their consolidated cash flows and consolidated statement of changes in equity⁸⁷ for the year ended on that date.

Other Matters

- (a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities /joint operations⁸⁸, whose financial statements/ financial information reflect total assets of Rs. _____ and net assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash outflows/(inflows)⁸⁹ amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by

⁸⁴ As the case may be as per the relevant accounting standards.

⁸⁵ As the case may be as per the relevant accounting standards.

⁸⁶ if applicable.

⁸⁷ if applicable.

⁸⁸ As the case may be as per the relevant accounting standards.

⁸⁹ Please delete what is not applicable in the given case.

the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities /joint ventures and joint operations⁹⁰ and associates, and our report in terms of sub-section (3) of Section 143 of the Act, insofar as it relates to the aforesaid subsidiaries, jointly controlled entities /joint ventures and joint operations⁹¹ and associates, is based solely on the reports of the other auditors.

Certain of these subsidiaries/associates/ joint ventures and joint operations are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Company's management has converted the financial statements of such subsidiaries/associates/ joint ventures and joint operations located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries/associates/ joint ventures and joint operations located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us.

- (b) We did not audit the financial statements / financial information of subsidiaries and jointly controlled entities/ joint operations⁹², whose financial statements/financial information reflect total assets of Rs. _____ and net assets of Rs. _____

⁹⁰ As the case may be as per the relevant accounting standards.

⁹¹ As the case may be as per the relevant accounting standards.

⁹² As the case may be as per the relevant accounting standards.

as at 31st March, 20XX, total revenues of Rs.____ and net cash outflows/(inflows)⁹³ amounting to Rs. ____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs.____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of____ associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities /joint ventures and joint operations⁹⁴ and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities /joint ventures and joint operations⁹⁵ and associates, is based solely on such unaudited financial statements/ financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements/ financial information are not material to the Group.

Our opinion above on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/ financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit and

⁹³ Please delete what is not applicable in the given case.

⁹⁴ As the case may be as per the relevant accounting standards.

⁹⁵ As the case may be as per the relevant accounting standards.

on the consideration of report of the other auditors on separate financial statements and the other financial information of subsidiaries, associates and jointly controlled entities/joint ventures and joint operations⁹⁶, as noted in the 'other matter' paragraph, we report, to the extent applicable, that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors, except as stated in the auditor's report dated [date] on the financial statements of [Name of the component], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants which is reproduced as below:

“[State the remark as included by the component auditor in his report].

- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity⁹⁷ dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 /Indian Accounting Standards specified under Section 133 of the Act⁹⁸.

⁹⁶ As the case may be as per the relevant accounting standards.

⁹⁷ if applicable.

⁹⁸ Select as applicable.

- (e) The audit report on the financial statements of [Name of the subsidiary], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants *vide* its audit report dated [date] contains the following remark, which is reproduced by us as below:

“The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Group.”

- (f) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations⁹⁹ incorporated in India, none of the directors of the Group companies, its associate companies and jointly controlled companies/joint venture incorporated in India is disqualified as on 31st March 20XX from being appointed as a director in terms of Section 164(2) of the Act.

- (g) The audit report on the financial statements of [Name of the subsidiary], a subsidiary of the Holding Company, issued by an independent firm of Chartered Accountants *vide* its audit report dated [date] contains the following remark, which is reproduced by us as below:

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

- (h) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations¹⁰⁰

⁹⁹ As the case may be as per the relevant accounting standards.

¹⁰⁰ As the case may be as per the relevant accounting standards.

incorporated in India and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.

- (i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries, associates and jointly controlled entities/joint ventures and joint operations¹⁰¹, as noted in the 'Other matter' paragraph:

- i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations¹⁰². Refer Note XX to the consolidated financial statements.

Or

There were no pending litigations as at 31st March 20XX which would impact the consolidated financial position of the Group, its associates and jointly controlled entities /joint ventures and joint operations¹⁰³

- ii. Provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group, its associates and jointly controlled entities /joint ventures and joint operations¹⁰⁴ and (b) the

¹⁰¹ As the case may be as per the relevant accounting standards.

¹⁰² As the case may be as per the relevant accounting standards.

¹⁰³ As the case may be as per the relevant accounting standards.

¹⁰⁴ As the case may be as per the relevant accounting standards.

Group's share of net profit/loss in respect of its associates.

Or

The Group, its associates and jointly controlled entities /joint ventures and joint operations¹⁰⁵ did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31st March 20XX.

- iii. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations¹⁰⁶ incorporated in India during the year ended 31st March 20XX.

Or

There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled entities/ joint ventures and joint operations¹⁰⁷ incorporated in India during the year ended 31st March 20XX.

Or

The following are the instances of delay in transferring amounts, to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India during the year ended 31st March 20XX: [describe the delays, covering date of payment, amount involved and number of days' delay.]

¹⁰⁵ As the case may be as per the relevant accounting standards.

¹⁰⁶ As the case may be as per the relevant accounting standards.

¹⁰⁷ As the case may be as per the relevant accounting standards.

For XYZ & Co.
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation¹⁰⁸)
(Membership No. XXXXX)

Place of Signature:

Date:

¹⁰⁸ Partner or Proprietor as the case may be.

Appendix II

Definitions of Terms used in the Guidance Note

(This Appendix form part of the Guidance Note. The purpose of this Appendix is to define the terms which have been used in this Guidance Note)

Terms defined under Accounting Standards

1. **Associate:** An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.
2. **Consolidated financial statements:** Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.
3. **Control:**
 - a. The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
 - b. control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.
4. **Group:** A group comprises a parent and its subsidiaries.
5. **Joint control:** Joint control is the contractually agreed sharing of control over an economic activity.
6. **Joint venture:** A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
7. **Minority interest:** Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through subsidiary(ies), by the parent.

8. **Parent:** A parent is an enterprise that has one or more subsidiaries.
9. **Significant influence:** Significant influence is the power to participate in the financial and/ or operating policy decisions of the investee but not control over those policies.
10. **Subsidiary:** A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Terms defined under Ind AS

1. **Associate:** An associate is an entity over which the investor has significant influence.
2. **Control of an investee:** An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
3. **Consolidated financial statements:** The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
4. **Group:** A parent and its subsidiaries.
5. **Joint Control:** Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
6. **Joint Venture:** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
7. **Non-controlling Interest:** Equity in a subsidiary not attributable, directly or indirectly, to a parent.
8. **Parent:** An entity that controls one or more entities.

9. **Power:** Existing rights that give the current ability to direct the relevant activities.
10. **Relevant Activities:** Relevant activities are activities of the investee that significantly affect the investee's returns.
11. **Significant influence:** Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
12. **Subsidiary:** An entity that is controlled by another entity.
13. **Separate Financial Statements:** separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109, 'Financial Instruments'.

Terms defined under SA 600, "Using the Work of Another Auditor"

1. **Component:** It is a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by principal auditor.